Huntington Ingalls Industries, Inc.

(Exact name of registrant as specified in its charter)

4101 Washington Avenue
Newport News, Virginia
(Address of Principal Executive Offices)

 Registrant's telephone number, including area code:

(757) 380-2000

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

Title of Each Class to be so Registered

Common stock, par value $1.00 per share

Name of Each Exchange on Which Each Class is to be Registered

The New York Stock Exchange, Inc.

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

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. (Check one):

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☒ Smaller reporting company ☐

(Do not check if a smaller reporting company)
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Item 1. Business

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:

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21.1 Subsidiaries of Huntington Ingalls Industries, Inc.

99.1 Information Statement.

* To be filed by amendment.
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: November 24, 2010
Mississippi Business Finance Corporation

and

Ingalls Shipbuilding, Inc.

Loan Agreement

Dated as of May 1, 1999

The interest of Mississippi Business Finance Corporation in this Loan Agreement and all amounts receivable hereunder (except the right to receive payments, if any, under Sections 4.2(c), 5.2 and 6.3 hereof) has been assigned to The First National Bank of Chicago, as Trustee under the Indenture of Trust dated as of May 1, 1999 from the Mississippi Business Finance Corporation.
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Loan Agreement

This Loan Agreement, made and entered into as of May 1, 1999 by and between Mississippi Business Finance Corporation, a public corporation of the State of Mississippi, party of the first part (the “Issuer”), and Ingalls Shipbuilding, Inc., a corporation organized and existing under the laws of the State of Delaware, party of the second part (the “Company”).

Witnesseth:

In consideration of the respective representations and agreements herein contained, the parties hereto agree as follows (provided, that in the performance of the agreements of the Issuer herein contained, any obligation it may thereby incur for the payment of money shall be a limited obligation of the Issuer, payable solely out of the proceeds derived from this Loan Agreement, the sale of the Bonds, the income from the temporary investment thereof and moneys derived from the Guaranty, all as herein provided);

Article I

Definitions

Section 1.1. Definition of Terms. Certain terms used in this Loan Agreement are hereinafter defined in this Section 1.1. When used herein, such terms shall have the meanings given to them by the language employed in this Article I defining such terms, and the plural includes the singular and the singular includes the plural, unless the context clearly indicates otherwise:

“Act” means Sections 57-10-201 through 57-10-261, inclusive, and Sections 57-10-401 through 57-10-449, inclusive, of the Mississippi Code of 1972, as supplemented and amended.

“Agreement” means this Loan Agreement as from time to time supplemented and amended.

“Authorized Company Representative” means such person at the time and from time to time designated by written certificate furnished to the Issuer and the Trustee containing the specimen signature of such person and signed on behalf of the Company by the chairman, the president, any vice president, the treasurer or any assistant treasurer of the Company to act in behalf of the Company. Such certificate may designate an alternate or alternates.

“Authorized Issuer Representative” means such person at the time and from time to time designated by written certificate furnished to the Company and the Trustee containing the specimen signature of such person and signed on behalf of the Issuer by its Executive Director to act in behalf of the Issuer. Such certificate may designate an alternate or alternates.
“Bond Counsel” means Chapman and Cutler or such other nationally recognized municipal bond counsel of recognized expertise with respect to such matters as may be mutually satisfactory to the Issuer, the Company (so long as no event of default is then existing under Section 6.1 (a), (b), (c), (d) or (e) of this Agreement) and the Trustee.

“Bond Fund” means the Bond Fund created and established in Section 5.2 of the Indenture.

“Bonds” means the $83,700,000 aggregate principal amount of Economic Development Revenue Bonds (Ingalls Shipbuilding, Inc. Project) Taxable Series 1999A authorized to be issued by the Issuer pursuant to the terms and conditions of Sections 2.1 and 2.2 of the Indenture.

“Code” means the Internal Revenue Code of 1986, as amended, together with any regulations promulgated thereunder or applicable thereto.

“Company” means (i) Ingalls Shipbuilding, Inc., the party of the second part hereto, and its successors and assigns, and (ii) any surviving, resulting or transferee entity as permitted by Section 5.1 hereof.

“Completion Date” means the date of completion of construction of the Project.

“Construction Fund” means the Construction Fund created and established in Section 5.6 of the Indenture.

“Construction Period” means the period between the beginning of construction of the Project or the date on which the Bonds are first delivered to the purchasers thereof, whichever is earlier, and the Completion Date.

“Cost of the Project” means the sum of the items authorized to be paid from the Construction Fund pursuant to the provisions of Section 3.3 hereof.

“Event of Default” means any occurrence or event specified as such in and defined as such by Section 6.1 hereof.

“Indenture” means the Indenture of Trust, including any indentures supplemental thereto as therein permitted, between the Issuer and the Trustee, of even date herewith, pursuant to which certain of the Issuer’s interest in this Agreement is pledged as security for the payment of the principal of, and premium, if any, and interest on, the Bonds and moneys on deposit in the Bond Purchase Fund are held in trust for the benefit of the respective owners which have tendered Bonds for purchase.

“Initial Administrative Fee” means the initial fee of the Issuer with respect to the Bonds in the amount of $30,000, which fee is required to be paid by the Company to the Issuer upon the initial delivery of Bonds hereunder.
“Issuer” means the Mississippi Business Finance Corporation, the party of the first part hereto, and any successor body to the duties or functions of the Issuer.

“Permitted Investments” means:

(a) Direct obligations of the United States of America and Canada and obligations fully guaranteed by any agency thereof;

(b) Direct obligations of, and obligations fully guaranteed by, any of the fifty states of the United States of America or the ten provinces of Canada rated a minimum of Aa2 by Moody’s or AA by S&P or any equivalent rating by any equivalent rating service (such rating requirement can be met by an attached letter of credit from any bank meeting the requirements stated in clause (e) and/or (f) below or by municipal bond insurance);

(c) Indebtedness of any county or other local government body within the United States of America rated at least Aa2 by Moody’s or AA by S&P or any equivalent rating by any equivalent rating service (such rating requirement can be met by an attached letter of credit from any bank meeting the requirements stated in clause (e) and/or (f) below or by municipal bond insurance);

(d) Indebtedness of any corporation rated at least Aa2 by Moody’s or AA by S&P or any equivalent rating by any equivalent rating service or any commercial paper of any corporation rated at least P-2 by Moody’s or A-2 by S&P or any equivalent rating by any equivalent rating service;

(e) Certificates of deposit, banker’s acceptances or time deposits of any commercial bank, branch or Edge Act (12 USC 611 et seq.) branch which is a member of the Federal Reserve System, has a net worth of at least $100 million and whose debt service has an A prefix by McCarthy Crisanti & Maffei, Inc., Moody’s or S&P or any equivalent rating by any equivalent rating service;

(f) Certificates of deposit, banker’s acceptances or time deposits of any non-U.S. commercial bank which is ranked among the 100 largest banks in the world (by assets, as ranked by the American Banker Journal), has a net worth of at least $500 million and rated B/C or better by International Business Communications Ltd. or Thomson BankWatch, Inc. rating service or any equivalent rating by any equivalent rating service;

(g) Repurchase agreements or reverse repurchase agreements with financial institutions whose commercial paper is rated at least P-1 by Moody’s or A-1 by S&P or whose debt rating is at least Aa2 by Moody’s or AA by S&P, or any bank who meets the requirements as stated in clause (e) and/or (f) above, provided that in all cases the market value of the collateral used for such transactions must be adequate to insure safety, liquidity and preservation of capital: Aaa or AAA-102%, Aa2 or AA-110%; and
(h) Securities and Exchange Commission Rule 2a-7 money market funds with a net asset value of one and a parent company rating of P-1 or better by Moody’s or A-1 or better by S&P or any equivalent rating by any equivalent rating service.

“Plans and Specifications” means the plans and specifications prepared for the Project by the Company, as amended from time to time prior to the Completion Date, which plans and specifications are on file at the Principal Office of the Company.

“Plant” means the shipbuilding complex in Jackson County, Mississippi which is owned and operated by the Company.

“Project” means those items of machinery, equipment, structures and related property acquired and constructed or installed with proceeds from the sale of the Bonds or the proceeds of any payment by the Company pursuant to Section 3.4 of this Agreement, as more particularly described in Exhibit A hereto.

“Trustee” means the Trustee and/or co-trustee at the time serving as such under the Indenture.

The words “hereof,” “herein,” “hereunder” and other words of similar import refer to this Agreement as a whole.

Unless otherwise specified, references to Articles, Sections, and other subdivisions of this Agreement are to the designated Articles, Sections, and other subdivisions of this Agreement as originally executed.

The headings of this Agreement are for convenience only and shall not define or limit the provisions hereof.

Terms defined in the Indenture and used herein shall have the same meaning herein as set forth in the Indenture.

Article II

Representations; Certain Benefits

Section 2.1. Representations of the Issuer. The Issuer makes the following representations as the basis for the undertakings on its part herein contained:

(a) The Issuer is a public corporation duly organized and validly existing under the Constitution and laws of the State. The Issuer has the power, pursuant to the provisions of the Act, to enter into the transactions contemplated by this Agreement and to carry out its obligations hereunder. By proper action of the Issuer, the Issuer has been duly authorized to execute and deliver this Agreement and the Indenture.

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(b) To finance a portion of the Cost of the Project, the Issuer will issue its Bonds, which will mature, bear interest and be subject to redemption as set forth in the Indenture.

(c) The Bonds are to be issued under and secured by the Indenture, pursuant to which certain of the Issuer’s interests in this Agreement will be pledged to the Trustee as security for payment of the principal of, premium, if any, and interest on the Bonds.

(d) The Issuer has not and will not pledge or otherwise transfer its interest in this Agreement other than to the Trustee to secure the Bonds.

(e) The Issuer, to its knowledge, is not in default under any of the provisions of the laws of the State which default would affect its existence or its powers referred to in subsection (a) of this Section 2.1.

(f) The issuance of the Bonds for the purpose of financing Cost of the Project will further the public purposes of the Act.

(g) The Company qualifies as an eligible company within the meaning of the Act.

(h) All requirements of the Act have been complied with in connection with the issuance and sale of the Bonds and the execution of this Agreement and the Indenture.

(i) No official or officer of the Issuer has any interest, financial, employment or otherwise, in the Company or in the transactions contemplated hereby, prohibited by any statute or rule of law of the State.

Section 2.2. Representations of the Company. The Company makes the following representations as the basis for the undertakings on its part herein contained:

(a) The Company is a corporation duly organized and validly existing under the laws of the State of Delaware and is in good standing and is duly qualified to do business in the State of Mississippi and has power to enter into and by proper action has been duly authorized to execute and deliver this Agreement.

(b) Neither the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby, nor the fulfillment of or compliance with the terms and conditions of this Agreement conflicts with or results in a breach of any of the terms, conditions or provisions of the Company’s Restated Certificate of Incorporation, any other organizational restriction or any agreement or instrument to which the Company is now a party or by which it is bound, or (with or without the giving of notice or the lapse of time, or both) constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance prohibited by the terms of any instrument or agreement to which the Company is now a party or by which it is bound.

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Section 2.3. Certain Benefits. (a) The parties hereto acknowledge that the Company has been induced to proceed with the Project in part by the benefits conferred by the Act. The Issuer hereby agrees that the Company shall be permitted to take advantage of all of the benefits provided by the Act to the fullest extent therein set forth subject to the rules and regulations of the Issuer to the extent that such rules are applicable to the Project.

(b) With respect to income tax credits conferred by the Act referenced in (a) above, and all calculations in connection therewith, the following shall apply:

1. the maximum income tax credit to be utilized in any taxable year of the Company ("Taxable Year") is 80% of the tax liability and shall not exceed the payments of the principal of, premium, if any and interest payments on the Bonds during such year and the fees and expenses of the Trustee and any other fees and expenses referenced herein.

2. the deductibility of interest payments on the Bonds shall be determined in accordance with applicable Mississippi law.

3. the Company shall request the Trustee to provide the Issuer, not later than ninety (90) days after the end of each Taxable Year, with a certificate setting forth the amount of all payments made to the Trustee with respect to the Bonds whether for principal, premium, interest or the fees and expenses of the Trustee.

4. it is understood that as an expansion to an existing manufacturing enterprise, the economic development project to be financed with the proceeds of the Bonds will generate an income tax credit in an amount equal to the annual payments on the Bonds as provided in this Agreement and the Indenture (which are described in the Act as "total debt service paid under a financing agreement"), subject to the following formula calculation which is based on guidelines promulgated by the Issuer, particularly Section 1 of the Issuer’s Rural Economic Development (RED) Guidelines which were modified effective July 1, 1998 (the "MBFC Guidelines"). In no case may the credit exceed 80% of the taxpayer’s liability in a tax year.

i. The Company shall establish an existing employment base which shall be the average number of employees reported by the Company to the Mississippi Employment Security Commission for twelve (12) months preceding November 1, 1997 (the first day of the month during which the Company was induced for financing by the Issuer for the Project). This amount shall constitute the “Employment Base” for the entire term of this Agreement and for the three years after the end of the term of this Agreement.
ii. Commencing with the 1998 Taxable Year and for each Taxable Year thereafter throughout the term of this Agreement, the Company shall compute the average number of employees in Mississippi reported by the Company to the Mississippi Employment Security Commission (the “Future Employment Base”) and calculate the percentage increase of such employees over the Employment Base. (As noted, this percentage shall be adjusted annually.)

iii. The percentage of total increased employment described in (ii) above is determined by subtracting the Employment Base (as defined in (i) above) from the Future Employment Base, dividing the result by the Future Employment Base and then converting the resulting fraction to a percentage.

iv. The Company shall establish the present value of the Company’s capital assets located in Mississippi by using the true value as reflected on the personal and real property tax rolls of the tax assessor of the county where the Company’s existing plants are located as of the most recent assessment date(s) immediately prior to commencement of the Project. This amount shall constitute the “Capital Asset Base” for the entire term of this Agreement. Since work on the Project commenced in August, 1997, the Capital Asset Base will be the true value of the personal property as reflected on the Company’s January 1, 1997 rendition form, plus the true value of the real property as reflected on the tax rolls of the county where the Company’s existing plants are located as of January 1, 1997.

The percentage of the capital investment increase will be determined by dividing the cost of the new fixed assets by the total value of the Company’s capital assets upon completion of the Project, as determined by the tax assessors of the counties in which the Company has facilities and then converting the resulting fraction to a percentage.

v. For the 1999 Taxable Year, the Company shall calculate the percentage of its capital investment increase by using a formula, the numerator of which shall consist of the cost of the fixed assets in connection with the Project purchased from November 1, 1997 through July 31, 1999 with bond proceeds (including the proceeds of any bonds previously issued by the Issuer on behalf of the Company) or Company Equity (as defined in the MBFC Guidelines), and the denominator of which shall consist of (a) the cost of the fixed assets purchased from November 1, 1997 through July 31, 1999 with bond proceeds (including the proceeds of any bonds previously issued by the Issuer on behalf of the Company) or Company Equity, plus (b) the Capital Asset Base.
vi. For each subsequent Taxable Year until the Taxable Year following the Completion Date, the Company shall calculate the percentage of its capital investment increase by using the following formula:

Numerator: (a) Cost of fixed assets in connection with the Project purchased during each respective Taxable Year with bond proceeds (including the proceeds of any bonds previously issued by the Issuer on behalf of the Company) or Company Equity excluding the cost of fixed assets purchased in such Taxable Year from August 1 through December 31 of such Taxable Year, plus (b) the total true value of the fixed assets in connection with the Project purchased from November 1, 1997 through the assessment date that occurs in such subsequent Taxable Year with bond proceeds (including the proceeds of any bonds previously issued by the Issuer on behalf of the Company) or Company Equity, as reflected on the real and personal property tax rolls for that assessment date.

Denominator: (a) Cost of fixed assets in connection with the Project purchased during such subsequent Taxable Year with bond proceeds (including the proceeds of any bonds previously issued by the Issuer on behalf of the Company) or Company Equity excluding the cost of fixed assets purchased in such Taxable Year from August 1 through December 31 of such Taxable Year, plus (b) the total true value of the fixed assets located at the Company’s Mississippi Plants as of the assessment date that occurs in such subsequent Taxable Year.

vii. For the Taxable Year following the Completion Date, the Company shall calculate the percentage of its capital investment increase by using a formula, the numerator of which shall consist of the true value of the fixed assets in connection with the Project of the Company purchased since November 1, 1997 with bond proceeds (including the proceeds of any bonds previously issued by the Issuer on behalf of the Company) or Company Equity, and the denominator of which shall consist of the true value of the fixed assets located at the Company’s Mississippi plants (which shall include the Project) as reflected on the real and personal property tax rolls as of the most recent assessment date. This quotient calculated with respect to the year following the Completion Date shall be used for such Taxable Year and all future years without adjustment.

viii. The Company shall compute its “Economic Tax Valuation Percentage” for each Taxable Year by multiplying the employment increase percentage (determined in (ii) above) by two (2), adding the percentage of capital investment increase (determined in (v), (vi) or (vii) above, as the case may be), and then dividing by three (3).
ix. The Economic Tax Valuation Percentage shall then be applied to the Company’s Mississippi taxable income in order to determine the amount of income generated by or arising out of the Project for purposes of calculating the Company’s income tax liability which may be offset by the income tax credit provided under Section 57-10-409(d)(i) of the Act.

(5) the income tax credits provided by the Act may not be carried forward beyond three years following the year all of the Bonds are redeemed, whether by maturity, acceleration or redemption.

(6) the benefits accruing to the Company under this Section 2.3 shall cease in the event:
(A) a default should occur and be continuing under this Agreement or the Indenture; or
(B) the Company should fail to operate the Project for a period of nine (9) consecutive months following the initial start up of the Project except for force majeure, strikes, lockouts, damage, destruction, acts of God or in general, reasons beyond the Company’s reasonable control excepting, however, general economic conditions.

With respect to the benefits that may accrue to the Company under this Section 2.3, the Company acknowledges and agrees that the Issuer makes no representation, warranty or covenant regarding the enforceability of the Company’s rights to receive the benefits, the extent that such benefits may be received nor the term under which the Company may be entitled to receive the benefits.

Article III
Construction of the Project; Issuance of the Bonds

Section 3.1. Agreement to Construct and Equip the Project. The Company agrees that it will acquire or construct, or complete the acquisition and construction of, the Project in Jackson County, Mississippi substantially in accordance with the Plans and Specifications.

In the event that Exhibit A hereto is to be amended or supplemented in accordance with the provisions of Section 11.1 of the Indenture, the Issuer will enter into, and will instruct the Trustee to consent to, an amendment of or supplement to Exhibit A hereto upon receipt of:
(i) a certificate of an Authorized Company Representative describing in detail the proposed changes; and
(ii) a copy of the proposed form of amendment or supplement to Exhibit A hereto and such other documents, certificates and showings as may be required by counsel rendering the opinion in clause (iii) of this paragraph; and
(iii) an opinion of Bond Counsel to the effect that such amendment complies with the requirements of this Section 3.1, is in proper form for execution and delivery by the Issuer and will not adversely affect the validity of the Bonds.

Section 3.2. Agreement to Issue Bonds; Application of Bond Proceeds. In order to provide funds to finance all or a portion of the Cost of the Project, the Issuer agrees that it will issue under the Indenture, sell and cause to be delivered to the Underwriter, the Bonds, bearing interest and maturing as set forth in the Indenture. The Issuer will cause the accrued interest, if any, received upon the delivery of the Bonds to be deposited in the Bond Fund and the balance of the proceeds (net of underwriting discount, if any) received from the sale of the Bonds to be deposited in the Construction Fund.

Section 3.3. Disbursements from the Construction Fund. The Issuer hereby authorizes and directs the Trustee, upon compliance with Section 5.7 of the Indenture, to disburse the moneys in the Construction Fund to or on behalf of the Company for the following purposes (but, subject to the provisions of Sections 3.4 and 3.5 hereof, for no other purpose):

(a) Payment to the Company of such amounts, if any, as shall be necessary to reimburse the Company in full for all advances and payments made by it at any time prior to or after the delivery of the Bonds for expenditures in connection with the preparation of the Plans and Specifications (including any preliminary study or planning of the Project or any aspect thereof) and the construction and acquisition of the Project.

(b) Payment of the initial or acceptance fee of the Trustee, legal, financial and accounting fees and expenses, the Issuer’s fees and expenses, Rating Agency fees, original issue discount, and printing and engraving costs incurred in connection with the authorization, issuance and sale of the Bonds, the execution and filing of the Indenture and the preparation and recording or filing of all other documents in connection therewith, and payment of all fees, costs and expenses for the preparation of this Agreement, the Indenture and all other documents in connection with the authorization, issuance and sale of the Bonds.

(c) Payment for labor, services, materials and supplies used or furnished in the construction and acquisition of the Project, and payment of amounts due under contracts for the acquisition, construction and installation of the Project, all as provided in the plans, specifications and work orders therefor.

(d) Payment of the fees, if any, for architectural, engineering, legal, underwriting and supervisory services with respect to the Project.

(e) To the extent not paid by a contractor for construction or installation with respect to any part of the Project, payment of the premiums on all insurance required to be taken out and maintained during the Construction Period.
(f) Payment of the taxes, assessments and other charges, if any, that may become payable during the Construction Period with respect to the Project, or reimbursement thereof if paid by the Company.

(g) Payment of expenses incurred in seeking to enforce any remedy against any contractor or subcontractor in respect of any default under a contract relating to the Project.

(h) Interest on the Bonds during the Construction Period.

(i) Payment of any other costs which constitute part of the cost of the Project in accordance with generally accepted accounting principles and which are permitted by the Act.

All moneys remaining in the Construction Fund after the Completion Date and after payment or provision for payment of all other items provided for in the preceding subsections (a) to (j), inclusive, of this Section, shall at the direction of the Company be used in accordance with Section 3.4 hereof.

Section 3.4. Establishment of Completion Date; Obligation of the Company to Complete. As soon as practicable after the completion of construction of the Project, and in any event not more than ninety (90) days thereafter, the Company shall furnish to the Trustee a certificate signed by an Authorized Company Representative stating (i) that construction of the Project has been completed substantially in accordance with the Plans and Specifications, (ii) the Completion Date, (iii) the Cost of the Project, (iv) the portion of the Cost of the Project which has then been paid and (v) the portion of the Cost of the Project which has not yet then been paid. Such certificate may state that it is given without prejudice to any rights against third parties which exist at the date of such certificate or which may subsequently come into being.

Moneys (including investment proceeds) remaining in the Construction Fund on the date of such certificate may be used, at the direction of an Authorized Company Representative, to the extent indicated, for the payment, in accordance with the provisions of this Agreement, of any Cost of the Project not then paid as specified in the above-mentioned certificate. Any moneys (including investment proceeds) remaining in the Construction Fund on the date of the aforesaid certificate and not so set aside for the payment of such Cost of the Project shall be used as soon as practicable to redeem Bonds in accordance with Section 3.1(d) of the Indenture.

In the event the moneys in the Construction Fund available for payment of the Cost of the Project should not be sufficient to pay the costs thereof in full, the Company agrees to pay directly, or to deposit in the Construction Fund moneys sufficient to pay, the costs of completing the Project as may be in excess of the moneys available therefor in the Construction Fund. The Issuer does not make any warranty, either express or implied, that the moneys which will be paid into the Construction Fund and which, under the provisions of this Agreement, will be available for payment of the Cost of the Project, will be sufficient to pay all the costs which will be incurred in that connection. The Company agrees that if after exhaustion of the moneys in the Construction Fund the Company should pay, or deposit moneys in the Construction Fund for the
payment of, any portion of the Cost of the Project pursuant to the provisions of this Section, it shall not be entitled to any reimbursement therefor from the Issuer or from the Trustee or from the owners of any of the Bonds, nor shall it be entitled to any diminution of the loan repayment installments or other amounts payable under Section 4.2 hereof.

**Section 3.5. Investment of Moneys in the Construction Fund, the Bond Fund and the Bond Purchase Fund.** Any moneys held as a part of the Construction Fund or the Bond Fund shall at the written direction (or the oral direction confirmed in writing) of an Authorized Company Representative as to specific investments be invested or reinvested by the Trustee as provided in Article VI of the Indenture, to the extent permitted by law, in Permitted Investments. Any such direction shall certify that any investment so directed to be made constitutes a Permitted Investment and that such investment is permitted to be made under the Indenture and the Agreement. The Trustee may make any and all such investments through its own trust investment department. The investments purchased pursuant to this Section 3.5 and Article VI of the Indenture shall be held by the Trustee and shall be deemed at all times a part of the Construction Fund or the Bond Fund, as the case may be, and the interest accruing thereon and any profit realized therefrom shall be credited to such fund and any net losses resulting from such investment shall be charged to such fund.

**Article IV**

**Loan of Bond Proceeds; Loan Repayment Amounts; Other Amounts**

**Section 4.1. Loan of Bond Proceeds.** The Issuer hereby agrees, upon the terms and conditions in this Agreement, to lend to the Company the proceeds (exclusive of accrued interest, if any) received by the Issuer from the sale of the Bonds.

**Section 4.2. Loan Repayments; Other Amounts Payable.** (a) On or before each date provided in or pursuant to the Indenture for the payment of principal of, premium, if any, and/or interest on the Bonds, until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the Company covenants and agrees to pay to the Trustee in federal or other immediately available funds at the Principal Office of the Trustee for deposit in the Bond Fund, as a loan repayment installment pursuant to Section 4.1 hereof, a sum equal to the amount payable on such date as principal (whether at maturity, or upon redemption or acceleration), premium, if any, and interest upon the Bonds as provided in the Indenture; provided, however, that the obligation of the Company to make any such payment shall be reduced by the amount of moneys on deposit in the Bond Fund on any such date and available to pay the principal of and premium, if any, and interest on the Bonds on such date (excluding moneys on deposit in the Bond Fund for the payment of past due principal of or premium, if any, or interest on Bonds in cases where Bonds have not been presented for payment or interest checks have not been cashed); provided further, that in any event the payments under this Section 4.2(a) shall at all times be sufficient to pay the principal of and premium, if any, and interest on the Bonds, and if on any date on which the payment of the principal of or premium, if any, or interest on Bonds is due, the Trustee shall not have sufficient moneys on deposit in the Bond Fund and available therefor to make each such payment in full, the Company shall immediately pay to the Trustee in
immediately available funds an amount equal to such deficiency. Each payment made pursuant to this Section 4.2(a) shall be made during normal banking hours. In the event the Company should fail to make any of the payments required in this Section 4.2(a), the item or installment so in default shall continue as an obligation of the Company until the amount in default shall have been fully paid, and the Company agrees to pay the same with interest thereon to the extent permitted by law at the rate of interest borne by the Bonds from the due date thereof until paid.

To secure its obligation to make the payments required under this Section 4.2(a), the Company agrees to cause the Guaranty to be issued and delivered to the Trustee on or prior to the date of the initial delivery to and payment for Bonds by the Initial Purchaser. The obligation of the Company to make payments under this Section 4.2(a) shall be fully or partially, as the case may be, satisfied and discharged to the extent that, at the time any such payments shall be due or owing, payment of the principal of, premium, if any, and interest on the Bonds which would have been paid with such payments shall be paid (or provision for such payment shall be made as set forth in the Indenture) with amounts received by the Trustee from (i) moneys realized under the Guaranty or (iii) any other source under the Indenture so long as the amounts are available for such purpose.

(b) The Company agrees to pay the Trustee (1) the reasonable costs and expenses of the Trustee, including reasonable attorneys’ fees and expenses, incurred by the Trustee in entering into and executing the Indenture and (2) (i) an amount equal to the reasonable annual fee of the Trustee for the ordinary services of the Trustee, as trustee, rendered and its reasonable ordinary expenses incurred under the Indenture, as and when the same become due, (ii) the reasonable fees, charges and expenses of the Trustee, as paying agent, as tender agent and as bond registrar, as and when the same become due and (iii) the reasonable fees, charges and expenses (including reasonable attorneys’ fees and expenses) of the Trustee for any reasonable extraordinary services rendered by it and extraordinary expenses incurred by it under the Indenture, as and when the same become due. The Company further agrees to indemnify the Trustee, including its officers, directors, employees and agents, for, and to hold the Trustee harmless against, any loss, liability or expense incurred without negligence or willful misconduct on its part, arising out of or in connection with the issuance or sale of the Bonds or the acceptance or administration of the trusts under the Indenture, this Agreement and the Guaranty, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers and duties under the Indenture. In the event the Company should fail to make any of the payments required in this Section 4.2(b), the item or installment so in default shall continue as an obligation of the Company until the amount in default shall have been fully paid, and the Company agrees to pay the same with interest thereon to the extent permitted by law at the prime rate of the Trustee at the time of such failure from the due date thereof until paid.

(c) The Company also agrees to pay when due, upon written request, or to promptly reimburse the Issuer for (i) all costs incurred by the Issuer in connection with the financing and administration of the Project, except as may be paid out of the proceeds of the Bonds, including without limitation, any necessary expenses incurred by the Board of Directors or any officer of the Issuer while engaged in the performance of their duties as such commissioners or officers of the Issuer, (ii) the reasonable fees and expenses of counsel to the Issuer and (iii) all publication, filing and recording fees. In the event the Company should fail to make any of the payments
required in this Section 4.2(c), the item or installment so in default shall continue as an obligation of the Company until the amount in default shall have been fully paid, and the Company agrees to pay the same with interest thereon to the extent permitted by law at the rate of interest borne by the Bonds from the due date thereof until paid.

(d) The Trustee’s rights to immunities and protection from liability hereunder and its right to payment of its fees, expenses and indemnities shall survive its resignation or removal and the final payment or defeasance of the Bonds.

**Section 4.3. No Defense or Set-Off; Unconditional Obligation.** The obligations of the Company to make the payments required in Section 4.2 hereof and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the Issuer or the Trustee, and the Company shall pay absolutely net during the term of this Agreement the payments to be made as prescribed in Section 4.2 and all other payments required hereunder free of any deductions and without abatement, diminution or set-off; and, except as provided in Section 4.2(d) hereof, until such time as the principal of, premium, if any, and interest on the Bonds shall have been fully paid, or provision for the payment thereof shall have been made in accordance with the Indenture, the Company: (i) will not suspend or discontinue any payments provided for in Section 4.2 hereof; (ii) will perform and observe all of its other agreements contained in this Agreement; and (iii) except as provided in Article VII hereof, will not terminate this Agreement for any cause, including, without limiting the generality of the foregoing, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax laws of the United States of America or of the State or any political subdivision of either of these, or any failure of the Issuer or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement or the Indenture, except to the extent permitted by this Agreement.

**Section 4.4. Assignment of Issuer’s Rights.** As security for the payment of the Bonds, the Issuer will assign to the Trustee the Issuer’s rights under this Agreement, including the right to receive payments hereunder (except the right to receive payments, if any, under Sections 4.2(c), 5.2 and 6.3 hereof), and hereby directs the Company to make said payments directly to the Trustee. The Company herewith assents to such assignment and will make such payments directly to the Trustee without defense or set-off by reason of any dispute between the Company and the Issuer or the Trustee.

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**Article v**

**Special Covenants and Agreements**

**Section 5.1. The Company to Maintain its Existence; Conditions Under Which Exceptions Permitted.** The Company agrees that during the term of this Agreement it will maintain its existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another entity or permit one or more entities to consolidate with or merge into it; provided that the Company may, without violating the
agreement contained in this Section, consolidate with or merge into another entity, or permit one or more entities to consolidate with or merge into it, or sell or otherwise transfer to another entity all or substantially all of its assets as an entirety and thereafter dissolve, provided, the surviving, resulting or transferee entity, as the case may be, if it is other than the Company, (i) is qualified to do business in the State, and (ii) assumes in writing all of the obligations of the Company under this Agreement.

Section 5.2. Release and Indemnification Covenants. The Company releases the Issuer (and its commissioners, officers, employees and agents) from and covenants and agrees that the Issuer shall not be liable for, and to indemnify and hold the Issuer (and its commissioners, officers, employees and agents) harmless against, any loss or damage to property or any injury to or death of any person occurring on or about or resulting from the Project or the operation thereof; including, without limiting the generality of the foregoing, all causes of action and attorneys’ fees and any other expenses incurred in defending any suits or actions which may arise as a result of any of the foregoing. The Company further releases the Issuer (and its commissioners, officers, employees and agents) from and covenants and agrees that the Issuer (and its commissioners, officers, employees and agents) shall not be liable for, and to indemnify and hold the Issuer harmless against, any liability resulting from or related to the issuance or sale of the Bonds; including, without limiting the generality of the foregoing, all causes of action and attorneys’ fees and any other expenses incurred in defending any suits or actions which may arise as a result of any of the foregoing.

Section 5.3. Insurance. The Company agrees to maintain, or cause to be maintained, all necessary insurance with respect to the Project in accordance with its customary insurance practices, which may include self-insurance. All costs of maintaining insurance with respect to the Project shall be paid by the Company, and the Issuer shall have no obligation or liability in this regard.

Section 5.4. Maintenance and Repair. The Company agrees that it will (i) maintain, or cause to be maintained, the Project in as reasonably safe condition as its operations shall permit and (ii) maintain, or cause to be maintained, the Project in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof. All costs of operating and maintaining the Project shall be paid by the Company, and the Issuer shall have no obligation or liability in this regard.

Section 5.5. Operation of Project. Although the Company intends to operate, or cause to be operated, the Project for its designed purposes until the date on which no Bonds are outstanding, the Company is not required by this Agreement to operate, or cause to be operated, any portion of the Project after the Company shall deem in its discretion that such continued operation is not advisable, and in such event it is not prohibited by this Agreement from selling, leasing or retiring all or any such portion of the Project. The net proceeds from such sale, lease or other disposition, if any, shall belong to, and may be used for any lawful purpose by, the Company. No such sale, lease or other disposition of all or any portion of the Project shall reduce or otherwise affect the Company’s obligation to pay amounts under Article IV hereof.

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Section 5.6. Insurance and Condemnation Awards. The net proceeds of any insurance or condemnation award as a result of the destruction or condemnation of the Project or any portion thereof shall belong to, and may be used for any lawful purpose by, the Company.

Section 5.7. Qualification in State. The Company agrees that throughout the term of this Agreement it will be qualified to do business in the State.

Section 5.8. Taxation Relating to Project. During the term of this Agreement, the Company will promptly remit when due any taxes, assessments or other charges levied or imposed in respect of the Project or the installments payable hereunder to the appropriate taxing body. The Company may, at its own expense and in its own name, in good faith contest any such taxes, assessments and other charges and, in the event of such contest, may permit the taxes, assessments or other charges contested to remain unpaid during the period of such contest and any appeal therefrom if permitted by applicable law. All taxes, assessments and other charges levied or imposed with respect to the Project shall be the obligation of the Company, and the Issuer shall have no obligation or liability in this regard.

Section 5.9. Recordation and Other Instruments. In order to perfect the security interest of the Trustee in the Trust Estate, the Company will cause such security agreements or financing statements, to be duly filed and recorded in the appropriate state and county offices as required by the provisions of the Uniform Commercial Code or other similar law as adopted in the State, as from time to time amended. To continue the perfection of the security interest evidenced by such security agreements or financing statements, the Company shall file and record such necessary continuation statements or supplements thereto and other instruments from time to time as may be required pursuant to the provisions of said Uniform Commercial Code or other similar law to fully preserve and protect the security interest of the Trustee in the Trust Estate. The Issuer, at the expense of the Company, shall execute and cause to be executed any and all further instruments as shall be reasonably requested by the Trustee for such protection and perfection of the interests of the Trustee and the Bondholders, and the Company shall file and refile such instruments which shall be necessary to preserve and perfect the lien of the Indenture upon the Trust Estate until the principal of, premium, if any, and interest on the Bonds issued thereunder shall have been paid or provision for their payment shall be made as therein provided.

Section 5.10. Compliance With Orders, Ordinances, Etc. The Company agrees that it will use its best efforts promptly to comply with all statutes, codes, laws, acts, ordinances, orders, judgments, decrees, injunctions, rules, regulations, permits, licenses, authorizations, directions and requirements of all federal, state, county, municipal and other governmental authorities, foreseen or unforeseen, ordinary or extraordinary, which now or at any time hereafter may be applicable to the Project or any part thereof, or to any use, manner of use or condition of the Project or any part thereof.
Section 6.1. Events of Default. The occurrence and continuation of any one of the following shall constitute an Event of Default:

(a) failure by the Company to pay any amount required to be paid under Section 4.2(a) hereof with respect to principal of or premium on any Bond on the dates and at the time specified therein; or

(b) failure by the Company to pay any amount required to be paid under Section 4.2(a) hereof with respect to interest on any Bond on the dates and at the time specified therein; or

(c) failure by the Company to observe and perform any covenant, condition or agreement on its part to be observed or performed in this Agreement, other than as referred to in (a) or (b) above, for a period of 30 days after receipt by the Company of written notice, specifying such failure and requesting that it be remedied, given to the Company by the Issuer (with a copy to the Trustee) or the Trustee, unless the Issuer and the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice can be corrected but not within such 30-day period, no Event of Default shall have occurred if corrective action is instituted by the Company within such period and diligently pursued until the default is corrected; or

(d) the dissolution or liquidation of the Company or the filing by the Company of a voluntary petition in bankruptcy, or failure by the Company promptly to cause to be lifted any execution, garnishment or attachment of such consequence as will impair the Company’s ability to carry on its obligations hereunder, or the commission by the Company of any act of bankruptcy, or adjudication of the Company as a bankrupt, or if a petition or answer proposing the adjudication of the Company as a bankrupt or its reorganization, arrangement or debt readjustment under any present or future federal bankruptcy act or any similar federal or state law shall be filed in any court and such petition or answer shall not be discharged or denied within ninety days after the filing thereof, or if the Company shall admit in writing its inability to pay its debts generally as they become due, or a receiver, trustee or liquidator of the Company shall be appointed in any proceeding brought against the Company and shall not be discharged within ninety days after such appointment or if the Company shall consent to or acquiesce in such appointment, or assignment by the Company for the benefit of its creditors, or the entry by the Company into an agreement of composition with its creditors, or a bankruptcy, insolvency or similar proceeding shall be otherwise initiated by or against the Company under any applicable bankruptcy, reorganization or analogous law as now or hereafter in effect and if initiated against the Company shall remain undischarged (subject to no further appeal) for a period of ninety days; provided, the term “dissolution or liquidation of the Company,” as used in this subsection, shall not be construed to include the cessation of the existence of the Company resulting either from a merger or consolidation.
of the Company into or with another entity or a dissolution or liquidation of the Company following a transfer of all or substantially all of its assets as an entirety or under the conditions permitting such actions contained in Section 5.1 hereof; or

(e) the occurrence of an “event of default” under the Indenture.

Section 6.2. Remedies. Whenever any Event of Default shall have happened and is subsisting, the Trustee may take any one or more of the following remedial steps, subject to Article IX of the Indenture:

(a) By notice in writing to the Company, declare the unpaid loan repayment installments payable under Section 4.2(a) of this Agreement to be due and payable immediately, if concurrently with or prior to such notice the unpaid principal amount of the Bonds has become or has been declared to be due and payable under the Indenture, and upon any such declaration under this Section 6.2(a) the amounts payable under Section 4.2(a) hereof shall become and shall be immediately due and payable in the amount set forth in Section 8.2 of the Indenture; provided, however, that an Event of Default shall be deemed waived and a declaration accelerating payment of unpaid loan repayment installments payable under Section 4.2(a) of this Agreement shall be deemed rescinded without further action on the part of the Trustee or the Issuer upon any rescission by the Trustee of the corresponding declaration of acceleration of the Bonds under Section 8.11 of the Indenture. The Trustee shall as soon as possible after any such declaration provide the Company with written notice thereof.

(b) Whatever action at law or in equity may appear necessary or desirable to collect the payments and other amounts then due or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Agreement.

In case the Trustee shall have proceeded to enforce its rights under this Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, then and in every such case the Issuer, the Company and the Trustee shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Issuer, the Company and the Trustee shall continue as though no such proceeding had been taken.

Section 6.3. Agreement to Pay Attorneys’ Fees and Expenses. In the event the Company should default under any of the provisions of this Agreement and the Issuer or the Trustee should employ attorneys or incur other expenses for the collection of the payments due under this Agreement or the enforcement of performance or observance of any obligation or agreement on the part of the Company herein contained, the Company agrees that it will on demand therefor pay to the Issuer or the Trustee the reasonable fees and expenses of such attorneys and such other reasonable expenses so incurred by the Issuer or the Trustee.

Section 6.4. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Trustee is intended to be exclusive of any other available remedy or remedies, but each and
every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute, except that the remedy of acceleration shall be exercised only in the manner set forth in Section 6.2(a) hereof. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. Such rights and remedies as are given the Trustee hereunder are also for the benefit of the Issuer and the owners of the Bonds, and the Issuer and the owners of the Bonds shall be deemed third party beneficiaries of all covenants and agreements herein contained. In order to entitle the Trustee to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required.

Section 6.5. No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Agreement should be breached by the Company and thereafter waived by the Trustee, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Article VII
Optional and Mandatory Prepayment

Section 7.1. Obligation to Prepay Installments. The Company shall have the obligation to prepay installments payable hereunder in whole (or in the case of the event stated in (b) of this Section 7.1 in whole or in part), if any of the following shall have occurred:

(a) As a result of any changes in the Constitution of the State or the Constitution of the United States of America or by legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) this Agreement shall have become void or unenforceable or impossible of performance in accordance with the intent and purposes of the parties as expressed in this Agreement; or

(b) Proceeds of the Bonds, including income from the investment thereof, shall remain after completion of the Project and the payment of the Cost of the Project.

In case of the event stated in Section 7.1(b) hereof, the Company agrees it will fulfill its obligation and prepay within 180 days after the Company has notice or actual knowledge of such event.

Section 7.2. Option to Prepay Installments. The Company shall have the option to prepay the installments payable hereunder in whole, but not in part, if any of the following shall have occurred:

(a) The Project or the Plant shall have been damaged or destroyed (in whole or in part) by fire or other casualty to such extent that in the opinion of the Company it is not practicable or desirable to rebuild, repair or restore the Project or the Plant; or
Section 7.3. Amount of Prepayment in Certain Events. To fulfill the obligation set forth in Section 7.1 hereof or to exercise an option granted in Section 7.2 or 7.4 hereof, the Company shall give written notice to the Issuer and to the Trustee as provided in Section 7.5 hereof. Such notice shall specify the date for the prepayment of the installments which shall be on or before the redemption date for the Bonds (the date for redemption of the Bonds being hereinafter called the “Redemption Date”).

The amount payable by the Company in the event of its exercise of the obligation set forth in Section 7.1(a) hereof and the option granted in Section 7.2 hereof to prepay installments in whole shall be the sum of the following:

1. an amount of money which, when added to the amount then on deposit in the Bond Fund, will be sufficient to redeem (or when invested in Governmental Obligations in which such money is required to be invested will without reinvestment mature as to principal and interest, if any, at times and in amounts sufficient to redeem) the outstanding Bonds on the Redemption Date, which amount shall consist of the principal amount thereof, all interest accrued and to accrue to the Redemption Date and expenses incurred or to be incurred in connection with the prepayment of installments and the redemption of the Bonds,

2. an amount of money equal to the Trustee’s fees and expenses under the Indenture accrued and to accrue until the Redemption Date, and

3. an amount of money sufficient to discharge all other liabilities of the Company accrued under this Agreement.

Upon the occurrence of the event stated in Section 7.1(b) hereof, the amount payable by the Company hereunder will be an amount which, together with the amount then remaining on deposit in the Construction Fund and available for such purpose, will be sufficient to redeem (or when invested in Governmental Obligations in which such money is required to be invested will without reinvestment mature as to principal and interest, if any, at times and in amounts sufficient to redeem) the Bonds or portions thereof (in Authorized Denominations) to be redeemed on the Redemption Date, which amount shall consist of the principal amount thereof, all interest accrued and to accrue thereon to said Redemption Date, and expenses incurred or to be incurred in connection with such prepayment of installments and such redemption of Bonds.

Section 7.4. Option to Prepay Installments for Optional Redemption of Bonds. The Company shall have, and is hereby granted, the option to prepay from time to time installments under this Agreement in the manner, from the sources and on the dates specified in Section 3.1(a) of the Indenture and at prices sufficient to redeem (or when invested in Governmental Obligations in which such money is required to be invested will without
reinvestment mature as to principal and interest, if any, at times and in amounts sufficient to redeem) all or part of the Bonds in Authorized Denominations in accordance with the provisions of the Indenture.

**Section 7.5. Notice of Prepayment.** To exercise an option granted in or an obligation required by this Article VII, the Company shall give written notice to the Issuer and the Trustee not less than 45 days prior to the Redemption Date (or such later date as is acceptable to the Issuer and the Trustee) which shall specify therein the amount of such prepayment, the provisions of this Agreement permitting or requiring such prepayment and the date upon which such prepayment will be made, which date shall be not later than the Redemption Date, together with such other information, if any, as shall be reasonably necessary in order to enable the Trustee to call Bonds for redemption under the applicable provisions of the Indenture. In the Indenture the Issuer will forthwith take all steps necessary under the applicable provisions of the Indenture to effect redemption of all or part of the then outstanding Bonds, as may be the case, under applicable provisions of the Indenture.

**Section 7.6. Redemption of Bonds With Prepayment Moneys.** By virtue of the assignment of the rights of the Issuer under this Agreement to the Trustee as provided in Section 4.4 hereof, the Company agrees to and shall pay any amount required or permitted to be paid by it under this Article VII directly to the Trustee. The Trustee shall use the moneys so paid to it by the Company to redeem (directly or through the application of maturing principal and interest, if any, of Governmental Obligations in which such moneys are required to be invested) the Bonds on the date set for such redemption pursuant to Sections 7.3 and 7.5 hereof.

**Article VIII**

**Miscellaneous**

**Section 8.1. Notices.** Unless otherwise specifically provided, all notices, certificates or other communications shall be sufficiently given if in writing and shall be deemed given: (i) three days after the same are deposited in the United States mail and sent by registered or certified mail, return receipt requested, or (ii) when the same are delivered by hand, or (iii) when the same are sent by confirmed facsimile transmission, or (iv) on the next Business Day when the same are sent by overnight delivery service (with the signature of the receiving party required), in each case to the parties at the addresses set forth below: if to the Issuer, to Mississippi Business Finance Corporation, Department of Economic and Community Development, Corner of President and High, Sillers Building — 13th Floor, P.O. Box 849, Jackson, Mississippi 39205, or Telecopy Number (601) 359-2832, Attention: Executive Director; if to the Trustee, to The First National Bank of Chicago, One First National Plaza, Chicago, Illinois 60670, or Telecopy No. (312) 407-1708, Attention: Corporate Trust Services Division, Suite 0126; if to the Company, to Ingalls Shipbuilding, Inc., 1000 Litton Access Road, Pascagoula, Mississippi 39567, or Telecopy Number (228) 935-4864, Attention: Division Counsel, with a copy to the Guarantor at the address stated below; if to the Guarantor, to Litton Industries, Inc., 21240 Burbank Boulevard, Woodland Hills, California 91367, or Telecopy Number (818) 598-2025, Attention: General Counsel. A duplicate copy of each notice, certificate or other communication given hereunder by either the Issuer or the Company shall
also be given to the Trustee. The Issuer, the Company and the Trustee may, by written notice given hereunder, designate any further or different addresses to
which subsequent notices, certificates or other communications shall be sent.

Section 8.2. Assignments. This Agreement may not be assigned by either party without consent of the other and the Trustee, except that the Issuer shall assign to the Trustee certain of its rights under this Agreement as provided by Section 4.4 hereof and the Company may assign to any transferee or any surviving or resulting entity its rights under this Agreement as provided by Section 5.1 hereof.

Section 8.3. Severability. If any provision of this Agreement shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative or unenforceable to any extent whatever.

Section 8.4. Execution of Counterparts. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 8.5. Amounts Remaining in Any Fund With the Trustee. It is agreed by the parties hereto that after payment in full of (i) the principal of, premium, if any, and interest on the Bonds (or provision for the payment thereof having been made in accordance with the provisions of the Indenture), (ii) the fees, charges and expenses of the Issuer and the Trustee in accordance with this Agreement and the Indenture and (iii) all other amounts required to be paid under this Agreement and the Indenture, any amounts remaining in any fund or accounts maintained under this Agreement or the Indenture and not applied to the payments of the above in accordance with the provisions of this Agreement and the Indenture shall belong to and be paid to the Company by the Trustee as an overpayment of loan repayment installments upon receipt of a written request from the Company.

Section 8.6. Amendments, Changes and Modifications. Except as otherwise provided in this Agreement or the Indenture, subsequent to the issuance of Bonds and prior to their payment in full (or provision for payment thereof having been made in accordance with the provisions of the Indenture), this Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Trustee and only in accordance with the provisions of Article XI of the Indenture.

Section 8.7. Governing Law. This Agreement shall be governed exclusively by and construed in accordance with the applicable laws of the State.

Section 8.8. Authorized Representatives. Whenever under the provisions of this Agreement the approval of the Company is required or the Issuer or the Trustee is required to take some action at the request of the Company, such approval or such request shall be given for the Company by an Authorized Company Representative, and the Issuer and the Trustee shall be authorized to act on any such approval or request and neither party hereto shall have any complaint against the other or against the Trustee as a result of any such action taken. Whenever
under the provisions of this Agreement the approval of the Issuer is required or the Company or the Trustee is required to take some action at the request of the Issuer, such approval or such request shall be given for the Issuer by an Authorized Issuer Representative, and the Company and the Trustee shall be authorized to act on any such approval or request and neither party hereto shall have any complaint against the other or against the Trustee as a result of any such action taken.

**Section 8.9. Term of the Agreement.** The term of this Agreement shall commence as of the date hereof and, unless sooner terminated as provided in this Agreement, shall expire on the date that all of the Bonds and all fees, indemnities, expenses and charges of the Issuer and the Trustee have been fully paid or provision made for such payment.

**Section 8.10. Binding Effect.** This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company and their respective successors and assigns; subject, however, to the limitations contained in Sections 4.4, 5.1 and 8.2 hereof.
In Witness Whereof, the Mississippi Business Finance Corporation and Ingalls Shipbuilding, Inc. have caused this Agreement to be executed in their respective names and attested by their duly authorized officers and have caused their corporate seals to be affixed hereto, all as of the date first above written.

Mississippi Business Finance Corporation

By  
________________________
Executive Director

(Seal)
Attest:

By  
________________________
Secretary

(Seal)
Attest:

Ingalls Shipbuilding, Inc.

By  
________________________
Treasurer

(Seal)
Attest:

By  
________________________
Assistant Secretary

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Exhibit A

Description of Project

Port facilities at the shipbuilding complex of Ingalls Shipbuilding, Inc. in Jackson County, Mississippi, in the following areas:

Pontoon Expansion
Land Improvements
Production Buildings and Support
Equipment Improvements
Pontoon
Mississippi Business Finance Corporation
   To
The First National Bank of Chicago
   As Trustee

Indenture of Trust

Dated as of May 1, 1999
### Indenture of Trust

(This Table of Contents is not a part of this Indenture of Trust and is only for convenience of reference)

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Indenture of Trust

This Indenture of Trust (the “Indenture”), dated as of May 1, 1999, by and between the Mississippi Business Finance Corporation, a public corporation of the State of Mississippi (the “Issuer”), and The First National Bank of Chicago, a national banking association duly organized, existing and authorized to accept and execute trusts of the character herein set out under and by virtue of the laws of the United States of America, with its principal corporate trust office located in Chicago, Illinois, as Trustee (the “Trustee”).

Witnesseth:

Whereas, the Issuer is authorized under the Constitution and laws of the State of Mississippi, including Sections 57-10-201 through 57-10-261, inclusive, and Sections 57-10-401 through 57-10-449, inclusive, of the Mississippi Code of 1972, as amended (the “Act”), to provide and finance “economic development projects” under the Act; and

Whereas, the Issuer has authorized the issuance of its Economic Development Revenue Bonds (Ingalls Shipbuilding, Inc. Project) Taxable Series 1999A (the “Bonds”) in an aggregate principal amount of $83,700,000 for the purpose of defraying the costs of certain port facilities pursuant to the Act (the “Project”) to be owned by Ingalls Shipbuilding, Inc., a Delaware corporation (the “Company”); and

Whereas, the Issuer has duly entered into a Loan Agreement, dated as of May 1, 1999, with the Company specifying the terms and conditions of a loan by the Issuer to the Company of the proceeds of the Bonds for the purpose of financing the Project and the payment by the Company to the Issuer of amounts sufficient for the payment of the principal of, premium, if any, and interest on the Bonds and certain related expenses; and

Whereas, payments of principal of, and premium, if any, and interest on, the Bonds are unconditionally guaranteed to the Trustee for the benefit of the owners of the Bonds pursuant to a Guaranty Agreement, dated as of May 1, 1999, from Litton Industries, Inc., a Delaware corporation and the owner of all outstanding capital stock of the Company; and

Whereas, in order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to secure the payment of the principal thereof and premium, if any, and interest thereon, the Issuer has authorized the execution and delivery of this Indenture; and

Whereas, the Bonds, the certificate of authentication to be endorsed on the Bonds and the form of assignment to be endorsed on the Bonds are to be in substantially the following forms, with appropriate variations, omissions and insertions as permitted or required by this Indenture, to-wit:
Know All Men By These Presents that the Mississippi Business Finance Corporation (the “Issuer”), a public corporation of the State of Mississippi, for value received, hereby promises to pay, solely and only from the sources and as hereinafter provided, to the Registered Owner specified above (the “Registered Owner”), or registered assigns, the Principal Amount specified above, payable on the Maturity Date specified above (the “Maturity Date”), except as the provisions hereinafter set forth with respect to redemption and acceleration of maturity prior to the Maturity Date may become applicable hereto, and in like manner to pay interest on said Principal Amount from the Dated Date hereof at the Interest Rate per annum identified above, payable on each Interest Payment Date (as hereinafter defined) until said Principal Amount is paid. Interest hereon shall be calculated on the basis of a year consisting of 360 days of twelve (12) thirty-day months. Principal of and premium, if any, on this Bond shall be payable in lawful money of the United States of America at the designated corporate trust office (the “Principal Office”) of The First National Bank of Chicago, as trustee, or its successor under trust (the “Trustee”). “Interest Payment Date” means May 1 and November 1 of each year, commencing November 1, 1999.

Interest on this Bond shall be payable to the Registered Owner hereof as of the Record Date (as hereinafter defined) preceding the related Interest Payment Date. Except while the Bonds are in a book-entry system of registration, payments of interest on this Bond shall be made in next day funds by check of the Trustee mailed on the applicable Interest Payment Date to the Registered Owner hereof at his address as it appears on the registration books of the Issuer kept by the Trustee, as bond registrar, or at such other address as is furnished to the Trustee in writing by such Registered Owner no later than the close of business on the Record Date;
provided that payments of interest on this Bond may be made by wire transfer of immediately available funds to the Registered Owner of this Bond to an account at a financial institution located in the continental United States in the event that the Registered Owner hereof is the Registered Owner of at least $1,000,000 in aggregate principal amount of the Bonds (as hereinafter defined) as of the close of business on the Record Date immediately preceding the applicable Interest Payment Date and such Registered Owner shall have given written notice to the Trustee on or before the second Business Day immediately preceding such Record Date, directing the Trustee to make such payments of interest by wire transfer and identifying the location and number of the account to which such payments should be wired. As used herein, the term “Record Date” shall mean the fifteenth day of the calendar month immediately preceding such Interest Payment Date.

This Bond is issued pursuant to and in full compliance with the Constitution and laws of the State of Mississippi, including particularly Sections 57-10-201 through 57-10-261, inclusive, and Sections 57-10-401 through 57-10-449, inclusive, of the Mississippi Code of 1972, as supplemented and amended (the “Act”), and in accordance with action taken by the governing body of the Issuer. This Bond and the obligation to pay interest hereon are special, limited obligations of the Issuer, secured as hereinafter described and payable solely out of the revenues and income derived from the hereinafter defined Agreement and as otherwise provided in the hereinafter defined Indenture.

The Bonds will be limited obligations of the Issuer, payable solely from the revenues and receipts derived from the Agreement. The Bonds shall not be general obligations of the Issuer nor shall they be payable in any manner by taxation. The Bonds do not and shall never constitute or evidence an indebtedness of the Issuer, the State of Mississippi or any political subdivision thereof or a loan of credit thereof within the meaning of any constitutional or statutory provision. This Bond and all other Bonds of the series of which it forms a part are issued under, and in conformity with, the provisions, restrictions and limitations of the constitution and laws of the State of Mississippi and particularly the provisions of Sections 57-10-201 through 57-10-261, inclusive, and Sections 57-10-401 through 57-10-449, Inclusive, of the Mississippi Code of 1972, as amended.

This Bond is one of an authorized series of Bonds in the aggregate principal amount of $83,700,000 (the “Bonds”) issued for the purpose of defraying the costs of certain port facilities (the “Project”) at the shipbuilding complex (the “Plant”) of Ingalls Shipbuilding, Inc., a Delaware corporation (the “Company”), located in Jackson County, Mississippi. The Bonds are all issued under and are equally and ratably secured by and entitled to the protection of an Indenture of Trust dated as of May 1, 1999 (which indenture, as from time to time amended and supplemented, is hereinafter referred to as the “Indenture”), duly executed and delivered by the Issuer to the Trustee. Reference is hereby made to the Indenture for a description of the rights, duties and obligations of the Issuer, the Trustee and the owners of the Bonds and the terms upon which the Bonds are issued and secured. The terms and conditions of the use of the proceeds of the Bonds and the payment of loan repayment installments by the Company (which installments are correlated to the terms of the Bonds as to principal amount and maturity date, interest rates...
and payment dates and prepayment (or redemption) provisions) are contained in a Loan Agreement dated as of May 1, 1999 (which agreement, as from time
to time amended and supplemented, is hereinafter referred to as the “Agreement”), by and between the Issuer and the Company. Payments of principal of, and
interest and premium, if any, on, the Bonds are guaranteed by Litton Industries, Inc., a Delaware corporation and the owner of all outstanding stock of the
Company (the “Guarantor”), under a Guaranty Agreement dated as of May 1, 1999 (the “Guaranty”) from the Guarantor to the Trustee. Capitalized terms
used herein and not defined shall have the meanings set forth in the Indenture.

The Bonds are issuable only as fully registered Bonds without coupons in denominations of $5,000 or any integral multiple thereof but not less than
$100,000 (such denominations being hereinafter referred to as “Authorized Denominations”). This Bond is transferable by the Registered Owner hereof in
person or by his attorney duly authorized in writing at the designated corporate trust office of the Trustee, but only in the manner, subject to the limitations
and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer a new Bond or Bonds of
Authorized Denomination or Denominations for the same aggregate principal amount will be issued to the transferee in exchange herefor. The Issuer and the
Trustee may deem and treat the Registered Owner hereof as the absolute owner hereof for the purpose of receiving payment of or on account of principal hereof
and premium, if any, hereon and interest due hereon and for all other purposes, and neither the Issuer nor the Trustee shall be affected by any notice to the
contrary.

Subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation thereof, Bonds may be
exchanged for a like aggregate principal amount of Bonds of other Authorized Denominations. The Trustee shall not be required to transfer or exchange any
Bond after notice calling such Bond or portion thereof for redemption prior to maturity has been given as provided in the Indenture, or during the period of
fifteen (15) days next preceding the giving of such notice of redemption.

No recourse shall be had for the payment of the principal of, premium, if any, and interest on any of the Bonds or for any claim based thereon or upon
any obligation, covenant or agreement in the Indenture contained, against any past, present or future official or employee of the Issuer, or of any successor
thereof, as such, either directly or indirectly or through the Issuer or any successor, under any rule of law or equity, statute or constitution or by the
enforcement of any assessment or penalty or otherwise, and all such liability of any such official or employee as such is hereby expressly waived and released
as a condition of and consideration for the execution of the Indenture and the issuance of any of the Bonds.

Payments pursuant to the Agreement and as otherwise provided in the Indenture sufficient for the prompt payment, when due, of the principal of and
interest, and premium, if any, on the Bonds are to be paid to the Trustee for the account of the Issuer and deposited in a special trust fund created by the
Issuer and identified as the Bond Fund, and such payments have been duly pledged and assigned for that purpose, and in addition certain rights of the Issuer
under the Agreement have been assigned to the Trustee to secure payment of such principal, premium, if any, and interest under the Indenture.
The Bonds are subject to redemption at the option of the Company as provided in the Indenture. In addition, the Bonds are subject to mandatory redemption upon the terms provided in the Indenture.

The Registered Owner of this Bond shall have no right to enforce the provisions of the Indenture or the Agreement or to institute action to enforce the covenants therein, or to take any action with respect to any event of default under the Indenture or the Agreement, or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Indenture. In certain events, on the conditions, in the manner and with the effect set forth in the Indenture, the principal of all the Bonds issued under the Indenture and then outstanding may become or may be declared due and payable before the Maturity Date, together with interest accrued thereon. The Indenture prescribes the manner in which it may be discharged, including a provision that under certain circumstances the Bonds shall be deemed to be paid if Governmental Obligations maturing as to principal and interest in such amounts and on such dates as will provide sufficient moneys to pay the principal of and interest and premium, if any, on the Bonds shall have been deposited with the Trustee, and if moneys sufficient to pay all fees, charges and expenses of the Trustee and all other liabilities of the Company under the Agreement shall have been paid or provided for, after which the Bonds shall no longer be secured by or entitled to the benefits of the Indenture or the Agreement, except for purposes of transfer and exchange and payment from such Governmental Obligations on the date or dates specified at the time of such deposit.

The Indenture permits the amendment thereof and the modification of the rights and obligations of the Issuer and the rights of the owners of the Bonds at any time by the Issuer and the Trustee with the consent of the owners of not less than a majority, or in certain instances 100%, in aggregate principal amount of the Bonds at the time outstanding. Any such consent or waiver by the Registered Owner of this Bond shall be conclusive and binding upon such owner and upon all future owners of this Bond and of any Bond issued upon the transfer or exchange of this Bond whether or not notation of such consent or waiver is made upon this Bond. The Indenture also contains provisions permitting the Trustee to enter into certain supplemental indentures without the consent of the owners of the Bonds and to waive certain past defaults under the Indenture and their consequences. No amendment of the Indenture will become effective without the consent of the Company.

This Bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Indenture until the certificate of authentication hereon shall have been manually executed by the Trustee. This Bond is issued with the intent that the laws of the State of Mississippi will govern its construction.

It is Hereby Certified, Recited and Declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the execution and delivery of the Indenture and the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law; and that the issuance of this Bond and the series of which it forms a part does not exceed or violate any constitutional or statutory limitation.

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In Witness Whereof, the Mississippi Business Finance Corporation has caused this Bond to be signed in its name and on its behalf by the manual or facsimile signature of its Executive Director and its seal to be affixed, imprinted or reproduced hereon and attested by the manual or facsimile signature of its Secretary, all as of the Dated Date.

Mississippi Business Finance Corporation

By: ______________________________
   Executive Director

[Seal]

Attested:

By: ______________________________
   Secretary

[Form of Certificate of Authentication]

This Bond is one of the Bonds of the issue described in the within mentioned Indenture of Trust.

Date of Authentication: ________________________________

By: ______________________________
   Authorized Officer

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State of Mississippi
County of Hinds

The undersigned, Secretary of the Mississippi Business Finance Corporation, does hereby certify that the within Bond has been validated and confirmed by decree of the Chancery Court of the First Judicial District of Hinds County, Mississippi, rendered on the 14th day of May, 1999.

Secretary, Mississippi Business
Finance Corporation

[SEAL]
[Form of Assignment]

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

UNIF GIFT MIN ACT—

(Cust) Custodian

under Uniform Gifts to Minors Act (Minor)

(State)

TEN COM — as tenants in common

TEN ENT — as tenants by the entireties

JT TEN — as joint tenants with right

of survivorship and not as

tenants in common

Additional abbreviations may also be used though not in the above list.

Assignment

For Value Received, the undersigned sells, assigns and transfers unto ________________________________

______________________________

(Name and Address of Assignee)

(Taxpayer I.D. No._______________________)

the within Bond of Mississippi Business Finance Corporation numbered ____________________________, and does hereby irrevocably constitute and appoint ________________________________ to transfer said Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated: __________________________

Notice: The signature(s) to this Assignment must correspond with the name as it appears upon the face of the Bond in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed: ________________________________

Notice: Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company with a branch in the United States.

* * * * * *

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Whereas, all things necessary to make the Bonds, when authenticated by the Trustee and issued as in this Indenture provided, the valid, binding and legal obligations of the Issuer according to the import thereof, and to constitute this Indenture a valid assignment and pledge of the amounts assigned and pledged to the payment of the principal of, premium, if any, and interest on the Bonds and a valid assignment and pledge of certain rights of the Issuer under the Agreement have been done and performed, and the creation, execution and delivery of this Indenture, and the creation, execution and issuance of the Bonds, subject to the terms hereof, have in all respects been duly authorized:

Granting Clauses

Now, Therefore, this Indenture of Trust Witnesseth:

That the Issuer in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the purchase and acceptance of the Bonds by the owners thereof, the delivery of the Guaranty by the Guarantor and of the sum of ten dollars, lawful money of the United States of America, to it duly paid by the Trustee at or before the execution and delivery of these presents, and for other good and valuable considerations, the receipt of which is hereby acknowledged, in order to secure the payment of the principal of, and premium, if any, and interest on, and to secure the performance and observance by the Issuer of all the covenants expressed or implied herein and in the Bonds, does hereby grant, bargain, sell, convey, assign and pledge, and grant a security interest to The First National Bank of Chicago, as Trustee, and its successors in trust and assigns forever, for the benefit of the owners from time to time of the Bonds, to the extent provided in this Indenture:

Granting Clause First

All of the right, title and interest of the Issuer in and to the Agreement and all Revenues, as hereinafter defined, except for the rights of the Issuer under Sections 4.2(c), 5.2 and 6.3 of the Agreement and the rights to make determinations and receive notices as therein provided;

Granting Clause Second

All moneys and securities from time to time held by the Trustee under the terms of this Indenture, including without limitation any moneys realized under the Guaranty, and any and all other real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred, as and for additional security hereunder, by the Issuer or by anyone on its behalf or with its written consent to the Trustee which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof;

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To Have And To Hold all and singular the Trust Estate (as hereinafter defined), whether now owned or hereafter acquired, unto the Trustee and its respective successors in said trust and assigns forever;

In Trust, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future owners of the Bonds from time to time issued under and secured by this Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Bonds over any of the other Bonds (except as otherwise specifically provided herein);

Provided, However, that if the Issuer, its successors or assigns, shall well and truly pay, or cause to be paid, the principal of, premium, if any, and interest on the Bonds due or to become due thereon, on the dates and in the manner mentioned in the Bonds according to the true intent and meaning thereof, or shall provide, as permitted hereby, for the payment thereof by depositing with the Trustee the entire amount due or to become due thereon (or Governmental Obligations, as hereinafter defined, sufficient for that purpose as provided in Article VIII hereof), and shall pay or cause to be paid to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions hereof and, after said payments on the Bonds and payment of such other sums have been made, then upon the final payment thereof or provision therefor this Indenture and the rights hereby granted shall cease, determine and be void; otherwise this Indenture to be and remain in full force and effect.

This Indenture of Trust Further Witnesseth, and it is expressly declared that, all Bonds issued and secured hereunder are to be issued, authenticated and delivered and all said property, rights and interests, including, without limitation, the amounts hereby assigned and pledged, are to be dealt with and disposed of under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes as hereinafter expressed, and the Issuer has agreed and covenanted, and does hereby agree and covenant with the Trustee and with the respective owners of the Bonds as follows (subject, however, to the provisions of Section 2.3 hereof):

**Article I**

**Definitions**

All words and phrases defined in Article I of the Agreement shall have the same meanings in this Indenture. In addition, the following words and phrases shall have the following meanings:

“Act” means Sections 57-10-201 through 57-10-261, inclusive, and Sections 57-10-401 through 57-10-449, inclusive, of the Mississippi Code of 1972, as supplemented and amended.

“Agreement” means the Loan Agreement dated as of May 1, 1999, by and between the Issuer and the Company, as from time to time supplemented and amended, relating to the Bonds.
“Authorized Denomination” means $5,000 or any integral multiple thereof but not less than $100,000.

“Beneficial Owner” means the owner of a Bond or portion thereof for federal income tax purposes.

“Bond” or “Bonds” means the Economic Development Revenue Bonds (Ingalls Shipbuilding, Inc. Project) Taxable Series 1999A of the Issuer, authorized to be issued in the aggregate principal amount of $83,700,000 pursuant to this Indenture.

“Bond Counsel” means Chapman and Cutler or such other nationally recognized municipal bond counsel of recognized expertise with respect to such matters as may be mutually satisfactory to the Issuer, the Company (so long as no event of default is then existing under Section 6.1(a), (b), (c), (d) or (e) of the Agreement) and the Trustee.

“Bond Fund” means the fund created and established by Section 5.2 of this Indenture.

“Bondholder,” “bondholder,” “holder” and “owner” mean the Registered Owner of any Bond.

“Business Day” means any day other than a Saturday, a Sunday or a day on which banking institutions in the city in which the Principal Office of the Company or the Principal Office of the Trustee are required or authorized by law or executive order to be closed, or other than a day on which the New York Stock Exchange is closed.

“Code” means the Internal Revenue Code of 1986, as amended, together with any regulations promulgated thereunder or applicable thereto.

“Company” means Ingalls Shipbuilding, Inc., a corporation duly organized and validly existing under the laws of the State of Delaware, and its successors and assigns, and any surviving, resulting or transferee entity as permitted by Section 5.1 of the Agreement. “Principal Office” of the Company means 1000 Litton Access Road, Pascagoula, Mississippi 39567 unless another office is designated as such in writing to the Trustee and the Issuer.

“Construction Fund” means the fund created and established by Section 5.6 of this Indenture.

“Counsel” means an attorney at law or a firm of attorneys (who may be an employee of or counsel to the Issuer or the Company or the Trustee) duly admitted to the practice of law before the highest court of any state of the United States of America or of the District of Columbia.

“Dated Date” means May 1, 1999.
“Direct Participant” means securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations which participate in the Securities Depository with respect to the Bonds.

“Event of Default” or “event of default” means any occurrence or event specified as such in and defined as such by Section 8.1 hereof.

“Governmental Obligations” means noncallable, direct general obligations of, or obligations the full and timely payment of the principal of and interest on which is unconditionally guaranteed by, the United States of America.

“Guarantor” means Litton Industries, Inc., a Delaware corporation, and its successors and assigns.

“Guaranty” means the Guaranty Agreement dated as of May 1, 1999 between the Guarantor and the Trustee, pursuant to which the Guarantor guarantees, among other things, the payment of principal of, premium, if any, and interest on the Bonds, as it may hereafter be amended or supplemented.

“Indenture” means this Indenture, as from time to time supplemented and amended in accordance with Article XI hereof.

“Initial Purchaser” means NationsBanc Montgomery Securities LLC.

“Interest Payment Date” means May 1 and November 1 of each year, commencing November 1, 1999.

“Issuer” means the Mississippi Business Finance Corporation, a public corporation of the State of Mississippi, and any successor body to the duties or functions of the Issuer.

“Maturity Date” means May 1, 2024.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successor and their assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other Rating Agency.

“Outstanding” or “Bonds outstanding” means all Bonds which have been authenticated and delivered by the Trustee under this Indenture, except:

(a) Bonds canceled after purchase or because of payment at redemption or at maturity;

(b) Bonds or portions thereof deemed to be paid, as provided in Article VII hereof;
(c) Bonds in lieu of which other Bonds have been authenticated under Sections 2.7, 2.8 and 3.2 hereof; and

(d) Unsurrendered Bonds.

If this Indenture shall have been discharged pursuant to the provisions of Article VII hereof, no Bonds shall be deemed to be Outstanding within the meaning of this provision.

“Rating Agency” means any nationally recognized securities rating agency selected by the Company, with notice to the Trustee.

“Record Date” means the fifteenth day of the calendar month immediately preceding an Interest Payment Date.

“Registered Owner” means the person or persons in whose name or names a Bond shall be registered on the registration books of the Issuer maintained by the Trustee for that purpose in accordance with the terms of this Indenture.

“Revenues” means the amounts pledged to the payment of the principal of, premium, if any, and interest on the Bonds, consisting of the following: (i) all amounts payable pursuant to Section 4.2(a) of the Agreement and all receipts of the Trustee credited under the provisions of this Indenture against such amounts, including all moneys realized by the Trustee under the Guaranty to pay the principal of, premium, if any, and interest on the Bonds, (ii) any portion of the net proceeds of the Bonds deposited with the Trustee under Section 6.3(a) hereof, and (iii) any amounts paid into the Bond Fund from the Construction Fund, including income on investments.

“S&P” means Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other Rating Agency.

“Securities Depository” has the meaning set forth in Section 2.11 hereof.

“State” means the State of Mississippi.

“Trust Estate” means the property conveyed to the Trustee for the benefit of the owners from time to time of the Bonds pursuant to the Granting Clauses of this Indenture.

“Trustee” means The First National Bank of Chicago, and any successor trustee at the time serving as successor trustee hereunder. “Principal Office” of the Trustee means, initially, One First National Plaza, Suite 0126, Chicago, Illinois 60670-0126 and, thereafter, the office designated as such in writing to the Bondholders, the Issuer and the Company.

The words “hereof,” “herein,” “hereunder” and other words of similar import refer to this Indenture as a whole.
Unless otherwise specified, references to Articles, Sections, and other subdivisions of this Indenture are to the designated Articles, Sections, and other subdivisions of this Indenture as originally executed.

The headings of this Indenture are for convenience only and shall not define or limit the provisions hereof.

**Article II**

**The Bonds**

**Section 2.1. Authorized Amount of Bonds.** No Bonds may be issued under the provisions of this Indenture except in accordance with this Article II. The total principal amount of Bonds that may be issued is hereby expressly limited to $83,700,000, except as provided in Section 2.7 hereof.

**Section 2.2. Issuance of Bonds; Interest on Bonds.**

(a) General. The Bonds shall be designated “Mississippi Business Finance Corporation Economic Development Revenue Bonds (Ingalls Shipbuilding, Inc. Project) Taxable Series 1999A.” The Bonds shall be issuable only as fully registered Bonds without coupons in Authorized Denominations. Unless the Issuer shall otherwise direct, the Bonds shall be numbered separately from 1 upward.

All Bonds shall be dated the Dated Date and shall mature on the Maturity Date. The Bonds shall be subject to redemption prior to maturity as set forth in Article III hereof. Interest on the Bonds shall be payable in arrears on each Interest Payment Date for each Bond until the principal sum becomes due and payable and shall accrue from the most recent Interest Payment Date to which interest has been paid or duly provided for, or if no interest has been paid or duly provided for on such Bond, then from the Dated Date until the principal of such Bond is paid or made available for payment.

The Bonds shall bear interest at the rate of 7.810% per annum, calculated on the basis of a calendar year of 360 days consisting of twelve (12) thirty-day months.

**Section 2.3. Execution; Limited Obligation.** The Bonds shall be executed on behalf of the Issuer with the manual or facsimile signature of its Executive Director and attested by the manual or facsimile signature of its Secretary, and shall have impressed or imprinted thereon the official seal of the Issuer or a facsimile thereof. All authorized facsimile signatures shall have the same force and effect as if manually signed. In case any official whose signature or a facsimile of whose signature shall appear on the Bonds shall cease to be such official before the delivery of such Bonds, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes, the same as if such official had remained in office until delivery. The Bonds may be signed on behalf of the Issuer by such persons who, at the time of the execution of such Bonds, are duly authorized or hold the appropriate offices of the Issuer, although on the date of the Bonds such persons were not so authorized or did not hold such offices.
The Bonds, together with premium, if any, and interest thereon, shall be special, limited obligations of the Issuer, payable solely from the Revenues (except to the extent paid out of moneys attributable to Bond proceeds and the income from the temporary investment thereof), and shall be a valid claim of the owners from time to time thereof only against the Bond Fund and other moneys held by the Trustee and the Revenues, which Revenues shall be used for no other purpose than to pay the principal installments of, premium, if any, and interest on the Bonds, except as may be otherwise expressly authorized in this Indenture or the Agreement.

The obligations of the Issuer hereunder and under the Bonds shall not be general obligations of the Issuer nor shall they be payable in any manner by taxation. Neither the State nor any political subdivision thereof, including the Issuer, shall be obligated to pay the obligations hereunder, the principal of, premium, if any, or interest on the Bonds, or the other costs incident thereto except from the revenues and receipts pledged therefor, and neither the faith and credit nor the taxing power of the State or any political subdivision thereof, including the Issuer (which has no taxing power), is pledged to the payment of the obligations hereunder or under the Bonds. No owner of any of the Bonds has the right to compel any exercise of the taxing power of the Issuer, the State or any political subdivision thereof to pay the Bonds or the interest or the premium, if any, thereon. The Bonds do not and shall never constitute or give rise to any pecuniary liability of the Issuer or a charge upon its general credit or against its taxing powers. The Bonds do not and shall never constitute or evidence an indebtedness of the Issuer, the State or any political subdivision thereof or a loan of credit thereof within the meaning of any constitutional or statutory provision.

Section 2.4. Authentication. No Bond shall be valid or obligatory for any purpose or entitled to any security or benefit under this Indenture unless and until a certificate of authentication on such Bond substantially in the form hereinabove set forth shall have been duly executed by the Trustee, and such executed certificate of the Trustee upon any such Bond shall be conclusive evidence that such Bond has been authenticated and delivered under this Indenture. The Trustee’s certificate of authentication on any Bond shall be deemed to have been executed by it if manually signed by an authorized officer of the Trustee, but it shall not be necessary that the same authorized officer execute the certificate of authentication on all of the Bonds issued hereunder. Each Bond shall bear the date of its authentication, which date of authentication shall be inserted by the Trustee in the place provided for such purpose in the form of certificate of authentication of the Trustee to appear on each Bond.

Section 2.5. Form and Place of Payment of Bonds. The Bonds issued under this Indenture shall be substantially in the form hereinabove set forth with such variations, omissions and insertions as are permitted or required by this Indenture.

The principal of and premium, if any, on the Bonds shall be payable in lawful money of the United States of America only at the Principal Office of the Trustee. Payment of interest on any Bond due on any regularly scheduled Interest Payment Date shall be made to the Registered Owner thereof as of the Record Date preceding such Interest Payment Date. Payments of interest on any Bond shall be made in next day funds by check of the Trustee mailed on the applicable Interest Payment Date to the Registered Owner thereof as of the Record Date.
preceding such Interest Payment Date at the address of such Registered Owner as it appears on the registration books of the Issuer maintained by the Trustee, as bond registrar, or at such other address as is furnished to the Trustee in writing by such Registered Owner no later than the close of business on such Record Date; provided that payments of interest on any Bond may be made by wire transfer of immediately available funds to the Registered Owner of such Bond to an account at a financial institution located in the continental United States in the event that such Registered Owner is the registered owner of at least $1,000,000 in aggregate principal amount of the Bonds as of the close of business on the Record Date immediately preceding the applicable Interest Payment Date and such Registered Owner shall have given written notice to the Trustee on or before the second Business Day immediately preceding such Record Date, directing the Trustee to make such payments of interest by wire transfer and identifying the location and number of the account to which such payments should be wired.

Section 2.6. Delivery of the Bonds. Upon the execution and delivery of this Indenture, the Issuer shall execute and deliver to the Trustee and the Trustee shall deliver the Bonds to, or at the direction of, the Initial Purchaser as directed by the Issuer as hereinafter in this Section 2.6 provided.

Prior to the delivery of any of the Bonds there shall be filed with the Trustee:

1. A copy, duly certified by the Secretary of the Issuer, of the proceedings of the governing body of the Issuer authorizing the execution and delivery of the Agreement and this Indenture and the issuance of the Bonds.

2. Original executed counterparts of this Indenture, the Agreement and the Guaranty.

3. A written request and authorization to the Trustee by the Issuer and signed by the Executive Director of the Issuer to authenticate and deliver the Bonds to, or at the direction of, the Initial Purchaser upon payment to the Trustee, but for the account of the Issuer, of a sum specified in such written request and authorization representing the principal proceeds of the Bonds plus accrued interest, if any, thereon.

4. A closing certificate of the Issuer, in form and substance satisfactory to Bond Counsel.

5. A closing certificate of the Company, in form and substance satisfactory to Bond Counsel.


7. Documents and evidence to establish the existence and good standing of the Company and the Guarantor, the authorization of the transactions contemplated by this Indenture and the taking of all proceedings in connection therewith, in form and substance satisfactory to Bond Counsel.
8. All other such documents, proceedings and showings as shall be requested by Bond Counsel.

9. An opinion of counsel to the Company, in form and substance satisfactory to Bond Counsel and counsel to the Issuer and the Initial Purchaser.

10. An opinion of counsel to the Guarantor, in form and substance satisfactory to Bond Counsel and counsel to the Issuer and the Initial Purchaser.

11. An opinion of counsel to the Issuer, in form and substance satisfactory to Bond Counsel and counsel to the Company, the Guarantor and the Initial Purchaser.

12. An opinion of Bond Counsel in form and substance satisfactory to counsel to the Issuer, the Company, the Guarantor and the Initial Purchaser.

Section 2.7. Mutilated, Lost, Stolen or Destroyed Bonds. In the event any Bond is mutilated, lost, stolen, or destroyed, the Executive Director of the Issuer may execute and the Secretary of the Issuer may seal and attest and the Trustee may authenticate a new Bond of like Authorized Denomination as that mutilated, lost, stolen or destroyed bearing a number not contemporaneously then outstanding; provided, that, in the case of any mutilated Bond, such mutilated Bond shall first be surrendered to the Trustee and in the case of any lost, stolen or destroyed Bond, there shall be first furnished to the Issuer, the Trustee and the Company evidence of such loss, theft or destruction satisfactory to the Issuer, the Trustee and the Company, together with indemnity, insurance or surety satisfactory to each of them. In the event any such Bond shall have matured or is to mature within fifteen (15) days of the request for a new Bond, instead of issuing a duplicate Bond, the Issuer may pay the same on the appropriate date. The Issuer and the Trustee may charge the owner of such Bond with their reasonable fees and expenses in this connection.

Section 2.8. Registration, Transfer and Exchange of Bonds; Persons Treated as Owners. The Issuer shall cause books for the registration and for the registration of transfer of the Bonds as provided in this Indenture to be kept by the Trustee. The Issuer shall prepare and deliver to the Trustee, and the Trustee shall keep custody of, a supply of Bonds duly executed by the Executive Director of the Issuer and attested by the Secretary of the Issuer, with the seal of the Issuer affixed, as provided in Section 2.3 hereof, for use in the transfer and exchange of Bonds. The Trustee is hereby authorized and directed to complete (to the extent not already completed) such forms of Bonds as to principal amounts, registered owners and numbers in effecting transfers and exchanges of Bonds as provided herein. The principal of, premium, if any, and interest on any Bond shall be payable only to the Registered Owner or his legal representative duly authorized in writing, and no registration to “bearer” shall be permitted. Upon surrender for transfer of any Bond at the Principal Office of the Trustee, accompanied by an instrument of assignment or transfer, which instrument of assignment or transfer shall be in the form provided on the Bonds or in such other form acceptable to the Trustee, duly executed by the Registered Owner or his attorney duly authorized in writing, the Issuer shall execute and the Trustee shall authenticate and deliver in the name of the transferee or transferees a new Bond or
Bonds in Authorized Denominations, for a like aggregate principal amount, bearing numbers not contemporaneously then outstanding.

Bonds may be exchanged at the Principal Office of the Trustee for a like aggregate principal amount of Bonds of other Authorized Denominations. The Executive Director of the Issuer shall execute, the Secretary of the Issuer shall seal and attest and the Trustee shall authenticate and deliver Bonds which the Bondholder making the exchange is entitled to receive, bearing numbers not contemporaneously then outstanding.

The Trustee shall not be required to transfer or exchange any Bond after notice calling such Bond or portion thereof for redemption prior to maturity has been given as herein provided, or during the period of fifteen (15) days next preceding the giving of such notice of redemption.

In each case (except as provided in Section 3.2 hereof) the Trustee shall require the payment by the Bondholder requesting exchange or transfer of any tax or other governmental charge required to be paid with respect to such exchange or transfer, but otherwise no charge shall be made to the Bondholder for such exchange or transfer.

The Issuer, the Trustee and the Company may deem and treat the Registered Owner of any Bond as the absolute owner thereof for the purpose of receiving payment of or on account of principal and premium, if any, and interest thereon and for all other purposes, and none of the Issuer, the Trustee or the Company shall be affected by any notice to the contrary.

If the Trustee and the Issuer, at the written direction of the Company, enter into an agreement with a Securities Depository as provided in Section 2.11 hereof, the Issuer shall execute and the Trustee shall, in accordance with Section 2.4 hereof, authenticate a Bond to be held by such Securities Depository, which (i) shall be denominated in an amount equal to the aggregate principal amount of Bonds to be held by the Securities Depository, (ii) shall be registered in the name of the Securities Depository or its nominee in accordance with this Section 2.8, (iii) shall be delivered by the Trustee to the Securities Depository or pursuant to the Securities Depository’s instructions, and (iv) shall bear a legend substantially to the effect that unless the Bond is presented by an authorized representative of the Securities Depository to the Issuer or its agent for registration of transfer, exchange or payment, any transfer, exchange, pledge or other use for value or otherwise is wrongful.

Notwithstanding any other provision of this Section 2.8, subject to the provisions of the immediately succeeding paragraph, any Bond registered in the name of a Securities Depository or its nominee may be transferred, in whole but not in part; in accordance with this Section 2.8, to a nominee (or a different nominee) of the Securities Depository, or to the Securities Depository, or a successor Securities Depository selected or approved by the Company, or to a nominee of such successor Securities Depository.

If the Securities Depository which is the record owner (or whose nominee is the record owner) of the Bonds notifies the Issuer, the Trustee or the Company that it is unwilling or unable to continue as record owner of the Bonds, or if such Securities Depository shall no longer be eligible or in good standing under the Securities Exchange Act of 1934, as amended, or other
applicable statute or regulation, the Issuer and the Trustee, upon written direction of the Company, shall appoint a successor Securities Depository. If a successor Securities Depository is not appointed within ninety (90) days after the Company receives notice or becomes aware of the events stated in the preceding sentence, or if the Issuer and the Trustee, upon written direction of the Company, elect not to appoint a successor Securities Depository, upon surrender for transfer of the Bond registered in the name of the Securities Depository or its nominee, the Issuer shall execute, and the Trustee shall authenticate, a new Bond or Bonds, for a like aggregate principal amount, bearing numbers not contemporaneously then outstanding, which shall be in the Authorized Denominations and registered in the name of the transferee or transferees specified in written instructions delivered pursuant to the last two sentences of this paragraph, in accordance with this Section 2.8. The Issuer and the Trustee shall discontinue an agreement with a Securities Depository within a reasonable amount of time after receipt of written direction from the Company. In such event, the Issuer shall execute and the Trustee shall authenticate, upon receipt of the Bond registered in the name of the Securities Depository or its nominee, a new Bond or Bonds, for a like aggregate principal amount, bearing numbers not contemporaneously then outstanding, in the Authorized Denominations and registered in the name of a transferee or transferees specified in written instructions delivered pursuant to the following two sentences, in accordance with this Section 2.8. Upon any surrender of Bonds for transfer pursuant to this paragraph, the Securities Depository shall specify in written instructions delivered to the Issuer, the Trustee and the Company, the name of the transferee or transferees and the Authorized Denominations of the new Bonds. If the transferee specified in such instructions is not a successor Securities Depository described above in this paragraph, then the transferees shall be the beneficial owners of the Bonds specified in such instructions and the Trustee shall deliver new Bonds to such transferees in Authorized Denominations proportionate to their beneficial interest in the Bonds as specified in said instructions.

Section 2.9. Cancellation of Bonds. Whenever any Outstanding Bond shall be delivered to the Trustee for cancellation pursuant to this Indenture, upon full or partial payment of the principal amount represented thereby, or for replacement pursuant to Section 2.7 hereof, or upon exchange or transfer pursuant to Section 2.8 hereof, or in accordance with Section 3.2 hereof, such Bond shall be promptly canceled and disposed of by the Trustee and counterparts of a certificate evidencing such cancellation and disposition shall be furnished by the Trustee to the Issuer and the Company.

Section 2.10. Application of Proceeds of Bonds. The proceeds of the issuance and sale of the Bonds (excluding accrued interest, if any, which shall be deposited into the Bond Fund pursuant to Section 5.3 hereof) shall be deposited with the Trustee in the Construction Fund pursuant to Section 5.7 hereof.

Section 2.11. Book-Entry System. The Trustee and the Issuer, at the direction of the Company, may from time to time enter into, and discontinue, an agreement with a “clearing agency” (securities depository) registered under Section 17A of the Securities Exchange Act of 1934, as amended (a “Securities Depository”), which is the owner of the Bonds, to establish procedures with respect to the Bonds, not inconsistent with the provisions of this Indenture; provided, however, that any such agreement may provide:
(a) that such Securities Depository is not required to present a Bond to the Trustee in order to receive a partial payment of principal; 
(b) that a legend shall appear on each Bond so long as the Bonds are subject to such agreement; and 
(c) that different provisions for notice to such Securities Depository may be set forth therein.

So long as an agreement with a Securities Depository is in effect, the Issuer, the Company, the Trustee and any paying agent or bond registrar shall not have any responsibility or liability with respect to the payment of principal, premium, if any, or interest on the Bonds to the beneficial owners or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests or any payments made to such beneficial owners.

Article III
Redemption of Bonds Before Maturity

Section 3.1. Certain Redemption Dates and Prices.

(a) Optional Redemption. The Bonds are redeemable, in whole or in part, at the option of the Issuer at the direction of the Company at any time at a redemption price equal to the greater of (i) 100% of the principal amount of the Bonds or (ii) as determined by an Independent Investment Banker (as defined herein), 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 (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate (as defined herein), plus, in each case, accrued interest thereon to the date of redemption.

“Adjusted Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (as defined herein), assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (as defined herein) for such redemption date, plus .25%.

“Comparable Treasury Issue” means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Bonds to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Bonds. “Independent Investment Banker” means one of the Reference Treasury Dealers (as defined herein) appointed by the Trustee after consultation with the Company.

“Comparable Treasury Price” means, with respect to any redemption date, (i) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a
percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated “Composite 3:30 p.m. Quotations for U.S. Government Securities” or (ii) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (A) the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Trustee obtains fewer than three such Reference Treasury Dealer Quotations, the average of all such Quotations. “Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Treasury Reference Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

“Reference Treasury Dealer” means each of NationsBanc Montgomery Securities LLC and at least three primary U.S. Government securities dealers in New York City appointed by the Trustee after consultation with the Company and their respective successors.

(b) Extraordinary Optional Redemption. The Bonds shall be subject to extraordinary optional redemption by the Issuer, at the written direction of the Company on any date in whole but not in part, at a redemption price of 100% of the principal amount thereof plus accrued interest, if any, to the redemption date, upon the occurrence of any one of the following events:

(i) The Project or the Plant shall have been damaged or destroyed (in whole or in part) by fire or other casualty to such extent that in the opinion of the Company it is not practicable or desirable to rebuild, repair or restore the Project or the Plant; or

(ii) Title to, or the temporary use of, all or substantially all the Project or the Plant shall have been taken under the exercise of the power of eminent domain by any governmental authority, or person, firm or corporation acting under governmental authority.

(c) Mandatory Redemption Upon Proceeds Remaining in Construction Fund. The Bonds shall be subject to mandatory redemption by the Issuer, as a whole or in part (in Authorized Denominations) to the extent of moneys remaining in the Construction Fund, at a redemption price of 100% of the principal amount thereof plus accrued interest, if any, to the redemption date, on any date within 180 days after the Company has notice or actual knowledge that proceeds of the Bonds, including income from the investment thereof, shall have remained after completion of the Project and the payment of the Cost of the Project. Upon the occurrence of the event stated in this Section 3.1(c), the principal amount of the Bonds to be redeemed will be a principal amount equal to the lowest Authorized Denomination equal to or in excess of the remaining proceeds of the Bonds, including income from the investment thereof.

(d) Mandatory Redemption Upon Unenforceability of Agreement. The Bonds shall be subject to mandatory redemption by the Issuer as a whole and not in part, at a redemption
price of 100% of the principal amount thereof plus accrued interest, if any, to the redemption date, on any date (within 180 days after the Company has notice or actual knowledge of such event), if as a result of any changes in the Constitution of the State or the Constitution of the United States of America or by legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal), the Agreement shall have become void or unenforceable or impossible of performance in accordance with the intent and purposes of the parties as expressed in the Agreement.

(e) Purchase in Lieu of Redemption. Notwithstanding anything to the contrary stated herein, the Company may elect to purchase any Bonds that have been called for redemption as described above on the redemption date by giving the Trustee and the Issuer written notice at least two Business Days prior to the date the Bonds are to be redeemed.

(f) Direction to Trustee to Call Bonds for Redemption. The Issuer hereby directs the Trustee to call Bonds for redemption when it shall have been notified in writing by the Company, pursuant to Sections 7.3 and 7.5 of the Agreement, to do so by mailing a copy of the notice of redemption to the Company at the same time as the Trustee mails such notice of redemption to the owners of the Bonds that have been called for redemption, pursuant to Section 3.3 hereof.

Section 3.2. Partial Redemption of Bonds. Upon a partial redemption of Bonds, the Bonds to be redeemed shall be selected in such manner as shall be designated by the Trustee. In the case of a partial redemption of Bonds prior to maturity when Bonds of denominations greater than the minimum Authorized Denomination are then outstanding, then for all purposes in connection with such redemption, each minimum Authorized Denomination of each Bond shall be treated as though it were a separate Bond. If it is determined that one or more, but not all, of the minimum Authorized Denominations represented by any Bond is to be called for redemption, then upon notice of redemption of such minimum Authorized Denomination or Denominations, the owner of such Bond shall forthwith surrender such Bond to the Trustee (1) for payment of the redemption price (including the premium, if any, and interest, if any, to the date fixed for redemption) of the minimum Authorized Denomination or Denominations called for redemption, and (2) for exchange, without charge to the owner thereof, for a new Bond or Bonds of the aggregate principal amount of the unredeemed balance of the principal amount of such Bond, to the extent possible, provided that after the redemption date all Bonds will be in Authorized Denominations. If the owner of any such Bond of a denomination greater than the minimum Authorized Denomination shall fail to present such Bond to the Trustee for payment and exchange as aforesaid, such Bond shall, nevertheless, become due and payable on the redemption date to the extent of the minimum Authorized Denomination or Denominations called for redemption (and to that extent only); interest shall cease to accrue on the portion of the principal amount of such Bond represented by such minimum Authorized Denomination or Denominations on and after the date fixed for redemption and (moneys in an amount sufficient for the payment of the redemption price having been deposited with the Trustee, and being available for the redemption of said minimum Authorized Denomination or Denominations on the date fixed for redemption) such Bond shall not be entitled to the benefit or security of this Indenture to the extent of the portion of its principal amount (and accrued interest thereon to the date fixed for redemption) represented by such minimum Authorized Denomination or

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Denominations nor shall new Bonds be thereafter issued corresponding to said minimum Authorized Denomination or Denominations.

**Section 3.3. Notice of Redemption.**

(a) Official Notice. Notice of the call for any redemption shall be given by the Trustee, at the direction of the Company (which direction shall be in writing), by mailing a copy of the redemption notice by first-class mail, postage prepaid, at least thirty (30) days, but not more than sixty (60) days, prior to the date fixed for redemption to the Registered Owner of each Bond to be redeemed as a whole or in part at the address shown on the registration books of the Issuer maintained by the Trustee; provided, however, that failure to give such notice by mailing, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Bond, or portion thereof with respect to which no such failure or defect has occurred. In addition, the Trustee may give such other notice or notices as may be recommended in releases, letters, pronouncements or other writings of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. No defect in or delay or failure in giving any recommended notice described in the preceding sentence of this Section 3.3(a) shall in any manner affect the notice of redemption described in the first sentence of this Section 3.3(a). Any notice mailed as provided in this Section 3.3(a) shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives the notice.

All notices of redemption shall state:

1. the redemption date,
2. the redemption price,
3. the identification, including complete designation and issue date of the series of Bonds of which such Bonds are a part and the CUSIP number (and in the case of partial redemption, the respective principal amounts), interest rate and maturity date of the Bonds to be redeemed,
4. that on the redemption date the redemption price will become due and payable upon each such Bond, and that interest thereon shall cease to accrue from and after said date, and
5. the name and address of the Trustee for such Bonds, including the name and telephone number of a contact person and the place where such Bonds are to be surrendered for payment of the redemption price.

With respect to any notice of optional redemption of Bonds, unless upon the giving of such notice such Bonds shall be deemed to have been paid within the meaning of Article VII hereof, such notice shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, and premium, if any, and interest on, such Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the Issuer...
shall not be required to redeem such Bonds. In the event that such notice of redemption contains such a condition and moneys are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

(b) Additional Notice of Redemption. The redemption notice required in subsection (a) above shall also be given by the Trustee as set out below. No defect in such redemption notice nor any failure to give all or any portion of such redemption notice as provided in this paragraph shall in any manner defeat the effectiveness of a call for redemption. Such redemption notice shall be sent at least 30 days before the redemption date by facsimile transmission or registered or certified mail or overnight delivery service to all registered securities depositories then in the business of holding substantial amounts of obligations similar to the Bonds identified to the Trustee by the Company and to one or more national information services identified to the Trustee by the Company that disseminate notices of redemption of obligations such as the Bonds.

Section 3.4. Redemption Payments. On or prior to the date fixed for redemption, moneys immediately available at the Principal Office of the Trustee on such redemption date shall be deposited in the Bond Fund and the Trustee is hereby authorized and directed to apply such funds in the Bond Fund to the payment of the Bonds or portions thereof called for redemption, together with accrued interest, if any, thereon to the date fixed for redemption and any required premium. Upon the giving of notice and the deposit of moneys for redemption (which moneys shall be held in trust for the benefit of, and subject to a security interest in favor of, the owners of the Bonds so called for redemption and may only be invested overnight in Governmental Obligations or securities rated AAA or Aaa by each Rating Agency then rating the Bonds), interest on the Bonds or portions thereof thus called shall no longer accrue from and after the date fixed for redemption, and such Bonds shall no longer be entitled to the benefit or security of this Indenture except as set forth in Section 5.12 hereof.

Section 3.5. Cancellation. All Bonds which have been redeemed shall not be reissued but shall be canceled and disposed of by the Trustee in accordance with Section 2.9 hereof.

Article IV
General Covenants

Section 4.1. Payment of Principal, Premium, if any, and Interest. The Issuer covenants that it will promptly pay or cause to be paid the principal of, premium, if any, and interest on, every Bond issued under this Indenture at the place, on the dates and in the manner provided herein and in the Bonds according to the true intent and meaning thereof. The principal and interest and premium, if any, are payable by the Issuer solely and only from the Revenues, and nothing in the Bonds or this Indenture should be considered as assigning or pledging any other funds or assets of the Issuer, other than such Revenues and the right, title and interest of the Issuer in and to the Agreement (except as otherwise provided herein) in the manner and to the extent herein specified.
Section 4.2. Performance of Covenants; Issuer. The Issuer covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all of its proceedings pertaining thereto; provided, however, that except for the matters set forth in Section 4.1 hereof, the Issuer shall not be obligated to take any action or execute any instrument pursuant to any provision hereof until it shall have been requested to do so by the Company or by the Trustee, or shall have received the instrument to be executed and at the option of the Issuer shall have received from the Company assurance satisfactory to the Issuer that the Issuer shall be reimbursed for its reasonable expenses incurred or to be incurred in connection with taking such action or executing such instrument. The Issuer certifies that it is duly authorized under the Constitution and the laws of the State, including particularly the Act, to issue the Bonds and to execute this Indenture, to grant the security interest herein provided, to assign and pledge the Agreement (except as otherwise provided herein) and to assign and pledge the amounts hereby assigned and pledged in the manner and to the extent herein set forth, that all action on its part for the issuance of the Bonds and the execution and delivery of this Indenture has been duly and effectively taken, and that the Bonds in the hands of the owners thereof are and will be valid and enforceable obligations of the Issuer according to the terms thereof and hereof. Anything contained in this Indenture to the contrary notwithstanding, it is hereby understood that none of the covenants or certifications of the Issuer contained in this Indenture are intended to create a general obligation of the Issuer.

Section 4.3. Right to Payments Under Agreement; Instruments of Further Assurance. The Issuer covenants that it will defend its right to the payment of amounts due from the Company under the Agreement to the Trustee, for the benefit of the owners from time to time of the Bonds. The Issuer covenants that it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as the Trustee may reasonably require for the better assuring, transferring, conveying, pledging, assigning and confirming unto the Trustee all and singular the rights assigned hereby and the amounts assigned and pledged hereby to the payment of the principal of, premium, if any, and interest on, the Bonds. The Issuer covenants and agrees that, except as herein and in the Agreement provided, it will not sell, convey, mortgage, encumber, or otherwise dispose of any part of the Revenues or its rights under the Agreement.

Section 4.4. Recordation and Other Instruments. In order to perfect the security interest of the Trustee in the Trust Estate and to perfect the security interest in the Agreement, the Company has covenanted in the Agreement to cause such financing statements, at the expense of the Company, to be duly filed in the appropriate state and county offices as required by the provisions of the Uniform Commercial Code or other similar law as adopted in the State, as from time to time amended. To continue the security interest evidenced by such financing statements, the Company has covenanted in the Agreement to file and record or cause to be filed and recorded, at the expense of the Company, such necessary continuation statements or supplements thereto and other instruments from time to time as may be required pursuant to the provisions of said Uniform Commercial Code or other similar law to fully preserve and protect the security interest of the Trustee in the Trust Estate and to perfect the security interest in the Agreement. The Issuer, at the expense of the Company, shall execute and cause to be executed
any and all further instruments as shall be reasonably required by the Trustee or the Company for such protection and perfection of the interests of the Trustee and the Registered Owners. The Company has covenanted in the Agreement to file and refile or cause to be filed and refiled such instruments which shall be necessary to preserve and perfect the Trustee’s lien of this Indenture upon the Trust Estate until the principal of, premium, if any, and interest on the Bonds issued hereunder shall have been paid or provision for their payment shall be made as herein provided.

Section 4.5. Inspection of Books. The Issuer and the Trustee covenant and agree that all books and documents in their possession relating to the Project and the Revenues shall at all times be open to inspection (upon reasonable notice to the Trustee) during normal business hours by the other or the Company and such accountants or other agencies as one of the other parties may from time to time designate.

Section 4.6. List of Bondholders. The Trustee will keep on file a list of names and addresses of all Registered Owners of the Bonds on the registration books of the Issuer maintained by the Trustee, together with the principal amount and numbers of such Bonds. At reasonable times and under reasonable regulations established by the Trustee, said list may be inspected and copied by the Company or the owners (or a designated representative thereof) of fifteen percent (15%) or more in aggregate principal amount of Bonds then outstanding, such ownership and the authority of such designated representative to be evidenced to the satisfaction of the Trustee.

Section 4.7. Rights Under Agreement. The Agreement, a duly executed counterpart of which has been filed with the Trustee, sets forth the covenants and obligations of the Issuer and the Company, and reference is hereby made to the same for a detailed statement of said covenants and obligations of the Company thereunder, including provisions that subsequent to the issuance of the Bonds and prior to their payment in full or provision for payment thereof in accordance with the provisions hereof the Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Trustee, and the Issuer agrees that the Trustee in its name or in the name of the Issuer may enforce all rights of the Issuer pledged and assigned hereunder and all obligations of the Company under and pursuant to the Agreement for and on behalf of the Registered Owners, whether or not the Issuer is in default hereunder.

Article V
Revenues and Funds

Section 5.1. Source of Payment of Bonds. The Bonds herein authorized and all payments to be made by the Issuer hereunder, are not general obligations of the Issuer, but are special, limited obligations payable solely and only from the Revenues and as authorized by the Act and provided in the Agreement and in this Indenture.

The Revenues are to be remitted directly to the Trustee for the account of the Issuer and deposited in the Bond Fund (hereinafter created). The entire amount of said Revenues is hereby

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assigned and pledged to the payment of the principal of, and interest and premium, if any, on, the Bonds (and as otherwise provided in this Indenture).

Section 5.2. Creation of Bond Fund. There is hereby created by the Issuer and ordered established with the Trustee a trust fund to be designated “Mississippi Business Finance Corporation Economic Development Revenue Bonds (Ingalls Shipbuilding, Inc. Project) Taxable Series 1999A — Bond Fund,” which is pledged and shall be used to pay the principal of, premium, if any, and interest on, the Bonds.

Section 5.3. Payments into Bond Fund. There shall be deposited in the Bond Fund, as and when received, (a) any accrued interest paid upon the initial delivery of any of the Bonds; (b) any amount in the Construction Fund directed to be paid into the Bond Fund under Sections 5.8 and 5.9 hereof; (c) all Revenues, including all moneys received by the Trustee under and pursuant to the Guaranty to pay the principal of, and premium, if any, and interest on, the Bonds; and (d) all other moneys received by the Trustee under and pursuant to the Agreement or from any other source which are required or which are accompanied by directions that such moneys are to be paid into the Bond Fund.

Section 5.4. Use of Moneys in Bond Fund. Except as otherwise provided in Sections 5.10, 5.12 and 9.2 hereof, moneys in the Bond Fund shall be used solely for the payment of the principal of and premium, if any, on the Bonds at maturity or upon acceleration or for the redemption of the Bonds prior to maturity, and for the payment of the interest on the Bonds when due.

Section 5.5. Custody of Bond Fund. The Bond Fund shall be in the custody of the Trustee but in the name of the Issuer, and the Issuer hereby authorizes and directs the Trustee to withdraw sufficient funds from the Bond Fund to pay the principal of and premium, if any, and interest on the Bonds as the same become due and payable which authorization and direction the Trustee hereby accepts.

Section 5.6. Construction Fund. There is hereby created and established with the Trustee a trust fund in the name of the Issuer to be designated “Mississippi Business Finance Corporation Economic Development Revenue Bonds (Ingalls Shipbuilding, Inc. Project) Taxable Series 1999A — Construction Fund,” which shall be expended in accordance with the provisions of the Agreement.

Section 5.7. Payments into Construction Fund; Disbursements. The proceeds of the issuance and delivery of the Bonds in accordance with Section 2.6 hereof (excluding accrued interest, if any) shall be deposited in the Construction Fund. Moneys in the Construction Fund shall be expended in accordance with Section 3.3 of the Agreement pursuant to requisitions signed by an Authorized Company Representative and delivered to the Trustee stating with respect to each payment to be made:
(a) The requisition number;
(b) The name and address of the person, firm or corporation to whom payment is due or has been made, which may include the Company;
(c) The amount to be or which has been paid; and
(d) That each obligation mentioned therein has been properly incurred, is a proper charge against the Construction Fund in accordance with the provisions of the Agreement and has not been the basis of any previous requisition from the Construction Fund or from the proceeds (including investment income) of any other obligations issued by or on behalf of any state or political subdivision, including authorities, agencies, departments or other similar issuers.

The Trustee is hereby authorized and directed to make the disbursement pursuant to each such requisition and to issue its checks therefor. In making any such disbursement, the Trustee may rely on any such requisition. The Trustee shall keep and maintain adequate records pertaining to the Construction Fund and all disbursements therefrom and shall provide monthly statements of transactions and investments pertaining to the Construction Fund to the Company so long as any Bonds remain outstanding.

Section 5.8. Completion of Project. The completion of the Project and payment or provision made for payment of the full Cost of the Project shall be evidenced by the filing with the Trustee of a certificate required by the provisions of Section 3.4 of the Agreement. Any balance remaining in the Construction Fund on the Completion Date shall be used in accordance with Section 3.4 of the Agreement.

Section 5.9. Transfer of Construction Fund. If all of the Bonds are paid or deemed to be paid or canceled as herein provided or if the principal of the Bonds shall have become due and payable pursuant to Article VIII hereof, then, notwithstanding anything herein to the contrary, any balance then remaining in the Construction Fund shall without further authorization be deposited in the Bond Fund by the Trustee.

Section 5.10. Non-presentment of Bonds. In the event any Bond or portion thereof shall not be presented for payment when the principal thereof becomes due, either at maturity or otherwise, or at the date fixed for redemption thereof, or in the event that any interest payment remains unclaimed, then if moneys sufficient to pay such Bond or interest, including all interest accrued thereon to such date and any premium due in connection therewith shall have been made available to the Trustee, all liability of the Issuer for the payment of such Bond or the payment of such interest and all liability of the Company for the payment of such Bond or the payment of such interest shall forthwith cease, determine and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such fund or funds (which may only be invested overnight in Governmental Obligations or securities rated AAA or Aaa by each Rating Agency then rating the Bonds), without liability for interest thereon, in trust for the benefit of, and subject to a security interest in favor of, the owner of such Bond or such interest payment, as the case may be, who shall thereafter be restricted exclusively to such fund or funds, for any claim of...
whatever nature on his part under this Indenture or on, or with respect to, said Bond or interest. Subject to applicable law, any moneys so deposited with and held by the Trustee for the benefit of such persons, if any, for one (1) year after the date upon which such moneys were so deposited, shall be repaid to the Company as provided in Section 8.5 of the Agreement on written request of the Company and thereafter such persons shall look only to the Company for the purpose of payment from such moneys and then only to the extent of the amounts so deposited with the Company, without interest thereon, and the Issuer and the Trustee shall have no responsibility with respect to such moneys and all liability of the Issuer and the Trustee with respect to such moneys shall thereupon cease, terminate and be completely discharged.

Section 5.11. Moneys to be Held in Trust. All moneys required to be deposited with or paid to the Trustee for the account of the Bond Fund or the Construction Fund under any provision of this Indenture shall be held by the Trustee in trust, and except for moneys deposited with or paid to the Trustee for the redemption of Bonds, notice of the redemption of which has been duly given, and except for moneys which have been deposited with the Trustee pursuant to Article VII hereof, and except for moneys held pursuant to Section 5.10 hereof, and, while held by the Trustee, constitute part of the Trust Estate and be subject to the lien or security interest created hereby.

Section 5.12. Repayment to the Company from Bond Fund. Subject to the provisions of Section 5.10 hereof, any amounts remaining in the Bond Fund or any other fund or account established pursuant to this Indenture after payment in full of the Bonds (or provision therefor having been made in accordance herewith), and payment in full of the fees, charges and expenses of the Issuer and the Trustee and payment in full of all other amounts required to be paid hereunder and under the Agreement shall be paid to the Company.

Section 5.13. Additional Payments Under the Agreement. Pursuant to Section 4.2(b) of the Agreement the Company has agreed to pay as provided therein fees, expenses and indemnities of the Trustee. All such additional payments received by the Trustee shall not be paid into the Bond Fund and the Construction Fund, but shall be disbursed by the recipient thereof solely for the purposes for which said additional payments are received.

Article VI
Investment of Moneys

Except as provided in Sections 3.4 and 5.10 hereof, any moneys held as part of the Bond Fund and any moneys held as part of the Construction Fund shall be invested and reinvested by the Trustee at the written direction of the Company in accordance with the provisions of Section 3.5 of the Agreement. The Trustee may make any and all such investments and such investments described in the next succeeding paragraph through its own investment department. Any such investments shall be held by or under the control of the Trustee and shall be deemed at all times a part of the fund for which they were made. The interest accruing thereon and any profit realized from such investments shall be credited to such fund, and any net loss resulting from such investments shall be charged to such fund. The Trustee shall, at the written direction of the Company, sell and reduce to cash a sufficient amount of such investments of the
Construction Fund whenever the cash balance in the Construction Fund is insufficient to pay a requisition when presented or of the Bond Fund whenever the cash balance in the Bond Fund is insufficient to pay the principal of, premium, if any, and interest on the Bonds when due, provided, that the Trustee shall, at the direction of the Company, first sell and reduce to cash those investments of the Bond Fund which mature earliest. The Trustee shall have no responsibility with respect to the compliance by the Company or the Issuer with any covenant herein regarding investments made in accordance with this Article, other than to use its best reasonable efforts to comply with instructions from the Company regarding such investments and the Trustee shall bear no responsibility for losses incurred from such investments. Since the investments permitted by this Section have been included at the request of the Company and the making of such investments from time to time will be subject to the Company’s direction, the Issuer and the Trustee specifically disclaim any obligation to the Company for any loss arising from, or tax consequences of, investments pursuant to the provisions of this Section. The Trustee shall not be responsible for any depreciation of the value of any investment made pursuant to this Section or for losses incurred in the redemption, sale or other disposal of any investments made in accordance with this Section.

Article VII

Discharge of Lien

If the Issuer shall pay or cause to be paid, or there shall be otherwise paid or provision for payment made to or for the owners from time to time of the Bonds, the principal of, premium, if any, and interest due or to become due thereon on the dates and in the manner stipulated therein, and shall pay or cause to be paid to the Trustee all sums of money due or to become due according to the provisions hereof and if all other liabilities of the Company under the Agreement shall have been satisfied, then these presents and the estate and rights hereby granted shall cease, determine and be void, whereupon the liens of this Indenture shall be canceled and discharged (except with respect to moneys held by the Trustee hereunder, and the rights and immunities of the Issuer and the Trustee hereunder), and upon written request of the Issuer or the Company, the Trustee shall execute and deliver to the Issuer such instruments in writing as shall be required by the Issuer or the Company to cancel and discharge the lien hereof and thereof, and reconvey, release, assign and deliver unto the Issuer and the Company, respectively, the estate, right, title and interest in and to any and all property conveyed, assigned or pledged to the Trustee or otherwise subject to the lien of this Indenture, except amounts in the Bond Fund or any other fund or account established pursuant to this Indenture required to be paid to the Company under Section 5.12 hereof.

Any Bond shall be deemed to be paid within the meaning of this Article VII when payment of the principal of and premium, if any, on such Bond, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption prior to maturity as provided in this Indenture or otherwise), either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided by irrevocably depositing with the Trustee, in trust for the benefit of and subject to a security interest in favor of the owner of such Bond, and irrevocably setting aside exclusively for such payment on such due date (1) moneys sufficient to make such payment, or (2) Governmental Obligations maturing as

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to principal and interest in such amounts and on such dates as will (together with any moneys held under clause (1)), in the written opinion of a firm of
certified public accountants delivered to the Trustee, provide sufficient moneys without reinvestment to make such payment, and if all necessary and proper
fees, compensation and expenses of the Trustee pertaining to the Bonds with respect to which such deposit is made and all other liabilities of the Company
under the Agreement shall have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such time as a Bond shall be deemed to be
paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefits of this Indenture, except for the purposes set forth in Sections 2.7 and
2.8 hereof and any such payment from such moneys or Governmental Obligations on the date or dates specified at the time of such deposit.

Notwithstanding the foregoing, in the case of Bonds which are to be redeemed prior to the Maturity Date, no deposit under clause (ii) of the immediately
preceding paragraph shall be deemed a payment of such Bonds as aforesaid until proper notice of redemption of such Bonds shall have been previously given
in accordance with Article III hereof, or until the Company, on behalf of the Issuer, shall have given the Trustee, in form satisfactory to the Trustee,
irrevocable instructions:

(a) stating the redemption date when the principal (and premium, if any) of each such Bond is to be paid (which may be any redemption date
permitted by this Indenture); and

(b) to call for redemption pursuant to this Indenture any Bonds to be redeemed prior to the Maturity Date pursuant to (a) hereof.

In the case of Bonds which are not to be redeemed within the next succeeding sixty (60) days, the Trustee shall mail, as soon as practicable, in the
manner prescribed by Article III hereof, a notice to the owners of such Bonds that the deposit required by (ii) above has been made with the Trustee and that
said Bonds are deemed to have been paid in accordance with this Article VII and stating the redemption or maturity date upon which moneys are to be available
for the payment of the redemption price on or principal of said Bonds.

Any moneys so deposited with the Trustee as provided in this Article VII may at the direction of the Company also be invested and reinvested in
Governmental Obligations, maturing in the written opinion of a firm of nationally recognized certified public accountants delivered to the Trustee in the
amounts and on the dates as hereinbefore set forth, and all income from all Governmental Obligations in the hands of the Trustee pursuant to this Article VII
which in the written opinion of a firm of certified public accountants delivered to the Trustee is not required for the payment of the Bonds and interest and
premium, if any, thereon with respect to which such moneys are deposited, shall be deposited in the Bond Fund as and when collected for use and application
as are other moneys deposited in that fund.

Anything in Article X hereof to the contrary notwithstanding, if moneys or Governmental Obligations have been deposited or set aside with the Trustee
pursuant to this Article VII for the payment of the principal of, premium, if any, and interest on the Bonds and the principal of, premium, if any, and interest
on such Bonds shall not have in fact been actually paid in full, no

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amendment to the provisions of this Article VII shall be made without the consent of the owner of each of the Bonds affected thereby.

If an agreement with a Securities Depository as described in Section 2.11 hereof is then in effect and such agreement provides for the Trustee to obtain a CUSIP number in the event of a partial refunding or redemption of the Bonds and the authentication of a new Bond for the refunded or redeemed Bonds, then the Trustee shall comply with the provisions of such agreement.

**Article VIII**

**Default Provisions and Remedies of Trustee**

and Bondholders

**Section 8.1. Defaults; Events of Default.** If any of the following events occur, it is hereby declared to constitute an “event of default” hereunder:

(a) Failure to pay interest on any Bond when such interest shall have become due and payable;

(b) Failure to pay the principal of, or premium, if any, on any Bond, when due, whether at the stated maturity thereof or upon proceedings for redemption thereof;

(c) Failure to perform or observe any other of the material covenants, agreements or conditions on the part of the Issuer in this Indenture or in the Bonds contained and failure to remedy the same after notice thereof pursuant to Section 8.12 hereof;

(d) The occurrence of an “Event of Default” under the Agreement; or

(e) The occurrence of an “event of default” under the Guaranty.

**Section 8.2. Acceleration.** Upon the occurrence of an event of default hereunder, the Trustee may, and upon the written request of the owners of not less than a majority in aggregate principal amount of Bonds then Outstanding the Trustee shall, by notice in writing delivered to the Issuer and the Company, declare the principal of all Bonds then Outstanding and the interest accrued thereon to the date of such declaration immediately due and payable, and such principal, interest, and any premium the Issuer shall have become obligated to pay prior to such date, if any, shall thereupon become and be immediately due and payable. Upon any acceleration hereunder the Trustee shall immediately declare an amount equal to all amounts then due and payable on the Bonds to be immediately due and payable under Section 4.2(a) of the Agreement.

**Section 8.3. Other Remedies; Rights of Bondholders.** Upon the occurrence of an event of default hereunder the Trustee may, in addition or as an alternative to the remedy provided for in Section 8.2 hereof, pursue any available remedy by suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds then outstanding.
If an event of default shall have occurred, and if requested so to do by the owners of not less than a majority in aggregate principal amount of Bonds then outstanding, and if indemnified as provided in Section 9.1(1) hereof, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Section 8.3, as the Trustee, being advised by counsel, shall deem most expedient and in the interests of the Registered Owners; provided that such request shall not be otherwise than in accordance with the provisions of law and of this Indenture and shall not result in the personal liability of the Trustee. The Trustee may take any other action under this Indenture which is not inconsistent with such requests. No remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or to the Registered Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Registered Owners hereunder or now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any default or event of default hereunder shall impair any such right or power or shall be construed to be a waiver of any such default or event of default or acquiescence therein; and such right and power may be exercised from time to time as often as may be deemed expedient.

No waiver of any default or event of default hereunder, whether by the Trustee or the Registered Owners, shall extend to or shall affect any subsequent default or event of default or shall impair any rights or remedies consequent thereon.

Section 8.4. Right of Bondholders to Direct Proceedings. Anything in this Indenture to the contrary notwithstanding, the owners of not less than a majority in aggregate principal amount of the Bonds then outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, and subject to indemnification of the Trustee pursuant to Section 9.1(1) hereof, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture, or for the appointment of a receiver or any other proceedings hereunder; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of this Indenture and shall not result in the personal liability of the Trustee. The Trustee may take any other action under this Indenture which is not inconsistent with such direction.

Section 8.5. Appointment of Receivers. Upon the occurrence of an event of default hereunder and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Registered Owners under this Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate and of the revenues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

Section 8.6. Waiver. Upon the occurrence of an event of default hereunder, to the extent that such rights may then lawfully be waived, neither the Issuer, nor anyone claiming through or under the Issuer, shall set up, claim or seek to take advantage of any appraisement, valuation, stay, extension or redemption laws now or hereafter in force, in order to prevent or hinder the enforcement of this Indenture, and the Issuer, for itself and all who may claim through or under it, hereby waives, to the extent that it lawfully may do so, the benefit of all such laws.

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Section 8.7. Application of Moneys. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article VIII or pursuant to Section 6.3 or 6.9 hereof shall, after payment to the Trustee as provided in Section 9.2 hereof, be deposited in the Bond Fund; and all moneys in the Bond Fund (other than moneys held for the payment of a particular Bond) during the continuation of an event of default hereunder shall be applied as follows:

(a) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

First - To the payment to the persons entitled thereto of all interest then due on the Bonds and, if the amount available shall not be sufficient to pay said amount in full, then to the payment ratably, according to the amounts due, to the persons entitled thereto, without any discrimination or privilege; and

Second - To the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Bonds which shall have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to the provisions of this Indenture) and, if the amount available shall not be sufficient to pay in full such unpaid principal and premium, then to the payment ratably to the persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond.

(c) If the principal of all of the Bonds shall have been declared due and payable, and if such declarations shall thereafter have been rescinded and annulled under the provisions of this Article VIII then, subject to the provisions of Section 8.7(b) hereof in the event that the principal of all of the Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of Section 8.7(a) hereof.

Subject to the provisions of Section 9.2 hereof, whenever moneys are to be applied pursuant to the provisions of this Section 8.7, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and
shall not be required to make payment to the owner of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 8.8. Remedies Vested in Trustee. All rights of action (including the right to file proofs of claim) under this Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceeding relating thereto and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any owners of the Bonds, and any recovery of judgment shall be for the equal and ratable benefit of the owners of the outstanding Bonds.

Section 8.9. Rights and Remedies of Bondholders. No owner of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of this Indenture or the Agreement or for the execution of any trust hereof or for the appointment of a receiver or any other remedy hereunder or thereunder, unless a default has occurred of which the Trustee has been notified as provided in Section 9.1(h) hereof, or of which by said subsection it is deemed to have notice, nor unless also such default shall have become an event of default hereunder and the owners of not less than a majority in aggregate principal amount of Bonds then Outstanding shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, nor unless also they have offered to the Trustee indemnity as provided in Section 9.1(1), nor unless the Trustee shall thereafter fail or refuse to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its own name for sixty (60) days after such notification, request and offer of indemnification; and such notification, request and offer of indemnity are hereby declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of this Indenture, and to any action or cause of action for the enforcement of this Indenture or the Agreement, or for the appointment of a receiver or for any other remedy hereunder or thereunder; it being understood and intended that no one or more owners of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of this Indenture by its, his or their action or to enforce any right hereunder or thereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal and ratable benefit of the owners of all Bonds then Outstanding. Nothing contained in this Indenture, however, shall affect or impair the right of any Registered Owner to enforce the payment of the principal of, premium, if any, and interest on any Bond at and after the maturity thereof, or the obligation of the Issuer to pay the principal of, premium, if any, and interest on each of the Bonds issued hereunder to the respective owners thereof on the date, at the place, from the source and in the manner in the Bonds expressed.

Section 8.10. Termination of Proceedings. In case the Trustee shall have proceeded to enforce any right under this Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case the Issuer, the Trustee and the Registered Owners shall be restored to their former positions and rights hereunder respectively with regard to the property subject to this Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.
Section 8.11. Waivers of Events of Default. The Trustee may at its discretion waive any event of default hereunder and its consequences and may rescind any declaration of acceleration of principal, and shall do so upon the written request of the owners of (1) not less than a majority in aggregate principal amount of all the Bonds then Outstanding in respect of which default in the payment of principal or interest, or both, exists, or (2) not less than a majority in aggregate principal amount of all Bonds then Outstanding in respect of any other default; provided, however, that there shall not be waived (a) any default in the payment of the principal of or premium, if any, on any Outstanding Bonds at the date of maturity specified therein or redemption prior to maturity, or (b) any default in the payment when due of the interest on any such Bonds, unless prior to such waiver or rescission, all arrears of principal or interest, or both, and all expenses of the Trustee, in connection with such default shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the Issuer, the Trustee and the Registered Owners shall be restored to their former positions and rights hereunder, respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

Section 8.12. Notice of Defaults under Section 8.1(c); Opportunity of the Issuer and the Company to Cure Such Defaults. Anything herein to the contrary notwithstanding, no default under Section 8.1(c) hereof shall constitute an event of default hereunder until notice of such default by registered or certified mail, return receipt requested, shall be given to the Issuer and the Company by the Trustee or to the Issuer, the Company and the Trustee by the owners of not less than a majority in aggregate principal amount of all Bonds then Outstanding which notice shall specify such default, request that said default be remedied and state that such notice is a “Notice of Default” hereunder, and the Issuer and the Company shall have had ninety (90) days after receipt of such notice to correct said default or cause said default to be corrected, and shall not have corrected said default or caused said default to be corrected within the applicable period.

With regard to any default concerning which notice is given to the Issuer and the Company under the provisions of this Section 8.12, the Issuer hereby grants the Company full authority for account of the Issuer to perform any covenant or obligation alleged in said notice to constitute a default, in the name and stead of the Issuer with full power to do any and all things and acts to the same extent that the Issuer could do and perform any such things and acts and with power of substitution.

Article IX
Trustee

Section 9.1. Acceptance of Trusts. The Trustee hereby accepts the trusts imposed upon it by this Indenture and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

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(a) The Trustee, prior to the occurrence of an event of default and after the curing of all events of default which may have occurred hereunder, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an event of default has occurred hereunder (which has not been cured or waived), and subject to the provisions of Section 9.1(1) hereof, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or employees, but shall, in the case of attorneys, agents or receivers, not be answerable for the conduct of the same if appointed by the Trustee in good faith and without negligence, and shall be entitled to advice of counsel concerning its duties hereunder and thereunder, and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder or thereunder in good faith in reliance thereon, and may in all cases pay such reasonable compensation to all such attorneys, agents and receivers as may reasonably be employed in connection with the trusts hereof or thereof, and the Trustee may be reimbursed for such payment as provided in Section 4.2(b) of the Agreement.

(c) The Trustee shall not be responsible for any recital herein or in the Bonds (except with respect to the certificate of the Trustee endorsed on the Bonds), or for the validity of the execution by the Issuer of this Indenture or any supplemental indentures hereto, or of any instruments of further assurance, or for the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby or for filing any financing or continuation statements in any public office at any time in order to perfect or maintain the perfection of any security interest granted hereby or to maintain any insurance policy relating to the Project. No provision of this Indenture shall require the Trustee to expend or risk its own funds or shall relieve the Trustee from liability for its negligence or willful misconduct.

(d) The Trustee shall not be accountable for the use of the proceeds of any Bonds authenticated or delivered hereunder. The Trustee may become the owner of Bonds secured hereby with the same rights which it would have if not the Trustee.

(e) The Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the owner of any Bond, shall be conclusive and binding upon such owner and all future owners of the same Bond and upon Bonds issued in exchange therefor or in place thereof or on registration of transfer thereof.

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(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a certificate signed by a member or an authorized official of the Issuer or an Authorized Company Representative under the Agreement as sufficient evidence of the facts therein contained and prior to the occurrence of a default of which the Trustee has been notified as provided in Section 9.1(h) hereof, or of which by Section 9.1(h) it is deemed to have notice, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed by it to be necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate of a member or an authorized official of the Issuer to the effect that an authorization in the form therein set forth has been adopted by the Issuer as conclusive evidence that such authorization has been duly adopted, and is in full force and effect.

(g) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty and the Trustee shall not be answerable for other than its negligence, bad faith or misconduct.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any default or event of default hereunder or under the Agreement except failure by the Issuer to cause to be made any of the payments to the Trustee required to be made by Article IV hereof, unless the Trustee shall be specifically notified in writing of such default by the Issuer, the Company or the owners of at least a majority in aggregate principal amount of Bonds then Outstanding and all notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the Principal Office of the Trustee (unless otherwise provided in the Bonds and this Indenture), and in the absence of such notice so delivered the Trustee may conclusively assume there is no default except as aforesaid.

(i) At any and all reasonable times, the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, shall have the right fully to inspect any and all of the property herein conveyed, including all books, papers and records of the Issuer and the Company pertaining to the Project and the Bonds (upon reasonable notice to the Issuer or the Company, as the case may be), and to take such memoranda from and with regard thereto as may be desired, subject to such limitations, restrictions and requirements as the Issuer or the Company, as the case may be, may reasonably prescribe.

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of said trusts and powers or otherwise in respect of the premises.

(k) Notwithstanding anything elsewhere in this Indenture and the Agreement with respect to the authentication of any Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of this Indenture and the Agreement, the Trustee shall have the right, but shall not be required, to demand any showings, certificates, opinions, appraisals or other information, or corporate action or
evidence thereof, in addition to that by the terms hereof required as a condition of such action, by the Trustee deemed desirable for the purpose of establishing the right of the Issuer or the Company to the authentication of any Bonds, the withdrawal of any cash, or the taking of any other action by the Trustee.

(l) Before taking any action at the request or direction of owners of the Bonds under this Indenture, including directions referred to in Section 8.3, Section 8.4, and Section 9.4 hereof, the Trustee may require that a satisfactory indemnity bond be furnished by such owners for the reimbursement of all expenses (including reasonable counsel fees and expenses) to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence, bad faith or misconduct. Notwithstanding anything in this Indenture to the contrary, the Trustee may not require the indemnification provided for in this Section 9.1(l) before taking action under Section 9.2 hereof or to realize moneys under the Guaranty as provided herein or before making regularly scheduled payments of principal and interest on the Bonds.

(m) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(n) The Trustee’s rights to immunities and protection from liability hereunder and its rights to payment of its fees, expenses and indemnities shall survive its resignation or removal and the final payment or defeasance of the Bonds and all indemnifications and releases from liability granted herein to the Trustee shall extend to its directors, officers, employees and agents.

Section 9.2. Fees, Charges, Indemnities and Expenses of the Trustee. The Trustee shall be entitled to payment and reimbursement for reasonable fees for its services rendered hereunder and all advances, counsel fees and other expenses reasonably made or incurred by the Trustee in connection with such services and in connection with entering into this Indenture. The Trustee shall also be entitled to payment of its reasonable fees, charges and expenses in the event that provision for the payment of the Bonds is made pursuant to Article VII hereof. The Company, the Issuer and the holders of the Bonds agree that the Trustee shall have a first lien for the foregoing fees, charges and expenses and for the indemnities owed to it under Section 4.2(b) of the Agreement with right to enforce such lien for payment prior to payment on account of principal of, premium, if any, and interest on any Bond upon the Trust Estate (other than moneys held for the payment of particular Bonds whether or not such payment is then due and owing) for the foregoing fees, charges, expenses and indemnities incurred by it.

Section 9.3. Notice of Default. If a default occurs of which the Trustee is by Section 9.1(h) hereof required to take notice or if notice of default be given as therein provided, then the Trustee shall promptly give written notice thereof by registered or certified mail, return receipt requested, to the Issuer and the Company. The Trustee shall promptly give written notice of any such default by registered or certified mail, return receipt requested, to the owner of each
Section 9.4. Intervention by the Trustee. In any judicial proceeding to which the Issuer is a party which, in the opinion of the Trustee and its counsel, has a substantial bearing on the interests of the owners from time to time of the Bonds, the Trustee may intervene on behalf of Registered Owners and, subject to the provisions of Section 9.1(1) hereof, shall do so if requested in writing by the owners of at least a majority of the aggregate principal amount of Bonds then Outstanding.

Section 9.5. Successor Trustee. Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, merger or consolidation to which it is a party, shall be and become successor Trustee hereunder and vested with all of the title to the Trust Estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto, anything herein to the contrary notwithstanding. Any such successor Trustee shall give notice thereof to the Issuer and the Company.

Section 9.6. Resignation by the Trustee. The Trustee and any successor Trustee may at any time resign from the trusts hereby created by giving sixty (60) days’ written notice by first class mail, postage prepaid, to the Issuer, the Company and the owner of each Bond as shown by the list of Registered Owners required by Section 4.6 hereof to be kept by the Trustee, and such resignation shall take effect at the end of such sixty (60) days provided that a successor Trustee has been appointed and shall have accepted appointment pursuant to Section 9.8 hereof, or upon the earlier appointment of, and acceptance of appointment by, a successor Trustee pursuant to Section 9.8 hereof. If no successor Trustee shall have been so appointed and have accepted appointment within sixty (60) days of the giving of written notice by the resigning Trustee as aforesaid, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

Section 9.7. Removal of the Trustee. The Trustee may be removed at any time, by an instrument or concurrent instruments in writing delivered to the Trustee, the Issuer and the Company and signed by the owners of not less than a majority in aggregate principal amount of Bonds then Outstanding, or (so long as no default or Event of Default is then existing under the Agreement) signed by the Company and delivered to the Trustee and the Issuer, and such removal shall take effect at the appointment of a successor Trustee pursuant to the provisions of Section 9.8 hereof and acceptance by such Trustee.

Section 9.8. Appointment of Successor Trustee. In case the Trustee hereunder shall (a) give notice of resignation, (b) be removed, or (c) be dissolved, or shall be in the course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public office or offices, or of a receiver appointed by a court; a successor shall be appointed by the Issuer (at the written direction of the Company); provided,
that if a successor Trustee is not so appointed within sixty (60) days after notice of resignation is mailed or an instrument of removal is delivered as provided under Sections 9.6 and 9.7 hereof, respectively, or within sixty (60) days of the Issuer’s knowledge of any of the events specified in (c) hereinabove, then the owners of not less than a majority in aggregate principal amount of Bonds then Outstanding, by an instrument or concurrent instruments in writing signed by such owners, or by their duly authorized attorneys in fact, a copy of which shall be delivered personally or sent by first class mail, postage prepaid, to the Issuer, the retiring Trustee, the successor Trustee and the Company, may designate such successor. If the Registered Owners and the Issuer fail to so appoint a successor Trustee hereunder within sixty (60) days after the Trustee has given notice of its resignation, has been removed, has been dissolved, has otherwise become incapable of acting hereunder or has been taken under control by a public officer or receiver, the Trustee shall have the right to petition a court of competent jurisdiction to appoint a successor Trustee hereunder. Every such Trustee appointed pursuant to the provisions of this Section 9.8 shall be a trust company or bank with trust powers in good standing and have a reported capital and surplus of not less than $100,000,000 (such capital and surplus requirement may be met by the trust company’s or bank’s holding company) if there be such an institution willing, qualified and able to accept the trust upon customary terms.

Section 9.9. Concerning Any Successor Trustee. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its or his predecessor and also to the Issuer an instrument in writing accepting such appointment hereunder and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of the Issuer (at the direction of the Company), or of its successor, execute and deliver an instrument transferring to such successor all the estates, properties, rights, powers and trusts of such predecessor hereunder, and every predecessor Trustee shall, upon payment of its charges, deliver all securities and moneys held by it as Trustee hereunder to its successor. Should any instrument in writing from the Issuer be required by any successor Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties hereby or thereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Issuer. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor hereunder and thereunder, together with all other instruments provided for in this Article X, shall be filed or recorded by the successor Trustee in each recording office where the Indenture (or a financing statement with respect thereto) shall have been filed or recorded.

Section 9.10. Appointment of a Co-Trustee. It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction (including particularly the law of the State) denying or restricting the right of banking corporations or associations to transact business as Trustee in such jurisdiction. It is recognized that in case of litigation under this Indenture or the Agreement and, in particular, in case of the enforcement of either of them on default, or in case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies granted herein to the Trustee or hold title to the properties, in trust, as herein granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint, with the consent
of the Company (to the extent that no default or Event of Default shall have occurred and be continuing under the Agreement), an additional individual or institution as a separate trustee or co-trustee. The following provisions of this Section 9.10 are adapted to these ends.

In the event that the Trustee appoints an additional individual or institution as a separate trustee or co-trustee, in the event of the incapacity or lack of authority of the Trustee, by reason of any present or future law of any jurisdiction, to exercise any of the rights, powers, trusts and remedies herein granted to the Trustee or to hold title to the Trust Estate or to take any other action which may be necessary or desirable in connection therewith, each and every remedy, power, right, obligation, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be imposed upon, exercised by or vested in or conveyed to the Trustee with respect thereto shall be imposed upon, exercisable by and vest in such separate trustee or co-trustee, but only to the extent necessary to enable such separate trustee or co-trustee to exercise such powers, rights, trusts and remedies, and every covenant and obligation necessary to the exercise thereof by such separate trustee or co-trustee shall run to and be enforceable by either of them. Such separate trustee or co-trustee shall deliver an instrument in writing acknowledging and accepting its appointment hereunder to the Issuer, the Trustee and the Company.

Should any instrument in writing from the Issuer be required by the separate trustee or co-trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to him or it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Issuer. If the Issuer shall fail to deliver the same within fifteen (15) days of such request, or if an Event of Default has occurred and is continuing, the Trustee is hereby appointed attorney-in-fact for the Issuer to execute, acknowledge and deliver such instruments in the Issuer’s name and stead. In case any separate trustee or co-trustee, or a successor to either, shall die, become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new trustee or successor to such separate trustee or co-trustee.

Article X
Supplemental Indentures

Section 10.1. Supplemental Indentures Not Requiring Consent of Bondholders. The Issuer and the Trustee may, without consent of, or notice to, any of the Bondholders enter into an indenture or indentures supplemental to this Indenture for any one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission in this Indenture or to make any other change, provided that no such action is to the prejudice of the Registered Owners;
(b) To grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders or the Trustee;

(c) To secure or maintain ratings on the Bonds from Moody’s and/or S&P, which changes will not restrict, limit or reduce the obligation of the Company to pay amounts sufficient to pay the principal of and premium, if any, and interest on the Bonds or otherwise materially adversely affect the Registered Owners under this Indenture; and

(d) To make any other change which in the judgment of the Trustee does not materially adversely affect the Registered Owners.

Upon the execution of any such supplemental indenture as in this Section 10.1 permitted and provided, this Indenture shall be deemed to be modified and amended in accordance therewith.

Section 10.2. Supplemental Indentures Requiring Consent of Bondholders. Exclusive of supplemental indentures covered by Section 10.1 hereof and subject to the terms and provisions contained in this Section 10.2, and not otherwise, the owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, anything contained in this Indenture to the contrary notwithstanding, to consent to and approve the execution by the Issuer and the Trustee of such other indenture or indentures supplemental hereto as shall be deemed necessary and desirable by the Issuer for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture or in any supplemental indenture; provided, however, that nothing in this Section 10.2 or in Section 10.1 hereof contained shall permit, or be construed as permitting, without the consent of the owners of 100% in aggregate principal amount of the Bonds then Outstanding, (a) an extension of the maturity (or mandatory redemption date) of the principal of, premium, if any, or the interest on, any Bond issued hereunder, or (b) a reduction in the principal amount of, or redemption premium on, any Bond or a change in the interest rate borne by any Bond issued hereunder, or (c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (d) a reduction in the aggregate principal amount of the Bonds the owners of which are required to consent to such supplemental indenture or to an amendment to the Agreement as provided in Section 11.2 hereof, or (e) the creation of any lien ranking prior to or on a parity with the lien of this Indenture on the Trust Estate or any part thereof, except as hereinbefore expressly permitted, or (f) the deprivation of the owner of any Bond then Outstanding of the lien hereby created on the Trust Estate.

If at any time the Issuer shall request the Trustee to enter into any such supplemental indenture for any of the purposes of this Section 10.2, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be sent by overnight delivery service (with the signature of the receiving party required) or to be mailed by registered or certified mail, return receipt requested, to the owner of each Bond then Outstanding as shown by the list of Registered Owners required by the terms of Section 4.6 hereof to be kept at the Principal Office of the Trustee. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that

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copies thereof are on file at the Principal Office of the Trustee for inspection by all Registered Owners. If, within sixty (60) days or such longer period as shall be prescribed by the Trustee following the sending or mailing of such notice, the owners of not less than a majority or 100%, as the case may be, in aggregate principal amount of the Bonds then Outstanding shall have consented to and approved the execution thereof as herein provided, no owner of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as in this Section 10.2 permitted and provided, this Indenture shall be and be deemed to be modified and amended in accordance therewith.

Section 10.3. Consent of Company. Anything herein to the contrary notwithstanding, no amendment, change or modification of this Indenture shall become effective unless and until the Company shall have consented in writing to the execution and delivery of such supplemental indenture. In this regard, the Trustee shall cause notice of the proposed execution of any such supplemental indenture, together with a copy of the proposed supplemental indenture, to be given by overnight delivery service (with the signature of the receiving party required) or by registered or certified mail, return receipt requested, to the Company at least fifteen (15) days prior to the proposed date of execution and delivery of any such supplemental indenture.

Section 10.4. Execution of Supplemental Indentures. In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, an opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture and that all conditions precedent have been complied with. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee’s own rights, duties or immunities under this Indenture or otherwise.

Article XI
Amendment of Agreement and Guaranty

Section 11.1. Amendments, Etc., to Agreement Not Requiring Consent of Bondholders. The Issuer and the Trustee may, without the consent of or notice to the Registered Owners, consent to any amendment, change or modification of the Agreement (including an assignment thereof) as may be required (i) by the provisions of the Agreement or this Indenture; (ii) for the purpose of curing any ambiguity or formal defect or omission or in connection with any other change therein; (iii) to secure or maintain ratings on the Bonds from Moody’s and/or S&P; (iv) to describe more fully or to amplify or correct the description of any property financed under the Agreement or intended to be so or to amend Exhibit A to the Agreement in accordance with Section 3.1 thereof; or (v) to make any other change which in the judgment of the Trustee does not materially adversely affect the Registered Owners.
Section 11.2. Amendments, Etc., to Agreement Requiring Consent of Bondholders. Except for the amendments, changes or modifications as provided in Section 11.1 hereof, the Issuer and the Trustee shall not consent to any other amendment, change or modification of the Agreement without the giving of notice and the written approval or consent of the owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding given as provided in this Section 11.2; provided, however, that nothing in this Section 11.2 or in Section 11.1 hereof contained shall permit or be construed as permitting, without the consent of the owners of 100% in aggregate principal amount of the Bonds then Outstanding, (a) an extension of time for the payment of an amount due pursuant to Section 4.2(a) of the Agreement; (b) a reduction in the total amount due pursuant to Section 4.2(a) of the Agreement; or (c) a reduction in the aggregate principal amount of the Bonds the owners of which are required to consent to such amendment, change or modification of the Agreement. If at any time the Issuer and the Company shall request the consent of the Trustee to any such proposed amendment, change or modification of the Agreement, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change or modification to be given in the same manner as provided by Section 10.2 hereof with respect to supplemental indentures. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same are on file at the Principal Office of the Trustee for inspection by all Registered Owners.

Section 11.3. Amendment of Guaranty. The Trustee and the Guarantor may, without the consent of or notice to the owners of the Bonds, enter into any amendment, change or modification of the Guaranty (i) as may be required by the provisions of the Guaranty or this Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, (iii) in connection with an amendment of this Indenture, (iv) to effect any event or purpose for which there could be an amendment of this Indenture without the consent of the owners of the Bonds, or (v) in connection with any other change therein which is not in the judgment of the Trustee to the material prejudice of the Trustee or the owners of the Bonds. Except for the amendments, changes or modifications described in the preceding sentence, the Trustee and the Guarantor may not enter into any other amendment, change or modification of the Guaranty without first mailing notice to, and obtaining the written approval or consent of, the owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding; provided, however, that the foregoing does not permit, without the written approval or consent of the Owners of 100% in aggregate principal amount of the Bonds then Outstanding, an extension of the time of payment of, or a reduction in, any amount payable under the Guaranty as to principal of, and premium, if any, or interest on, the Bonds or any change in the unconditional nature of the obligations of the Guarantor relating to payments due the Issuer under Section 4.2(c), 5.2 or 6.2 of the Agreement may only be made with the prior written consent of the Issuer.

Section 11.4. Execution of Consents. In executing any consent permitted by this Article the Trustee shall be entitled to receive, and shall be fully protected in relying upon, an opinion of Counsel stating that the execution of such consent is authorized or permitted by this Indenture and that all conditions precedent have been complied with. The Trustee may, but shall not be...
obligated to, consent to any amendment, change or modification of the Agreement which affects the Trustee’s own rights, duties or immunities under this Indenture, the Agreement or otherwise.

**Article XII**

**Miscellaneous**

**Section 12.1. Consents, Etc., of Bondholders.** Any consent, request, direction, approval, objection or other instrument required by this Indenture to be signed and executed by the Registered Owners may be in any number of concurrent documents and may be executed by such Registered Owners in person or by an agent appointed in writing. Proof of the execution of any such consent, request, direction, approval, objection or other instrument or of the writing appointing any such agent and of the ownership of Bonds, if made in the following manner, shall be sufficient for any of the purposes of this Indenture, and shall be conclusive in favor of the Trustee with regard to any action taken by it under such request or other instrument, namely:

(a) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgment within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by an affidavit of any witness to such execution, or in any manner satisfactory to the Trustee.

(b) The fact of ownership of Bonds and the amount or amounts, numbers and other identification of such Bonds, and the date of owning the same shall be proved by the registration books of the Issuer maintained by the Trustee pursuant to Section 2.8 hereof.

For all purposes of this Indenture and of the proceedings for the enforcement hereof, such person shall be deemed to continue to be the owner of such Bond until the Trustee shall have received notice in writing to the contrary.

In determining whether the owners of the requisite principal amount of Bonds outstanding have given any request, demand, authorization, direction, notice, consent or waiver under this Indenture, Bonds owned by the Company or any affiliate of the Company shall be disregarded and deemed not to be Outstanding under this Indenture, except that in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee knows to be so owned shall be so disregarded. For purposes of this paragraph (a) an “affiliate” means any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company; and for the purposes of this definition (b) “control”, means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise. Notwithstanding the foregoing, Bonds so owned which have been pledged in good faith shall not be disregarded as aforesaid if the pledgee establishes to the satisfaction of the Trustee the pledgee’s right so to act with respect to such Bonds and that the pledgee is not the Company or any affiliate of the Company.

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Notwithstanding the foregoing paragraph, Bonds owned by the Company or any affiliate of the Company shall be deemed to be Outstanding under the Indenture if all the Bonds Outstanding at the time are owned by the Company or an affiliate of the Company; provided, however, that in such event the Company or such affiliate may not consent to any supplement to this Indenture that would affect the validity of the Bonds; and provided further that if a supplement to this Indenture is executed at a time when the Company or any affiliate is the owner of all the Outstanding Bonds, Bond Counsel shall render an opinion that the execution of the supplement to this Indenture does not adversely affect the validity of the Bonds.

Section 12.2. Limitation of Rights. With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Indenture or the Bonds is intended or shall be construed to give to any person or company other than the parties hereto, the Company, and the owners of the Bonds, any legal or equitable right, remedy or claim under or with respect to this Indenture or any covenants, conditions and provisions therein contained, this Indenture and all of the covenants, conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties hereto and the Company and the owners from time to time of the Bonds as herein provided.

Section 12.3. Severability. If any provision of this Indenture shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative, or unenforceable to any extent whatever.

Section 12.4. Notices. Unless otherwise specifically provided herein, any notice, request, complaint, demand, direction, communication or other paper shall be sufficiently given if in writing and shall be deemed given: (i) three (3) days after the same are deposited in the United States mail and sent by registered or certified mail, return receipt requested, or (ii) when the same are delivered by hand, or (iii) when the same are sent by confirmed facsimile transmission, or (iv) on the next Business Day when the same are sent by overnight delivery service (with the signature of the receiving party required), in each case to the parties at the addresses set forth below or at such other address as a party may designate by written notice to the other parties: if to the Issuer, to Mississippi Business Finance Corporation, Department of Economic and Community Development, Corner of President and High, Sillers Building — 13th Floor, P.O. Box 849, Jackson, Mississippi 39205, or Telecopy Number (601) 359-2832, Attention: Executive Director; if to the Trustee, to The First National Bank of Chicago, One First National Plaza, Chicago, Illinois 60670, or Telecopy No. (312) 407-1708, Attention: Corporate Trust Services Division, Suite 0126; if to the Company, to Ingalls Shipbuilding, Inc., 1000 Litton Access Road, Pascagoula, Mississippi 39567, or Telecopy Number (228) 935-4864, Attention: Division Counsel, with a copy to the Guarantor at the address stated below; and to the Guarantor, to Litton Industries, Inc., 21240 Burbank Boulevard, Woodland Hills, California 91367, or Telecopy Number (818) 598-2025, Attention: General Counsel. A duplicate copy of each notice required to be given hereunder by the Trustee to either the Issuer or the Company shall also be given to the other.

Section 12.5. Payments Due on Non-Business Days. In any case where the date of maturity of interest on or principal of the Bonds or the date fixed for redemption of any Bonds is

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not a Business Day, then payment of principal, premium, if any, or interest need not be made on such date, but may be made on the immediately following Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest shall accrue for the period after such date.

Section 12.6. Action by Company. Wherever it is herein or in the Agreement provided or permitted for any action to be taken by the Company, such action may be taken by an Authorized Company Representative under the Agreement, unless the context clearly indicates otherwise.

Section 12.7. Counterparts. This Indenture may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12.8. Applicable Provisions of Law. This Indenture shall be governed by and construed in accordance with the laws of the State; provided that the immunities and standard of care of the Trustee in the administration of its trusts hereunder shall be governed by and construed in accordance with the laws of the jurisdiction in which its Principal Office is located.

Section 12.9. Captions. The captions or headings in this Indenture are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Indenture.

Section 12.10. Provisions for Payment of Expenses. The Issuer shall not be obligated to execute any documents or take any other action under or pursuant to this Indenture, the Agreement or any other document in connection with the Bonds unless and until provision for the payment of expenses of the Issuer shall have been made. Provisions for expenses shall be deemed to have been made upon arrangements reasonably satisfactory to the Issuer for the provision of expenses being agreed upon by the Issuer and the Company.

Section 12.11. Limited Liability of Officers, Etc. No recourse shall be had for the payment of the principal of, premium, if any, and interest on the Bonds or for any claim based thereon or upon any obligation, covenant or agreement in the Indenture contained, against any past, present or future official or employee of the Issuer, or any successor thereof, as such, either directly or indirectly or through the Issuer or any successor, under any rule or law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such official or employee as such is hereby expressly waived and released as a condition of and consideration for the execution of the Indenture and the issuance of any of the Bonds.

Section 12.12. Additional Notices to Rating Agencies. The Trustee hereby agrees that if at any time (a) there is a change in the Trustee or the co-trustee; (b) any amendments to the Indenture, the Agreement or the Guaranty; or (c) all or any part of the principal of the Bonds is paid; then, in each case, the Trustee shall use its best efforts to give notice promptly as provided in Section 12.4 hereof of any such event to each Rating Agency then maintaining a rating on the Bonds, which notice in the case of an event described in clause (b) above shall include a copy of
any such amendment. The agreement contained in this paragraph is made as a matter of courtesy and accommodation only and the Trustee shall have no liability to any person for any failure to comply therewith.
In Witness Whereof, the Mississippi Business Finance Corporation and The First National Bank of Chicago, have caused this Indenture of Trust to be executed in their respective names and their respective seals to be hereunto affixed and attested by their duly authorized officers, all as of the day first above written.

Mississippi Business Finance Corporation

By

Executive Director

[Seal]

Attest:

By

Secretary

The First National Bank of Chicago, as Trustee

By

Its Assistant Vice President

[Seal]

Attest:

By

Its Vice President

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MISSISSIPPI BUSINESS FINANCE CORPORATION
and
NORTHROP GRUMMAN SHIP SYSTEMS, INC.

LOAN AGREEMENT

Dated as of December 1, 2006

Relating to

$200,000,000
Gulf Opportunity Zone Industrial Development Revenue Bonds
(Northrop Grumman Ship Systems, Inc. Project),
Series 2006
# LOAN AGREEMENT

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LOAN AGREEMENT dated as of December 1, 2006 between the MISSISSIPPI BUSINESS FINANCE CORPORATION, a public body corporate and politic duly organized and existing under the Constitution and laws of the State of Mississippi (the “Issuer”), and NORTHROP GRUMMAN SHIP SYSTEMS, INC., a corporation organized and existing under the laws of the State of Delaware (the “Company”), evidencing the agreement of the parties hereto.

In consideration of the respective representations and agreements hereinafter contained, the parties hereto agree as follows (provided that in the performance of the agreements of the Issuer herein contained, any obligation it may thereby incur for the payment of money shall not be a general debt, liability or obligation of the Issuer, or of the State of Mississippi or any political subdivision thereof but shall be payable solely out of the revenues and proceeds derived from this Agreement, the Note (as hereinafter defined) and the Guaranty (as hereinafter defined) and the sale of the Bonds referred to herein):

ARTICLE I
DEFINITIONS

“Agreement” means this Loan Agreement and any amendments and supplements hereto.

“Completion Date” means the date identified in the certificate provided by the Company to the Trustee pursuant to Section 3.5 of this Agreement.

“Eligible Equipment” includes non-movable fixtures and equipment to the extent the same is assembled to construct, reconstruct or renovate the Company’s industrial plants located in the Gulf Opportunity Zone for the State and includes the equipment described in more detail in Exhibit A to the Non-Arbitrage Certificate of the Issuer and other items of equipment that are permitted to be financed under the Gulf Opportunity Zone Act of 2005 pursuant to any private letter ruling or other official governmental action recognized as binding upon the Internal Revenue Service and the Company.

“Event of Default” means any of the occurrences enumerated in Section 5.1 of this Agreement.

“Guarantor” means Northrop Grumman Corporation, a Delaware corporation.

“Guaranty” has the meaning set forth in the Indenture.

“Gulf Opportunity Zone” means that geographic area of Alabama, Mississippi and Louisiana so defined in Section 1400M(1) of the Code.
ARTICLE II
ACQUISITION AND REHABILITATION OF THE PROJECT;
ISSUANCE OF THE BONDS

SECTION 2.1. Acquisition and Rehabilitation of the Project. The Company represents that it will cause the acquisition, construction, reconstruction and renovation of the Project to be completed substantially in accordance with the Plans.
SECTION 2.2. Issuance of the Bonds. In order to provide funds for the purpose set forth in Section 3.1 hereof, the Issuer agrees that it will issue and deliver the Bonds to the purchasers thereof at a price of 100% of the aggregate principal amount of the Bonds and apply and deposit the proceeds thereof in accordance with the terms of the Indenture and Section 3.1 hereof. The Indenture shall be satisfactory in form and substance to the Company and shall provide the manner in which, and the purposes for which, proceeds of Bonds may be used and invested.

SECTION 2.3. Benefits Under the Act.

(a) The parties hereby acknowledge that the Company has been induced to proceed with the acquisition, construction and rehabilitation of the Project in part by the benefits conferred by the Act. The Issuer agrees that the Company shall be permitted to take advantage of all of the benefits provided by the Act to the fullest extent therein set forth subject to the rules and regulations of the Issuer. The Issuer agrees that it will not take any action to limit, curtail or otherwise make unavailable to the Company any of the benefits available under the Act.

(b) With respect to benefits conferred by the Act referenced in (a) above, the following shall apply:

(1) the maximum benefits accruing in any calendar year with respect to the income tax credit (other than any credits which may be carried forward to future years pursuant to the Act) shall not exceed the payments of the principal of, premium, if any, and interest payments on the Bonds during such year, and the fees and expenses of the Trustee and any other fees and expenses referenced herein.

(2) any benefit claimed or received by the Company for any Cost of the Project shall not be used as a deduction under the laws of the State of Mississippi in order to determine the taxable income of Company.

(3) the Trustee shall provide the Issuer, not later than ninety (90) days after the end of each calendar year, with a certificate setting forth the amount of all payments made to the Trustee with respect to the Bonds whether for principal, premium, interest or the fees and expenses of the Trustee.

(4) the benefits accruing to the Company under this Section 2.3 shall cease in the event:
(A) an Event of Default should occur under this Agreement or the Indenture; or

(B) the Company should fail to operate the Project for a period of nine (9) consecutive months following the initial start up of the Project except for force majeure, strikes, lockouts, damage, destruction, act of God or in general, reasons beyond the Company’s reasonable control excepting, however, general economic conditions.

(5) the Company agrees to comply with the terms and provisions of the Act in all respects with respect to the benefits available under the Act.

(6) the benefits or credits available under the Act shall cease to accrue on the date the principal and interest on the Bonds are paid in full whether at maturity or by way of redemption.

(7) the benefits accruing to the Company under this Section 2.3 shall be limited to the annual debt service payments on the Bonds for qualified Cost of the Project and shall be reduced by the amount of surplus funds remaining after completion which shall be used to redeem Bonds as provided for in Section 3.6 of this Agreement.

(8) the tax credits allowed as a benefit under the Act shall be further limited so that the credits allowed in any year shall not exceed eighty percent (80%) of the amount of taxes due to the State prior to the application of the credits (as directed in Section 27-7-22.3 of the Mississippi Code of 1972, as amended). To the extent that the payments of the principal of, premium, if any, and interest payments on the Bonds during any year and the fees and expenses of the Trustee and any other fees and expenses referenced herein exceed the amount of the tax credit authorized by Section 27-7-22.3, in any taxable year, such excess payment may be recouped from excess credits in succeeding years not to exceed three (3) years following the date upon which the credit was earned.

(9) the Company will report to the Mississippi Employment Security Commission (“MESC”) its employees as required by law, and shall annually report to the Issuer the average number of employees reported for each year to the MESC. This shall be done for each year after the year in which the Project was induced for financing by the Issuer.
(10) for purposes of determining the benefits to which the Company is eligible under the Act, the following definitions shall apply:

(A) (i) “Base Employment” (“BE”) means the average number of employees of the Company in the State during the preceding twelve (12) month period ending February 28, 2006, as reported by the Company to the Mississippi Employment Security Commission.

(ii) “Base Investment” (“BI”) means the present value of the capital assets owned or leased by the Company within the State as determined by the Tax Assessor of each County in which the Company owns or leases capital assets related to facilities, or corporate or regional offices.

(iii) “Future Employment” (“FE”) means the average number of employees of the Company in the State each year after February 28, 2006, which may be an estimate for the first twelve (12) months, and as reported by the Company to the Mississippi Employment Security Commission over each twelve (12) month period thereafter.

(iv) “Future Investment” (“FI”) means the sum of (a) the Base Investment; (b) the Costs of the Project paid with proceeds of the Bonds; and (c) funds of the Company used to pay Costs of the Project or related improvements.

(B) The Company represents and warrants that as of the date of this Agreement:

(i) the Base Employment is 11,540 employees and the Base Investment is $382,517,732.

(ii) the Company reasonably anticipates that the Future Employment for the first twelve (12) months after February 28, 2006 will be 11,038 employees, and the Future Investment will be approximately $889,463,932 by December 31, 2007, and $1,018,633,932 by December 31, 2008.

(C) The percentage of the Company’s total state income tax liability in which the Company shall be entitled to an income tax credit provided by the Act (subject to further limitation as set forth in Section 2.2(b)(8) above) shall be determined annually as follows:
(i) \( \frac{(FE - BE)}{FE} = \text{Employment Valuation Percentage ("EVP")} \)

(ii) \( \frac{(FI - BI)}{FI} = \text{Investment Valuation Percentage ("IVP")} \)

(iii) \( \frac{[(EVP \times 2) + IVP]}{3} = \text{Percentage of income tax liabilities of the Company to which the Company is entitled to an income tax credit.} \)

The Issuer makes no warranty or guaranty concerning the availability or application of the benefits granted or earned by the Company under this Section 2.3 or the Act.

SECTION 2.4. **Ad Valorem Tax Exemption**. The Company hereby acknowledges and agrees that the Company shall only be entitled to an ad valorem tax exemption from city or county ad valorem taxes regarding the Project upon making proper application to and obtaining the approval of the respective Mississippi city or county in which the Project is located. Any such ad valorem tax exemption may be granted for a term of up to ten (10) years with the approval of each respective Mississippi city or county in which the Project is located, and in accordance with additional requirements under State law.

ARTICLE III

**LOAN BY ISSUER; PROVISIONS FOR PAYMENT**

SECTION 3.1. **Loan by Issuer**. The Issuer hereby agrees to make the Loan to the Company in order to pay the Cost of the Project or to reimburse the Company for any Cost of the Project paid or incurred by the Company before or after the execution and delivery of this Agreement and the issuance and delivery of the Bonds but not paid or incurred before January 13, 2006, being the sixtieth day prior to Official Action (or, in the event that the IRS issues a ruling to the effect that reimbursement of costs incurred prior to that date will not affect the taxability of the bonds, such earlier date). Any such payment shall be made by the Issuer pursuant to the Indenture upon receipt by the Trustee of a requisition certificate substantially in the form attached as Exhibit C to the Indenture. Repayment of the Loan will be guaranteed by the Guarantor pursuant to the Guaranty.

SECTION 3.2. **Delivery of Note by Company; Other Amounts Payable**. In order to evidence the Loan and the obligation of the Company to repay the same, the Company shall execute and deliver the Note in a principal amount equal to the aggregate principal amount of the Bonds and providing for payments which correspond in time and amount with payments due on the Bonds. The Note shall be dated the date of the initial authentication of, and mature on the same maturity date as, the Bonds. If (i) on the date any payments on the Bonds are due, there are
any available moneys on deposit with the Trustee which are not being held for the payment of Bonds due and payable but which have not been presented for payment, or (ii) on any date on which Bonds are required to be purchased pursuant to the Bonds or Article III of the Indenture, there are available moneys on deposit with the Trustee held for the payment of the purchase price which are not being held for the payment of Bonds which have not been presented for payment, then, in each case, such moneys shall be credited against the payment then due under the Note, first in respect of interest and then, to the extent of remaining moneys, in respect of principal.

The Company will also pay: (i) the fees, charges and reasonable expenses of the Trustee and any paying agents under the Indenture, such fees, charges and reasonable expenses to be paid directly to the Trustee or paying agents for their respective accounts as and when such fees, charges and reasonable expenses become due and payable, and (ii) any expenses in connection with any redemption of the Bonds.

SECTION 3.3. Obligation of the Company Unconditional. The obligation of the Company to make payments as provided in the Note and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional notwithstanding any change in the tax or other laws of the United States of America or of the State of Mississippi or any political subdivision of either thereof or any failure of the Issuer to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement. Nothing contained in this Section 3.3 shall be construed to release the Issuer from the performance of any of the agreements on its part herein contained; and, in the event the Issuer should fail to perform any such agreement on its part, the Company may institute such action against the Issuer as the Company may deem necessary to compel performance so long as such action shall not violate the agreements on the part of the Company contained in the preceding sentence, but in no event shall the Company be entitled to any diminution of the amounts payable under the Note and as provided in Section 3.2 hereof.

SECTION 3.4. Assignment and Pledge of Payments and Rights Under the Note and the Agreement. The Issuer shall assign to the Trustee as security under the Indenture all rights, title and interests of the Issuer in and to (i) the Note and all payments thereunder and (ii) this Agreement and all moneys receivable hereunder (except for payments under Sections 4.2 and 5.3 hereof or the second paragraph of Section 3.2 hereof). The Company assents to such assignment and hereby agrees that, as to the Trustee, its obligations to make such payments shall be absolute and shall not be subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the Issuer or the Trustee of any obligation to the Company, whether hereunder or otherwise, or out of any indebtedness or liability at any time owing to the Company by the Issuer or the Trustee.
SECTION 3.5. Closeout of the Project Fund. The Completion Date for the Project shall be promptly established and evidenced to the Trustee and shall be the date on which the Company delivers to the Trustee a certificate stating that, except for the amounts retained by the Trustee at the Company’s written direction for any Cost of the Project not then due and payable, the Project has been completed substantially in accordance with the Plans, and all costs and expenses incurred in connection therewith have been paid. Notwithstanding the foregoing, such certificate may state that it is given without prejudice to any rights against third parties that exist at the date of such certificate or that may subsequently come into being.

SECTION 3.6. Disposition of the Balance in the Project Fund. Pursuant to the Indenture, as soon as practicable after, and in any event within sixty (60) days from, the Trustee’s receipt of the certificate regarding the Completion Date described in Section 3.5 hereof, any amounts remaining in the Project Fund, including any unliquidated investments made with money theretofore deposited in the Project Fund, except for amounts to be retained in the Project Fund for any Cost of the Project not then due and payable, shall be transferred by the Trustee to the Bond Fund and shall be applied to the redemption of the Bonds in accordance with the terms of the Indenture.

SECTION 3.7. Company Required to Pay in Event Project Fund Insufficient. In the event the moneys in the Project Fund should not be sufficient to pay the total Cost of the Project, the Company agrees to complete the Project and to pay that portion of such cost in excess of the moneys available therefore in the Project Fund, provided that no obligation shall exist under this covenant in the event that the Bonds are fully repaid. THE ISSUER MAKES NO WARRANTY, EITHER EXPRESS OR IMPLIED, THAT THE MONEYS PAID INTO THE PROJECT FUND AND AVAILABLE FOR PAYMENT OF THE COST OF THE PROJECT WILL BE SUFFICIENT TO PAY THE TOTAL COST OF THE PROJECT. The Company agrees that if, after exhaustion of the moneys in the Project Fund, the Company should pay any portion of the total Cost of Project pursuant to the provisions of this Section, it shall not be entitled to any reimbursement therefore from the Issuer, the Trustee, or any Bondholder and it shall not be entitled to any abatement or diminution of the payments required to be made by the Company pursuant to the Note or Section 3.1 hereof.

SECTION 3.8. No Third Party Beneficiary. It is specifically agreed between the parties executing this Agreement that it is not intended by any of the provisions of any part of this Agreement to establish in favor of the public or any member thereof, other than as may be expressly provided herein or as contemplated in the Indenture, the rights of a third party beneficiary hereunder, or to authorize anyone not a party to this Agreement to maintain a suit for personal injuries or property damage pursuant to the terms or provisions of this Agreement. The duties,
ARTICLE IV
SPECIAL COVENANTS

SECTION 4.1. Use of Project. The Issuer hereby acknowledges that it shall have no rights to the use or possession of the Project. The Issuer hereby further acknowledges that the Project will not constitute any part of the security for the Bonds.

SECTION 4.2. Indemnity Against Claims. The Company will pay and discharge and will indemnify and hold harmless the Issuer from (a) any lien or charge upon payments by the Company to the Issuer under the Note or hereunder, (b) any taxes, assessments, impositions and other charges upon payments by the Company to the Issuer under the Note or hereunder and (c) any and all liability, damages, costs and expenses arising out of or resulting from the transactions contemplated by this Agreement and the Indenture, including the reasonable fees and expenses of counsel. If any such lien or charge is sought to be imposed upon payments, or any such taxes, assessments, impositions or other charges are sought to be imposed, or any such liability, damages, costs and expenses are sought to be imposed, the Issuer will give prompt notice to the Company, and the Company shall have the sole right and duty to assume, and will assume, the defense thereof, with full power to litigate, compromise or settle the same in its sole discretion.

SECTION 4.3. The Company to Maintain Its Corporate Existence; Conditions Under Which Exceptions Permitted. The Company agrees that during the term of this Agreement it will maintain its corporate existence and its qualification to do business in Mississippi, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it; provided, that the Company may, without violating the agreements contained in this Section 4.3, consolidate with or merge into another domestic corporation (i.e., a corporation incorporated and existing under the laws of one of the states of the United States of America or under the laws of the United States of America) or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another domestic corporation all or substantially all of its assets as an entirety and thereafter dissolve, provided that, in the event the Company is not the surviving, resulting or transferee corporation, as the case may be, the surviving, resulting or transferee corporation assumes, accepts and agrees in writing to pay and perform all of the obligations of the Company herein and under the Note and is a Mississippi corporation or is qualified to do business in Mississippi as a foreign corporation and that such consolidation or merger does not
result in the loss of the exclusion from gross income for federal income tax purposes of interest on the outstanding Bonds.

SECTION 4.4. Approval of Indenture. The Company acknowledges that the Issuer and Trustee have entered into the Indenture at the request of the Company. The Company approves the terms of the Indenture and agrees to perform any covenants and/or obligations contained therein required to be performed by the Company.

SECTION 4.5. Further Assurances and Corrective Instruments. The Issuer and the Company agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Project.

SECTION 4.6. Maintenance of Project by Company. The Company agrees for so long as any of the Bonds remain outstanding, it will pay all costs of operating, maintaining and repairing the Project; provided, however, that the Company shall not be under any obligation to renew, repair or replace any inadequate, obsolete, worn-out, unsuitable, undesirable or unnecessary portion of the Project.

SECTION 4.7. Redemption or Purchase of Bonds. The Issuer shall take all steps then necessary under the applicable provisions of the Indenture, at no expense to the Issuer, for the redemption or purchase (other than a purchase pursuant to tenders as provided in the form of Bonds and as provided in Section 3.07 of the Indenture) of Bonds upon receipt, not less than ten days prior to the day on which the Trustee is required to give notice (if any) thereof pursuant to the Indenture, by the Issuer and the Trustee from the Company of a written notice specifying:

(a) the principal amount of Bonds to be redeemed or purchased;
(b) the date of such redemption or purchase; and
(c) in the case of a redemption of Bonds, directions to mail a notice of redemption.

In the case of a purchase of Bonds, the written notice to the Trustee shall, if available moneys on deposit with the Trustee are insufficient to purchase the principal amount of Bonds specified in (a) above, be accompanied by a deposit with the Trustee of cash or Government Obligations sufficient, together with other available moneys on deposit with the Trustee, to make the directed purchase of Bonds. The Company may purchase Bonds from time to time and deliver them to the Trustee for cancellation pursuant to Section 2.08 of the Indenture.
SECTION 4.8. Non-Arbitrage Covenant. The Company and the Issuer each covenants that it shall take no action, nor shall the Company direct the taking of any action or the making of any investment or use of the proceeds of the Bonds or any other moneys, which would cause the Bonds to be treated as “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, and the proposed, temporary or final regulations thereunder as may be applicable or proposed to be applicable to the Bonds at the time of such action, investment or use.

Without limiting the generality of the foregoing, the Company covenants and agrees to comply with the requirements of Section 148(f) of the Internal Revenue Code of 1986, as amended, and any temporary or final regulations thereunder as may be applicable to the Bonds or the proceeds derived from the sale of the Bonds or any other moneys.

SECTION 4.9. Company’s Option to Determine Interest Rate Mode: Appointment of Remarketing Agent. The Issuer and the Company agree that the Company shall have the option to change the interest rate determination method for the Bonds in the manner provided in the Indenture. The Company agrees, in connection with any change in the interest rate determination method, to provide for the appointment of a Remarketing Agent as provided in Section 10.15 of the Indenture if no Remarketing Agent has been appointed and is serving as such under the Indenture and for the appointment of an Auction Agent and one or more Broker-Dealers, as appropriate.

SECTION 4.10. Specific Tax Covenants. The Company hereby agrees to comply with the following tax covenants and such other covenants as may be necessary to qualify the interest on the Bonds for exclusion from gross income for federal income tax purposes:

(a) The Project shall constitute land or property of a character subject to the allowance for depreciation provided by the Code, and at least 95 percent of the Net Proceeds of the Bonds (the “Net Proceeds” being equal to the sale proceeds of the Bonds increased by investment proceeds with respect thereto) will be used to acquire land and nonresidential real property including fixed improvements associated with such property and subject to such allowance.

(b) The proceeds of the Bonds shall be used to acquire, construct re-construct or rehabilitate facilities located in the Gulf Opportunity Zone in Mississippi and no portion of such proceeds shall be used to acquire “movable equipment or fixtures” within the meaning of the Joint Committee on Taxation’s Technical Explanation of the Revenue Provisions of H.R. 4440, the “Gulf Opportunity Zone Act of 2005” other than those that are assembled to construct an industrial plant.
(c) No proceeds of the Bonds (including investment proceeds) other than an amount approximately equal to $2,100,000 will be used directly or indirectly to pay any issuance costs. Such amount does not exceed 2 percent of the proceeds of the Bonds (equal for this purpose to the stated principal amount).

(d) No portion of the Net Proceeds of the Bonds will be used to provide any private or commercial golf course, country club, massage parlor, tennis club, skating facility (including roller skating, skateboard and ice skating), racquet sports facility (including any handball or racquetball court), hot tub facility, suntan facility, racetrack, airplane, skybox or other private luxury box, health club facility, facility primarily used for gambling, or store the principal business of which is the sale of alcoholic beverages for off premises consumption.

(e) Less than 25 percent of the Net Proceeds of the Bonds will be used to acquire land. No portion of the proceeds of the Bonds will be used to acquire land (or an interest therein) to be used for farming purposes.

(f) No portion of the Net Proceeds of the Bonds will be used for the acquisition of any property (or an interest therein) unless (i) the first use of such property is pursuant to such acquisition or (ii) if the first use of such property is not pursuant to such acquisition, then the rehabilitation expenditures of the Company with respect to such property equals or exceeds (A) 50% of the portion of the cost of acquiring such property financed with the Net Proceeds of the Bonds, if such property is a building or (B) 100% of the portion of the cost of acquiring such property financed with the Net Proceeds of the Bonds, if such property is a structure other than a building. In the case of an integrated operation contained in a building before its acquisition, such term includes rehabilitating existing equipment in such building or replacing it with equipment having substantially the same function. The “first use” of any property for purposes of this Section 4.10(f) shall have the meaning assigned to such term under Section 147(d) of the Code, any Regulations promulgated thereunder and any revenue rulings, private letter rulings or other written determinations or announcements issued by the Internal Revenue Service from time to time.

(g) The payment of principal or interest with respect to the Bonds is not guaranteed in whole or in part by the United States or any agency or instrumentality thereof. The Bonds will not constitute an issue 5 percent or more of the proceeds of which is to be used in making loans the payment of principal or interest with respect to which is to be guaranteed in whole or in part by the United States or any agency or instrumentality thereof, or invested directly or indirectly in federally insured deposits or accounts, other than those proceeds invested during applicable temporary periods or as
investments in a bona fide debt service fund or investments in permissible reserves or in obligations issued by the United States Treasury. The payment of principal or interest on the Bonds is not otherwise indirectly guaranteed in whole or in part by the United States or any agency or instrumentality thereof within the meaning of Section 149(b) of the Code.

(h) The average reasonably expected economic life of the facilities of the Project being financed with the Net Proceeds of the Bonds, excluding land, as of the Bond issuance date, is 18.34 years.

(i) The weighted average maturity of the Bonds is 21.94 years, which does not exceed 120 percent of the average reasonably expected economic life of the facilities of the Project being financed with the Net Proceeds of the Bonds.

(j) Except for preliminary expenditures for architectural engineering, surveying, soil testing, bond issuance, and similar costs (not including costs of land acquisition, site preparation, and similar costs incident to commencement of project) that were incurred prior to commencement of acquisition, construction or rehabilitation of the facilities comprising the Project, and did not exceed in the aggregate 20 percent of the issue price of the Bonds, no proceeds of the Bonds will be allocated to the reimbursement of an expenditure for costs of the Project paid prior to January 13, 2006, which is 60 days prior to March 14, 2006, the date on which the Issuer adopted a resolution declaring official intent to finance a portion of the costs thereof with the Bonds.

ARTICLE V

EVENTS OF DEFAULT AND REMEDIES

SECTION 5.1. Events of Default. Each of the following shall be an “Event of Default” under this Agreement:

(a) Failure by the Company to pay when due the amounts required to be paid pursuant to the Bonds, or the failure by the Company to pay within 30 days of the date due any other amounts required to be paid pursuant to this Agreement.

(b) Failure by the Company to observe and perform any covenant, condition or agreement on its part to be observed or performed hereunder, other than as referred to in subsection (a) of this Section 5.1, for a period of 90 days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Issuer or the Trustee, unless the Issuer and the Trustee shall agree in writing to an extension of such period prior to its expiration; provided, however, if the failure stated in the notice
cannot be corrected within the applicable period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such period if corrective action is instituted by the Company within the applicable period and diligently pursued until the default is corrected.

(c) The dissolution or liquidation of the Company, except as permitted by Section 4.3 hereof, or the commencement by the Company of any case or proceeding seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it as bankrupt or insolvent or seeking reorganization, liquidation, dissolution, winding-up, arrangement, composition, readjustment of its debts or any other relief under any bankruptcy, insolvency, reorganization or other similar law of the United States or any state, or adjudication of the Company as bankrupt, or an assignment by the Company for the benefit of its creditors, or the entry by the Company into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Company in any proceeding for its reorganization instituted under the provisions of Title 11 of the United States Code, as amended, or under any similar statutory provision which may hereafter be enacted.

The foregoing provisions of Section 5.1(b) are subject to the limitation that, if by reason of force majeure the Company is unable in whole or in part to carry out its agreements herein contained other than those set forth in Sections 4.3 and 4.8 hereof, an Event of Default shall not be deemed to have occurred during the continuance of such inability. The term “force majeure” as used herein shall mean the following: acts of God; strikes; lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State of Mississippi or any of their departments, agencies or officials or of any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fire; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraints of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission lines, pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Company. The Company agrees, however, to remedy to the extent practicable with all reasonable dispatch the effects of any force majeure preventing the Company from carrying out its agreements; provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Company unfavorable to the Company.

SECTION 5.2. Remedies on Default. Whenever any Event of Default shall have occurred and be continuing, the Issuer may, in addition to any other remedy
now or hereafter existing at law, in equity or by statute, take either or both of the following remedial steps:

   (a) By written notice to the Company, the Issuer may declare all amounts payable pursuant to the Note to be immediately due and payable, whereupon the same shall become immediately due and payable; and

   (b) The Issuer may take whatever action at law or in equity may appear necessary or desirable to collect the amounts referred to in (a) above then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Agreement.

   Any amounts collected pursuant to action taken under this Section 5.2 shall be deposited with the Trustee and applied in accordance with the provisions of the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture) and the fees and expenses of the Trustee and the paying agents and all other amounts required to be paid under the Indenture shall have been paid, returned to the Company.

   SECTION 5.3. Agreement to Pay Attorneys’ Fees and Expenses. In the event the Company should breach any of the provisions of the Note or this Agreement and the Issuer should employ attorneys or incur other expenses for the collection of amounts payable hereunder or the enforcement of performance or observance of any obligation or agreement on the part of the Company herein contained, the Company agrees that it will on demand therefor pay to the Issuer the reasonable fees of such attorneys and such other reasonable expenses so incurred by the Issuer.

   SECTION 5.4. No Additional Waiver Implied by One Waiver. In the event any agreement contained in the Note or in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE VI
MISCELLANEOUS

SECTION 6.1. Term of This Agreement. This Agreement shall remain in full force and effect from the date hereof until such time as all of the outstanding Bonds shall have been fully paid or provision made therefor in accordance with the provisions of the Indenture, whichever shall first occur, and the fees and expenses of the Trustee and any paying agents and all other amounts payable by the Company under this Agreement and the Note shall have been paid.
SECTION 6.2. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or mailed by registered or certified mail, postage prepaid, addressed as follows:

If to the Issuer: Mississippi Business Finance Corporation 735 Riverside Drive, Suite 300 Jackson, Mississippi 39201 Attention: Executive Director

With copies to: Tim Ford, Esq. Balch & Bingham, LLP 401 East Capitol Street Suite 200 Jackson, Mississippi 39201-2608

If to the Company: Northrop Grumman Ship Systems, Inc. 1840 Century Park East Los Angeles, California 90067 Attn: Assistant Treasurer

If to the Trustee: The Bank of New York Trust Company, N.A. 505 North 20th Street Suite 950 Birmingham, Alabama 35203 Attn: Rick Schaal

If to the Guarantor: Northrop Grumman Corporation 1840 Century Park East M/5 152/CC Los Angeles, CA 90067 Attn: Assistant Treasurer

A duplicate copy of each notice, certificate or other communication given hereunder by either the Issuer or the Company to the other shall also be given to the Trustee and Guarantor. The Issuer, the Company, the Guarantor and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 6.3. Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company and their respective successors and assigns, subject, however, to the limitations contained in Section 4.3 hereof.

SECTION 6.4. Severability. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.
SECTION 6.5. **Amendments.** This Agreement may not be effectively terminated except in accordance with the provisions hereof and may not be effectively amended except by a written agreement in accordance with Article XII and Article XIII of the Indenture and signed by the parties hereto.

SECTION 6.6. **Execution in Counterparts.** This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 6.7. **Applicable Law.** This Agreement and the Note shall be governed by and construed in accordance with the laws of the State of Mississippi.

SECTION 6.8. **Captions.** The captions or headings in this Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Agreement.

SECTION 6.9. **Other Financing.** Notwithstanding anything in this Agreement to the contrary, the Issuer and the Company may hereafter enter into agreements to provide for the financing or refinancing of costs of the Project or any portion thereof.

SECTION 6.10. **No Charge Against Issuer Credit.** No provision hereof shall be construed to impose a charge against the general credit of the Issuer or any personal or pecuniary liability upon any director, officer, employee or agent of the Issuer.
IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their duly authorized officers, all as of the date first above written.

MISSISSIPPI BUSINESS FINANCE CORPORATION

By:  

Executive Director

ATTEST:

Secretary

NORTHROP GRUMMAN SHIP SYSTEMS, INC.

By:  

(Assistant) Treasurer

ATTEST:

Assistant Secretary
IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their duly authorized officers, all as of the date first above written.

MISSISSIPPI BUSINESS FINANCE CORPORATION

By: ____________________________
   Executive Director

ATTEST:

______________________________
Secretary

NORTHROP GRUMMAN SHIP SYSTEMS, INC.

By: ____________________________
   (Assistant) Treasurer

ATTEST:

______________________________
Kathleen Salmer
Assistant Secretary
STATE OF MISSISSIPPI

COUNTY OF HINDS

I, the undersigned Notary Public, certify that CINDY CARTER personally came before me this day and acknowledged that she is the Secretary of Mississippi Business Finance Corporation, and that by authority duly given and as the act of said Mississippi Business Finance Corporation, the foregoing instrument was signed in its name by William T. Barry, its Executive Director, sealed with its official seal, and attested by her/him as its Secretary.

WITNESS my hand and official seal, this the 21st day of December, 2006.

[Signature]
Notary Public

My Commission expires:

(MISSISSIPPI STATEWIDE NOTARY PUBLIC
MY COMMISSION EXPIRES JUNE 5, 2008
NOTARIZED UNDER THE PROFESSIONAL NOTARY SERVICE)

(Notary Seal)
STATE OF CALIFORNIA  )  
) SS:  
COUNTY OF LOS ANGELES  )

I, the undersigned Notary Public, certify that Mark Rabinowitz personally came before me this day and acknowledged that he is the (Assistant) Treasurer of Northrop Grumman Ship Systems, Inc., and that by authority duly given and as the act of said Northrop Grumman Ship Systems, Inc., the foregoing instrument was signed in its name by Mark Rabinowitz, its (Assistant) Treasurer, sealed with its official seal, and attested by her/him as its (Assistant) Treasurer.

WITNESS my hand and official seal, this the 18th day of December, 2006.

[Signature]
Notary Public

My Commission expires:

May 9, 2008

(Notary Seal)
EXHIBIT “A”

The holder hereof has agreed not to transfer this Note except to a successor Trustee under the Trust Indenture dated as of December 1, 2006 of the Mississippi Business Finance Corporation relating to the Bonds (hereinafter referred to).

NORTHROP GRUMMAN SHIP SYSTEMS, INC.
NON NEGOTIABLE PROMISSORY NOTE

$200,000,000

December 21, 2006

NORTHROP GRUMMAN SHIP SYSTEMS, INC. (the “Company”), a corporation organized and existing under the laws of the State of Delaware, acknowledges itself indebted and for value received hereby promises to pay to the Mississippi Business Finance Corporation (the “Issuer”), and its successors and permitted assigns, the principal sum of TWO HUNDRED MILLION DOLLARS ($200,000,000) together with interest on the unpaid principal balance thereof from the date hereof until the Company’s obligations with respect to the payment of such sum shall be discharged at the rate or rates borne by the Bonds referred to below. As additional interest hereon there shall be payable, and the Company promises to pay when due, amounts which shall equal the premium, if any, due on such Bonds in connection with the redemption thereof. The Company further promises to pay the purchase price of such Bonds as herein below provided.

This Note is issued to evidence the Loan (as defined in the Agreement hereinafter referred to) of the Issuer to the Company and the obligation of the Company to repay the same and shall be governed by and be payable in accordance with the terms and conditions of a loan agreement (the “Agreement”) between the Issuer and the Company dated as of December 1, 2006 pursuant to which the Issuer has loaned to the Company the proceeds of the sale of the Issuer’s $200,000,000 Gulf Opportunity Zone Industrial Development Revenue Bonds (Northrop Grumman Ship Systems, Inc. Project), Series 2006 (the “Bonds”). This Note (together with the Agreement) has been assigned to The Bank of New York Trust Company, N.A. (the “Trustee”), acting pursuant to a trust indenture dated as of December 1, 2006 (the “Indenture”) between the Issuer and the Trustee, and may not be assigned by the Trustee except to a successor Trustee pursuant to the terms of the Indenture. Such assignment is made as security for the Bonds. The Bonds are dated and bear interest in accordance with the provisions of the Indenture, and mature on December 1, 2028. The Bonds are subject to redemption prior to maturity as provided therein.

Subject to the provisions of the Agreement, payments hereon are to be made by paying to the Trustee, as assignee of the Issuer, in funds which will be immediately available on the day payment is due, amounts which, and at or before times which, shall correspond to the payments with respect to the principal of and premium, if any, and interest on the Bonds whenever and in whatever manner the
same shall become due, whether at stated maturity, upon redemption or declaration or otherwise, and the purchase price of Bonds required to be purchased under the Indenture. If (i) on the date any payments on the Bonds are due there are any available moneys on deposit with the Trustee which are not being held for the payment of Bonds due and payable but which have not been presented for payment, or (ii) on any date on which Bonds are required to be purchased pursuant to the Bonds or Article III of the Indenture, there are available moneys on deposit with the Trustee held for the payment of the purchase price which are not being held for the payment of Bonds which have not been presented for payment, then, in each case, such moneys shall be credited against the payment then due hereunder, first in respect of interest and then, to the extent of remaining moneys, in respect of principal. Upon the occurrence of an Event of Default, as defined in the Agreement, the principal of and interest on this Note may be declared immediately due and payable as provided in the Agreement.

Neither the officers of the Company nor any persons executing this Note shall be liable personally or shall be subject to any personal liability or accountability by reason of the issuance hereof.
IN WITNESS WHEREOF, the Company has caused this Note to be executed in its corporate name and on its behalf by its duly authorized officers as of the date first above written.

NORTHROP GRUMMAN SHIP SYSTEMS, INC.

By: ________________________________
   Title: ________________________________

Attest: ________________________________
       Assistant Secretary
ASSIGNMENT


MISSISSIPPI BUSINESS FINANCE CORPORATION

By: ____________________________________________
   Executive Director
EXHIBIT B
The construction, reconstruction, repair, replacement and modification of buildings and immovable equipment located at its shipbuilding facilities in Pascagoula and Gulfport Mississippi including:

1. Buildings: Maintenance shop, panel shop, metal processing building, shell shop, aluminum shop, multi-purpose warehouse, COSAL warehouse, combined shop, steel fabrication shop, paint storage shop (Gulfport), blast and paint hall, CDI building, Hiller building, Sonar Dome House, containment screen, administration buildings I, II, III, IV, PC buildings 1 and 2, Multipurpose warehouse, cafeteria, LBTF building, blast and paint hall, CSA I and II, panel shop, combined shop, propulsion assembly, maintenance depot, training center, headhouse 2 and 3, medical center, fire/safety, wetdock, bays 1-5 and chiller plant (Gulfport), Krebs, Chem lab, Resource recovery, transportation, sand blasting, blast and paint, security, LHD test team, propulsion, booster pump building, wet dock, FSO, HR building, Hiller building, carpenter shop, miscellaneous building, EDC, fuel depot, guard shack, computer center, welding lab.

2. Fixed and immovable equipment housed in the foregoing buildings.

3. Fixed and immovable equipment not intended to be housed in any building but permanently associated with the shipyard.

4. Other buildings and equipment eligible for financing under the Gulf Opportunity Zone Act of 2005 including such items that are permitted to be financed under the Gulf Opportunity Zone Act of 2005 pursuant to any private letter ruling or other official governmental action recognized as binding upon the Internal Revenue Service and the Company.
MISSISSIPPI BUSINESS FINANCE CORPORATION
to
THE BANK OF NEW YORK TRUST COMPANY, N.A.,
as Trustee
TRUST INDENTURE
Dated as of December 1, 2006
Relating to
$200,000,000
Mississippi Business Finance Corporation
Gulf Opportunity Zone Industrial Development Revenue Bonds
(Northrop Grumman Ship Systems, Inc. Project),
Series 2006
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TRUST INDENTURE

THIS TRUST INDENTURE made and entered into as of December 1, 2006, by and between the MISSISSIPPI BUSINESS FINANCE CORPORATION, a public corporation duly organized and existing under the Constitution and laws of the State of Mississippi (the “Issuer”), and THE BANK OF NEW YORK TRUST COMPANY, N.A., a national banking association duly organized, existing and authorized to accept and execute trusts of the character herein set out under and by virtue of the laws of the United States, with a designated corporate trust office located in Birmingham, Alabama, as trustee (the “Trustee”).

RECITALS

A. In furtherance of its statutory purposes, the Issuer has entered into a Loan Agreement, dated as of December 1, 2006 (the “Agreement”), with Northrop Grumman Ship Systems, Inc., a Delaware corporation (the “Company”), providing for the undertaking by the Issuer to loan amounts to the Company in order to finance the construction, reconstruction, and renovation of the Company’s interest in certain ship manufacturing and repair facilities, or portions thereof, located in Gulfport, Mississippi, and Pascagoula, Mississippi.

B. The Agreement provides that, for the purposes therein set forth, the Issuer will issue and sell its Gulf Opportunity Zone Industrial Development Revenue Bonds (Northrop Grumman Ship Systems, Inc. Project), Series 2006 in the aggregate principal amount of $200,000,000 (the “Bonds”); the Issuer will loan the proceeds of the Bonds to the Company; and to evidence the Loan (as hereinafter defined), the Company, will execute and deliver, concurrently with the issuance of the Bonds, the Note (as hereinafter defined).

C. The execution and delivery of this Indenture (as hereinafter defined) and the Agreement and the issuance and sale of the Bonds have been in all respects duly and validly authorized by resolution duly adopted by the Issuer.

D. The Company has agreed to make payments on the Note to the Issuer in amounts sufficient to pay the principal, purchase price, premium, if any, and interest on the Bonds.

E. Northrop Grumman Corporation, a Delaware Corporation, has agreed to enter into a Guaranty Agreement with the Trustee guarantying the payment of the Bonds.

F. All acts, conditions and things required by the Constitution and laws of the State of Mississippi to happen, exist and be performed precedent to and in the execution and delivery of this Indenture and the Agreement have happened, exist and have been performed as so required, in order to make this Indenture a valid
and binding trust indenture for the security of the Bonds in accordance with its terms and in order to make the Agreement a valid and binding loan agreement in accordance with its terms.

G. The Trustee has accepted the trusts created by this Indenture and in evidence thereof has joined in the execution hereof.

Accordingly, the Issuer and the Trustee agree as follows for the benefit of each other and for the benefit of the holders of the Bonds issued pursuant to this Indenture.

GRANTING CLAUSE

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in consideration of the premises, of the acceptance by the Trustee of the trusts hereby created, and the purchase and acceptance of the Bonds by the holders thereof, and also for and in consideration of the sum of One Dollar ($1.00) to the Issuer in hand paid by the Trustee at or before the execution and delivery of this Indenture, the receipt of which is hereby acknowledged, and for the purpose of fixing and declaring the terms and conditions upon which the Bonds are to be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become holders thereof, and in order to secure the payment of all Bonds at any time issued and outstanding hereunder and the interest and the premiums, if any, payable upon redemption or mandatory tender thereon according to their tenor, purport and effect, and in order to secure the performance and observance of all the covenants, agreements and conditions herein or herein contained; the Issuer has executed and delivered this Indenture, and will cause the Company to deliver to the Trustee the Note; the Issuer does hereby bargain, sell, convey, assign and pledge to the Trustee, and grant to the Trustee a security interest in, all rights, title and interest of the Issuer in, to and under the Note and all payments, if any, made and to be made thereunder as security for the payment of all outstanding Bonds and the interest and the premium, if any, made and to be made thereunder as security for the payment of all outstanding Bonds and the interest and the premium, if any, thereon and does hereby bargain, sell, convey, assign and pledge to the Trustee, and grant to the Trustee a security interest in, all other rights, title and interest of the Issuer in, to and under the Agreement and all moneys receivable thereunder (except for Unassigned Rights, as hereinafter defined) as security for the satisfaction of any other obligation assumed by it in connection with all outstanding Bonds at any time issued hereunder;

TO HAVE AND TO HOLD the same unto the Trustee and its successors in trust forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth, for the equal and proportionate benefit and security of all and singular present and future holders of the Bonds issued under this Indenture, without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter
provided, of any one Bond over any other Bond, by reason of priority in the issue, sale or negotiation thereof or otherwise;

PROVIDED, HOWEVER, that if the Issuer, its successors or assigns shall pay or cause to be paid the principal of, premium, if any, and interest on the Bonds due or to become due thereon, at the times and in the manner mentioned in the Bonds, and shall perform all the covenants and conditions required of it by this Indenture, and shall pay or cause to be paid to the Trustee and any additional paying agents all sums of money due or to become due to them in accordance with the terms and provisions hereof, then upon such final payments this Indenture and the rights hereby granted shall terminate and the Trustee shall release this Indenture and shall execute such documents to evidence such termination and release as may be reasonably required by the Issuer or the Company; otherwise this Indenture to be and remain in full force and effect.

THIS INDENTURE FURTHER WITNESSETH, and it is expressly declared, that all Bonds from time to time issued and secured hereunder are to be issued, authenticated and delivered, and all said property, rights and interests, including, without limitation, the amounts hereby assigned and pledged, are to be dealt with and disposed of subject to the terms of this Indenture, and the Issuer agrees with the Trustee and with the respective owners, from time to time, of said Bonds, or part thereof, as follows:

ARTICLE I
DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.01. Definitions. For all purposes of this Indenture, unless the context requires otherwise, words or terms defined in the preamble and recitals of this Indenture shall have the meanings specified therein, and the following terms shall have the following meanings; provided, however, that any terms used herein relating to Bonds in the Auction Mode Rate Determination Method or Auction Procedures that are not expressly defined below shall be deemed to have the meanings provided in Exhibit B, Auction Procedures, attached hereto:

“Act” means Title 57, Chapter 10, Articles 7 and 11 of the Mississippi Code of 1972, et seq., as amended.

“Auction Rate Period” means each period of time when the Bonds bear interest at an Auction Mode Rate.

“Beneficial Owner” means the purchaser of a beneficial interest in the Bonds when the Bonds are held by the Securities Depository in the Book-Entry System, and otherwise means a Bondholder.
“Bloomberg” means Bloomberg or other major information vendor listed on the official website of the British Bankers’ Association if selected by the Remarketing Agent and acceptable to the Company.

“BMA Index” means, as of any date, the rate calculated according to the Bond Market Association Municipal Swap Index as of the most recent date for which such index was published or such other weekly, high-grade index composed of weekly, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc. or any successor thereto, or as otherwise designated by the Bond Market Association.

“BMA Margin” is defined in Section 2.02(a)(6)(i).

“Bondholder” or “holder” means the registered owner of any Bond.

“Bonds” means the Gulf Opportunity Zone Industrial Development Revenue Bonds (Northrop Grumman Ship Systems, Inc. Project), Series 2006 issued by the Issuer hereunder in the aggregate principal amount of $200,000,000.

“Book-Entry System” means the system maintained by the Securities Depository described in Section 6.01.

“Business Day” means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, Birmingham, Alabama, or the city in which the principal corporate trust office of the Trustee is located, are authorized by law to close or (iii) a day on which the New York Stock Exchange is closed; provided, however, that during an Auction Rate Period the definition of “Business Day” shall be supplemented as provided in Exhibit B attached hereto.

“Code” means the Internal Revenue Code of 1986, as amended, and the applicable Treasury Regulations promulgated thereunder as the same may be applicable to the Bonds.

“Commercial Paper Mode” means each period of time, comprised of Commercial Paper Periods, during which Commercial Paper Rates are in effect.

“Commercial Paper Period” means, with respect to any Bond, each period set under Section 2.02(a)(3).

“Commercial Paper Rate” means an interest rate on each Bond set under Section 2.02(a)(3).

“Company” means Northrop Grumman Ship Systems, Inc., a Delaware corporation, and its successors and assigns, and any surviving, resulting or transferee entity as provided in Section 4.3 of the Agreement.
“Company Representative” means any one of the persons at the time designated to act on behalf of the Company by written certificate furnished to the Trustee containing the specimen signatures of such persons and signed on behalf of the Company by one or more of its officers.

“Conversion Notice” is defined in Section 2.02(b)(I).

“Cost of the Project” means the costs and allowances for the acquisition, construction, rehabilitation, installation and equipping of the Project which are permitted under Section 57-10-401 of the Act and which include, but are not limited to, all capital costs of the Project, including the following:

(a) Obligations incurred with respect to eligible equipment and labor and to contractors, subcontractors, builders and materialmen in connection with the acquisition, construction, and installation of an economic development project;

(b) The cost of acquiring land or rights in land and any cost incidental thereto, including recording fees;

(c) The cost of contract bonds and of insurance of all kinds that may be required or necessary during the course of acquisition, construction, and installation of an economic development project which is not paid by the contractor or contractors or otherwise provided for;

(d) All costs of architectural and engineering services, including test borings, surveys, estimates, plans and specifications, preliminary investigations, and supervision of construction, as well as for the performance of all the duties required by or consequent upon the acquisition, construction, and installation of an economic development project;

(e) All costs which shall be required to be paid under the terms of any contract or contracts for the acquisition, construction, and installation of an economic development project; and

(f) All costs, expenses, and fees incurred in connection with the issuance of bonds pursuant to Sections 57-10-401 through 57-10-445 of the Act.

Notwithstanding the above, Cost of the Project shall not include any movable fixtures or equipment other than Eligible Equipment as defined in the Agreement.

“Daily Rate” means an interest rate on the Bonds set under Section 2.02(a)(I).

“Determination Method” is defined in Section 2.02(a) hereof.
“Determination of Taxability” means a determination that the interest on any of the Bonds is included in the gross income of the holders thereof for federal income tax purposes, which determination shall be deemed to have been made upon the occurrence of the first to occur of the following:

(a) the day on which the Company is advised in writing by the Commissioner or any District Director of the Internal Revenue Service that, based upon any filings of the Company, or upon any other grounds whatsoever, the interest on the Bonds is included in the gross income of any holder or former holder thereof for federal income tax purposes;

(b) the day on which the Company receives notice from the Trustee in writing that the Trustee has been advised (i) in writing by any holder or former holder of a Bond that the Internal Revenue Service has issued a statutory notice of deficiency or similar notice to such holder or former holder which asserts in effect that the interest on the Bonds received by such holder or former holder of the Bonds is included in the gross income of such holder or former holder for federal income tax purposes or (ii) in an Opinion of Tax Counsel that the interest on the Bonds is included in the gross income of any holder or former holder thereof for federal income tax purposes;

(c) the day on which the Company is advised in writing by the Commissioner or any District Director of the Internal Revenue Service that there has been issued a public or private ruling of the Internal Revenue Service or a technical advice memorandum issued by the national office of the Internal Revenue Service that the interest on the Bonds is included in the gross income of any holder or former holder thereof for federal income tax purposes; or

(d) the day on which the Company is advised in writing that a final determination, from which no further right of appeal exists, has been made by a court of competent jurisdiction in the United States of America in a proceeding with respect to which the Company has been given written notice and an opportunity to participate and defend that the interest on the Bonds is included in the gross income of any holder or former holder thereof for federal income tax purposes;

provided, however, no Determination of Taxability shall occur under subparagraph (a), (b) or (c) of this paragraph (other than a conclusion set forth in an Opinion of Tax Counsel) unless the Company has been afforded the opportunity, at its expense, to contest any such conclusion and/or assessment and, further, no Determination of Taxability shall occur until such contest, if made, has been finally determined. The Company shall be deemed to have been afforded the opportunity to contest the occurrence of a Determination of Taxability if it shall have been permitted to commence and maintain any action in the name of any holder or former holder of a
Bond to judgment and through any appeals therefrom or other proceedings related thereto.

“Event of Default” is defined in Section 9.01.

“Favorable Opinion of Tax Counsel” means an Opinion of Tax Counsel addressed to the Issuer, the Trustee, the Guarantor and the Company to the effect that the action proposed to be taken is permitted by the laws of the State and by this Indenture and will not adversely affect any exclusion from gross income for federal income tax purposes of interest on the Bonds.

“Guarantor” means Northrop Grumman Corporation, a Delaware corporation, as guarantor under the Guaranty.

“Guaranty” means that Guaranty Agreement dated as of December 1, 2006 from Northrop Grumman Corporation to the Trustee.

“Government Obligations” means (i) noncallable direct obligations of the United States for which its full faith and credit are pledged, (ii) noncallable obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States, or (iii) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in (i) or (ii).

“Indenture” means this Trust Indenture, as it may be amended or supplemented from time to time in accordance with its terms.

“Index” means the BMA Index or LIBOR Index, as applicable.

“Index Adjustment Date” is defined in Section 2.02(a)(6)(i).

“Index Period” means any period of time established by the Company pursuant to Section 2.02(b)(l) during which the Bonds bear interest at the Index Rate.

“Index Rate” means an interest rate on the Bonds set under 2.02(a)(6).

“Index Rate Determination Date” means (i) if the applicable Index is the LIBOR Index, the second London Business Day immediately preceding the first day of the relevant Index Period or, if the applicable Index is the BMA Index, the Business Day immediately preceding the first day of the relevant Index Period; and (ii) the second London Business Day or the Business Day, as the case may be, preceding each Thursday during the relevant Index Period thereafter.

“Initial Interest Period” is defined in Section 2.02(b)(l).
“Interest Payment Date” is defined in the form of the Bonds appearing in Exhibit A attached hereto.

“Interest Period” is defined in the form of the Bonds appearing in Exhibit A attached hereto.

“LIBOR Index” for any Index Rate Determination Date will be the Reported Rate for deposits in U.S. dollars having an index maturity of one month for a period commencing on the second London Business Day immediately following the Index Rate Determination Date, in amounts of not less than $1,000,000, at approximately 11:00 a.m., London time on the Index Rate Determination Date.

“LIBOR Percentage” is defined in Section 2.02(a)(6)(i).

“London Business Day” means a day that is a Business Day and a day on which dealings in deposits in U.S. dollars are transacted, or with respect to any future date are expected to be transacted, in the London interbank market.

“Long-Term Interest Rate” means the interest rate on the Bonds for the Initial Interest Period or an interest rate on the Bonds set under Section 2.02(a)(4).

“Long-Term Interest Rate Period” means any period as defined in Section 2.02(a)(4).

“Mandatory Redemption Event” means the occurrence of a Determination of Taxability.

“Maturity Date” means the stated maturity for the Bonds as set forth in Section 2.01.

“Note” means the promissory note executed and delivered by the Company in the form attached to the Agreement concurrently with the issuance of the Bonds in a like principal amount bearing interest at the rate or rates borne by the Bonds.

“Opinion of Counsel” means a written opinion of counsel selected by the Company who is acceptable to the Issuer and the Trustee. Such counsel may be an employee of or counsel to the Issuer, the Trustee or the Company.

“Opinion of Tax Counsel” means an Opinion of Counsel by counsel of nationally recognized standing in matters relating to the exclusion of interest from gross income on obligations issued by or on behalf of states and their political subdivisions.

The term “outstanding” when used with reference to Bonds, or “Bonds outstanding” means all Bonds which have been authenticated and delivered by the Trustee under this Indenture, except the following:
a. Bonds canceled or purchased by or delivered to the Trustee for cancellation.

b. Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment, including interest accrued to the due date, of which sufficient moneys are held by the Trustee.

c. Bonds deemed paid by Section 7.01.

d. Bonds in lieu of which others have been authenticated under Section 2.06 (relating to registration and exchange of Bonds) or Section 2.07 (relating to mutilated, lost, stolen, destroyed or undelivered Bonds).

Bonds purchased pursuant to tenders and not delivered to the Trustee for payment are not outstanding, but there will be outstanding Bonds authenticated and delivered in lieu of such undelivered Bonds as provided in the second paragraph of Section 2.07.

“Participant” means one of the entities which deposit securities, directly or indirectly, in the Book-Entry System.

“Person” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof.

“Principal” when used with reference to any Bonds, includes any premium payable on those Bonds.

“Project” has the meaning assigned to such term in the Agreement.

“Purchase Contract” means the Purchase Contract, dated December 15, 2006 to be entered into by and among the Issuer, the Company and the Underwriter providing for the sale of the Bonds.

“Record Date” is defined in the form of the Bonds appearing as Exhibit A attached hereto.

“Remarketing Agent” means the Person appointed as Remarketing Agent pursuant to Section 10.15 hereof, and its successors under this Indenture.

“Reported Rate” means on any date of determination, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one-month period which appears on the Bloomberg BTMM US at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London
interbank market, then on the next preceding day on which such dealings were transacted in such market.

“Responsible Officer” means any officer or trust officer of the Trustee assigned by the Trustee to administer its corporate trust matters.

“Revenues” means (a) all amounts payable to the Trustee with respect to the principal or redemption price of, or interest on, the Bonds (i) by the Company under the Note, and (ii) by transfer from the Project Fund pursuant to Section 4.01 hereof, and (b) investment income with respect to any moneys held by the Trustee in the Bond Fund.

“Securities Depository” means The Depository Trust Company, New York, New York or its nominee, and its successors and assigns, or any successor appointed under Section 5.01.

“Spread” is defined in Section 2.02(a)(6)(i).

“State” means the State of Mississippi.

“Trustee” means the entity identified as such in the heading of this Indenture and its successors under this Indenture.

“Unassigned Rights” means the rights of the Issuer under Section 4.2 and Section 5.3 of the Agreement.


“Weekly Index Period” means, while the Bonds bear interest at an Index Rate, each weekly period beginning on a Thursday and ending on a Wednesday.

“Weekly Rate” means an interest rate on the Bonds set under Section 2.02(a)(2).

Section 1.02. Rules of Construction. Unless the context otherwise requires,

a. an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles,

b. references to Articles and Sections are to the Articles and Sections of this Indenture, and

c. the singular form of any word, including the terms defined in Section 1.01, includes the plural, and vice versa, and a word of any gender includes all genders.
ARTICLE II
THE BONDS

Section 2.01. Issuance of Bonds; Form; Dating. The Bonds shall be designated “Mississippi Business Finance Corporation Gulf Opportunity Zone Industrial Development Revenue Bonds (Northrop Grumman Ship Systems, Inc. Project), Series 2006.” The total principal amount of Bonds that may be outstanding shall not exceed $200,000,000. The Bonds shall be substantially in the form of Exhibit A attached hereto, which is part of this Indenture, in the denominations provided for in the Bonds. The Bonds may have notations, legends or endorsements required by law or usage.

All Bonds will be dated the date of original issuance and delivery, will bear interest from that date and shall mature, subject to prior redemption or mandatory tender, on December 1, 2028. Bonds will be numbered as determined by the Trustee.

Upon the execution and delivery of this Indenture, the Issuer will execute and deliver to the Trustee and the Trustee will authenticate the Bonds and deliver them to the purchaser or purchasers as directed in writing by the Issuer.

Section 2.02. Interest on the Bonds. Interest on the Bonds will be payable as provided in the Bonds and in this Section. The Determination Method may be changed by the Company as described in paragraph (b) below. The methods of determining the various interest rates are as provided in paragraph (a) below.

(a) Interest Rate Determination Methods. Except with respect to the Initial Interest Period, in accordance with the notification requirements described herein, the Company shall determine the applicable interest rate determination method (each a “Determination Method”) on the Bonds. The interest rate on the Bonds shall be determined by one of the following Determination Methods; provided, however, that while there exists an Event of Default under the Indenture, the interest rate on the Bonds will be the rate on the Bonds on the day before the Event of Default occurred, except that if interest on any Bond was then payable at a Commercial Paper Rate, the interest rate for all Bonds then bearing interest at a Commercial Paper Rate will be the highest Commercial Paper Rate then in effect for any Bond.

(1) Daily Rate. When interest on the Bonds is payable at a Daily Rate, the Remarketing Agent will set a Daily Rate on or before 11:00 a.m., New York City time, on each Business Day for that Business Day. Each Daily Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-
prevailing market conditions) for the Remarketing Agent to sell the Bonds on the day the rate is set at their principal amount (without regard to accrued interest). The Daily Rate for any non-Business Day will be the rate for the last day for which a rate was set.

(2) **Weekly Rate.** When interest on the Bonds is payable at a Weekly Rate, the Remarketing Agent will set a Weekly Rate on or before 5:00 p.m., New York City time, on the last Business Day before the commencement of a period during which the Bonds bear interest at a Weekly Rate and on each Tuesday thereafter so long as interest on the Bonds is to be payable at a Weekly Rate or, if any Tuesday is not a Business Day, on the next preceding Business Day. Each Weekly Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) for the Remarketing Agent to sell the Bonds on the date the rate is set at their principal amount (without regard to accrued interest). Thereafter, each Weekly Rate shall apply to (i) the period beginning on the Wednesday after the Weekly Rate is set and ending on the following Tuesday or, if earlier, ending on the day before the effective date of a new method of determining the interest rate on the Bonds or (ii) the period beginning on the effective date of the change to a Weekly Rate and ending on the next Tuesday.

(3) **Commercial Paper Rate.** During a Commercial Paper Mode, each Bond will bear interest during the Commercial Paper Period for such Bond at the Commercial Paper Rate for such Bond. Different Commercial Paper Periods may apply to different Bonds at any time and from time to time. Except as otherwise described in this subparagraph (3), the Commercial Paper Period and Commercial Paper Rate for each Bond will be determined by the Remarketing Agent no later than 12:15 p.m., New York City time, on the first day of each Commercial Paper Period.

   (i) **Determination of Commercial Paper Periods.** Subject to Section 2.02(b)(2)(vii), each Commercial Paper Period will be a period of at least 1 day and not more than 270 days, determined by the Remarketing Agent to be the period which, together with all other Commercial Paper Periods for all Bonds then outstanding, will, in the judgment of the Remarketing Agent, result in the lowest overall interest expense on the Bonds over the next 270 days. Each Commercial Paper Period will end on either the day before a Business Day or on the day before the Maturity Date for such Bond. However, any Bond purchased on
behalf of the Company and remaining unsold by the Remarketing Agent as of the close of business on the first day of the Commercial Paper Period for that Bond will have a Commercial Paper Period of 1 day or, if that Commercial Paper Period would not end on a day before a Business Day, a Commercial Paper Period of the shortest possible duration greater than 1 day ending on a day before a Business Day.

In determining the number of days in each Commercial Paper Period, the Remarketing Agent shall take into account the following factors: (I) existing short-term tax-exempt market rates and indices of such short-term rates, (II) the existing market supply and demand for short-term tax-exempt securities, (III) existing yield curves for short-term and long-term tax-exempt securities for obligations of credit quality comparable to the Bonds, (IV) general economic conditions, (V) industry economic and financial conditions that may affect or be relevant to the Bonds, (VI) the number of days in other Commercial Paper Periods applicable to the Bonds and (VII) such other facts, circumstances and conditions as the Remarketing Agent, in its sole discretion, shall determine to be relevant.

(ii) Determination of Commercial Paper Rates. The Commercial Paper Rate for each Commercial Paper Period for each Bond shall be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell such Bond on the date and at the time of such determination at its principal amount (without regard to accrued interest).

(4) Long-Term Interest Rate. The Remarketing Agent will set a Long-Term Interest Rate on a date not less than seven Business Days before the beginning of any period (a “Long-Term Interest Rate Period”) in which interest on any of the Bonds will be payable at a Long-Term Interest Rate. The date on which such Long-Term Interest Rate shall cease to accrue for such Long-Term Interest Rate Period shall be determined by the Company in accordance with Section 2.02(b)(i). Each Long-Term Interest Rate will be the minimum rate necessary (as determined by the Remarketing Agent with respect to any Long-Term Interest Rate Period based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-
(5) **Auction Mode Rate.** During an Auction Rate Period, the Auction Mode Rate will be determined by the Auction Agent in accordance with the provisions set forth in Exhibit B attached hereto which is part of this Indenture.

(6) **Index Rate.** During an Index Period, the Bonds will bear interest at the Index Rate to be determined as follows:

   (i) On the first day of the applicable Index Period and on the first Index Rate Determination Date following each six month anniversary of such day until the end of the Index Period (each, an “Index Adjustment Date”), the Remarketing Agent shall (A) depending on the Index, determine the minimum percentage of the LIBOR Index (the “LIBOR Percentage”) or the minimum number of basis points above or below the BMA Index (the “BMA Margin;” the BMA Margin and the LIBOR Percentage are hereinafter sometimes referred to as the “Spread”), as applicable, that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on the date and at the time of such determination at their principal amount (without regard to accrued interest) if such Bonds were being sold on such date, and (B) notify the Trustee and the Company of the applicable Spread for such six month period.

   (ii) On each Index Rate Determination Date, (A) the Remarketing Agent shall, no later than 11:00 a.m. on such date, notify the Trustee, depending on the applicable Index, of the LIBOR Index or the BMA Index to apply for the next succeeding Weekly Index Period. The applicable Index as determined by the Remarketing Agent, adjusted by the applicable Spread, will be the interest rate to be borne by the Bonds from the first Thursday after such date through the following Wednesday; provided that, if the applicable Index Rate Determination Date is a day following the Thursday in any week, the Index Rate so determined will be in effect from the next preceding Thursday through the following Wednesday.
(iii) Promptly upon the determination of the Index Rate by the Remarketing Agent, the Remarketing Agent will notify the Company and the Trustee in writing of the Index Rate for the applicable period. The Index Rate determined by the Remarketing Agent, absent manifest error, shall be binding and conclusive upon the Beneficial Owners, Bondholders, the Company and the Trustee.

(iv) If the following circumstances exist on any Index Rate Determination Date, the Index Rate shall be determined as follows:

   (A) In the event that the applicable Index on such Index Rate Determination Date is the BMA Index and the BMA Index has not been published or set, the Index Rate for the succeeding Weekly Index Period shall be the minimum percentage of LIBOR Index that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on the date and at the time of such determination at its principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

   (B) In the event that the applicable Index on such Index Rate Determination Date is LIBOR Index and no Reported Rate appears on Bloomberg as of approximately 11:00 a.m., London time, on an Index Rate Determination Date, the Index Rate for the succeeding Weekly Index Period shall be based on the Reported Rate for the preceding week; provided, however, that if no Reported Rate appears on Bloomberg for two consecutive weeks, the Index Rate shall be determined by the Remarketing Agent and shall be the minimum percentage of four-week Treasury Bills that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on such date and at the time of such determination at its principal amount.
amount (without regard to accrued interest) if the Bonds were being sold on such date.

(C) In the event that neither Index is available, the Index Rate for the succeeding Weekly Index Period shall be the minimum percentage of a referenced Treasury security selected by the Remarketing Agent that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on such date and at the time of such determination at its principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(v) The foregoing notwithstanding, if the commencement of an Index Period does not coincide with the commencement of the first succeeding Weekly Index Period, the interest rate to be borne by the Bonds from the date of the commencement of the Index Period until the commencement of the first succeeding Weekly Index Period shall be a rate determined by the Remarketing Agent prior to the commencement of such Index Period, and such rate shall be the rate that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on such date and at the time of such determination at their principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(7) Failure of Remarketing Agent to Announce Interest Rates or Spread on the Bonds. Except as set forth in Exhibit B attached hereto, if the appropriate interest rate, Spread or Commercial Paper Period is not or cannot be determined for any reason, or if, 30 days before the end of a Long-Term Interest Rate Period, the Company has not provided for the next interest rate period, the method of determining interest on the Bonds shall be automatically converted to the Weekly Rate (without the necessity of complying with the requirements of Section 2.02(b)) and the interest rate shall be equal to the BMA Index plus the BMA Margin or, if the BMA Index is unavailable, the LIBOR Index multiplied by the LIBOR Percentage, or
if the LIBOR Index is unavailable, 90% of the 30-day Treasury rate, until such time as the Determination Method can be changed in accordance with Section 2.02(b); provided, however, during an Index Period, if the applicable Index is not available, clause (iv)(A), (iv)(B) or (iv)(C), as applicable, of Section 2.02(a)(6) shall be effective instead of this clause (7). The Trustee shall promptly notify the Bondholders of any such automatic change as set forth in Section 3.07(b).

While Bonds are in a Commercial Paper Mode, during any transition period caused by an automatic conversion of such Bonds to a Weekly Rate in accordance with this clause (7), Bonds bearing interest at a Weekly Rate and Bonds bearing interest at a Commercial Paper Rate, as applicable, shall be governed by the provisions of this Indenture applicable to such methods of determining interest on the Bonds.

(b) (1) Initial Interest Rate Determination Method; Change in Interest Rate Determination Method. The Bonds will bear interest for a Long-Term Interest Rate Period beginning on the date of issuance and ending on December 1, 2028, except as provided hereinafter (the “Initial Interest Period”). Interest on the Bonds will initially be payable at a rate not to exceed thirteen percent (13%) per annum for the Initial Interest Period. The rate during the Initial Interest Rate Period shall be the rate determined by the Underwriter and agreed to by the Company and the Issuer pursuant to the Purchase Contract as being the rate which permits the Underwriter to sell the Bonds to the public at the principal amount thereof. On or after December 1, 2016, the Company may change the Determination Method from time to time by notifying, as applicable, the Issuer, the Trustee, the Remarketing Agent, the Auction Agent and the Broker Dealer, in writing. Such notice (a “Conversion Notice”) shall contain (a) the effective date of such change, (b) the proposed Determination Method, and (c) if the change is to a Long-Term Interest Rate or Rates, the date on which the Long-Term Interest Rate for the first such Long-Term Interest Rate Period shall cease to accrue and, at the option of the Company, the effective date and date(s) on which the Long-Term Interest Rate for any successive Long-Term Interest Rate Periods shall cease to accrue (which last day for each Long-Term Interest Rate Period must be either the day before the Maturity Date for such Bonds or a day which next precedes a Business Day and is at least 365 days after the effective date); provided, however, that if the change is (x) to or from an Auction Rate Period, the notice shall be given in accordance with Sections 2.03(a) or 2.03(b), as applicable, and (y) if such change is to an Index Period, such notice shall also specify the applicable Index for the Index Period and the length of such Index Period. The Long-Term Interest Rate Period shall be the same duration for all of the Bonds. The notice must be accompanied by a Favorable Opinion of Tax Counsel. If the Company’s notice complies with this
paragraph, and if the Company shall deliver to the Trustee and the Issuer a confirming Opinion of Tax Counsel on the effective date as specified in the notice, the interest rate on the Bonds will be determined on the basis of the new rate on the effective date specified in the notice until there is another change as provided in this Section. If the change is to a Long-Term Interest Rate Determination Method and no Long-Term Interest Rate has been set by the date seven Business Days before the proposed effective date of such change, the Company may cancel the change by notifying, as applicable, the Issuer, the Trustee, the Remarketing Agent, the Auction Agent and the Broker-Dealer, in writing.

If the Company wishes to change the Determination Method to or from an Auction Mode Rate, the Company must comply with Section 2.03 as well as this Section 2.02(b)(i).

If the Company wishes to designate successive Long-Term Interest Rate Periods without specifying the effective dates and last days as described in the preceding paragraph for the second or any subsequent Long-Term Interest Rate Periods, it may do so by following the same procedure as for a change in the Determination Method as provided in the foregoing paragraph.

When one Long-Term Interest Rate Period follows another, all provisions of this Indenture applying to a change in the Determination Method will apply, except the Company will not be required to deliver a Favorable Opinion of Tax Counsel if (i) the Company has previously designated a series of successive Long-Term Interest Rate Periods which, together with the current Long-Term Interest Rate Period, are substantially equal in length, (ii) a Favorable Opinion of Tax Counsel was delivered before the first such Long-Term Interest Rate Period in that series which applies to each such successive Long-Term Interest Rate Period and (iii) no other change in the security for the Bonds or in this Indenture or the terms of the Bonds is made which is effective as of, or agreed to in connection with, the effective date of such subsequent Long-Term Interest Rate Period.

Except as provided in Section 2.04(e) of the Auction Procedures, in the event there is a failed conversion of the Bonds for any reason, the method of determining interest on the Bonds shall be automatically converted to the Weekly Rate and the Bonds shall continue to be subject to mandatory tender as described under “Mandatory Tender Upon a Change in the Determination Method” as provided in paragraph 7 of the Bonds.

(2) Limitations. Any change in the Determination Method pursuant to paragraph (1) above must comply with the following:

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(i) the effective date of a change (or each effective date in the case of a change from a Commercial Paper Mode) shall be a Business Day which is at least 20 days (30 days if a Long-Term Interest Rate is then in effect and the effective date is before the day after the last day of a Long-Term Interest Rate Period) after receipt by the Trustee of the Company’s Conversion Notice;

(ii) if a Long-Term Interest Rate is then in effect, the effective date of any change must be either the day after the last day of the then current Long-Term Interest Rate Period or, except as described in clause (iii) below, a day on which the Bonds would otherwise be subject to redemption under the paragraph “Optional Redemption During Long-Term Interest Rate Period” in paragraph 9 of the Bonds if the change did not occur;

(iii) if the Company has previously designated successive Long-Term Interest Rate Periods, the effective date of each new Long-Term Interest Rate Period must be the day after the last day on which the Long-Term Interest Rate for the previous Long-Term Interest Rate Period ceases to accrue;

(iv) if a Commercial Paper Mode is then in effect, the effective date of any change must be either the day after the last day of the Commercial Paper Mode or, as to any Bond, the day after the last day of the Commercial Paper Period then in effect (or to be in effect) with respect to that Bond;

(v) if any Bonds have been called for redemption and the redemption has not yet occurred, the effective date of the change cannot be before such redemption date;

(vi) if a Long-Term Interest Rate or a Daily Rate is then in effect, the effective date of any change cannot occur during the period after a Record Date and to, but not including, the related Interest Payment Date;

(vii) if a Commercial Paper Mode is then in effect, the Remarketing Agent shall determine Commercial Paper Periods of such duration that will, in the judgment of the Remarketing Agent, best promote an orderly transition on the effective date. After the receipt by the Trustee of the Company’s Conversion Notice, the day after the last day of each Commercial Paper Period shall be, with respect to each Bond, not later than the effective date of the change. The Remarketing Agent shall promptly give written notice of each such last date and
each such effective date with respect to each Bond to the Issuer, the Company and the Trustee;

(viii) if an Auction Mode Rate is then in effect, the effective date of any change must be the day after the last day of the Auction Period then in effect;

(ix) if an Index Rate is then in effect, the effective date of any change must be the day after the last day of the Index Period then in effect;

(x) any change in the Auction Period with respect to a Bond in an Auction Rate Determination Method or in the Index applicable to Bonds in an Index Rate Determination Method shall be deemed to be a change in the Determination Method for purposes of this Indenture; and

(xi) in the event of a conversion to an Auction Rate Determination Method from Commercial Paper Mode, the effective date of such conversion may not be earlier than the day following the last day of the longest Commercial Paper Period then in effect.

During any such transition period, Bonds bearing interest at a Commercial Paper Rate shall be governed by the provisions of this Indenture applicable to a Commercial Paper Mode and Bonds bearing interest at a Daily Rate, Weekly Rate, Long-Term Interest Rate, Auction Mode Rate or Index Rate, as applicable, shall be governed by the provisions of this Indenture applicable to such Determination Methods.

(c) Calculation of Interest. The Remarketing Agent, and in the case of subparagraph 5 below, the Auction Agent, shall provide the Trustee and the Company with notice in writing or by other written electronic means or by telephone (any such notice by telephone to be delivered to a Responsible Officer of the Trustee) promptly confirmed by facsimile transmission by 12:30 p.m., New York City time,

(1) on the first Business Day after a month in which interest on the Bonds was payable at a Daily Rate, of the Daily Rate for each day in such month,

(2) on each day on which a Weekly Rate becomes effective, of the Weekly Rate,

(3) on the first day of each Commercial Paper Period, of the length thereof and the Commercial Paper Rate, and, if there is more
than one Commercial Paper Rate then in effect, of the related applicable principal amounts,

(4) on the first Business Day of a Long-Term Interest Rate Period (other than the Initial Interest Period), of the Long-Term Interest Rate or Long-Term Interest Rates set for that period,

(5) on the first Business Day of each Auction Period, of the Auction Mode Rate set for that period,

(6) on each Index Adjustment Date, the Spread,

(7) on each Index Rate Determination Date during an Index Period, depending on the applicable Index, the LIBOR Index or BMA Index for such date, and

(8) on any Business Day preceding any redemption or purchase date, any interest rate requested by the Trustee in order to enable it to calculate the accrued interest, if any, due on such redemption or purchase date.

Using the rates supplied by this notice, the Trustee will calculate the interest payable on the Bonds in accordance with the applicable interest rate calculation method set forth in the form of the Bond. The Remarketing Agent or the Auction Agent, as the case may be, will inform the Trustee and the Company orally at the oral request of either of them of any interest rate so set. The Trustee will confirm the effective interest rate by telephone or in writing to any Bondholder who requests it in any manner.

The setting of the rates by the Remarketing Agent or the Auction Agent, as applicable, the determination of Commercial Paper Periods by the Remarketing Agent and the calculation of interest payable on the Bonds by the Trustee as provided in this Indenture will be conclusive and binding on the Issuer, the Company, the Trustee, and the owners of the Bonds.

(d) Change in Rate Determination Method-Opinions of Counsel. Notwithstanding any provision of this Section 2.02, no change shall be made in the Determination Method at the direction of the Company pursuant to Section 2.02(b)(l) hereof if the Company shall fail to deliver a Favorable Opinion of Tax Counsel and confirmation thereof if required under Section 2.02(b)(l). If the Trustee shall have sent any notice to the Bondholders regarding a change in rate pursuant to Section 3.07(b), then in the event of such failure to deliver such opinion or confirmation, the Trustee shall promptly notify all Bondholders (i) of such failure and (ii) that the method of determining interest on the Bonds shall be automatically converted to the Weekly Rate (without the necessity of complying with the requirements of
Section 2.02(b)) and the interest rate shall be equal to the BMA Index plus the BMA Margin or, if the BMA Index is unavailable, the LIBOR Index multiplied by the LIBOR Percentage, or if the LIBOR Index is unavailable, 90% of the 30-day Treasury rate, until such time as the Determination Method can be changed in accordance with Section 2.02(b); provided, however, during an Index Period, if the applicable Index is not available, clause (iv)(A), (iv)(B) or (iv)(C), as applicable, of Section 2.02(a)(6) shall be effective instead of this Subsection (d).

Section 2.03. Changes to and from Auction Mode Rate Determination Method.

(a) Changes to Auction Mode Rate. At the option of the Company, all of the Bonds may be converted from another Determination Method to the Auction Mode Rate Determination Method. Any such conversion shall be made as follows:

1. In any such conversion from another Determination Method, the effective date for the Auction Rate Period shall be a regularly scheduled Interest Payment Date on which interest is payable for the Interest Period from which the conversion is to be made;

2. The Company shall give written notice of any such conversion to the Remarketing Agent, the Issuer, the Trustee, the Auction Agent, and the Broker-Dealer not less than 20 days prior to the proposed effective date for the change. Such notice shall specify the information required pursuant to Section 2.02(b)(1) and the length of the Auction Period for such Auction Rate Period. Together with such notice, the Company shall file with the Issuer and the Trustee an Opinion of Tax Counsel to the effect that the conversion of the Bonds to an Auction Mode Rate Determination Method shall not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. No such change to an Auction Mode Rate Determination Method shall become effective unless the Company shall also file, with the Issuer and the Trustee, an Opinion of Tax Counsel to the same effect dated the effective date for the Auction Mode Rate.

3. At least 15 days prior to the effective date for the Auction Mode Rate, the Trustee shall mail a written notice of the conversion to the owners of all Bonds to be converted;

4. The initial Auction Mode Rate for the Auction Period commencing on the effective date for the Auction Mode Rate shall be the lowest rate which, in the judgment of the Broker-Dealer, is necessary to enable the Bonds to be remarketed at a price equal to the principal amount thereof, plus accrued interest, if any, on the effective date for the Auction Mode Rate. Such determination shall be conclusive and binding upon the
Issuer, the Company, the Trustee, the Auction Agent and the owners of the Bonds to which such rate will be applicable.

(5) Not later than 5:00 p.m., New York City time, on the date of determination of the Auction Mode Rate, the Broker-Dealer shall notify the Trustee and the Company of the Auction Mode Rate by telephone, promptly confirmed in writing.

(6) Interest on the Bonds in an Auction Period of 180 days or less will be computed on the basis of actual days over 360 and in an Auction Period greater than 180 days on the basis of a 360-day year of twelve 30-day months.

(7) The Company may revoke its election to effect a conversion of the interest rate on any Bonds to an Auction Mode Rate by giving written notice of such revocation to the Trustee, the Remarketing Agent, the Auction Agent and the Broker-Dealer at any time prior to the setting of the Auction Mode Rate by the Broker-Dealer.

(8) No Bonds may be converted to the Auction Mode Rate Determination Method when the Bonds are not held by a Securities Depository.

(b) Conversions from Auction Mode Rate Determination Method. At the option of the Company, all of the Bonds may be converted from an Auction Rate Period to another Determination Method. Any such conversion shall be made as follows:

(1) The effective date for the new Determination Method shall be the second regularly scheduled Interest Payment Date following the final Auction Date.

(2) The Company shall give written notice of any such conversion to the Issuer, the Trustee, the Remarketing Agent, the Auction Agent and the Broker-Dealer(s) not less than 20 days prior to the proposed effective date for the change. Such notice shall specify the effective date for the new Determination Method, the Determination Method to which the conversion will be made and any additional information required pursuant to Section 2.02(b)(1). Together with such notice, the Company shall file with the Issuer and the Trustee an Opinion of Tax Counsel to the effect that the conversion of the Bonds to be converted will not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. No change to the new Determination Method shall become effective unless the Company shall also file, with the Issuer and the Trustee, an Opinion of Tax Counsel to the same effect dated the effective date for the new Determination Method.
(3) At least 15 days prior to the effective date for the new Determination Method, the Trustee shall mail a written notice of the conversion to the owners of all Bonds to be converted, specifying the effective date for the new Determination Method.

(4) If on the effective date for the new Determination Method any condition precedent to such conversion required under this Indenture is not satisfied, the Trustee will give written notice by first class mail postage prepaid as soon as practicable, and in any event not later than the next succeeding Business Day, to the Bondholders to have been converted, that such conversion has not occurred, that Bonds will not be purchased on the failed effective date for the new Determination Method, that the Auction Agent will continue to implement the Auction Procedures on the Auction Dates with respect to such Bonds which otherwise would have been converted excluding however, the Auction Date falling on the Business Day next preceding the failed effective date for the new Determination Method, and that the interest rate will continue to be the Auction Mode Rate; provided, however, that the interest rate borne by such Bonds during the Auction Period commencing on such failed effective date for the new Determination Method will be the Maximum Auction Rate, and the Auction Period will be the seven-day Auction Period.

(5) On the conversion date applicable to the Bonds to be converted, the Bonds to be converted shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of such Bonds so tendered shall be payable solely from the proceeds of the remarketing of such Bonds. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all applicable Bonds on a mandatory tender date, the Bonds to have been converted will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Auction Rate.

Section 2.04, Execution and Authentication. The Bonds shall be signed on behalf of the Issuer with the manual or facsimile signature of its Executive Director or the President of its Board of Directors and attested by the manual or facsimile signature of its Secretary or Assistant Secretary, and the seal of the Issuer shall be impressed or imprinted on the Bonds by facsimile or otherwise. All authorized facsimile signatures shall have the same effect as if manually signed. If an officer of the Issuer whose signature is on a Bond no longer holds that office at the time the Trustee authenticates the Bond, the Bond shall nevertheless be valid. Also, if a person signing a Bond is the proper officer on the actual date of execution, the Bond shall be valid even if that person is not the proper officer on the nominal date of action.
A Bond shall not be valid for any purpose under this Indenture until the Trustee manually signs the certificate of authentication on the Bond. Such signature shall be conclusive evidence that the Bond has been authenticated under this Indenture.

As a precondition to the initial authentication and delivery of the Bonds, the Trustee shall receive a request and authorization to the Trustee from the Issuer, signed by the Executive Director or the President of the Board of Directors of the Issuer, to authenticate and deliver the Bonds to the persons and in the manner therein described.

Section 2.05. Bond Register. Bonds must be presented at the principal corporate trust office of the Trustee for registration of transfer, exchange and, except as otherwise provided herein, payment. The Trustee shall keep a register of Bonds and of their registration of transfer and exchange, which register shall be open to inspection by the Issuer and the Company during normal business hours.

Section 2.06. Registration and Exchange of Bonds; Persons Treated as Owners. Bonds may be registered as transferred only on the register maintained by the Trustee. Upon surrender for registration of transfer of any Bond to the Trustee, duly endorsed for transfer or accompanied by an assignment duly executed by the holder or the holder’s attorney duly authorized in writing, the Trustee will authenticate a new Bond or Bonds of the same maturity, in an equal total principal amount and registered in the name of the transferee.

Bonds may be exchanged for an equal total principal amount of Bonds of the same maturity but of different authorized denominations. The Trustee will authenticate and deliver Bonds that the Bondholder making the exchange is entitled to receive, bearing numbers not then outstanding.

Except in connection with the purchase of Bonds tendered for purchase, the Trustee will not be required to register the transfer of or to exchange any Bond called for redemption or during the period beginning 15 days before the mailing of notice calling the Bonds or any portion of the Bonds for redemption and ending on the redemption date.

The registered owner of a Bond shall be treated as the absolute owner of the Bond for all purposes, and payment of principal, interest, premium, if any, or purchase price shall be made only to or upon the written order of the Bondholder or the Bondholder’s legal representative, notwithstanding any notice, actual or constructive, to the contrary.

The Trustee will require the payment by a Bondholder requesting exchange or registration of transfer of any tax or other governmental charge required to be paid in respect of the exchange or registration of transfer, but will not impose any other charge.
Section 2.07. Mutilated, Lost, Stolen, Destroyed or Undelivered Bonds. If any Bond is mutilated, lost, stolen or destroyed, the Trustee will authenticate a new Bond of the same denomination with similar terms if any mutilated Bond shall first be surrendered to the Trustee, and if, in the case of any lost, stolen or destroyed Bond, there shall first be furnished to the Issuer, the Trustee and the Company evidence of such loss, theft or destruction, together with an indemnity satisfactory to them. If the Bond has matured or become subject to redemption or tender, instead of issuing a replacement Bond, the Trustee may with the consent of the Company pay the Bond or the Company may purchase the Bond without requiring surrender of the Bond and make such requirements as the Trustee deems fit for its protection, including a lost instrument bond. The Issuer and the Trustee may charge the Bondholder their reasonable fees and expenses in this connection.

If a Bond is tendered for purchase as provided in Article III, or if the holder of a Bond gives irrevocable instructions to the Remarketing Agent for purchase, and in each case funds are deposited with the Trustee sufficient for the purchase, the Trustee upon written request of the Company or the Remarketing Agent will authenticate a new Bond in the same maturity and in the same denomination registered as the Company or the Remarketing Agent may direct and deliver it to the Company or upon the Company’s order, whether or not the Bond purchased is ever delivered, and the undelivered Bonds shall be canceled on the books of the Trustee, whether or not said undelivered Bonds have been delivered to the Trustee. From and after the purchase date, interest on such Bond shall cease to be payable to the prior holder thereof, such holder shall cease to be entitled to the benefits or security of this Indenture and shall have recourse solely to the funds held by the Trustee for the purchase of such Bond, and the Trustee shall not register any further transfer of such Bond by such prior holder. All funds held by the Trustee for the purchase of undelivered Bonds shall be held uninvested.

Section 2.08. Cancellation of Bonds. Whenever a Bond is delivered to the Trustee for cancellation (upon payment, redemption, tender or otherwise), or for registration of transfer, exchange or replacement pursuant to Section 2.06 or Section 2.07, the Trustee will promptly cancel and dispose of the Bond in accordance with the Trustee’s policy of disposal. The Trustee may, but shall not be required to, destroy canceled Bonds.

Section 2.09. Temporary Bonds. Until definitive Bonds are ready for delivery, the Issuer may execute and the Trustee will authenticate temporary Bonds substantially in the form of the definitive Bonds, with appropriate variations. The Issuer will, without unreasonable delay, prepare and the Trustee will authenticate definitive Bonds in exchange for the temporary Bonds. Such exchange shall be made by the Trustee without charge.

Section 2.10. Additional Bonds. No additional Bonds shall be issued under this Indenture. Changing the Determination Method with respect to the Bonds and
the applicable interest rate on the Bonds, if permitted under this Indenture, shall not be treated as the issuance of additional bonds hereunder even if such change is treated as a reissuance for federal income tax purposes. Notwithstanding the foregoing, the Issuer may, at the request of the Company, issue additional bonds under separate indentures for other projects operated by the Company, including projects in Pascagoula, Mississippi, and Gulfport, Mississippi, and no Bondholder consent or approval thereof shall be required hereunder.

ARTICLE III
REDEMPTION, MANDATORY TENDER AND REMARKETING

Section 3.01. Notices to Trustee. If the Company wishes that any Bonds be redeemed pursuant to any optional redemption provision in the Bonds, the Company will notify the Trustee in writing of the applicable provision, the redemption date, the principal amount of the Bonds to be redeemed and other necessary particulars in accordance with Section 4.7 of the Agreement.

Section 3.02. Redemption Dates.

(a) The redemption date of Bonds to be redeemed pursuant to any optional redemption provision in the Bonds will be a date permitted by the Bonds and specified by the Company in the notice delivered pursuant to Section 4.7 of the Agreement. Except as set forth below, the redemption date for mandatory redemptions will be as specified in the Bonds to be redeemed or determined by the Trustee consistently with the provisions of the Bonds.

(b) Upon the occurrence of a Mandatory Redemption Event, the Bonds shall be redeemed, in whole, or in part if the Trustee and the Issuer receive an Opinion of Tax Counsel to the effect that the redemption of a specified portion of the Bonds would have the result that interest payable on the Bonds remaining outstanding after such redemption would be tax-exempt to any holder or Beneficial Owner of a Bond (other than a holder or Beneficial Owner who is a “substantial user” of the facilities financed with the proceeds of the Bonds or a “related person” within the meaning of Section 144(a)(3) of the Code), upon which opinion the Trustee and the Issuer may rely, and in such event the Bonds will be redeemed (in authorized denominations) in such amount as such Opinion of Tax Counsel has stated is necessary as to accomplish that result. Such redemption shall take place upon not less than 30 nor more than 60 days’ notice at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest to the redemption date. Subject to the notice requirements set forth herein, the Bonds shall be redeemed on a date within 60 days after the occurrence of the Mandatory Redemption Event. Any notice of redemption required to be given by the Trustee in connection with a redemption required by this Section 3.02(b) need not be given.
earlier than 15 days after the date the Trustee receives notice of a Mandatory Redemption Event pursuant to this Section 3.02(b).

Section 3.03. Selection of Bonds to Be Redeemed. Except as provided in the Bonds, if fewer than all the Bonds are to be redeemed, the Trustee will select the Bonds to be redeemed by lot or other method it deems fair and appropriate, except that the Trustee will first select any Bonds owned by the Company or any of its nominees or held by the Trustee for the account of the Company or any of its nominees. The Trustee will make the selection from Bonds not previously called for redemption. For this purpose, the Trustee will consider each Bond in a denomination larger than the minimum denomination permitted by the Bonds at the time to be separate Bonds each in the minimum denomination. Provisions of this Indenture that apply to Bonds called for redemption also apply to portions of Bonds called for redemption.

Section 3.04. Redemption Notices.

(a) Official Notice of Redemption. The Trustee will give notice of each redemption as provided in the Bonds and will at the same time give a copy of the notice to the Remarketing Agent, the Auction Agent and the Broker-Dealer, as applicable. The notice shall identify the Bonds to be redeemed and shall state (1) the redemption date (and, if the Bonds provide that accrued interest will not be paid on the redemption date, the date it will be paid), (2) the redemption price, (3) that the Bonds called for redemption must be surrendered to collect the redemption price, (4) the address at which the Bonds must be surrendered and (5) that interest on the Bonds called for redemption ceases to accrue on the redemption date.

With respect to an optional redemption of any Bonds under “Optional Redemption During Long-Term Interest Rate Period,” “Extraordinary Optional Redemption,” “Optional Redemption During Daily or Weekly Rate Period” or “Optional Redemption During Auction Rate Period” in paragraph 9 of the form of the Bonds, unless moneys sufficient to pay the principal of, premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the Issuer shall not redeem such Bonds, the redemption price shall not be due and payable and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed.

Failure to give any required notice of redemption as to any particular Bonds or any defect therein will not affect the validity of the call for redemption of any Bonds in respect of which no such failure or defect has occurred. Any notice mailed
(b) **Additional Notice of Redemption.** In addition to the redemption notice required above, further notice (the “Additional Redemption Notice”) shall be given by the Trustee as set out below. No defect in the Additional Redemption Notice nor any failure to give all or any portion of the Additional Redemption Notice shall in any manner defeat the effectiveness of a call for redemption if notice is given as prescribed in paragraph (a) above.

1. Each Additional Redemption Notice shall contain the information required in paragraph (a) above for an official notice of redemption plus (i) the CUSIP numbers of all Bonds being redeemed; (ii) the date of the Bonds as originally issued; (iii) the Determination Method for, or the rate of interest borne by each Bond being redeemed; (iv) the Maturity Date of each Bond being redeemed; and (v) any other descriptive information needed to identify accurately the Bonds being redeemed.

2. Each Additional Redemption Notice shall be sent at least 30 days before the redemption date by registered or certified mail or overnight delivery service (or by such other means as the Trustee may have established with the Securities Depository or any information service) to all registered securities depositories then in the business of holding substantial amounts of obligations similar to the Bonds (such depositories now being The Depository Trust Company of New York, New York, and Midwest Securities Trust Company of Chicago, Illinois) and to one or more national information services that disseminate notices of redemption of obligations such as the Bonds.

The information required in any redemption notice (including an Additional Redemption Notice) pursuant to this Section and the information required in any notice of tender (including an Additional Tender Notice) may be combined in a single notice if it is sent to Bondholders in the manner and at the time specified under “Notice of Redemption” in paragraph 9 of the form of the Bonds.

Section 3.05. **Payment of Bonds Called for Redemption.** Upon surrender to the Trustee, Bonds called for redemption shall be paid as provided in this Article at the redemption price (including premium, if any) stated in the notice, plus interest accrued to the redemption date, or at a purchase price as provided in the form of Bond, except that interest payable on Bonds bearing interest at a Daily Rate will be paid on the fifth Business Day following the redemption date. Bonds called for redemption and purchased pursuant to a tender before the redemption date will not be redeemed but will be dealt with as provided below in this Article. Upon the payment of the redemption price of the Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying,
by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

Section 3.06. Bonds Redeemed in Part. Subject to Article VI, upon surrender of a Bond redeemed in part, the Trustee will authenticate for the holder a new Bond or Bonds in authorized denominations equal in principal amount to the unredeemed portion of the Bond surrendered.

Section 3.07. Mandatory Tender.

(a) Mandatory Tender of Bonds. The Bonds are subject to mandatory tender as provided in paragraph 7 of the form of the Bonds.

(b) Notice to Bondholders of Change in Interest Rate Determination Method. When a change in the Determination Method is to be made, or upon commencement of a new Long-Term Interest Rate Period or a new Index Period immediately after a prior Index Period, the Trustee will, upon notice from the Company pursuant to Section 2.02(b), notify the affected Bondholders by first class mail at least 15 days before the effective date of the change or the commencement of a new Long-Term Interest Rate Period or Index Period, except that (i) such notice shall be given at least 30 days prior to the effective date if a Long-Term Interest Rate Period is in effect and the effective date is on or before the end of the Long-Term Interest Rate Period and (ii) no notice shall be given with respect to a tender under “Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode” in paragraph 7 of the form of the Bonds. The notice shall be effective when sent and shall state:

1. the purchase date (and, if the Bonds provide that accrued interest will not be paid on the purchase date, the date it will be paid);

2. the purchase price;

3. that the Bonds to be tendered must be surrendered to collect the purchase price;

4. the address at which or the manner in which the Bonds must be surrendered;

5. that interest on the Bonds to be tendered ceases to accrue on the purchase date;

6. that the interest rate determination method will be changed and what the new method will be;

7. the proposed effective date of the new rate; and
(8) that a mandatory tender will result on the effective date of the change as provided in the Bonds and that, in the case of a failed conversion (other than as provided in Section 2.04(e) of the Auction Procedures), the interest rate determination method will automatically be converted to a Weekly Rate Determination Method and the Bonds will continue to be subject to mandatory tender on such proposed effective date.

Failure to give any required notice of tender as to any particular Bonds or any defect therein will not affect the validity of the tender of any Bonds in respect of which no such failure or defect has occurred. Any notice mailed as provided in the Bonds shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by any holder.

(c) Additional Notice of Tender. In addition to the tender notice required above, further notice (the “Additional Tender Notice”) shall be given by the Trustee as set out below. No defect in the Additional Tender Notice nor any failure to give all or any portion of the Additional Tender Notice shall in any manner defeat the effectiveness of a tender notice if notice is given as prescribed in paragraph (b) above.

(1) Each Additional Tender Notice shall contain the information required in paragraph (c) above for an official notice of tender plus (i) the CUSIP numbers of all Bonds being tendered; (ii) the date of the Bonds as originally issued; (iii) the maturity date of each Bond being purchased; and (iv) any other descriptive information needed to identify accurately the Bonds being purchased.

(2) Each Additional Tender Notice shall be sent at least 30 days before the purchase date by registered or certified mail or overnight delivery service (or by such other means as the Trustee may have established with the Securities Depository or any information service) to all registered securities depositories then in the business of holding substantial amounts of obligations similar to the Bonds (such depositories now being The Depository Trust Company of New York, New York and Midwest Securities Trust Company of Chicago, Illinois) and to one or more national information services that disseminate notices of purchase of obligations such as the Bonds.

The information required in any tender notice (including an Additional Tender Notice) pursuant to this Section and the information required in any redemption notice (including an Additional Redemption Notice) may be combined in a single notice if it is sent to Bondholders in the manner and at the time specified under “Notice of Tender” in paragraph 7 of the form of the Bonds.
Section 3.08. **Disposition of Purchased Bonds.** (a) **Bonds to be Remarketed.** Bonds purchased pursuant to tenders as provided in the form of Bonds or as provided in Section 3.07 will be offered for sale by the Remarketing Agent as provided in this Section except as follows:

   (1) Bonds required to be tendered as described under “Mandatory Tender Upon a Change in the Determination Method” in paragraph 7 of the form of Bond, which are tendered between the date notice of mandatory tender is given and the mandatory tender date, may be remarshaled before the mandatory tender date only if the buyer receives a copy of the mandatory tender notice from the Remarketing Agent; and

   (2) Bonds will not be offered for sale under this Section during the continuance of an Event of Default under Section 9.01(a), (b), (c) or (d). Bonds will be offered for sale under this Section 3.08 during an event which with the passage of time or the giving of notice or both may become an Event of Default only in the sole discretion of the Remarketing Agent.

(b) **Remarketing Effort.** Except to the extent the Company directs the Remarketing Agent not to do so, the Remarketing Agent will offer for sale and use reasonable efforts to sell all Bonds to be sold as provided in paragraph (a) above and, when directed by the Company, any Bonds held by the Company. The sale price of each Bond must be equal to the principal amount of each Bond plus accrued interest, if any, to the purchase date. The Company may direct the Remarketing Agent from time to time to cease and to resume sales efforts with respect to some of or all the Bonds. The Remarketing Agent may buy as principal any Bonds to be offered under this Section 3.08.

(c) **Notices in Respect of Tenders.** When the Trustee receives a notice from a Bondholder (or a Beneficial Owner through its direct Participant) as specified in paragraph 6 of the form of the Bond for the Bondholder (or a Beneficial Owner through its direct Participant) that Bonds are being tendered, the Trustee will promptly notify the Remarketing Agent and the Company by facsimile transmission or telephone, promptly confirmed in writing, of the receipt of such notice, but in no event later than the following times:

   (i) when the Bonds bear interest at a Daily Rate, no later than 11:15 a.m. (New York City time) on the same Business Day; and

   (ii) when the Bonds bear interest at a Weekly Rate, no later than 11:15 a.m. (New York City time) on the Business Day next succeeding receipt of such notice.
(d) **Delivery of Remarketed Bonds**

(i) Except when a book-entry system of registration is in effect, the Trustee shall hold all Bonds delivered pursuant to this Section 3.08 in trust for the benefit of the owners thereof until moneys representing the purchase price of such Bonds shall have been delivered to or for the account of or to the order of such Bondholders, and thereafter, if such Bonds are remarketed, shall deliver replacement Bonds, prepared by the Trustee in accordance with the directions of the Remarketing Agent and authenticated by the Trustee, for any Bonds purchased in accordance with the written directions of the Remarketing Agent, to the Remarketing Agent for delivery to the purchasers thereof.

(ii) The Remarketing Agent or, in the case of Bonds bearing interest at an Auction Mode Rate, the Auction Agent, shall advise the Trustee and the Company in writing or by facsimile transmission of (A) the principal amount of Bonds which have been remarketed, and, (B) except in the case of Bonds bearing interest at an Auction Mode Rate, the denominations and registration instructions (including taxpayer identification numbers), in each case, in accordance with the following schedule (all times of which are New York City time):

<table>
<thead>
<tr>
<th>CURRENT METHOD OF INTEREST RATE DETERMINATION OR, IN CONNECTION WITH A CHANGE IN SUCH METHOD, THE NEW METHOD OF INTEREST RATE DETERMINATION</th>
<th>TIME BY WHICH INFORMATION TO BE FURNISHED TO TRUSTEE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Paper Period</td>
<td>12:15 p.m. on the purchase date</td>
</tr>
<tr>
<td>Daily Rate Period</td>
<td>12:15 p.m. on the purchase date</td>
</tr>
<tr>
<td>Weekly Rate Period</td>
<td>12:15 p.m. on the purchase date</td>
</tr>
<tr>
<td>Long-Term Interest Rate Period</td>
<td>12:15 p.m. on the purchase date</td>
</tr>
<tr>
<td>Auction Rate Period</td>
<td>12:15 p.m. on the date of the Auction</td>
</tr>
<tr>
<td>Index Period</td>
<td>12:15 p.m. on the purchase date</td>
</tr>
</tbody>
</table>

(iii) The terms of any sale by the Remarketing Agent shall provide for the authorization of the payment of the purchase price by the Remarketing Agent to the Trustee in exchange for Bonds registered in the name of the new Bondholder which shall be delivered by the Trustee to the Remarketing Agent at or before 2:00 p.m. (New York City time) on the purchase date if the purchase price has been received from the Remarketing Agent by the time set forth in Section 3.08(e) on the purchase date.

(e) **Delivery of Proceeds of Sale**. The Remarketing Agent shall deliver directly to the Trustee an amount equal to the principal amount thereof plus accrued interest, if any, of the Bonds which the Remarketing Agent has advised the Trustee have been remarketed pursuant to Section 3.08(d)(ii) no later than 12:30 p.m. (New York City time) on the purchase date.
Section 3.09 **Purchase of Bonds in Lieu of Redemption.** When Bonds are called for redemption pursuant to “Optional Redemption During Long-Term Interest Rate Period,” “Optional Redemption During Daily or Weekly Rate Period” or “Optional Redemption During Auction Rate Period” as provided under paragraph 9 in the form of Bond, the Company may purchase some or all of the Bonds called for redemption if it (or the Remarketing Agent) gives written notice to the Trustee, the Remarketing Agent, the Auction Agent and the Broker-Dealer not later than the day before the redemption date that it wishes to purchase the principal amount of Bonds specified in the notice, at a purchase price equal to the redemption price. On the date specified as the redemption date, the Trustee will be furnished sufficient remarketing proceeds (or other funds provided by the Company) in sufficient time for the Trustee to make the purchase on the redemption date. Any such purchase of Bonds by the Company shall not be deemed to be a payment or redemption of the Bonds or any portion thereof and such purchase shall not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

ARTICLE IV
APPLICATION OF PROCEEDS AND PAYMENT OF BONDS

Section 4.01. **Creation and Deposits to the Project Fund.** The Issuer will cause the proceeds of the sale of the Bonds to be deposited with the Trustee in a segregated trust account as follows.

(a) A special fund is hereby created and designated “Mississippi Business Finance Corporation Gulf Opportunity Zone Industrial Development Revenue Bonds, Series 2006 (Northrop Grumman Ship Systems, Inc.) Project Fund” (the “Project Fund”) to the credit of which such deposits shall be made as are required by the provisions of this Indenture. Any moneys received by the Issuer or by the Trustee as trustee under this Indenture from any source for payment of the Cost of the Project, including all proceeds of the sale of the Bonds shall be deposited to the credit of the Project Fund.

(b) The moneys in the Project Fund shall be held by the Trustee in trust and, subject to the provisions of Sections 4.05 and 9.02 of this Indenture, shall be applied to the payment of the Cost of the Project and, pending such application, shall be and are hereby made subject to a lien and charge in favor of the registered owners of the Bonds issued and outstanding under this Indenture and for the further security of such owners until paid out or transferred as herein provided.

Section 4.02. **Payments from the Project Fund.**

(a) Payment of the Cost of the Project shall be made from the Project Fund. All payments from the Project Fund shall be subject to the provisions and restrictions set forth in this Article, and the Issuer covenants that it will not cause to be paid from the Project Fund any sums except in accordance with such
provisions and restrictions. Such payments shall be made by the Trustee upon receipt of a requisition and certificate, signed by the Company Representative (substantially in the form of the Requisition and Certificate attached hereto as Exhibit C and hereby deemed incorporated herein).

(b) The Trustee is authorized and directed to apply the moneys in the Project Fund in accordance herewith but only upon receipt of the requisitions required by this Section 4.02, duly executed by the person and in the manner provided for herein.

Section 4.03. Trustee May Rely on Requisitions. All requisitions in the form provided by Section 4.02 hereof and all other statements, orders, certifications and approvals received by the Trustee, as required by this Article as conditions of payment from the Project Fund, may be conclusively relied upon by the Trustee, and shall be retained by the Trustee, subject at all reasonable times to examination by the Company (so long as the Agreement shall remain in force and effect), the Issuer, any registered owner and the agents and representatives thereof.

Section 4.04. Completion Date. The establishment of the Completion Date (as defined in the Agreement) and the disposition of moneys then held for the credit of the Project Fund shall be in accordance with Sections 3.5 and 3.6 of the Agreement, respectively.

Section 4.05. Transfers to the Bond Fund. In the event that the Company should elect or be required to prepay the Note in its entirety or that the Trustee shall declare the Bonds to be due and payable pursuant to Section 9.02 hereof, the Trustee shall, without further authorization, forthwith transfer any balance remaining in the Project Fund to the Bond Fund.

Section 4.06. Trustee’s Records. The Trustee shall maintain adequate records for a period of at least three (3) years after the Completion Date pertaining to all disbursements from the Project Fund.

Section 4.07. Payment of Bonds. The Trustee will make payments of principal of, premium, if any, and interest on the Bonds from moneys available to the Trustee under this Indenture for that purpose. The Trustee will pay the purchase price of tendered Bonds first from the proceeds of the reoffering of Bonds under Section 3.08 and second from other moneys available to the Trustee for that purpose; provided, however, that during an Auction Rate Period, payment of purchase price shall occur pursuant to Section 2.03(b)(5).

All moneys received as proceeds of remarketing the Bonds under Section 3.08 shall be held segregated by the Trustee in a separate and segregated trust account. To the extent that the payment of principal or interest on the Bonds is made from moneys as described in this Section, such payment shall also satisfy and discharge any payment obligation of the Company under the Note and the Trustee shall
promptly notify the Company in writing if such payment requirement has not been satisfied. If any Bond is redeemed prior to maturity or if the Company surrenders any Bond to the Trustee for cancellation, the Trustee shall cancel such Bond.

Section 4.08. Investments of Moneys. The Trustee will invest and reinvest moneys held by the Trustee as directed in writing by the Company to the extent permitted by law, in:

(a) Government Obligations;
(b) Bonds and notes of the Federal Land Bank;
(c) Obligations of the Federal Intermediate Credit Bank;
(d) Obligations of the Federal Bank for Cooperatives;
(e) Bonds and notes of Federal Home Loan Banks;
(f) Negotiable or non-negotiable certificates of deposit, time deposits or similar banking arrangements, issued by a bank or trust company (which may be the commercial banking department of the Trustee or any bank or trust company under common control with the Trustee) or savings and loan association which are insured by the Federal Deposit Insurance Corporation or secured as to principal by Government Obligations; or
(g) Other investments then permitted by applicable Mississippi law.

The Trustee may make investments permitted by this Article through its own bond department or the bond department of any bank or trust company under common control with the Trustee. Investments will be made so as to mature or be subject to redemption at the option of the holder on or before the date or dates that the Trustee anticipates that moneys from the investments will be required. The Trustee, when authorized in writing by the Company, may trade with itself in the purchase and sale of securities for such investment. Investments will be registered in the name of the Trustee and held by or under the control of the Trustee. Obligations so purchased as an investment of moneys in any fund or account shall be held by or under the control of the Trustee and shall be deemed at all times to be a part of such fund or account, and the interest accruing thereon and any profit realized from such investment shall be credited to such fund or account, and any loss resulting from such investment shall be charged to such fund or account. The Trustee will sell and reduce to cash a sufficient amount of investments whenever the cash held by the Trustee is insufficient. The Trustee shall not be liable for any loss from such investments to the extent directed in writing by the Company and to the extent such written directions have been complied with by the Trustee.
Section 4.09. Moneys Held in Trust; Unclaimed Funds. The Trustee shall deposit into a separate and segregated trust account for the benefit of the Bondholders all moneys received by it for any payment on the Bonds. Money received by the Remarketing Agent or the Trustee from the sale of a Bond under Section 3.08 or for the purchase of a Bond will be held segregated from other funds of the Remarketing Agent or the Trustee in trust for the benefit of the Person from whom such Bond was purchased or the Person delivering such purchase money, as the case may be, and will not be invested. The Trustee shall promptly, but in no event later than 30 days of their original deposit, apply moneys received from the Company in accordance with this Indenture and as directed in writing by the Company.

Notwithstanding the provisions of the immediately preceding paragraph, any moneys which shall be set aside by the Trustee or deposited by the Trustee with the paying agents and which shall remain unclaimed by the holders of such Bonds for a period of six years after the date on which such Bonds shall have become due and payable shall upon request in writing be paid to the Company or to such officer, board or body as may then be entitled by law to receive the same, and thereafter the holders of such Bonds shall look only to the Company or to such officer, board or body, as the case may be, for payment and then only to the extent of the amount so received without any interest thereon, and the Trustee, the Issuer and the paying agents shall have no responsibility with respect to such moneys.

ARTICLE V
REVENUES AND APPLICATION THEREOF

Section 5.01. Revenues to Be Paid Over to Trustee. The Issuer has pledged and assigned all payments on account of the Note to be paid directly to the Trustee which amounts shall be held and administered by the Trustee in the Bond Fund as hereinafter provided. If, notwithstanding these arrangements, the Issuer receives any payments on account of the Note with respect to the principal or redemption price of or interest on the Bonds, the Issuer shall immediately pay over the same to the Trustee to be held under the Bond Fund as hereinafter provided.

Section 5.02. The Bond Fund.

There is hereby established with the Trustee a special fund to be designated “Mississippi Business Finance Corporation Gulf Opportunity Zone Industrial Development Revenue Bonds, Series 2006 (Northrop Grumman Ship Systems, Inc.) Bond Fund” (the “Bond Fund”), the moneys in which the Trustee shall apply to pay (i) the principal or redemption price of Bonds as they mature or become due, upon surrender thereof, and (ii) the interest on the Bonds as it becomes payable. Money received by the Trustee from the Company as payments on the Note shall be
deposited in the Bond Fund and applied to pay the principal of, premium, if any, and interest on the Bonds.

Section 5.03. Revenues to Be Held for All Registered Owners: Certain Exceptions. Revenues shall, until applied as provided in this Indenture, be held by the Trustee in trust for the benefit of the registered owners of all Outstanding Bonds, except that any portion of the Revenues representing the principal or redemption price of any Bonds, and interest on any Bonds previously matured or called for redemption in accordance with Article IX of this Indenture, shall be held for the benefit of the registered owners of such Bonds only.

ARTICLE VI
BOOK-ENTRY SYSTEM

Section 6.01. Book-Entry System. The Bonds shall be initially issued in the name of Cede & Co., as nominee for The Depository Trust Company as the initial Securities Depository and registered owner of such Bonds, and held in the custody of the Securities Depository. A single certificate will be issued and delivered to the Securities Depository, or a custodian thereof, for the Bonds. The Beneficial Owners will not receive physical delivery of Bond certificates except as provided herein. For so long as the Securities Depository shall continue to serve as securities depository for such Bonds as provided herein, all transfers of beneficial ownership interests will be made by book-entry only on the records of the Securities Depository, and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of such Bonds is to receive, hold or deliver any Bond certificate. The Issuer, the Company and the Trustee will recognize the Securities Depository or its nominee as the Bondholder of such Bonds for all purposes, including payment, notices and voting.

The Issuer and the Trustee covenant and agree, so long as The Depository Trust Company shall continue to serve as Securities Depository for the Bonds, to meet the requirements of The Depository Trust Company with respect to required notices and other provisions of the Letter of Representations among The Depository Trust Company, the Issuer, the Trustee, the Company and the Remarketing Agent, executed with respect to the Bonds.

The Issuer, the Trustee, the Company and the Remarketing Agent may conclusively rely upon (i) a certificate of the Securities Depository as to the identity of the Participants in the Book-Entry-System and (ii) a certificate of any such Participant as to the identity of, and the respective principal amount of Bonds beneficially owned by, the Beneficial Owners.

Whenever, during the term of the Bonds, the beneficial ownership thereof is determined by a book-entry at the Securities Depository, the requirements in this Indenture of holding, delivering or transferring Bonds shall be deemed modified to
require the appropriate Person to meet the requirements of the Securities Depository as to registering or registering the transfer of the book-entry to produce the same effect. Any provision hereof permitting or requiring delivery of Bonds shall, while the Bonds are in a Book-Entry System, be satisfied by the notation on the books of the Securities Depository in accordance with applicable law.

The Trustee and the Issuer, at the written direction and expense of the Company and with the consent of the Remarketing Agent, may from time to time appoint a successor Securities Depository and enter into an agreement with such successor Securities Depository to establish procedures with respect to the Bonds consistent with current industry practice. Any successor Securities Depository shall be a “clearing agency” registered under Section 17A of the Securities Exchange Act of 1934, as amended.

None of the Issuer, the Company, the Trustee, any Broker-Dealer nor the Remarketing Agent will have any responsibility or obligation to any Securities Depository, any Participants in the Book-Entry System or the Beneficial Owners with respect to (i) the accuracy of any records maintained by the Securities Depository or any Participant; (ii) the payment by the Securities Depository or by any Participant of any amount due to any Beneficial Owner in respect of the principal amount or redemption or purchase price of, or interest on, any Bonds; (iii) the delivery of any notice by the Securities Depository or any Participant; (iv) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (v) any other action taken by the Securities Depository or any Participant.

Bond certificates are required to be delivered to and registered in the name of the Beneficial Owner, under the following circumstances:

(a) The Securities Depository determines to discontinue providing its service with respect to the Bonds and no successor Securities Depository is appointed as described above. Such a determination may be made at any time by giving 30 days’ written notice to the Issuer, the Company, the Remarketing Agent and the Trustee and discharging its responsibilities with respect thereto under applicable law.

(b) The Company determines not to continue the Book-Entry System through a Securities Depository.

The Trustee is hereby authorized to make such changes to the form of bond attached hereto as Exhibit A which are necessary or appropriate to reflect whether the Book-Entry System is not in effect, that a successor Securities Depository has been appointed or that an additional or co-paying agent or tender agent has been designated pursuant to Section 13.03.

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ARTICLE VII
COVENANTS

Section 7.01. Payment of Bonds. The Issuer will promptly pay the principal of, premium, if any, and interest on, and other amounts due with respect to, the Bonds on the dates and in the manner provided in the Bonds, but only from the amounts assigned to and held by the Trustee under this Indenture. Neither the State, nor any political subdivision thereof (including Mississippi Business Finance Corporation) shall be obligated to pay the principal of the Bonds, or the premium, if any, or interest thereon or other costs incidental thereto, the same being payable solely from the revenues and receipts hereinabove referred to. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof (including the Issuer) is pledged to the payment of the principal of the Bonds, or the premium, if any, or interest thereon, or the costs incidental thereto.

Section 7.02. Performance of Covenants by Issuer. The Issuer covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all of its proceedings pertaining hereto. The Issuer covenants that it is duly authorized under the Constitution and laws of the State, including particularly and without limitation the Act, to issue the Bonds authorized hereby and to execute this Indenture, to accept, assign and pledge the Note and the Agreement and the amounts payable under the Note and to pledge the amounts hereby pledged in the manner and to the extent herein set forth; that all action on its part necessary for the issuance of the Bonds and the execution and delivery of this Indenture and the Agreement has been duly and effectively taken; and that the Bonds in the hands of the owners thereof are and will be valid and enforceable obligations of the Issuer according to the terms thereof and hereof.

Section 7.03. Recording and Filing; Further Assurances. The Issuer will execute and deliver such supplemental indentures and such further instruments, and do such further acts, as the Trustee may reasonably require for the better assuring, assigning and confirming to the Trustee the amounts assigned under this Indenture for the payment of the Bonds. The Issuer further covenants that it will not create or suffer to be created any lien, encumbrance or charge upon its interest in the Note or the Agreement, if any, except the lien of this Indenture.

Section 7.04. Tax Covenants. The Issuer covenants that it shall take no action nor make any investment or use of the proceeds of the Bonds or any other moneys which would cause the Bonds to be treated as “arbitrage bonds” within the...
meaning of Section 148 of the Code to the extent that the same may be applicable or proposed to be applicable to the Bonds at the time of such action, investment or use.

Notwithstanding any provision of this Indenture to the contrary, the Trustee shall not be liable or responsible for any calculation or determination which may be required in connection with, or for the purpose of complying with, Section 148 of the Code, or any successor statute or any regulation, ruling or other judicial or administrative interpretation thereof, including, without limitation, the calculation of amounts required to be paid to the United States of America or the determination of the maximum amount which may be invested in nonpurpose obligations having a yield higher than the yield on the Bonds, and the Trustee shall not be liable or responsible for monitoring the compliance by the Issuer or the Company with any of the requirements of Section 148 of the Code or any applicable regulation, ruling or other judicial or administrative interpretation thereof; it being acknowledged and agreed that the sole obligation of the Trustee with respect to the investment of monies held under any fund or account created hereunder shall be to invest such monies in accordance with Section 4.08 in each case pursuant to the written instructions received by the Trustee in accordance with Section 4.08.

Section 7.05. Rights Under Agreement. The Agreement, a duly executed counterpart of which has been filed with the Trustee, sets forth the covenants and obligations of the Issuer and the Company, and reference is hereby made to the same for a detailed statement of said covenants and obligations of the Company thereunder; and the Issuer agrees that the Trustee in its own name or in the name of the Issuer may enforce all rights of the Issuer and all obligations of the Company under and pursuant to the Agreement for and on behalf of the Bondholders, whether or not the Issuer is in default hereunder.

Section 7.06. Designation of Additional Paying Agents. The Issuer may cause, with the consent of the Company, the necessary arrangements to be made through the Trustee and to be thereafter continued for the designation of additional paying agents and for providing for the payment of such of the Bonds as shall be presented when due at the corporate trust office of the Trustee, or its successor in trust hereunder, or at the principal office of said additional paying agents. All such funds held by said additional paying agents shall be held by each of them in trust and shall constitute a part of the trust estate and shall be subject to the security interest created hereby.

Section 7.07. Existence of Issuer. The Issuer covenants that it will at all times maintain its corporate existence and will duly procure any necessary renewals and extensions thereof; will use its best efforts to maintain, preserve and renew all the rights, powers, privileges and franchises owned by it; and will comply with all valid acts, rules, regulations and orders of any legislative, executive, judicial or administrative body applicable to the Project.
ARTICLE VIII
DISCHARGE OF INDENTURE

Section 8.01. Bonds Deemed Paid; Discharge of Indenture. Any Bond will be deemed paid for all purposes of this Indenture when (a) payment of the principal of and interest (which, except for Bonds which bear interest at a Long-Term Interest Rate, shall be calculated at the Maximum Interest Rate) on the Bond to the due date of such principal and interest (whether at maturity, upon redemption or otherwise) or the payment of the purchase price either (1) has been made in accordance with the terms of the Bonds or (2) has been provided for by depositing with the Trustee in trust (A) moneys in an amount which are sufficient to make such payment and/or (B) Government Obligations maturing as to principal and interest in such amounts and at such times as will insure, without any further reinvestment, the availability of sufficient moneys to make such payment, and (b) all compensation and reasonable expenses of the Trustee pertaining to each Bond in respect of which such deposit is made have been paid or provided for to the Trustee’s satisfaction. When a Bond is deemed paid, it will no longer be secured by or entitled to the benefits of this Indenture or the Guaranty or be an obligation of the Issuer, the Company or the Guarantor, and shall be payable solely from the moneys or Government Obligations under (a)(2) above, except that such Bond may be tendered if and as provided in the Bonds and it may be registered as transferred, exchanged, discharged from registration or replaced as provided in Article II.

Notwithstanding the foregoing, upon the deposit of funds or Government Obligations under clause (a)(2) of the first paragraph of this Section 8.01, the purchase price of tendered Bonds shall be paid from the sale of Bonds under Section 3.08. If payment of such purchase price is not made from the sale of Bonds pursuant to Section 3.08, payment shall be made from funds (or Government Obligations) on deposit pursuant to this Section without the need of any further instruction or direction by the Company, in which case such Bonds shall be surrendered to the Trustee and canceled.

Notwithstanding the foregoing, no deposit under clause (a)(2) of the first paragraph of this Section shall be deemed a payment of a Bond until (1) the Company has furnished the Trustee an Opinion of Tax Counsel to the effect that the deposit of such cash or Government Obligations will not cause the Bonds to become “arbitrage bonds” under Section 148 of the Code, (2) the Company has furnished the Trustee a verification report in form satisfactory to the Trustee, verifying the mathematical sufficiency of the funds and Government Obligations to pay such Bonds if required by the Trustee, and (3) (a) notice of redemption of the Bond is given in accordance with Article III or, if the Bond is not to be redeemed or paid within the next 60 days, until the Company has given the Trustee, in form satisfactory to the Trustee, irrevocable written instructions (i) to notify, as soon as practicable, the owner of the Bond, in accordance with Article III, that the deposit

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required by (a)(2) above has been made with the Trustee and that the Bond is deemed to be paid under this Article and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of the Bond, and premium, if any, and interest on such Bond, if the Bond is to be redeemed rather than paid and (ii) to give notice of redemption not less than 30 nor more than 60 days prior to the redemption date for such Bond, or (b) the maturity of the Bond.

When all outstanding Bonds are deemed paid under the foregoing provisions of this Section, the Trustee will upon written request acknowledge the discharge of the lien of this Indenture, provided, however that the obligations relating to the tender for purchase as provided in the Bonds, the obligations under Section 8.03 and obligations under Article II in respect of the registration of transfer, exchange, discharge from registration and replacement of Bonds shall survive the discharge of the lien of this Indenture.

Section 8.02. Application of Trust Money. The Trustee shall hold in trust money or Government Obligations deposited with it pursuant to the preceding Section and shall apply the deposited money and the money from the Government Obligations in accordance with this Indenture only to the payment of principal of, premium, if any, and interest on the Bonds and to the payment of the purchase price of tendered Bonds.

Section 8.03. Repayment to Company. The Trustee shall promptly pay to the Company upon written request any excess money or securities held by the Trustee at any time under this Article and any money held by the Trustee under any provision of this Indenture for the payment of principal or interest or for the purchase of Bonds that remains unclaimed for six years.

ARTICLE IX
DEFAULTS AND REMEDIES

Section 9.01. Events of Default. An “Event of Default” is any of the following:

(a) Default in the payment of any interest on any Bond when due;

(b) Default in the due and punctual payment of principal on any Bond when due and payable, whether at maturity, upon redemption or by declaration or otherwise;

(c) Default in the due and punctual payment of the purchase price of any Bond required to be purchased in accordance with its terms;

(d) An event of default has occurred and is continuing under the Agreement; or
Section 9.02. **Acceleration.** Upon the occurrence of an Event of Default, the Trustee may, and upon receipt of the written request of the holders of not less than 51% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing delivered to the Issuer and the Company, declare the principal of all Bonds then outstanding and the interest accrued thereon immediately due and payable; and such principal and interest shall thereupon become and be immediately due and payable.

If after the principal of the Bonds and the accrued interest thereon have been so declared to be due and payable, all arrears of interest and interest on overdue installments of interest (if lawful) and the principal and premium, if any, on all Bonds then outstanding which shall have become due and payable otherwise than by acceleration and all other sums payable under this Indenture or upon the Bonds, except the principal of, and interest on, the Bonds which by such declaration shall have become due and payable, are paid by the Issuer, and the Issuer also performs all other things in respect of which it may have been in default hereunder and pays the reasonable charges of the Trustee, the Bondholders and any trustee appointed under law, including the Trustee’s reasonable attorneys’ fees, then, and in every such case, the Trustee shall annul such declaration and its consequences, and such annulment shall be binding upon all holders of Bonds issued hereunder; but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon. The Trustee shall forward a copy of any such annulment notice pursuant to this paragraph to the Issuer and the Company.

Section 9.03. **Other Remedies.** If an Event of Default occurs and is continuing, subject to Section 9.06, the Trustee, before or after declaring the principal of the Bonds and the interest accrued thereon immediately due and payable, may, and upon receipt of the written request of the holders of not less than 51% in aggregate principal amount of the Bonds then outstanding and receipt of security and/or indemnity satisfactory to it shall, by notice in writing delivered to the Issuer and the Company, pursue any available remedy by proceeding at law or in equity available to the Trustee under the Agreement, the Note or the Guaranty to collect the principal of or interest on the Bonds or to enforce the performance of any provision of the Bonds, the Note, the Agreement this Indenture or the Guaranty.

The Trustee, as the assignee of all the right, title and interest of the Issuer in and to the Agreement and the Note, may enforce each and every right granted to the Issuer under the Agreement and the Note. In exercising such rights and the rights given the Trustee under this Article IX, the Trustee shall take such action as, in the judgment of the Trustee applying the standards described in Section 10.01 (a), would best serve the interests of the Bondholders.

(c) An event of default has occurred and is continuing under the Guaranty.
Section 9.04. **Legal Proceeding by Trustee.** If any Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon receipt of the written request of the holders of not less than 51% in aggregate principal amount of the Bonds then outstanding and receipt of security and/or indemnity satisfactory to it shall, by notice in writing delivered to the Issuer and the Company, in its own name:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the Issuer to enforce any rights under the Agreement and the Note and to require the Issuer to carry out any other provisions of this Indenture for the benefit of the Bondholders and to perform its duties under the Act;

(b) bring suit upon the Bonds;

(c) bring suit on the Guaranty;

(d) by action or suit in equity require the Issuer to account as if it were the trustee of an express trust for the Bondholders; or

(e) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

No remedy conferred upon or reserved to the Trustee or to the Bondholders by the terms of this Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondholders hereunder or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient.

No waiver of any default or Event of Default hereunder, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Section 9.05. **Appointment of Receivers.** Upon the occurrence and continuance of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondholders under this Indenture, the Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers of the trust estate with such powers as the court making such appointment shall confer.
Section 9.06. **Waiver of Past Defaults.** The holders of a majority in principal amount of the Bonds then outstanding by written notice to the Trustee may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent to it.

Section 9.07. **Control by Majority.** The holders of a majority in principal amount of the Bonds then outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture or, subject to Section 10.01, that the Trustee determines is unduly prejudicial to the rights of other Bondholders, or would involve the Trustee in personal liability.

Section 9.08. **Limitation on Suits.** A Bondholder may not pursue any remedy with respect to this Indenture or the Bonds unless (a) the holder gives the Trustee notice stating that an Event of Default is continuing, (b) the holders of at least 51% in principal amount of the Bonds then outstanding make a written request to the Trustee to pursue the remedy, (c) such holder or holders offer to the Trustee security and/or indemnity satisfactory to the Trustee against any loss, liability or expense and (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of security and/or indemnity; it being understood and intended that no one or more holders of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of this Indenture by its, his or their action or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal and ratable benefit of the holders of all Bonds then outstanding. Nothing in the Indenture contained shall, however, affect or impair the right of any Bondholder to enforce the payment of the principal of and premium, if any, and interest on each of the Bonds issued hereunder to the respective holders thereof at the time and place, from the source and in the manner in the Bonds expressed.

A Bondholder may not use this Indenture to prejudice the rights of another Bondholder or to obtain a preference or priority over the other Bondholders.

Section 9.09. **Rights of Holders to Receive Payment.** Notwithstanding any other provision of this Indenture, the right of any holder to receive payment of principal of and interest on a Bond, on or after the due dates expressed in the Bond, or the purchase price of a Bond on or after the date for its purchase as provided in the Bond, or to bring suit for the enforcement of any such payment on or after such dates, shall not be impaired or affected without the consent of the holder.
Section 9.10. **Collection Suit by Trustee.** If an Event of Default under Section 9.01(a), (b) or (c) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount remaining unpaid.

Section 9.11. **Trustee May File Proofs of Claim.** The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Bondholders allowed in any judicial proceedings relative to the Company, its creditors or its property and, unless prohibited by law or applicable regulations, may vote on behalf of the holders in any election of a trustee in bankruptcy or other Person performing similar functions. In the event of a bankruptcy or reorganization of the Company or Northrop Grumman Corporation, the Trustee may file a proof of claim on behalf of all Bondholders with respect to the obligations of the Company pursuant to the Agreement and the Note or with respect to the obligation of Northrop Grumman Corporation pursuant to the Guaranty.

Section 9.12. **Priorities.** If the Trustee collects any money pursuant to this Article, it shall pay out the money in the following order:

FIRST: To the Trustee for amounts to which it is entitled under Section 10.02.

SECOND: To Bondholders for amounts due and unpaid on the Bonds for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Bonds for principal and interest, respectively.

THIRD: To the Company.

The Trustee may fix a payment date for any payment to the Bondholders.

Section 9.13. **Undertaking for Costs.** In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys’ fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a holder pursuant to Section 9.08 or a suit by holders of more than 10% in principal amount of the Bonds then outstanding.
ARTICLE X
TRUSTEE AND REMARKETING AGENT

Section 10.01. Acceptance of the Trusts. The Trustee hereby accepts the trusts imposed upon it by this Indenture and the Loan Agreement, and agrees to perform such trusts, but only upon and subject to the following express terms and conditions:

(a) The Trustee, prior to the occurrence of any Event of Default and after the curing or waiver of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred (which has not been cured or waived), the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent corporate trustee would exercise or use under the circumstances in the enforcement of a corporate indenture.

(b) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or employees selected by it with reasonable care and the Trustee shall not be responsible for the conduct of such attorneys, agents, receivers or employees, if selected with reasonable care, and shall be entitled to advice of counsel concerning all matters relating to the trusts hereof and the duties hereunder, and may in all cases pay such reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act upon the opinion or advice of any attorney (who may be the attorney or attorneys for the Issuer or the Company), approved by the Trustee in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action or inaction in good faith in reliance upon such opinion or advice.

(c) The Trustee shall not be responsible for any recital herein, or in the Bonds (except in respect to the certificate of the Trustee endorsed on the Bonds), or for the recording or re-recording, filing or re-filing of this Indenture, or any other instrument required by this Indenture to secure the Bonds, or for insuring the Project or collecting any insurance moneys, or for validity of the execution by the Issuer of this Indenture or of any supplements hereto or instruments of further assurance, or for the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby.

(d) The Trustee shall not be accountable for the use of any Bonds authenticated or delivered hereunder. The Trustee may become the owner of Bonds secured hereby with the same rights which it would have if not the Trustee. To the extent permitted by law, the Trustee may also receive tenders.
and purchase in good faith Bonds from itself, including any department, affiliate or subsidiary, with like effect as if it were not the Trustee.

(e) The Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed by it to be genuine and correct and to have been signed or sent by the proper Person or Persons. Any action taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any Person who at the time of making such request or giving such authority or consent is the owner of any Bond, shall be conclusive and binding upon all future owners of the same Bond and upon owners of Bonds issued in exchange therefore or in place thereof.

(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a certificate signed by the Issuer or the Company as sufficient evidence of the facts therein contained; and prior to the occurrence of a default of which the Trustee has been notified as provided in subsection (h) of this Section 10.01, or of which by said subsection it is deemed to have notice, the Trustee shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate of the Secretary or Assistant Secretary of the Issuer under the Issuer’s seal to the effect that a resolution in the form therein set forth has been adopted by the Issuer as conclusive evidence that such resolution has been duly adopted, and is in full force and effect.

(g) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty, and it shall not be answerable for other than its negligence or willful default.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default hereunder except failure by the Issuer to cause to be made any of the payments to the Trustee required to be made by Article IV, unless the Trustee shall be specifically notified in writing of such Event of Default by the Issuer or by the holders of at least 25% in aggregate principal amount of Bonds then outstanding; and all notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the principal corporate trust office of the Trustee, and in the absence of such notice so delivered the Trustee may conclusively assume there is no default except as aforesaid.
(i) At any and all reasonable times the Trustee and its duly authorized agents, attorneys, experts, engineers, accountants and representatives shall have the right fully to inspect any and all parts of the Project, including all books, papers and records of the Issuer pertaining to the Project and the Bonds and to take such memoranda from and in regard thereto as may be desired.

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(k) Notwithstanding anything elsewhere in this Indenture contained, the Trustee shall have the right, but shall not be required, to demand, in respect of the authentication of any Bonds, the withdrawal of any cash, the release of any property or any action whatsoever within the purview of this Indenture, any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition to that by the terms hereof required as a condition of such action by the Trustee, which the Trustee in its discretion may deem desirable for the purpose of establishing the right of the Issuer to the authentication of any Bonds, the withdrawal of any cash or the taking of any other action by the Trustee.

(l) Before taking any action referred to in Section 9.02, 9.03, 9.04, 9.05, 9.08, 9.09 or 10.04, the Trustee may require that satisfactory security and/or an indemnity bond be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful default by reason of any action so taken.

(m) All moneys received by the Trustee or any paying agent shall, until used or applied or invested as herein provided, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required herein or by law. Neither the Trustee nor any paying agent shall be under any liability for interest on any moneys received hereunder except such as may be mutually agreed upon.

(n) No provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

Section 10.02. Fees, Charges and Expenses of Trustee. The Trustee shall be entitled to payment and reimbursement for reasonable fees for its services rendered hereunder and all advances, counsel fees and other expenses reasonably made or incurred by the Trustee in connection with such services. Upon an Event of Default,
but only upon an Event of Default, the Trustee shall have a first lien, with right of payment prior to payment on account of principal of and premium, if any, and interest on any Bond, upon the trust estate for the foregoing fees, charges and expenses incurred by it.

Section 10.03. Notice to Bondholders if an Event of Default Occurs. If an Event of Default occurs of which the Trustee is by Section 10.01(h) required to take notice or if notice of an Event of Default be given as in Section 10.01(h) provided, then the Trustee shall promptly give written notice thereof by registered or certified mail to each owner of Bonds then outstanding.

Section 10.04. Intervention by Trustee. In any judicial proceeding to which the Issuer is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of the owners of the Bonds, the Trustee may intervene on behalf of the Bondholders and shall do so if requested in writing by the owners of at least 51% of the aggregate principal amount of Bonds then outstanding. The rights and obligations of the Trustee under this Section 10.04 are subject to the approval of a court of competent jurisdiction.

Section 10.05. Successor Trustee. Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, ipso facto, shall be and become successor Trustee hereunder and vested with all of the title to the trust estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

Section 10.06. Resignation by Trustee. The Trustee and any successor Trustee may at any time resign from the trusts hereby created by giving thirty days’ written notice to the Issuer and the Company, served personally or sent by registered or certified mail, and to each owner of Bonds then outstanding, and such resignation shall take effect at the end of such thirty days, or upon the earlier appointment of a successor Trustee pursuant to Section 10.08.

Section 10.07. Removal of Trustee. The Trustee may be removed at any time by an instrument or concurrent instruments in writing delivered to (a) the Trustee, the Issuer and the Company, and signed by the owners of a majority in aggregate principal amount of Bonds then outstanding, or (b) the Trustee and the owners of the Bonds then outstanding, and signed by the Issuer and the Company. In addition, provided that no Event of Default, or event or circumstance which with the passage of time or the giving of notice could become an Event of Default, has
occurred and is continuing, the Trustee may be removed at any time by an instrument or concurrent instruments in writing delivered to the Issuer, the Trustee, the Remarketing Agent, the Auction Agent, each Broker-Dealer, and the Bondholders and signed by the Company, such removal to be effective only upon the acceptance of such appointment by a qualified successor Trustee in accordance with Section 10.08. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of removal, the Trustee being removed may petition, at the expense of the Company, any court of competent jurisdiction for the appointment of a successor Trustee.

Section 10.08. Appointment of Successor Trustee. In case the Trustee hereunder shall resign or be removed, or be dissolved, or shall be in course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor shall be appointed by the Issuer at the direction of the Company. The Issuer shall cause notice of such appointment to be given in the same manner as the giving of notices of redemption as set forth in Section 3.04. If the Issuer fails to make such appointment promptly, a successor may be appointed by the owners of a majority in aggregate principal amount of Bonds then outstanding. Every such successor Trustee appointed pursuant to the provisions of this Section 10.08 shall be a trust company or bank in good standing having a reported capital, surplus and undivided profits of not less than $75,000,000, if there be such an institution willing, qualified and able to accept the trusts upon reasonable and customary terms.

Section 10.09. Concerning Any Successor Trustee. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the Issuer an instrument in writing accepting such appointment hereunder, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all of the estates, properties, rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of the Issuer, or of its successor, execute and deliver an instrument transferring to such successor Trustee all the estates, properties, rights, powers and trusts of such predecessor hereunder, and every predecessor Trustee shall deliver all securities and moneys held by it as Trustee hereunder to its successor. Should any instrument in writing from the Issuer be required by any successor Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Issuer. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor hereunder, together with all other instruments provided for in this Article X, shall be filed and/or recorded by the successor Trustee in each recording office where the Indenture shall have been filed and/or recorded and the successor Trustee shall bear the cost thereof.
Section 10.10. **Successor Trustee as Bond Registrar and Paying Agent.** In the event of a change of Trustee, the Trustee which has resigned or been removed shall cease to be bond registrar and a paying agent for principal of and premium, if any, and interest on the Bonds, and the successor Trustee shall become such bond registrar and a paying agent.

Section 10.11. **Trustee and Issuer Required to Accept Directions and Actions of Company.** Whenever, after a reasonable request by the Company, the Issuer shall fail, refuse or neglect to give any written direction to the Trustee or to require the Trustee to take any action which the Issuer is required to have the Trustee take pursuant to the provisions of the Agreement or this Indenture, the Company as agent of the Issuer may give any such written direction to the Trustee or require the Trustee to take any such action, and the Trustee is hereby irrevocably empowered and directed to accept such written direction from the Company as sufficient for all purposes of this Indenture. The Company shall have the right as agent of the Issuer to cause the Trustee to comply with any of the Trustee’s obligations under this Indenture to the same extent that the Issuer is empowered so to do.

Certain actions or failures to act by the Issuer under this Indenture may create or result in an Event of Default under this Indenture and the Company, as agent of the Issuer, may to the extent permitted by law, perform any and all acts or take such action as may be necessary for and on behalf of the Issuer to prevent or correct said Event of Default and the Trustee shall take or accept such performance by the Company as performance by the Issuer in such event.

The Issuer hereby makes, constitutes and appoints the Company irrevocably as its agent to give all directions, do all things and perform all acts provided, and to the extent so provided, by this Section 10.11.

Section 10.12. **No Transfer of Note Held by the Trustee; Exception.** Except as required to effect an assignment to a successor Trustee, the Trustee shall not sell, assign or transfer the Note, and the Trustee is authorized to enter into an agreement with the Company to such effect.

Section 10.13. **Filing of Certain Continuation Statements.** From time to time, the Trustee shall duly file, or cause to be filed, at the expense of the Company, continuation statements for the purpose of continuing without lapse the effectiveness of filing of any financing statements as may be filed contemporaneously with the issuance of the Bonds with respect to the security interest created by this Indenture in the Agreement and the Note. Upon the filing of any continuation statement the Trustee shall immediately notify the Issuer and the Company that the same has been accomplished.
Section 10.14. **Duties of Remarketing Agent.** Except as otherwise described herein, the Remarketing Agent will set the interest rates on the Bonds and perform the other duties provided for in Section 2.02 and will remarket the Bonds as provided in Section 3.08, subject to any provisions of a remarketing agreement between the Company and the Remarketing Agent. The Remarketing Agent may for its own account or as broker or agent for others deal in Bonds and may do anything any other Bondholder may do to the same extent as if the Remarketing Agent were not serving as such.

Section 10.15. **Eligibility of Remarketing Agent.** Unless a notice of redemption with respect to the Bonds has theretofore been issued by the Trustee pursuant to Section 3.04, upon any change in the Determination Method, the Company shall appoint a Remarketing Agent in sufficient time for such Remarketing Agent to establish the interest rate for such succeeding Interest Rate Period. The Company will give prompt written notice of such appointment to the Issuer and the Trustee. The Remarketing Agent will be a bank, trust company or member of the National Association of Securities Dealers, Inc. organized and doing business under the laws of the United States or any state or the District of Columbia, will have a combined capital stock, surplus and undivided profits of at least $15,000,000 as shown in its most recent published annual report, will be a Participant in the Securities Depository and will be authorized by law to perform all the duties imposed upon it by this Indenture. Any Remarketing Agent shall be rated at least Baa 3/P-3 or otherwise qualified by Moody’s Investors Service, Inc. or have an equivalent rating of another rating agency.

Section 10.16. **Replacement of Remarketing Agent.** The Remarketing Agent may resign by notifying the Issuer, the Trustee and the Company in writing. Such resignation will take effect on the day a successor Remarketing Agent appointed in accordance with this Section 10.16 has accepted the appointment or, if no successor has so accepted, 30 days after notice of resignation has been sent. The Company may remove the Remarketing Agent at any time by an instrument signed by the Company and filed with the Remarketing Agent, the Issuer and the Trustee at least 30 days prior to the effective date of such removal (which will not in any event occur prior to the appointment of a successor Remarketing Agent). A new Remarketing Agent may be appointed by the Company upon the resignation or removal of the Remarketing Agent. The Trustee shall promptly notify the Bondholders of any change in the Remarketing Agent.

Section 10.17. **Compensation of Remarketing Agent.** The Remarketing Agent will not be entitled to any compensation from the Issuer or the Trustee or to any property held under this Indenture but must make separate arrangements with the Company for compensation.

Section 10.18. **Successor Remarketing Agent.** If the Remarketing Agent consolidates with, merges or converts into, or transfers all or substantially all its
assets (or, in the case of a bank or trust company, its corporate trust assets) to another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Remarketing Agent, provided that such successor shall be eligible under the applicable provisions in this Article.

Section 10.19. Inapplicability of Remarketing Agent. The provisions of this Indenture relating to the Remarketing Agent, including, but not limited to, Sections 10.14, 10.15, 10.16, 10.17 and 10.18, shall not apply when the Bonds are in an Auction Rate Period.

ARTICLE XI
AMENDMENTS OF AND SUPPLEMENTS TO INDENTURE

Section 11.01. Without Consent of Bondholders. The Issuer and the Trustee may amend or supplement this Indenture or the Bonds without notice to or consent of any Bondholder:

(a) to cure any ambiguity, inconsistency, formal defect or omission;
(b) to grant to the Trustee for the benefit of the Bondholders additional rights, remedies, powers or authority;
(c) to subject to this Indenture additional collateral or to add other agreements of the Issuer;
(d) to modify this Indenture or the Bonds to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States;
(e) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to this Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;
(f) to increase or decrease the number of days specified for the giving of notices in Section 3.07 and to make corresponding changes to the period for notice of redemption of the Bonds; provided that no decreases in any such number of days shall become effective except while the Bonds bear interest at a Daily Rate or a Weekly Rate and until 30 days after the Trustee has given notice to the owners of the Bonds;

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(g) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds;

(h) to evidence the succession of a new Trustee or the appointment by the Trustee or the Issuer of a co-trustee;

(i) to make any change (including a change in Section 7.04 to reflect any amendment to the Code or interpretations by the Internal Revenue Service of the Code) that does not materially adversely affect the rights of any Bondholder, or

(j) to make any other changes to this Indenture that take effect as to any or all remarketed Bonds following a mandatory tender provided that the Issuer and the Trustee receive a Favorable Opinion of Tax Counsel with respect to such changes before such changes take effect.

Section 11.02. With Consent of Bondholders. If an amendment of or supplement to this Indenture or the Bonds without any consent of Bondholders is not permitted by the preceding Section, the Issuer and the Trustee may enter into such amendment or supplement without prior notice to any Bondholders but with the consent of the holders of at least a majority in aggregate principal amount of the Bonds then outstanding. However, without the consent of each Bondholder affected thereby, no amendment or supplement may (a) extend the maturity of the principal of, or interest on, any Bond, (b) reduce the principal amount of, or rate of interest on, any Bond, (c) effect a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (d) reduce the percentage of the principal amount of the Bonds required for consent to such amendment or supplement, (e) impair the exclusion from federal gross income of interest on any Bond, (f) eliminate the holders’ rights to tender the Bonds, or any mandatory redemption of the Bonds, extend the due date for the purchase of Bonds tendered by the holders thereof or call for mandatory redemption or reduce the purchase or redemption price of such Bonds, (g) create a lien ranking prior to or on a parity with the lien of this Indenture on the property described in the Granting Clause of this Indenture or (h) deprive any Bondholder of the lien created by this Indenture on such property. In addition, if moneys or Government Obligations have been deposited or set aside with the Trustee pursuant to Article VIII for the payment of Bonds and those Bonds shall not have in fact been actually paid in full, no amendment to the provisions of that Article shall be made without the consent of the holder of each of those Bonds affected.

Section 11.03. Effect of Consents. Any consent received pursuant to Section 11.02 will bind each Bondholder delivering such consent and each subsequent holder of a Bond or portion of a Bond evidencing the same debt as the consenting holder’s Bond.
Section 11.04. **Notation on or Exchange of Bonds.** If an amendment or supplement changes the terms of a Bond, the Trustee may require the holder to deliver it to the Trustee. The Trustee may place an appropriate notation on the Bond about the changed terms and return it to the holder. Alternatively, if the Trustee, the Issuer and the Company determine, the Issuer in exchange for the Bond will issue and the Trustee will authenticate a new Bond that reflects the changed terms.

Section 11.05. **Signing by Trustee of Amendments and Supplements.** The Trustee will sign any amendment or supplement to the Indenture or the Bonds authorized by this Article if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign it. In signing an amendment or supplement, the Trustee will be entitled to receive and (subject to Section 10.01) will be fully protected in relying on an Opinion of Counsel stating that such amendment or supplement is authorized by this Indenture.

Section 11.06. **Company Consent Required.** An amendment or supplement to the Indenture, the Loan Agreement, the Note or the Bonds shall not become effective unless the Company and the Guarantor delivers to the Trustee their written consent to the amendment or supplement.

Section 11.07. **Notice to Bondholders.** The Trustee shall cause notice of the execution of each supplement or amendment to this Indenture or the Agreement to be mailed to the Bondholders. The notice will, at the option of the Trustee, either (i) briefly state the nature of the amendment or supplement and that copies of it are on file with the Trustee for inspection by Bondholders or (ii) enclose a copy of such amendment or supplement.

**ARTICLE XII**

**AMENDMENTS OF AND SUPPLEMENTS TO THE AGREEMENT**

Section 12.01. **Without Consent of Bondholders.** The Issuer may enter into, and the Trustee may consent to, any amendment of or supplement to the Agreement or the Note, or the Trustee may amend the Guaranty or may waive compliance by the Company of any provision of the Agreement, the Note or the Guaranty, in each case without prior notice to or consent of any Bondholder, if the amendment, supplement or waiver is required or permitted (a) by the provisions of the Agreement or this Indenture, (b) to cure any ambiguity, inconsistency, formal defect or omission, (c) to identify more precisely the Project, (d) in connection with any authorized amendment of or supplement to this Indenture or (e) to make any change that, in the judgment of the Trustee in reliance upon an Opinion of Counsel, does not materially adversely affect the rights of any Bondholder.

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Section 12.02. With Consent of Bondholders. If an amendment of or supplement to the Agreement, the Note or the Guaranty without any consent of Bondholders is not permitted by Section 12.01, the Issuer may enter into, and/or the Trustee may enter into or consent to (as the case may be), such amendment or supplement, or may waive compliance by the Company of any provision of the Agreement, without prior notice to any Bondholder but (a) with the consent of the holders of at least a majority in aggregate principal amount of the Bonds then outstanding with respect to an amendment of or supplement to or waiver of a provision with respect to the Agreement or the Note and (b) with the consent of the holders of 100% in aggregate principal amount of Bonds then outstanding with respect to an amendment, supplement or waiver of the Guaranty not permitted by Section 12.01. However, without the consent of each Bondholder affected thereby, no amendment, supplement or waiver may result in anything described in the lettered clauses of Section 11.02.

Section 12.03. Consents by Trustee to Amendments or Supplements. The Trustee will consent to any amendment or supplement to the Agreement, the Note or the Guaranty authorized by this Article XII if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign it. In signing a consent to an amendment or supplement to the Agreement or the Note or amending the Guaranty, the Trustee shall be entitled to receive and (subject to Section 10.01) shall be fully protected in relying on an Opinion of Counsel stating that such amendment or supplement is authorized or permitted by this Indenture.

ARTICLE XIII
MISCELLANEOUS

Section 13.01. Notices.

(a) Any notice, request, direction, designation, consent, acknowledgment, certification, appointment, waiver or other communication required or permitted by this Indenture or the Bonds must be in writing except as expressly provided otherwise in this Indenture or the Bonds.

(b) Any notice or other communication shall be sufficiently given and deemed given when delivered by hand or mailed by first-class mail, postage prepaid, addressed as follows: if to the Issuer, 735 Riverside Dr., Suite 300, Jackson, Mississippi 39202; if to the Trustee, to The Bank of New York Trust Company, N.A., 505 North 20th Street, Suite 950, Birmingham, Alabama 35203; if to the Company, at 1840 Century Park East, Los Angeles, California 90067, Attention: Treasurer, Mark Rabinowitz; if to the Auction Agent, to the address specified at the time of acceptance of its duties; if to the Broker-Dealer, to the address specified at the time of acceptance of its duties;
and if to the Remarketing Agent, to the address specified at the time of acceptance of its duties. Any addressee may designate additional or different addresses for purposes of this Section.

(c) A duplicate copy of each notice, certificate or other communication given hereunder by the Issuer, the Company or the Trustee shall also be given to the Guarantor.

Section 13.02. Bondholders’ Consent. Any consent or other instrument required by this Indenture to be signed by Bondholders may be in any number of concurrent documents and may be signed by a Bondholder or by the holder’s agent appointed in writing. Proof of the execution of such instrument or of the instrument appointing an agent and of the ownership of Bonds, if made in the following manner, shall be conclusive for any purposes of this Indenture with regard to any action taken by the Trustee under the instrument:

(a) The fact and date of a Person’s signing an instrument may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within that jurisdiction that the Person signing the writing acknowledged before the officer the execution of the writing, or by an affidavit of any witness to the signing.

(b) The fact of ownership of Bonds, the amount or amounts, numbers and other identification of such Bonds and the date of holding shall be proved by the registration books kept pursuant to this Indenture.

In determining whether the holders of the required principal amount of Bonds outstanding have taken any action under this Indenture, Bonds owned by the Company or any Person controlling, controlled by or under common control with the Company shall be disregarded and deemed not to be outstanding unless all of the Bonds are so owned. In determining whether the Trustee shall be protected in relying on any such action, only Bonds which the Trustee actually knows to be so owned shall be disregarded.

Any consent or other instrument shall be irrevocable and shall bind any subsequent owner of such Bond or any Bond delivered in substitution therefore.

Section 13.03. Appointment of Separate Paying Agent and/or Tender Agent. If, at any time, the Securities Depository ceases to hold the Bonds, with the effect that the Bonds are no longer subject to the Book-Entry System, then the Issuer and the Trustee, acting at the written request of the Company, may appoint one or more banks or trust companies to act as paying agent and/or tender agent for the Bonds hereunder. Any such paying agent or tender agent shall be a bank or trust company organized under the laws of the United States of America or any state thereof, shall have a reported capital and surplus of at least $100,000,000 and a corporate trust office located in New York, New York at which Bonds may be presented for payment

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or purchase and shall perform such duties and responsibilities as may be delegated to it hereunder. If such a paying agent or tender agent is appointed, then all references herein to the “Trustee” shall include such paying agent or tender agent to the extent of the duties performed by such entity.

Section 13.04. Limitation of Rights. Nothing expressed or implied in this Indenture or the Bonds shall give any Person other than the Trustee, the Issuer, the Company, the Remarketing Agent, the Auction Agent and the Bondholders any right, remedy or claim under or with respect to this Indenture.

Section 13.05. Severability. If any provision of this Indenture shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative or unenforceable to any extent whatsoever.

Section 13.06. Payments Due on Non-Business Days. If a payment date is not a Business Day at the place of payment, then payment may be made at that place on the next Business Day, and no interest shall accrue for the intervening period.

Section 13.07. Governing Law. This Indenture shall be governed exclusively by and construed in accordance with the applicable laws of the State.

Section 13.08. Captions. The captions in this Indenture are for convenience only and do not define or limit the scope or intent of any provisions or Sections of this Indenture.

Section 13.09. No Liability of Officers. No covenant or agreement contained in the Bonds or this Indenture shall be deemed to be a covenant or agreement of any commissioner, agent or employee of the Issuer in his individual capacity, and neither the officers of the Issuer nor any official executing the Bonds or this Indenture shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds or the execution and delivery of this Indenture.

Section 13.10. Counterparts. This Indenture may be signed in several counterparts. Each will be an original, but all of them together constitute the same instrument.

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IN WITNESS WHEREOF, the MISSISSIPPI BUSINESS FINANCE CORPORATION has caused these presents to be signed in its name and behalf and its official seal to be hereunto affixed and attested by its duly authorized officers, and to evidence its acceptance of the trusts hereby created The Bank of New York Trust Company, N.A., as Trustee, has caused these presents to be signed in its name and behalf and its official seal to be hereunto affixed and attested by its duly authorized officers, all as of the day and year first above written.

MISSISSIPPI BUSINESS FINANCE CORPORATION

By: ________________________________
   Executive Director

Attest: ______________________________
   Secretary

THE BANK OF NEW YORK TRUST COMPANY, N.A., as Trustee

By: ________________________________
   Title: ______________________________

Attest: ______________________________
   Title: ______________________________
IN WITNESS WHEREOF, the MISSISSIPPI BUSINESS FINANCE CORPORATION has caused these presents to be signed in its name and behalf and its official seal to be hereunto affixed and attested by its duly authorized officers, and to evidence its acceptance of the trusts hereby created The Bank of New York Trust Company, N.A., as Trustee, has caused these presents to be signed in its name and behalf and its official seal to be hereunto affixed and attested by its duly authorized officers, all as of the day and year first above written.

MISSISSIPPI BUSINESS FINANCE CORPORATION

[SEAL]

By: ___________________________________________
   Executive Director

Attest:

__________________________________________
   Secretary

THE BANK OF NEW YORK TRUST COMPANY, N.A., as Trustee

[SEAL]

By: ___________________________________________
   Title: Vice President

Attest:

__________________________________________
   Title: Vice President
I, the undersigned Notary Public, certify that CINDY CARTER personally came before me this day and acknowledged that she is the Secretary of Mississippi Business Finance Corporation, and that by authority duly given and as the act of said Mississippi Business Finance Corporation, the foregoing instrument was signed in its name by William T. Barry, its Executive Director, sealed with its official seal, and attested by her/him as its Secretary.

WITNESS my hand and official seal, this the 21st day of December, 2006.

[Signature]
Notary Public

My Commission expires:

[Notary Seal]
I, the undersigned Notary Public, certify that Frederick A. Schaal personally came before me this day and acknowledged that he/she is the Trust Officer of The Bank of New York Trust Company, N.A., a national banking association, and that by authority duly given and as the act of said banking association, the foregoing instrument was signed in its name by Frederick A. Schaal and sealed with its corporate seal.

WITNESS my hand and official seal, this the 21st day of December, 2006.

[Signature]
Notary Public

My Commission expires:
NOTARY PUBLIC STATE OF ALABAMA AT LARGE
MY COMMISSION EXPIRES: Mar 13, 2010
BONDED THRU NOTARY PUBLIC UNDERWRITERS

(Notary Seal)
EXHIBIT A
Form of Bond
UNITED STATES OF AMERICA
STATE OF MISSISSIPPI

No. $200,000,000

Mississippi Business Finance Corporation
Gulf Opportunity Zone Industrial development Revenue Bond
(Northrop Grumman Ship Systems, Inc. Project)
series 2006

MATURITY DATE
DATED DATE
CUSIP

December 1, 2028

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: $200,000,000

Mississippi Business Finance Corporation (the “Issuer”), a public body corporate and politic, created, activated and validly existing under the laws of the State of Mississippi, for value received, hereby promises to pay, solely from the sources described in this Bond, to the Registered Owner identified above, or registered assigns, on the Maturity Date stated above (or if this Bond is called for earlier redemption as described herein, on the redemption date) the principal amount identified above and to pay interest as provided in this Bond.

1. Indenture; Agreement. This Bond is one of the bonds (the “Bonds”), limited to $200,000,000 in principal amount, issued under the Trust Indenture dated as of December 1, 2006 (the “Indenture”), between the Issuer and The Bank of New York Trust Company, N.A., as trustee (the “Trustee”). The terms of the Bonds include those in the Indenture and those contained herein. Bondholders are referred to the Indenture for a statement of certain of those terms. When used with reference to the Bonds, the term “principal” includes any premium payable on those

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Bonds. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Indenture.

The Issuer has entered into a Loan Agreement dated as of December 1, 2006 (the “Agreement”) with Northrop Grumman Ship Systems, Inc., a Delaware corporation (the “Company”). Under the Agreement, the Issuer has loaned the proceeds of the Bonds of this series to the Company (the “Loan”). In order to evidence the Loan and the Company’s obligation to repay the same, the Company has executed and delivered its non-negotiable promissory note (the “Note”). The Note provides for the repayment by the Company of the Loan, including interest thereon, in installments sufficient to pay (i) the principal of, and premium, if any, and interest on the Bonds as the same shall become due and payable, and (ii) the purchase price of certain tendered Bonds as required under the Indenture. The Note provides that the payments thereunder shall be paid directly to the Trustee as assignee of the Issuer. The Issuer has assigned its rights to such payments under the Agreement and the Note to the Trustee as security for the Bonds. The proceeds of the Bonds are to be used to pay or reimburse the Company for costs incurred in constructing, reconstructing or renovating certain ship manufacturing/repair facilities located in Gulfport and Pascagoula, Mississippi (the “Project”) as more fully described in the Agreement. Northrop Grumman Corporation, a Delaware Corporation, has entered into a Guaranty Agreement dated as of December 1, 2006 (the “Guaranty”) with the Trustee pursuant to which Northrop Grumman Corporation guaranties the full payment of the Bonds.

The Indenture, the Agreement and the Note may be amended or supplemented as provided by their terms, and references to them include any amendments or supplements.

The Issuer has established a book-entry only system of registration for the Bonds (the “Book-Entry System”). Except as specifically provided otherwise in the Indenture, a Securities Depository (or its nominee) will be the registered owner of this Bond. By acceptance of a confirmation of purchase, delivery or transfer, the Beneficial Owner (if any) of this Bond shall be deemed to have agreed to this arrangement. If the Securities Depository (or its nominee) is the registered owner of this Bond, it shall be treated as the owner of it for all purposes.

2. Source of Payments. The principal of, premium, if any, and interest on, and any other amounts due with respect to, the Bonds are limited special obligations of the Issuer and, as provided in the Indenture, are payable solely and only from payments derived from the Agreement, the Note, the Guaranty and any other moneys held by the Trustee under the Indenture for such purpose. The Bonds are issued pursuant to and in full compliance with the Constitution and laws of the State of Mississippi, particularly Title 57, Chapter 10, Articles 7 and 11, Mississippi Code of 1972, as amended, and pursuant to resolutions adopted by the Issuer on March 14, 2006, September 20, 2006 and November 15, 2006, which resolutions
authorize the execution and delivery of the Bonds, the Agreement and the Indenture. The Bonds and premium, if any, and interest thereon and other amounts due with respect to the Bonds shall not be deemed to constitute a debt or general obligation or a pledge of the faith and credit of the State of Mississippi or any political subdivision thereof, including the Mississippi Business Finance Corporation. Neither the State of Mississippi nor any political subdivision thereof nor the Issuer shall be obligated to pay the principal of the Bonds or premium, if any, or interest thereon or other amounts due with respect thereto except from the revenues and receipts pledged therefore, and neither the faith and credit nor the taxing power of the State of Mississippi or any political subdivision thereof is pledged to the payment of such amounts. Payments under the Note sufficient for the prompt payment when due of the principal of and premium, if any, and interest on the Bonds are to be paid to the Trustee by the Company for the account of the Issuer and deposited in a special trust account created by the Issuer and have been duly pledged and assigned for that purpose. In addition, substantially all other rights of the Issuer under the Agreement have also been assigned to the Trustee to secure payment of amounts due on the Bonds.

3. Interest Rate. Interest on this Bond will be paid at the lesser of (a) a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Long-Term Interest Rate, an Auction Mode Rate or an Index Rate as selected by the Company and as determined in accordance with the Indenture or (b) 13%. Interest will be payable during the Initial Interest Period at a Long-Term Rate of 4.55% per annum, and the first Interest Payment Date (as hereinafter defined) will be June 1, 2007. On or after December 1, 2016, the Company may change the Determination Method from time to time. A change in the Determination Method will result in mandatory tender of the Bonds (see “Mandatory Tender for Purchase” below). While there exists an Event of Default under the Indenture, the interest rate on the Bonds will be the rate on the Bonds on the day before the Event of Default occurred, except that if interest on any Bond was then payable at a Commercial Paper Rate, the interest rate for all Bonds then bearing interest at a Commercial Paper Rate will be the highest Commercial Paper Rate then in effect for any Bond.

When interest is payable at a Daily Rate, Weekly Rate, Commercial Paper Rate or Index Rate, it will be computed on the basis of the actual number of days elapsed over a year of 365 days (366 days in leap years), when payable at an Auction Mode Rate, on the basis of actual days over 360 (during Auction Periods of 180 days or less) and on the basis of a 360-day year of twelve 30-day months (during Auction Periods greater than 180 days), and when payable at a Long-Term Interest Rate, on the basis of a 360-day year of twelve 30-day months. Interest on overdue principal and, to the extent lawful, on overdue premium and interest will be payable at the rate on the Bonds on the day before the default occurred.

4. Interest Payment and Record Dates. Interest will accrue on the unpaid portion of the principal of this Bond from the Dated Date stated above and
thereafter from the Interest Payment Date (as hereinafter defined) next succeeding the date of authentication hereof to which interest has been paid or duly provided for, unless the date of authentication hereof is an Interest Payment Date to which interest has been paid or duly provided for, in which case from the date of authentication hereof, or unless no interest has been paid or duly provided for on the Bonds of this series, in which case from the Dated Date; provided, however, that if the date of authentication is between the Record Date (as hereinafter defined) for any Interest Payment Date and such Interest Payment Date, then interest will accrue from such Interest Payment Date or, if the Company shall default in payment of the interest due on such Interest Payment Date, then from the next preceding Interest Payment Date to which interest has been paid or duly provided for, or if no interest has been paid or duly provided for, then from the Dated Date.

When interest is payable at the rate in the first column below, interest accrued during the period (an “Interest Period”) shown in the second column will be paid on the date (an “Interest Payment Date”) in the third column to holders of record on the date (a “Record Date”) in the fourth column:

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<table>
<thead>
<tr>
<th>RATE</th>
<th>INTEREST PERIOD</th>
<th>INTEREST PAYMENT DATE</th>
<th>RECORD DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily*</td>
<td>Calendar month</td>
<td>Fifth Business Day of the next month</td>
<td>Last Business Day of the month</td>
</tr>
<tr>
<td>Weekly*</td>
<td>Calendar month</td>
<td>First Business Day of the next month</td>
<td>Last Business Day before Interest Payment Date</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>From 1 to 270 days as determined for each Bond pursuant to the Indenture (“Commercial Paper Period”)</td>
<td>Day after the last day of Commercial Paper Period</td>
<td>Last Business Day before Interest Payment Date</td>
</tr>
<tr>
<td>Long-Term+</td>
<td>Six month period or portion thereof ending the last day of May or November</td>
<td>June 1 and December 1; beginning June 1, 2007</td>
<td>Fifteenth of the month before the Interest Payment Date (May 15 and November 15)**</td>
</tr>
<tr>
<td>Auction Mode</td>
<td>From 1 to 365 days as determined for each Bond pursuant to the Indenture</td>
<td>The Business Day immediately following each Auction Period, and, in addition, for an Auction Period of more than 91 days, each 13th Thursday after the first day of such Auction Period****</td>
<td>The second Business Day preceding an Interest Payment Date, therefore</td>
</tr>
<tr>
<td>Index</td>
<td>Calendar Month</td>
<td>First Business Day of the next month</td>
<td>Last Business Day before Interest Payment Date</td>
</tr>
</tbody>
</table>

* If there shall be a change from a Daily Rate or a Weekly Rate on a day other than the first day of a calendar month, the then current Interest Period relating to such Daily Rate or Weekly Rate shall end on the day immediately preceding the date on which the new interest rate on the Bonds shall become effective, which date in the case of a change from a Weekly Rate, shall be the Interest Payment Date for such Interest Period, for which the Record Date shall be the immediately preceding Business Day; but in the case of a change from a Daily Rate, the Interest Payment Date for such Interest Period shall be the fifth Business Day after the last day of such Interest Period, for which the Record Date shall be the last Business Day of such Interest Period. If such new interest rate shall be a Daily Rate or a Weekly Rate, the first Interest Period relating thereto shall begin on the effective date of such new interest rate and end on the last day of the then current calendar month, for which the Interest Payment Date and the Record Date shall be as prescribed in this Table.

+ If there shall be a change from a Long-Term Interest Rate on a day other than a regularly scheduled Interest Payment Date for a Long-Term Interest Rate Period, or if there shall be an early termination of such Long-Term Interest Rate Period and a new Long-Term Interest Rate shall be set, such Long-Term Interest Rate Period shall end on the day immediately preceding the date on which the new interest rate shall become effective, which date shall be the Interest Payment Date for such Long-Term Interest Rate Period, for which the Record Date shall be the last day of such Long-Term Interest Rate Period or, if sooner, the first day of such Long-Term Interest Rate Period. If such new interest rate shall be a Daily Rate or a Weekly Rate, the first Interest Period relating thereto shall begin on the effective date of such new interest rate and end on the last day of the then current calendar month, for which the Interest Payment Date and the Record Date shall be as prescribed in this Table.

*** If an Interest Payment Date occurs less than 15 days after the first day of a Long-Term Interest Rate Period, the first day of such Long-Term Interest Rate Period is the Record Date for such Interest Payment Date.

**** The Interest Payment Date with respect to a daily Auction Period shall be the first Business Day of the month immediately succeeding such Auction Period.
Payment of defaulted interest will be made to holders of record as of the fifth-to-last Business Day before payment

5. Method of Payment. Holders must surrender Bonds to the Trustee to collect principal at maturity or upon redemption. (See “Optional Tenders” and “Mandatory Tender for Purchase” below for the payment of purchase price of tendered Bonds.) Interest on Bonds bearing interest at a Commercial Paper Rate (other than Bonds in the Book-Entry System) is payable only upon presentation of such Bonds to the Trustee. Interest on Bonds bearing interest at a Daily, Weekly, Auction Mode, Index or Long-Term Interest Rate (other than Bonds in the Book-Entry System) will be paid to the registered holder hereof as of the Record Date by check mailed by first-class mail on the Interest Payment Date to such holder’s registered address. A holder of $1,000,000 or more in principal amount of Bonds may be paid interest at a Daily, Weekly, Auction Mode, Index or Commercial Paper Rate by wire transfer in immediately available funds to an account in the continental United States if the holder makes a written request of the Trustee (in form satisfactory to the Trustee) at least two Business Days before the Record Date specifying the account address. The notice may provide that it will remain in effect for later interest payments until changed or revoked by another written notice. Principal and interest will be paid in money of the United States that at the time of payment is legal tender for payment of public and private debts or by checks or wire transfers payable in such money. If any payment on the Bonds is due on a non-Business Day, it will be made on the next Business Day, and no interest will accrue as a result.

6. Optional Tenders. “Tender” means to require, or the act of requiring, the Trustee to purchase a Bond at the holder’s option under the provisions of this paragraph 6 at 100% of the principal amount plus interest accrued to (but excluding) the date of purchase. During a Daily Interest Period, if a Bond is tendered after the Record Date and before the Interest Payment Date for that Interest Period, the Trustee will pay (but only from funds available therefore as provided in the Indenture) a purchase price of principal plus interest accruing after the last day of that Interest Period. While the Bonds bear interest at a Long-Term Interest Rate, a Commercial Paper Rate, an Auction Mode Rate or an Index Rate, the owner of a Bond does not have the option to require the Trustee to purchase its Bond.

   Daily Rate Tender. When interest on the Bonds is payable at a Daily Rate and a Book-Entry System is in effect, a Beneficial Owner (through its direct Participant in the Securities Depository) may tender his interest in a Bond (or portion of Bond) by delivering an irrevocable written notice or an irrevocable telephone notice, promptly confirmed in writing, to the Trustee (any such telephone notice to be delivered to a Responsible Officer of the Trustee) and an irrevocable notice by telephone, telegraph or facsimile transmission to the Remarketing Agent, in each case prior to 11:00 a.m., New York City time, on a Business Day, stating the...
principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the purchase price and the Business Day (which may be the date
the notice is delivered) the Bond (or portion of Bond) is to be purchased. The Beneficial Owner shall effect delivery of such Bond by causing such direct
Participant to transfer its interest in the Bond equal to such Beneficial Owner’s interest on the records of the Securities Depository to the participant account of
the Trustee with the Securities Depository. Any notice received by the Trustee after 11:00 a.m., New York City time, shall be deemed to have been given on the
next Business Day.

When interest on the Bonds is payable at a Daily Rate and a Book-Entry System is not in effect, a holder of a Bond may tender the Bond (or portion of
Bond) by delivering the notices as described above (which shall include the certificate number of the Bond), and shall also deliver the Bond to the Trustee by
1:00 p.m., New York City time, on the date of purchase (see additional requirements below).

Weekly Rate Tender. When interest on the Bonds is payable at a Weekly Rate and a Book-Entry System is in effect, a Beneficial Owner (through its direct
Participant in the Securities Depository) may tender his interest in a Bond (or portion of Bond) by delivering an irrevocable written notice or an irrevocable
telephone notice, promptly confirmed in writing, to the Trustee (any such telephone notice to be delivered to a Responsible Officer of the Trustee) and an
irrevocable notice by telephone, telegraph or facsimile transmission to the Remarketing Agent, in each case prior to 5:00 p.m., New York City time, on a
Business Day stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the purchase price and the date, which
must be a Business Day at least seven days after the notice is delivered, on which the Bond (or portion of Bond) is to be purchased. The Beneficial Owner
shall effect delivery of such Bond by causing such direct Participant to transfer its interest in the Bond equal to such Beneficial Owner’s interest on the
records of the Securities Depository to the participant account of the Trustee or its agent with the Securities Depository.

When interest on the Bonds is payable at a Weekly Rate and a Book-Entry System is not in effect, a holder of a Bond may tender the Bond (or portion of
Bond) by delivering the notices as described above (which shall include the certificate number of the Bond), and shall also deliver the Bond to the Trustee by
1:00 p.m., New York City time, on the date of purchase (see additional requirements below).

Payment of Purchase Price. The purchase price for a tendered Bond will be paid in immediately available funds to the registered owner of the Bond by the
close of business on the date of purchase. No purchase of Bonds by the Trustee shall be deemed to be a payment or redemption of the Bonds or of any portion
thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

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7. Mandatory Tender for Purchase. As provided below, the Bonds are subject to mandatory tender for purchase under certain circumstances. BY
ACCEPTANCE OF THIS BOND, THE OWNER AGREES TO SELL AND SURRENDER THIS BOND, PROPERLY ENDORSED, UNDER THE
CONDITIONS DESCRIBED BELOW. All purchases will be made in funds immediately available on the purchase date and will be at a purchase price of
100% of the principal amount of the Bonds being purchased (unless a premium is required as otherwise specified) plus interest accrued to (but excluding) the
purchase date, except that interest accruing at a Daily Rate will be paid on the fifth Business Day following the purchase date. Bonds tendered for purchase on
a date after a call for redemption but before the redemption date will be purchased pursuant to the tender. No purchase of Bonds shall be deemed to be a
payment or redemption of the Bonds or of any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by
such Bonds.

Mandatory Tender at Beginning of a New Long-Term Interest Rate Period. When the Bonds bear interest at a Long-Term Interest Rate and a new Long-
Term Interest Rate is to be determined, the Bonds will be subject to mandatory tender for purchase on the effective date of the new Long-Term Interest Rate. In
the case of a change prior to the day originally established as the day after the last day of a Long-Term Interest Rate Period, the Bonds will be purchased at the
percentage of their principal amount which would be payable upon the applicable redemption described under “Optional Redemption During Long-Term
Interest Rate Period” below.

Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode. When Bonds bear interest at a Commercial Paper Rate, each
Bond must be tendered for purchase on the Interest Payment Date for such Bond.

Mandatory Tender Upon a Change in the Determination Method. Subject to the provisions of Section 2.03(b) of the Indenture, on the effective date of
the change in the Determination Method (the methods being Daily, Weekly, Commercial Paper, Long-Term, Auction Mode or Index Interest Rates), the Bonds
will be subject to mandatory tender for purchase on the effective date of such change. Any such purchase shall be at a price equal to 100% of the principal
amount of the Bonds, plus accrued interest, except that in the case of change prior to the day originally established as the date after the last day of a Long Term
Interest Rate Period, the Bonds will be purchased at the percentage of their principal amount which would be payable upon the applicable redemption described
under “Optional Redemption During Long-Term Interest Rate Period” below.

Mandatory Tender Upon Expiration of Index Period. When a new Index Period immediately follows the expiration of a prior Index Period, the Bonds will
be subject to mandatory tender for purchase on the commencement date of the new Index Period.
Notice of Tender. At least 15 days before each mandatory tender (except for tenders described under “Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode” described above, for which no notice will be given and except that such notice shall be given at least 30 days prior to the effective date if a Long-Term Interest Rate Period is in effect and the effective date is on or before the end of the Long-Term Interest Rate Period), the Trustee will mail a notice of tender by first-class mail to each Bondholder at the holder’s registered address. Failure to give any required notice of tender as to any particular Bonds, or any defect therein, will not affect the validity of the tender of any Bonds in respect of which no failure or defect occurs. Any notice mailed as provided in this paragraph shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by the addressee.

Effect of Notice. When notice of tender is required and given, and when Bonds are to be tendered without notice, Bonds tendered become due and payable on the purchase date; in such case when funds are deposited with the Trustee sufficient for purchase, interest on the Bonds to be purchased ceases to accrue as of the date of purchase.

8. Delivery Address; Additional Delivery Requirements. Notices in respect of tenders and Bonds tendered must be delivered to the Trustee, and notices in respect of tenders must be delivered to the Remarketing Agent, as provided in the Indenture.

All tendered Bonds must be accompanied by an instrument of transfer satisfactory to the Trustee, executed in blank by the registered owner or his duly authorized attorney, with the signature guaranteed by an eligible guarantor institution.

Limitation on Tenders. Except as provided under “Mandatory Tender Upon a Change in the Determination Method,” “Mandatory Tender Upon Expiration of Index Period,” “Mandatory Tender at Beginning of a New Long-Term Interest Rate Period” and “Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode,” no Bonds may be tendered while they bear interest at a Commercial Paper Rate, Auction Mode Rate, Index Rate or a Long-Term Interest Rate.

Irrevocable Notice Deemed to be Tender of Bond; Undelivered Bonds. The giving of notice by the registered owner of a Bond as provided in paragraph 6 or the occurrence of a mandatory tender for purchase as described in paragraph 7 constitutes the irrevocable tender for purchase of each Bond (or portion of Bond) with respect to which such notice was given, irrespective of whether such Bond was delivered as provided in paragraph 6 or 7. The determination of the Trustee as to whether a notice of tender has been properly sent shall be conclusive and binding upon the Bondholders.
The Trustee may refuse to accept delivery of any Bond for which a proper instrument of transfer has not been provided. If any owner of a Bond who gave notice of optional tender or which is subject to mandatory tender fails to deliver his Bond to the Trustee at the place and on the applicable date and time specified, or fails to deliver his Bond properly endorsed, and moneys for the payment of such Bond are on deposit with the Trustee, his Bond shall constitute an undelivered Bond as described in the Indenture and interest shall cease to accrue on his Bonds as of the tender date and such owner shall have no right under the Indenture other than the right to receive payment of the tender price thereof. BY ACCEPTANCE OF THIS BOND, THE OWNER AGREES TO SELL AND SURRENDER THIS BOND, PROPERLY ENDORSED, TO THE TRUSTEE AFTER THE GIVING OF IRREVOCABLE NOTICE OF TENDER FOR PURCHASE AS DESCRIBED ABOVE.

9. Redemptions. All redemptions will be made in funds immediately available on the redemption date and will be at a redemption price of 100% of the principal amount of the Bonds being redeemed (unless a premium is required as provided below) plus interest accrued to the redemption date, except that interest accruing at a Daily Rate will be paid on the fifth Business Day following the redemption date.

Mandatory Redemption. Upon the occurrence of a Mandatory Redemption Event, the Bonds shall be redeemed, in whole but not in part, prior to the Maturity Date upon not less than 30 nor more than 60 days’ notice at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest to the redemption date. A Mandatory Redemption Event will be deemed to have occurred at the time that the Trustee receives written notice of the Determination of Taxability and such notice shall constitute the notice required by Section 4.7 of the Agreement. Subject to the notice requirement set forth in the Indenture, the Bonds shall be redeemed on a date within 60 days after the occurrence of the Mandatory Redemption Event. Any notice of redemption required by Section 3.02(b) of the Indenture to be given by the Trustee in connection with a redemption need not be given earlier than 15 days after the date the Trustee receives notice of a Mandatory Redemption Event pursuant to Section 3.02(b) of the Indenture.

Optional Redemption During Long-Term Interest Rate Period. During the Initial Interest Period, the Bonds will be redeemable on or after December 1, 2016. During any Long-Term Interest Rate Period (other than the Initial Interest Period), if the Long-Term Interest Rate Period is less than or equal to five years, the Bonds will not be redeemable pursuant to this provision during the Long-Term Interest Rate Period. If the Long-Term Interest Rate Period (other than the Initial Interest Period) is greater than five years, the Bonds will not be redeemable for five years after the date on which the Bonds begin to bear interest at the new Long-Term Interest Rate.
After the five year no-call period, the Bonds may be redeemed at any time in whole or in part at 100% of their principal amount plus accrued interest, if any.

As an alternative to and in lieu of the foregoing redemption provisions, if, with respect to any Long-Term Interest Rate Period, a Favorable Opinion of Tax Counsel is delivered to the Trustee not later than the date of the establishment of such Long-Term Interest Rate Period, the Bonds may be redeemed during such Long-Term Interest Rate Period at the option of the Company in whole or in part at any time after a no-call period, if any, established by the Remarketing Agent, at the percentages of their principal amount, plus accrued interest, as follows: the Remarketing Agent shall, given the duration of the Long-Term Interest Rate Period, determine and inform the Trustee and the Company, on a date which is no later than the establishment of the Long-Term Interest Rate, the periods during which the Bonds shall not be subject to redemption (the “Call Protection Period”), the premium or premiums payable upon redemption (the “Call Premiums”), if any, applicable to the redemption of Bonds after the Call Protection Period, and the period or periods during which the Call Premiums shall be effective (the “Call Premium Periods”) necessary to establish the Long-Term Interest Rate. Such Call Protection Period, Call Premiums and Call Premium Periods shall be established in accordance with optional call redemption provisions which, in the judgment of the Remarketing Agent, are generally accepted at the time of determination as the standard features for obligations such as the Bonds, given the length of the Long-Term Interest Rate Period.

Extraordinary Optional Redemption. The Bonds are subject to redemption in whole without premium at any time upon receipt by the Trustee and the Issuer of a written notice from the Company stating that the Company has determined that:

(i) Any federal, state or local body exercising governmental or judicial authority has taken any action which results in the imposition of unreasonable burdens or excessive liabilities with respect to the Project, rendering impracticable or uneconomical the operation of the Project, including the condemnation or taking by eminent domain of all or substantially all of the Project; or

(ii) Changes in the economic availability of raw materials, operating supplies or facilities or technological or other changes have made the continued operation of the Project as an efficient ship building and repair facility uneconomical; or

(iii) The Project has been damaged or destroyed to such an extent that it is not practicable or desirable to rebuild, repair or restore the Project.

If the Issuer shall have received such notice by the Company, the Issuer, upon request of the Company, shall give written notice to the Trustee directing the
Trustee to take all action necessary to redeem the outstanding Bonds in whole and on a date specified in such notice, which date shall be not less than 45 nor more than 90 days from the date the notice is received by the Trustee.

Optional Redemption During Daily or Weekly Rate Period. When interest on the Bonds is payable at a Daily or Weekly Rate, the Bonds may be redeemed in whole or in part at the option of the Company, on any Business Day.

Optional Redemption During Auction Rate Periods. When interest on the Bonds is payable at an Auction Mode Rate, the Bonds may be redeemed in whole or in part at the option of the Company, on the first day after the last day of the Auction Period then in effect.

Optional Redemption During Index Rate Periods. During any Index Rate Period, the Bonds are not subject to optional redemption.

Notice of Redemption. At least 30 days before each redemption, the Trustee will mail a notice of redemption by first-class mail to each Bondholder with Bonds to be redeemed at such holder’s registered address. Failure to give any required notice of redemption as to any particular Bonds, or any defect therein, will not affect the validity of the call for redemption of any Bonds in respect of which no failure or defect occurs. Any notice mailed as provided in this paragraph shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by the addressee.

Effect of Notice. When notice is required and given, Bonds called for redemption become due and payable on the redemption date; in such case when funds are deposited with the Trustee sufficient for redemption, interest on the Bonds to be redeemed ceases to accrue as of the date of redemption.

10. Denominations; Transfer; Exchange. The Bonds may be issued in registered form without coupons in denominations as follows: (1) when interest is payable at a Daily, Weekly or Commercial Paper Rate, $100,000 or any integral multiple thereof; (2) when interest is payable at a Long-Term Interest Rate, $5,000 and integral multiples of $5,000 thereafter; (3) when interest is payable at an Auction Mode Rate, $1,000 and integral multiples thereof; and (4) when interest is payable at an Index Rate, $100,000 and integral multiples of $5,000 thereafter. A holder may register the transfer of or exchange Bonds in accordance with the Indenture. The Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. Except in connection with the purchase of Bonds tendered for purchase, the Trustee will not be required to register the transfer of or exchange any Bond which has been called for redemption or during the period beginning 15 days before the mailing of notice calling the
Bonds or any portion of the Bonds for redemption and ending on the redemption date.

11. **Persons Deemed Owners**. The registered holder of this Bond shall be treated as the owner of it for all purposes.

12. **Funds in Trust; Unclaimed Funds**. All moneys which the Trustee shall have withdrawn from the account of the Company or shall have received from any other source and set aside, or deposited with the paying agents, for the purpose of paying any of the Bonds hereby secured, either at the maturity thereof or upon call for redemption or tender, shall be held in trust for the respective holders of such Bonds. But any moneys which shall be so set aside or deposited by the Trustee and which shall remain unclaimed by the holders of such Bonds for a period of six years after the date on which such Bonds shall have become due and payable shall upon request in writing be paid to the Company or to such officer, board or body as may then be entitled by law to receive the same, and thereafter the holders of such Bonds shall look only to the Company or to such officer, board or body, as the case may be, for payment and then only to the extent of the amount so received without any interest thereon, and the Trustee, the Issuer and the paying agents shall have no responsibility with respect to such moneys.

13. **Discharge Before Redemption, Tender or Maturity**. If the Company at any time deposits with the Trustee money or Government Obligations as described in the Indenture sufficient to pay at redemption, tender or maturity principal of and interest on the outstanding Bonds, and if the Company also pays or provides for the payment of all other sums then payable by the Company under the Agreement or the Indenture, the lien of the Indenture will be discharged. After discharge, Bondholders must look only to the deposited money and securities for payment except as otherwise specifically provided in the Indenture.

14. **Amendment, Supplement, Waiver**. Subject to certain exceptions, the Indenture, the Agreement or the Bonds may be amended or supplemented, and any past default or compliance with any provision may be waived, with the consent of the holders of a majority in principal amount of the Bonds then outstanding. Any such consent shall be irrevocable and shall bind any subsequent owner of this Bond or any Bond delivered in substitution for this Bond. Without the consent of any Bondholder, the Issuer may amend or supplement the Indenture, the Agreement or the Bonds as described in the Indenture, among other things, to cure any ambiguity, omission, defect or inconsistency, to provide for uncertificated Bonds in addition to or in place of certificated Bonds, to provide for a Book-Entry System for the Bonds or to make any change that does not materially adversely affect the rights of any Bondholder.

15. **Defaults and Remedies**. The Indenture provides that the occurrences of certain events constitute Events of Default. If an Event of Default occurs and is
continuing, the Bonds may become or may be declared immediately due and payable, as provided in the Indenture. An Event of Default and its consequences may be waived as provided in the Indenture. Bondholders may not enforce the Indenture or the Bonds except as provided in the Indenture. Except as specifically provided in the Indenture, the Trustee may refuse to enforce the Indenture or the Bonds unless it receives security and/or indemnity satisfactory to it. Subject to certain limitations, holders of a majority in principal amount of the Bonds then outstanding may direct the Trustee in its exercise of any trust or power.

16. No Recourse Against Others. A member, director, officer or employee, as such, of the Issuer shall not have any liability for any obligations of the Issuer or the Company under the Bonds or the Indenture or for any claim based on such obligations or their creation. Each Bondholder by accepting a Bond waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Bond.

17. Authentication. This Bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Indenture until the certificate of authentication hereon shall have been duly executed by the Trustee.

18. Abbreviations. Customary abbreviations may be used in the name of a Bondholder or an assignee, such as TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian) and U/G/M/A (= Uniform Gifts to Minors Act).

A copy of the Indenture may be inspected at the corporate trust office of the Trustee located at 505 North 20th Street, Suite 950, Birmingham, AL 35203.
IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to
and in the execution and delivery of the Indenture and the issuance of this Bond do exist, have happened and have been performed in due time, form and
manner as required by law.

IN WITNESS WHEREOF the Mississippi Business Finance Corporation has caused this Bond to be executed in its name by its Executive Director or the
President of its Board of Directors by his manual or facsimile signature and attested by the manual or facsimile signature of its Secretary or Assistant
Secretary and its corporate seal to be hereunto affixed or printed hereon.

Mississippi Business Finance Corporation

By: ____________________________________________

[SEAL]

Executive Director

Attest:

______________________________
Secretary

A-15
CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds of the series designated therein and issued under the provisions of the within-mentioned Indenture.

THE BANK OF NEW YORK TRUST
COMPANY, N.A., as Trustee

Date: 

By: 

Authorized Signatory

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CERTIFICATE OF REGISTRATION AND VALIDATION

This bond is one of the Series 2006 Bonds described in the Official Action resolution described in the Loan Agreement and is one of the Mississippi Business Finance Corporation Gulf Opportunity Zone Industrial Development Revenue Bonds (Northrop Grumman Ship Systems, Inc. Project), Series 2006, which issue of bonds was validated by decree of the Chancery Court of the First Judicial District of Hinds County, Mississippi on December 4, 2006.

Secretary, Mississippi Business Finance Corporation

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The following abbreviations, when used in the inscription on the face of the within Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

**TEN COM-** as tenants common

**TEN ENT-** as tenants by the entireties

**JT TEN-** as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT- ______ Custodian ______

(Cust) (Minor) under Uniform Gifts to Minors Act

(State)

Additional abbreviations may also be used though not in list above.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto

Please Insert Social Security Or Other Identifying Number Of Assignee

(Name and Address of Assignee)

the within Bond and does hereby irrevocably constitute and appoint ________________ attorney to transfer the said Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated: ________________________________

Signature guaranteed: __________________

Medallion Number: ________________

*Signature(s) must be guaranteed by an eligible guarantor institution which is a member of a recognized signature guarantee program, i.e. Securities Transfer Agents Medallion Program (STAMP), or New York Stock Exchange Medallion Signature Program (MSP).

NOTICE: The signature to this assignment must correspond with the name of the registered owner as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.
ARTICLE I
Definitions

In addition to the words and terms elsewhere defined in this Indenture, the following words and terms as used in this Exhibit B and elsewhere in this Indenture have the following meanings with respect to Bonds in an Auction Rate Period unless the context or use indicates another or different meaning or intent.

“Agent Member” means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

“All Hold Rate” means, as of any Auction Date, 45% of the Reference Rate in effect on such Auction Date.

“Applicable Percentage” means, as of any Auction Date, (a) so long as there has not been more than one Failed Auction since the last Successful Auction, 300%; and (b) if there have been two or more consecutive Failed Auctions since the last Successful Auction, 400%.

“Auction” means each periodic implementation of the Auction Procedures.

“Auction Agent” means the auctioneer appointed in accordance with Section 3.01 or 3.02 of this Exhibit B.

“Auction Agreement” means an agreement among the Company, the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in this Exhibit B with respect to the Bonds while bearing interest at an Auction Mode Rate, as such agreement may from time to time be amended or supplemented.

“Auction Date” means during any period in which the Auction Procedures are not suspended in accordance with the provisions hereof, (i) if the Bonds are in a daily Auction Period, each Business Day, and (ii) if the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period shall be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and provided, further, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for the Bonds and (y) the

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Business Day next preceding the final maturity date for the Bonds. On the Business Day preceding the conversion from a daily Auction Period to another
Auction Period, there shall be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion.

“Auction Mode Rate” means the rate of interest to be borne by the Bonds during each Auction Period determined in accordance with Section 2.04 of this
Exhibit B; provided, however, in no event may the Auction Mode Rate exceed the Maximum Auction Rate.

“Auction Period” or “Auction Rate Period” means any period of less than 365 days during which the Bonds bear interest at a single Auction Mode Rate, as
established pursuant to the Indenture.

“Auction Procedures” means the procedures for conducting Auctions for Bonds during an Auction Rate Period set forth in this Exhibit B.

“Auction Rate” means for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the
subject of Submitted Hold Orders, the All Hold Rate and (ii) if Sufficient Clearing Bids do not exist, the Maximum Auction Rate.

“Authorized Denominations” means $25,000 and integral multiples thereof, notwithstanding anything else in this Indenture to the contrary, so long as the
Bonds bear interest at an Auction Mode Rate.

“Available Bonds” means on each Auction Date, the aggregate principal amount of Bonds that are not the subject of Submitted Hold Orders.

“Bid” has the meaning specified in subsection (a) of Section 2.02 of this Exhibit B.

“Bidder” means each Existing Owner and Potential Owner who places an Order.

“Broker-Dealer” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Exhibit B, that is a
member of, or a direct participant in, the Securities Depository, that has been selected by the Company and that is a party to a Broker-Dealer Agreement with
the Company and the Auction Agent.

“Broker-Dealer Agreement” means an agreement among the Auction Agent, the Company and a Broker-Dealer pursuant to which such Broker-Dealer agrees
to follow the procedures described in this Exhibit B, as such agreement may from to time be amended or supplemented.
“Business Day,” in addition to any other definition of “Business Day” included in this Indenture while Bonds bear interest at an Auction Mode Rate, the term Business Day shall not include April 14 or 15 or December 30 or 31 or days on which the Auction Agent or any Broker-Dealer are not open for business.

“Conversion Date” means the date on which the Bonds are converted to bear interest at a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Long-Term Interest Rate or an Index Rate.

“Existing Owner” means a Person who is listed from time to time as the beneficial owner of Bonds in the records of the Auction Agent.

“Failed Auction” means an Auction for which there were not Sufficient Clearing Bids.

“Hold Order” has the meaning specified in subsection (a) of Section 2.02 of this Exhibit B.

“Interest Payment Date” with respect to Bonds bearing interest at Auction Mode Rates, means (a) when used with respect to any Auction Period of less than 92 days (other than a daily Auction Period), the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to an Auction Period of 92 or more days, each 13th Thursday after the first day of such Auction Period or the next Business Day if such Thursday is not a Business Day and on the Business Day immediately following such Auction Period, (d) each Conversion Date and (e) the Maturity Date.

“Maximum Auction Rate” means, as of any Auction Date, the product of the Reference Rate multiplied by the Applicable Percentage; provided, however, that if there have been two or more consecutive Failed Auctions since the last Successful Auction and there has not been a Successful Auction for a period of greater than 90 days after the first of such Failed Auctions, the Maximum Auction Rate shall be the Maximum Interest Rate; provided, further that in no event shall the Maximum Auction Rate exceed the Maximum Interest Rate.

“Maximum Interest Rate” means (i) 13% on the date hereof and (ii) to the extent the maximum rate permitted by applicable law shall become less than 13%, then the maximum rate permitted by applicable law.

“Moody’s” means Moody’s Investors Service, Inc. and its successors and assigns.

“Order” means a Hold Order, Bid or Sell Order.
“Potential Owner” means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any.

“Principal Office” means, with respect to the Auction Agent, the office thereof designated in writing to the Company, the Trustee and each Broker-Dealer.

“Rating Agencies” means Moody’s and S&P.

“Reference Rate” shall have the meaning specified in Section 2.07 of this Exhibit B.


“Securities Depository” means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Company which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

“Sell Order” has the meaning specified in subsection (a) of Section 2.02 of Exhibit B.

“Submission Deadline” means 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

“Submission Processing Deadline” means the earlier of (i) 40 minutes after the Submission Deadline and (ii) the time when the Auction Agent begins to disseminate the results of the Auction to the Broker-Dealer.

“Submitted Bid” has the meaning specified in subsection (b) of Section 2.04 of this Exhibit B.

“Submitted Hold Order” has the meaning specified in subsection (b) of Section 2.04 of this Exhibit B.

“Submitted Order” has the meaning specified in subsection (b) of Section 2.04 of this Exhibit B.

“Submitted Sell Order” has the meaning specified in subsection (b) of Section 2.04 of this Exhibit B.
“Successful Auction” means an Auction for which there were Sufficient Clearing Bids.

“Sufficient Clearing Bids” means an Auction for which the aggregate principal amount of Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Interest Rate is not less than the aggregate principal amount of Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Interest Rate.

“Winning Bid Rate” means the lowest rate specified in any Submitted Bid which if selected by the Auction Agent as the Auction Rate, subject to the All Hold Rate, would cause the aggregate principal amount of Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds.

ARTICLE II
Auction Procedures

Section 2.01. General Procedures. While the Bonds bear interest at the Auction Mode Rate, Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding each Auction Rate Period commencing after the ownership of the Bonds is no longer maintained in the Book-Entry System pursuant to this Indenture). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the manner set forth in this Exhibit B.

Section 2.02. Orders by Existing Owners and Potential Owners.

(a) Prior to the Submission Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period,

(B) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing
Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Auction Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner), and/or

(C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Auction Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period; and

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the Bonds, one or more Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of Bonds, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof an Order containing the information referred to in clause (i)(A) above is herein referred to as a “Hold Order”, an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a “Bid”, and an Order containing the information referred to in clause (i)(C) above is herein referred to as a “Sell Order.”

(b) (i) Subject to the provisions of Section 2.03 of this Exhibit B, a Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein if sufficient Clearing Bids exist; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as set forth in subsection (a)(v) of Section 2.05 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as set forth in subsection (b)(iv) of Section 2.05 hereof if such specified rate shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.

(ii) Subject to the provisions of Section 2.03 of this Exhibit B, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:
(A) the principal amount of Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Bonds as set forth in subsection (b)(iv) of Section 2.05 hereof if Sufficient Clearing Bids do not exist.

(iii) Subject to the provisions of Section 2.03 of this Exhibit B, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as set forth in subsection (a)(vi) of Section 2.05 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies Bonds to be held, purchased or sold in a principal amount which is not $1,000 or an integral multiple thereof shall be rounded down to the nearest $1,000, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted; and

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

Section 2.03. Submission of Orders by Broker-Dealers to Auction Agent.

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer. In each Auction in which such Broker-Dealer submits one or more Orders, a Broker-Dealer may net the Orders of different Potential Owners or Existing Owners
(i) the name of the Bidder, or the Broker-Dealer on behalf of the Bidder, placing such Order;

(ii) the aggregate principal amount of Bonds, if any, that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of Bonds, if any, subject to any Sell Order placed by such Existing Owner; and

(iv) to the extent such Bidder is a Potential Owner, the rate and amount specified in such Potential Owner’s Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the Bonds held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of Bonds to be converted held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) Notwithstanding clauses (a) and (c) of this section, a Broker-Dealer may submit Orders to the Auction Agent after the Submission Deadline and prior to
the Submission Processing Deadline if the Orders were received by such Broker-Dealer from Existing Owners or Potential Owners, other than such Broker-Dealer acting for its own account, prior to the Submission Deadline and were time-stamped by such Broker-Dealer prior to the Submission Deadline. Each Order submitted to the Auction Agent after the Submission Deadline and prior to the Submission Processing Deadline shall constitute a representation by the Broker-Dealer that submitted such Order that such Order was received by such Broker-Dealer from an Existing Owner or Potential Owner, other than such Broker-Dealer acting for its own account, prior to the Submission Deadline and was time-stamped by such Broker-Dealer prior to the Submission Deadline.

(e) If one or more Orders covering in the aggregate more than the principal amount of outstanding Bonds held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows and in the following order of priority:

(i) all Hold Orders shall be considered valid Hold Orders, but only up to and including in the aggregate the principal amount of Bonds held by such Existing Owner, and if the aggregate principal amount of Bonds subject to such Hold Orders exceeds the aggregate principal amount of Bonds held by such Existing Owner, the aggregate principal amount of Bonds subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of outstanding Bonds held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the aggregate principal amount of the Bonds subject to Hold Orders referred to in paragraph (i) above;

(B) subject to sub-clause (A) of this paragraph (ii), all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in sub-paragraph (i) of this paragraph (e);

(C) subject to sub-clause (A) of this paragraph (ii), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such...
Existing Owner subject to Hold Orders referred to in sub-paragraph (i) of this paragraph (e); and

(D) the principal amount, if any, of such Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner at the rate specified therein; and

(iii) all Sell Orders shall be considered valid Sell Orders, but only up to and including a principal amount of Bonds equal to the excess of the principal amount of Bonds held by such Existing Owner over the sum of the principal amount of the Bonds considered to be subject to Hold Orders pursuant to sub-paragraph (i) of this paragraph (e) and the principal amount of Bonds considered to be subject to Bids of such Existing Owner pursuant to sub-paragraph (ii) of this paragraph (e).

(f) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of Bonds specified therein.

(g) Any Bid submitted by an Existing Owner or a Potential Owner specifying a rate lower than the All Hold Rate shall be treated as a Bid specifying the All Hold Rate, and any such Bid shall be considered as valid and shall be selected in ascending order of the respective rates in the Submitted Bids (as defined in Section 2.04).

(h) Neither the Issuer, the Company, the Trustee, the initial Broker-Dealer nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

Section 2.04. Determination of Auction Mode Rate .

(a) Not later than 9:30 a.m., New York City time, on each Auction Date, the Auction Agent shall advise the Broker-Dealers and the Trustee by telephone of the All Hold Rate, the Maximum Auction Rate and the Reference Rate.

(b) Promptly after the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a “Submitted Hold Order,” a “Submitted Bid” or a “Submitted Sell Order,” as the case may be, and collectively as a “Submitted Order”) and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids and (iii) the Auction Rate.
(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) of this Section 2.04, the Auction Agent shall advise the Trustee and the Company by telex, facsimile or other electronic transmission of the Auction Rate for the next succeeding Auction Period and the Trustee shall promptly notify DTC of such Auction Rate.

(d) In the event the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Auction Mode Rate for the New Auction Period shall be the same as the Auction Mode Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period shall be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Auction Mode Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended. In the event an Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extended to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended.

(e) Notwithstanding the last paragraph of Section 2.02(b)(1) of the Indenture, in the event of a failed conversion from an Auction Mode Rate Determination Method to another Determination Method or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Mode Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven-day Auction Period.

(f) If the Auction Mode Rate shall be the Maximum Interest Rate or the Maximum Auction Rate for a period (i) in excess of thirty (30) days, the Company agrees to take all steps necessary to ensure that the Auction Rate does not exceed the interest rate payable on similar securities (taking into account the interest period and the then enhanced/insured rating of the Bonds, if any) or (ii) in excess of sixty (60) days, the Company agrees to (A) convert, or cause to be converted, all Bonds to a Long-Term Interest Rate Period until the Maturity Date or to a Daily, Weekly or Commercial Paper Rate, in each case at the lowest interest rate that will permit the Remarketing Agent to sell all the Bonds on the Conversion Date at a price equal to 100% of the principal amount thereof plus accrued interest thereon.
(g) If the Bonds are not rated or if the Bonds are no longer maintained in book-entry-only form by the Securities Depository then the Auction Mode Rate shall be the Maximum Auction Rate.

Section 2.05. Allocation of Bonds.

(a) In the event of Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted, and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds outstanding which are not the subject of Submitted Hold Orders described in sub-paragraph (i) of this paragraph (a) or of Submitted Bids described in sub-paragraphs (iii) and (iv) of this paragraph (a) by (B) a fraction the numerator of which shall be the principal amount of Bonds outstanding held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Bonds outstanding subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;
(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such
Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of Bonds obtained
by multiplying (A) the aggregate principal amount of Bonds outstanding which are not the subject of Submitted Hold Orders described in sub-paragraph
(i) of this paragraph (a) or of Submitted Bids described in sub-paragraphs (iii), (iv) or (v) of this paragraph (a) by (B) a fraction the numerator of which
shall be the principal amount of Bonds outstanding subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate
principal amount of Bonds outstanding subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid
Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be
accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are
the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Auction Rate shall be accepted, thus requiring
each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Auction Rate shall be accepted, thus requiring
each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner
specifying any rate that is higher than the Maximum Auction Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only
up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds subject to Submitted Bids
described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of Bonds outstanding held by
such Existing Owner subject to such Submitted Sell

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Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Bonds outstanding subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Auction Rate shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) of this Section 2.05, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of Bonds which is not an integral multiple of $1,000 on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of $1,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Bonds on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) of this Section 2.05, any Potential Owner would be required to purchase less than $1,000 in principal amount of Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate Bonds for purchase among Potential Owners so that the principal amount of Bonds purchased on such Auction Date by any Potential Owner shall be an integral multiple of $1,000, even if such allocation results in one or more of such Potential Owners not purchasing Bonds on such Auction Date.

(e) If the Broker-Dealer holds any Bonds for its own account on an Auction Date, the Broker-Dealer must submit a Sell Order into the Auction with respect to such Bonds.

Section 2.06. Notice of Auction Rate.

(a) On each Auction Date, the Auction Agent shall notify by telephone or other electronic means or in writing each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of the following:

(i) the Auction Mode Rate determined on such Auction Date for the succeeding Auction Period;

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(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Mode Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner’s Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and

(iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in
whole or in part to instruct such Existing Owner’s Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of Bonds to be sold pursuant to such Bid or Sell Order against payment therefore.

Section 2.07. Reference Rate.

(a) The Reference Rate on any Auction Date with respect to Bonds in any Auction Period of 35 days or less shall be the greater of (a) the offered rate for deposits in U.S. dollars for a one-month period (LIBOR) which appears on the Bloomberg at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market, or (b) the BMA Index at approximately 9:30 A.M., New York time, on such date. The Reference Rate with respect to Bonds in any Auction Period of more than 35 days shall be the rate on Treasury securities having a maturity which most closely approximates the length of the Auction Period, as last published in The Wall Street Journal. If either rate is unavailable, the Reference Rate shall be an index or rate agreed to by all Broker-Dealers and consented to by the Company.

(b) If for any reason on any Auction Date the Reference Rate shall not be determined as hereinabove provided in this Section, the Reference Rate shall be the Reference Rate for the Auction Period ending on such Auction Date.

(c) The determination of the Reference Rate as provided herein shall be conclusive and binding upon the Issuer, the Company, the Trustee, the Remarketing Agent, the Broker-Dealers, the Auction Agent and the Owners and Beneficial Owners of the Bonds.

Section 2.08. Miscellaneous Provisions Regarding Auctions.

(a) In this Exhibit B, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an Auction Rate Period, the provisions of the Indenture and the definitions contained therein and described in this Exhibit B, including without limitation the definitions of All Hold Rate, Interest Payment Date, Maximum Auction Rate, Reference Rate, Applicable Percentage and Auction Mode Rate, may be amended pursuant to the Indenture by obtaining the consent of the owners of all Bonds bearing interest at an Auction Mode Rate as follows. If, on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the Bonds as required by the Indenture, (i) the Auction Mode Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the Company and the Trustee an
Opinion of Tax Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income tax to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the owners of all Bonds affected by such amendment.

(c) During an Auction Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a Beneficial Owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the Existing Owner of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this Section 2.08 if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Section 2.09. Changes in Auction Period or Auction Date.

(a) Changes in Auction Period.

(i) During any Auction Rate Period, the Company, may, from time to time on any Interest Payment Date, change the length of the Auction Period with respect to all of the Bonds in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Bonds. Any such change in the Auction Period shall be deemed to be a change in Determination Method. The Company shall initiate the change in the length of the Auction Period by giving a Conversion Notice pursuant to Section 2.02(b)(1) of the Indenture.

(ii) The change in the length of the Auction Period shall not be effective unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iii) The change in length of the Auction Period shall take effect only if (i) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period and (ii) on the proposed effective date, the Company provides the Trustee with a Favorable Opinion of Tax Counsel as to such change in the Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted
Sell Orders with respect to all of its Bonds except to the extent such Existing Owner submits an Order with respect to such Bonds. If the conditions referred to in the first sentence of this sub-paragraph (iii) are not met, the Trustee shall notify the Auction Agent and then the Auction Mode Rate for the next Auction Period shall be the Maximum Auction Rate, and the Auction Period shall be a seven-day Auction Period.

(iv) On the conversion date of the Bonds selected for conversion from one Auction Period to another, any Bonds which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order.

(b) Changes in Auction Date. During any Auction Rate Period, the Auction Agent, with the written consent of the Company, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of “Auction Date” in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Bonds. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Issuer, the Company, the Broker-Dealers, the Remarketing Agent, and the Securities Depository.

ARTICLE III

Auction Agent

Section 3.01. Auction Agent.

(a) The Auction Agent shall be appointed by the Company to perform the functions specified herein. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Company, the Trustee, the Issuer and each Broker-Dealer which shall set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Issuer, the Company and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in Bonds with the same rights as if such entity were not the Auction Agent.

Section 3.02. Qualifications of Auction Agent; Resignation; Removal. The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least $30,000,000 or (b) a member of NASD.
having a capitalization of at least $30,000,000 and, in either case, authorized by law to perform all the duties and obligations imposed upon it by this Indenture and a member of or a participant in the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least 90 days notice to the Company, the Issuer and the Trustee. The Auction Agent may be removed at any time by the Company by written notice delivered to the Auction Agent, the Issuer and the Trustee. Upon any such resignation or removal, the Company shall appoint a successor Auction Agent meeting the requirements of this section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor has been appointed by the Company. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving forty-five (45) days notice to the Company, the Issuer and the Trustee even if a successor Auction Agent has not been appointed.
EXHIBIT C
Requisition from Project Fund For
Mississippi Business Finance Corporation
$200,000,000 Gulf Opportunity Zone
Industrial Development Revenue Bonds
(Northrop Grumman Ship Systems, Inc. Project),
Series 2006

TO: The Bank of New York Trust Company, N.A., as Trustee

FROM: Northrop Grumman Ship Systems, Inc.

Dated: __________

Pursuant to Section 3.1 of the Loan Agreement dated as of December 1, 2006 (the “Loan Agreement”), between the Mississippi Business Finance Corporation (the “Issuer”) and Northrop Grumman Ship Systems, Inc., a Delaware corporation (the “Company”), you are hereby directed to disburse from the Project Fund referred to in the Loan Agreement (the “Project Fund”) the amount indicated below.

1. The name and address of the person, firm or corporation to whom payment is due:

   Name: Northrop Grumman Ship Systems, Inc.
   Bank: JP Morgan Chase, New York
   ABA No: 021000021
   Account No: 323362605

2. Amount to be disbursed:

3. The disbursement herein requested is for obligations properly incurred, is a proper charge against the Project Fund in accordance with the Loan Agreement and has not been the basis of any previous requisition from the Project Fund or from the proceeds (including investment income) of any other obligations issued by or on behalf of any state or political subdivision,
including authorities, agencies, departments or other similar issuers. The amount requisitioned hereby is being expended in a manner consistent in all material respects with the covenants, representations and warranties of the Company set forth in the Loan Agreement, including but not limited to the Company’s specific tax covenants set forth in Section 4.10 of the Loan Agreement.

Northrop Grumman Ship Systems, Inc.

By: 

Authorized Company Representative

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Subsidiaries of Huntington Ingalls Industries, Inc.
(as of November 24, 2010)

None.
Dear Northrop Grumman Stockholder:

I am pleased to inform you that on \( \), 20\( \), the board of directors of Northrop Grumman Corporation approved the spin-off of Huntington Ingalls Industries, Inc., a wholly owned subsidiary of Northrop Grumman. Upon completion of the spin-off, Northrop Grumman stockholders will own 100% of the outstanding shares of common stock of HII. At the time of the spin-off, HII will own and operate our shipbuilding business, which has been designing, building, overhauling and repairing a wide variety of ships primarily for the U.S. Navy and the U.S. Coast Guard for over a century. We believe that this separation of HII to form a new, independent, publicly traded company is in the best interests of both Northrop Grumman and HII.

The spin-off will be completed by way of a pro rata distribution of HII common stock to our stockholders of record as of \( \), 20\( \), the spin-off record date. Each Northrop Grumman stockholder will receive \( \) shares of HII common stock for each share of Northrop Grumman common stock held by such stockholder on the record date. The distribution of these shares will be made in book-entry form, which means that no physical share certificates will be issued. Following the spin-off, stockholders may request that their shares of HII common stock be transferred to a brokerage or other account at any time. No fractional shares of HII common stock will be issued. If you would otherwise have been entitled to a fractional common share in the distribution, you will receive the net cash proceeds of such fractional share instead.

The spin-off is subject to certain customary conditions. Stockholder approval of the distribution is not required, nor are you required to take any action to receive your shares of HII common stock.

Immediately following the spin-off, you will own common stock in Northrop Grumman and HII. Northrop Grumman’s common stock will continue to trade on the New York Stock Exchange under the symbol “NOC.” HII intends to have its common stock listed on the New York Stock Exchange under the symbol “HII.”

We expect the spin-off to be tax-free to the stockholders of Northrop Grumman, except with respect to any cash received in lieu of fractional shares. The spin-off is conditioned on the receipt of a letter ruling from the Internal Revenue Service and an opinion of counsel confirming that the spin-off will not result in the recognition, for U.S. Federal income tax purposes, of income, gain or loss to Northrop Grumman or its stockholders, except to the extent of cash received in lieu of fractional shares.

The enclosed information statement, which is being mailed to all Northrop Grumman stockholders, describes the spin-off in detail and contains important information about HII, including its historical consolidated financial statements. We urge you to read this information statement carefully.

I want to thank you for your continued support of Northrop Grumman. We look forward to your support of HII in the future.

Yours sincerely,

Wesley G. Bush
Chief Executive Officer and President
Northrop Grumman
Dear Huntington Ingalls Industries, Inc. Stockholder:

It is our pleasure to welcome you as a stockholder of our company, Huntington Ingalls Industries, Inc. We have been a leader in designing, building, overhauling and repairing a wide variety of ships primarily for the U.S. Navy and the U.S. Coast Guard for over a century.

As an independent, publicly traded company, we believe we can more effectively focus on our objectives and satisfy the capital needs of our company, and thus bring more value to you as a stockholder than we could as an operating segment of Northrop Grumman Corporation.

We expect to have HII common stock listed on the New York Stock Exchange under the symbol “HII” in connection with the distribution of HII common stock by Northrop Grumman.

We invite you to learn more about HII and our subsidiaries by reviewing the enclosed information statement. We look forward to our future as an independent, publicly traded company and to your support as a holder of HII common stock.

Very truly yours,

C. Michael Petters
President and Chief Executive Officer
Huntington Ingalls Industries, Inc.
SUBJECT TO COMPLETION, DATED NOVEMBER 24, 2010

INFORMATION STATEMENT

HUNTINGTON INGALLS INDUSTRIES, INC.

4101 Washington Avenue
Newport News, Virginia 23607

Common Stock
(par value $1.00 per share)

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 traded 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. Each share of Northrop Grumman common stock outstanding as of , on , 20 , the record date for the distribution, will entitle the holder thereof to receive shares 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 , Eastern time, on , 20 . Immediately after the distribution becomes effective, we will be an independent, publicly traded 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 18 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 18 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 14.

Unless otherwise indicated, references in this information statement to fiscal years are to HII’s fiscal years ended December 31.

Our Company

For more than a century, we have been designing, building, overhauling and repairing ships primarily for the U.S. Navy and the U.S. Coast Guard. We are the nation’s sole industrial designer, builder and refueler of nuclear-powered aircraft carrier, the sole supplier and builder of amphibious assault and expeditionary warfare ships to the U.S. Navy, the sole builder of National Security Cutters for the U.S. Coast Guard, one of only two companies currently designing and building nuclear-powered submarines for the U.S. Navy and one of only two companies that builds the U.S. Navy’s current fleet of DDG-51 Arleigh Burke-class destroyers. We build more ships, in more ship types and classes, than any other U.S. naval shipbuilder. We are the exclusive provider of RCOH (Refueling and Complex Overhaul) services for nuclear-powered aircraft carriers and 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.

Our primary areas of business include the design, construction, repair and maintenance of nuclear-powered ships, such as aircraft carriers and submarines, and non-nuclear ships, such as surface combatants, expeditionary warfare/amphibious assault and coastal defense surface ships, as well as the overhaul and refueling of nuclear-powered ships. We manage our business in two segments: Newport News, which includes all of our nuclear ship design, construction, overhaul and refueling businesses; and Gulf Coast, which includes our non-nuclear ship design, construction, repair and maintenance businesses.

Our three major shipyards are currently located in Newport News, Virginia, Pascagoula, Mississippi and Avondale, Louisiana. We currently intend to wind down our construction activities at our Avondale shipyard in 2013 and consolidate Gulf Coast construction into our Mississippi facilities. We believe that consolidation in Pascagoula would allow us to realize the benefits of serial production, reduce program costs on existing contracts and make future vessels more affordable, thereby reducing overhead rates and realizing cost savings for the U.S. Navy and the U.S. Coast Guard. We are also exploring the potential for alternative uses of the Avondale facility by new owners, including alternative opportunities for the workforce there. We expect that process to take some time.

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 19 of the U.S. Navy’s 31 classes of ship. We build more ships, in more types and classes, than any other U.S. naval shipbuilder and we are the exclusive builder of eight of U.S. Navy’s 31 classes of ships. We are the sole builder and refueler of nuclear-powered aircraft carrier, the sole supplier of amphibious assault and expeditionary warfare ships for the U.S. Navy, and the sole provider of the National Security Cutter to the U.S. Coast Guard. We are also teamed with Electric Boat as the sole builders of nuclear-powered submarines for the U.S. Navy. Additionally, we are a full-service systems provider for the design, engineering, construction and life cycle support of major programs for 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 eight of the U.S. Navy’s 31 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 traded 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 $ from third parties (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 Northrop Grumman or its stockholders or that it is not advisable for HII to separate from Northrop Grumman. See “The Spin-Off—Conditions to the Spin-Off.”
Questions and Answers About the Spin-Off

The following provides only a summary of the terms of the spin-off. For a more detailed description of the matters described below, see “The Spin-Off.”

Q: What is the spin-off?
A: The spin-off is the series of transactions by which HII will separate from Northrop Grumman. To complete the spin-off, Northrop Grumman will distribute to its stockholders all of the shares of HII common stock. We refer to this as the distribution. Following the spin-off, HII will be a separate company from Northrop Grumman, and Northrop Grumman will not retain any ownership interest in HII. The number of shares of Northrop Grumman common stock you own will not change as a result of the spin-off.

Q: What will I receive in the spin-off?
A: As a holder of Northrop Grumman stock, you will retain your Northrop Grumman shares and will receive shares of HII common stock for each 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: Why is the separation of HII structured as a spin-off?
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 currently believes that a tax-free distribution of HII common stock is the most efficient way to separate HII from Northrop Grumman in a manner that will, among other things, benefit both Northrop Grumman and the shipbuilding business by better aligning management’s attention and resources to pursue opportunities in their respective markets and more actively manage their cost structures and allow each company to operate in a manner that will create long-term value for their stockholders. Northrop Grumman also believes that a spin-off will provide the following key benefits: (i) greater strategic focus of investment resources and management efforts, (ii) enhanced customer focus, (iii) direct and differentiated access to capital markets and (iv) enhanced investor choices. For a more detailed discussion of the reasons for the spin-off see “The Spin-Off—Reasons for the Spin-Off.”

Q: How will options and stock held by HII employees be affected as a result of 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 , 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, shares of HII common stock, based on the distribution ratio for each share of Northrop Grumman common stock held in such employee’s Northrop Grumman stock fund account, will be included in a HII stock fund account under the HII 401(k) Plan. However, in conformity with the fiduciary responsibility requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”), remaining shares of the Northrop Grumman common stock held in HII’s employees’ Northrop Grumman stock fund accounts following the distribution will be disposed of and allocated to another investment alternative available under the HII 401(k) Plan when directed by participants, and any such shares remaining as of 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 shares of HII common stock in the distribution, based on the distribution ratio, for each share 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 [one year from the distribution date] will be automatically disposed of and allocated to another 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 consequences of the distribution are described in more detail under “The Spin-Off—U.S. Federal Income Tax Consequences of the Spin-Off.”

Q: What are the U.S. Federal income tax consequences of the spin-off?
A: The spin-off is conditioned on the receipt by Northrop Grumman of 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. 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 will HII’s dividend policy be after the spin-off?

A: HII does not currently intend to pay a dividend. Going forward, HII’s dividend policy will be established by the HII board of directors based on HII’s financial condition, results of operations and capital requirements, as well as applicable law, regulatory constraints, industry practice and other business considerations that HII’s board of directors...
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 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 resulting from any such transactions. 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. As a result, HII’s obligations may discourage, delay or prevent a change of control of HII.

Q: What are the risks associated with the spin-off?

A: There are a number of risks associated with the spin-off and ownership of HII common stock. These risks are discussed under “Risk Factors” beginning on page 18.

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

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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 spin-off.
- “New NGC” refers to New P, Inc., which (a) is currently a subsidiary of Northrop Grumman, and (b) after the internal reorganization, will be renamed “Northrop Grumman Corporation” and will be the holding company that distributes the shares of HII to complete the spin-off.
- “Northrop Grumman” refers to Current NGC and its consolidated subsidiaries prior to the spin-off or New NGC and its consolidated subsidiaries after the internal reorganization or the spin-off, as applicable.
### 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 traded 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 traded 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 traded 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 shares of HII common stock for each share 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 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, which shall remain in full force and effect, that the spin-off 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) received the net proceeds from the HII Debt and made the Contribution and (ii) entered into the HII Credit Facility, all on terms and conditions acceptable to Northrop Grumman;
- no order, injunction or decree by any governmental authority of competent jurisdiction or 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 date that, in the judgment of the board of directors of Northrop Grumman, would result in the spin-off having a material adverse effect on Northrop Grumman or its stockholders;
- prior to the distribution date, 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 be the members of HII’s board of directors immediately after the distribution;

- prior to the distribution, Northrop Grumman shall have delivered to HII resignations from those HII positions, effective as of immediately after 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 prior to the distribution; and

- immediately prior to the distribution date, 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.
| 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 | |
| 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 traded company. We also are subject to risks relating to the spin-off. You should carefully read “Risk Factors” beginning on page 18 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 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 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 distribution of HII common stock by Northrop Grumman to its stockholders; and (ii) 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 traded 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>(Nine months) ended September 30</th>
<th>Pro Forma</th>
<th>2010</th>
<th>2009</th>
<th>Pro Forma</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and service revenues</td>
<td>$4,987</td>
<td>$4,610</td>
<td>$6,292</td>
<td>$6,189</td>
<td>$5,692</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>—</td>
<td>—</td>
<td>2,490</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>
<td>447</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>72</td>
<td>81</td>
<td>124</td>
<td>(2,420)</td>
<td>276</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>5,185</td>
<td>5,001</td>
<td>5,001</td>
<td>4,760</td>
<td>7,658</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>283</td>
<td>283</td>
<td>283</td>
<td>283</td>
<td>283</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total long-term obligations</td>
<td>1,694</td>
<td></td>
<td>1,632</td>
<td>1,761</td>
<td>1,790</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Free cash flow(1)</td>
<td>55</td>
<td>(329)</td>
<td></td>
<td>(269)</td>
<td>121</td>
<td>364</td>
<td></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 <em>Enterprise</em></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 <em>Nimitz</em>-class aircraft carriers</td>
<td>Refuel, maintain and repair the CVN-68 <em>Nimitz</em>-class aircraft carriers, which are the largest warships in the world. Each <em>Nimitz</em>-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 <em>Nimitz</em>-class carrier constructed, CVN-77 USS <em>George H.W. Bush</em>, was commissioned in 2009.</td>
</tr>
<tr>
<td>CVN-78 <em>Gerald R. Ford</em>-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 <em>Enterprise</em> and CVN-68 <em>Nimitz</em>-class aircraft carriers. CVN-78 <em>Gerald R. Ford</em> (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 <em>Gerald R. Ford</em>-class carriers are expected to be awarded every five years across the U.S. Navy’s 30-Year Plan. They will be the premier forward asset for crisis response and early decisive striking power in a major combat operation. The class brings improved warfighting capability, quality of life improvements for sailors and reduced acquisition and life cycle costs.</td>
</tr>
<tr>
<td>DDG-51 <em>Arleigh Burke</em>-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 <em>Arleigh Burke</em>-class destroyers are the U.S. Navy’s primary surface combatant, and have been constructed in variants, allowing technological advances during construction. The U.S. Navy has committed to restarting the DDG-51 program, and truncating construction of the DDG-1000 class of ships. The plan is for a total of 62 ships.</td>
</tr>
</tbody>
</table>
| DDG-1000 *Zumwalt*-class destroyers       | 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-...
<table>
<thead>
<tr>
<th>Project</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>DoE</td>
<td>Participate, as a minority member in two joint ventures, in the management and operation of the U.S. Department of Energy’s (“DoE”) nuclear sites, the Savannah River Site near Aiken, South Carolina, and potentially at the Idaho National Laboratory, near Idaho Falls, Idaho. Our joint venture partners include Fluor Corporation and Honeywell International Inc. at the Savannah River Site, and CH2M Hill in Idaho.</td>
</tr>
<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>
</tr>
<tr>
<td>LHA-6 America-class amphibious assault ships</td>
<td>Design and build amphibious assault ships that provide forward presence and power projection as an integral part of joint, interagency and multinational maritime expeditionary forces. The LHA-6 America-class ships, together with the LHD-1 Wasp-class ships, are the successors to the aging LHA-1 Tarawa-class ships. Three of the original five Tarawa-class ships have been recently decommissioned, and the remainder of the class is scheduled to be decommissioned by 2015. The first LHA replacement (LHA(R)) ship, LHA-6 America, was placed under contract with us in June 2007, and is scheduled for delivery in 2013. The LHA-6 America-class ships optimize aviation operations and support capabilities. The key differences between LHA-6 and the LHD-1 Wasp-class ships include an enlarged hangar deck, enhanced aviation maintenance facilities, increased aviation fuel capacity, additional aviation storerooms, removal of the well deck and an electronically reconfigurable command, control, computers, communications, intelligence, surveillance and reconnaissance (C4ISR) suite.</td>
</tr>
<tr>
<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>
</tr>
<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.</td>
</tr>
</tbody>
</table>
| NSC-1 Legend-class National Security Cutter   | 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

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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 Bertholf and NSC-2 USCGC Waesche, have been delivered and NSC-3 Stratton is under construction. Long lead time and material procurement is underway for NSC-4 Hamilton.

Refueling and Complex Overhaul (RCOH)  
Perform refueling and complex overhaul (RCOH) of nuclear-powered aircraft carriers, which is required at the mid-point of their 50-year life cycle. CVN-71 USS Theodore Roosevelt is currently undergoing RCOH, marking the fifth CVN RCOH in history. We have already successfully completed the RCOH process for CVN-65 USS Enterprise, CVN-68 USS Nimitz, CVN-69 USS Dwight D. Eisenhower and CVN-70 USS Carl Vinson.

SSBN(X) Ohio-class Submarine Replacement Program  
Act, through an agreement with Electric Boat, as design subcontractor for the Ohio-class replacement boats. The U.S. Navy has committed to designing a replacement class for the aging Ohio-class nuclear ballistic submarines, which were first introduced into service in 1981. The SSBN(X) Ohio-class Submarine Replacement Program represents a new program opportunity for us. Electric Boat is expected to lead the program. Although the contract is not yet negotiated, we expect to share in the design effort and our experience and well-qualified workforce position us for a potential role in the construction effort. The Ohio-class includes 14 ballistic missile submarines (SSBN) and four cruise missile submarines (SSGN). The Ohio-class Submarine Replacement Program currently calls for 12 new ballistic missile submarines over a 15-year period for approximately $4 to $7 billion each. The first Ohio-class ballistic submarine is expected to be retired in 2029, meaning that the first replacement platform should be in commission by that time. The U.S. Navy has initiated the design process for this class of submarine, and we have begun design work as a subcontractor to Electric Boat. We expect to receive $1 billion over the next nine years on subcontract work on the SSBN(X) Ohio-class Submarine Replacement Program design. Construction is expected to begin in 2019 with the procurement of long-lead time materials in 2015.

SSN-774 Virginia-class fast attack submarines  
Construct the newest attack submarine as the principal subcontractor to Electric Boat. The SSN-774 Virginia-class is a post-Cold War design tailored to excel in a wide range of warfighting missions, including anti-submarine and surface ship warfare; special operation forces; strike; intelligence, surveillance, and reconnaissance; carrier and expeditionary strike group support; and mine warfare. The SSN-774 Virginia-class has several innovations which significantly enhance its warfighting capabilities with an emphasis on littoral operations. Through the extensive use of modular construction, open architecture, and commercial off-the-shelf components, the SSN-774 Virginia-class is designed to remain state-of-the-art for the entire operational life of its submarines through the rapid introduction of new systems and payloads. Through a teaming agreement with Electric Boat that provides for approximate equality of work allocated between the parties, we provide SSN-774 Virginia-class nuclear fast attack submarines. Under the teaming agreement, Electric Boat is the prime contractor to whom construction contracts have been awarded in blocks, and we are principal subcontractor. Block I was awarded in 1998 and consisted of four submarines, Block II was awarded in 2003 and consisted of six submarines, and Block III was awarded in 2008 and consisted of eight submarines. We and Electric Boat have delivered the first seven submarines of the class (all four submarines from Block I and three submarines from Block II), have
another five submarines under construction (the remaining three submarines of Block II and the first two submarines of Block III) and have been contracted to deliver an additional six submarines (the remaining six submarines of Block III). Based on expected build rates, the last Block III SSN-774 *Virginia*-class submarine is scheduled for delivery in 2018. We are also investing in our facilities to support the increase in production rate from one to two SSN-774 *Virginia*-class submarines per year beginning in 2011.
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.

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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 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 intend to position ourselves to receive $1 billion over the next nine years on subcontract work on the SSBN(X) **Ohio**-class Submarine Replacement Program design. 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 light of recent quality issues related to the electronics, fiber-optics and communications systems raised by the U.S. Navy regarding LPD-17 ships built by us, 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 its 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 a issue 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 and facilities shutdown-related costs and asset write-downs of $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 prorated over five years consistent with government accounting regulations. However, we do not have an agreement with our customer in place regarding the 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 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.

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 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 others, including, without limitation, Northrop Grumman.

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 would 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.

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 credit availability 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 PriceAnderson 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 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 operations or cash flows. Any claims and litigation, even if fully indemnified or insured, could negatively impact our reputation among our customers and the public, and make it more difficult for us to compete effectively or obtain adequate insurance in the future.

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 $ . It is anticipated that this HII Credit Facility will be undrawn at the time of this spin-off. Given the smaller relative size of the company as compared to Northrop Grumman after the spin-off, we expect to incur higher debt servicing costs on the new indebtedness than we would have otherwise incurred previously as a subsidiary of Northrop Grumman. Our debt upon completion of the spin-off will include (i) a Loan Agreement between Ingalls Shipbuilding, Inc. (“Ingalls”), which is now part of NGSB, and the MBFC, under which we borrowed the proceeds of the MBFC’s 1999 issuance of $83.7 million of Economic Development Revenue Bonds, (ii) a Loan Agreement between Northrop Grumman Ship Systems, Inc. (“NGSS”), which is now part of NGSB, and the MBFC, under which we borrowed the proceeds of the MBFC’s issuance of $200 million of Gulf Opportunity Zone Industrial Revenue Bonds and (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.

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 traded company, we believe that our business will benefit from, among other things, (i) greater strategic focus of financial
resources and management’s efforts, (ii) enhanced 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.

Northrop Grumman is not 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 cause any portion of the spin-off 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 such transactions. 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 traded 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 need assurances that our financial stability on a stand-alone basis is sufficient to satisfy their requirements for doing or continuing to do business with them.

Our customers and prospective customers will need assurances that our financial stability on a stand-alone basis is sufficient to satisfy their requirements for doing or continuing to do business with them. If our customers or prospective customers are not satisfied with our financial stability, it could have a material adverse effect on our ability to bid for and obtain or retain projects, 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 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;
- announcements by us or our competitors of significant acquisitions or dispositions;
- changes in accounting standards, policies, guidance, interpretations or principles;
- the failure of securities analysts to cover our common stock after the spin-off;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- investor perception of our company and the shipbuilding industry;
- natural or environmental disasters that investors believe may affect us;
- overall market fluctuations;
- fluctuations in the budget of the DoD;
- results from any material litigation or Government investigation;
- further reduction or rationalization by us or our competitors of the shipbuilding industrial base as a result of adverse changes to the DoD budget;
- changes in laws and regulations affecting our business; and
• general economic conditions and other external factors.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could adversely affect the trading price of our common stock.

**Substantial sales of our common stock may occur in connection with the spin-off, which could cause the price of our common stock to decline.**

The shares of our common stock that Northrop Grumman distributes to its stockholders generally may be sold immediately in the public market. It is possible that some Northrop Grumman stockholders, which could include some of our larger stockholders, will sell our common stock received in the distribution if, for reasons such as our business profile or market capitalization as an independent company, we do not fit their investment objectives, or — in the case of index funds — we are not a participant in the index in which they are investing. The sales of significant amounts of our common stock or the perception in the market that this will occur may reduce the market price of our common stock.

**We cannot assure you that we will pay dividends on our common stock, and our indebtedness could limit our ability to pay dividends on our common stock.**

We do not currently intend to pay a dividend. Going forward, our dividend policy will be established by our board of directors based on our financial condition, results of operations and capital requirements, as well as applicable law, regulatory constraints, industry practice and other business considerations that our board of directors considers relevant. In addition, the terms of the agreements governing our new debt or debt that we may incur in the future may limit or prohibit the payments of dividends. For more information, see “Dividend Policy.” There can be no assurance that we will pay a dividend in the future or continue to pay any dividend if we do commence the payment of dividends. There can also be no assurance that the combined annual dividends on Northrop Grumman common stock and our common stock after the spin-off, if any, will be equal to the annual dividends on Northrop Grumman common stock prior to the spin-off.

Additionally, indebtedness that we expect to incur in connection with the internal reorganization could have important consequences for holders of our common stock. If we cannot generate sufficient cash flow from operations to meet our debt-payment obligations, then our ability to pay dividends, if so determined by the board of directors, will be impaired and we may be required to attempt to restructure or refinance our debt, raise additional capital or take other actions such as selling assets, reducing or delaying capital expenditures or reducing our dividend. There can be no assurance, however, that any such actions could be effected on satisfactory terms, if at all, or would be permitted by the terms of our new debt or our other credit and contractual arrangements. In addition, the terms of the agreements governing new debt that we expect to incur prior to the spin-off or that we may incur in the future may limit or prohibit the payment of dividends.

**Anti-takeover provisions in our organizational documents and Delaware law 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 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 resulting from any such transactions. 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. 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. As a result, our obligations may discourage, delay or prevent a change of control of our company.

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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.

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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 traded 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 traded 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;”
• Us 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 shares of our common stock for each share of Northrop Grumman common stock held on , 20 , the record date. After completion of the spin-off:

• we will be an independent, publicly traded 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 the following key benefits: (i) greater strategic focus of investment resources and each management’s efforts, (ii) enhanced 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. 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

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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.

Enhanced 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, 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 between us and Northrop
Grumman.

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”). 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:

- Public Stockholders
  - Current NGC
    - NGSC
    - NGSB
  - New NGC
    - III

The diagram below shows the structure of Northrop Grumman after completion of the internal reorganization:

- Public Stockholders
  - New NGC
    - NGSC
    - NGSB

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**Distribution of Shares of Our Common Stock**

Under the Separation and Distribution Agreement, the distribution will be effective as of , 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 shares of our common stock for each share 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:

- Public Stockholders
  - Northrop Grumman (Formerly New NGC)
    - NGSC
  - Titan II Inc. (Formerly Current NGC)
    - NGSB

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.
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 therefore; and
- the holding period of New NGC common stock received in exchange for Current NGC stock in the holding company reorganization will include the period during which the stockholder held the Current NGC common stock, provided the Current NGC common stock is held as a capital asset on the date of the merger in the holding company reorganization.

In the internal reorganization, neither we nor Northrop Grumman will recognize any taxable income, gain or loss.

In the distribution:

- no gain or loss will be recognized by, and no amount will be included in the income of, holders of Northrop Grumman common stock upon their receipt of shares of our common stock in the distribution;
• the basis of Northrop Grumman common stock immediately before the distribution will be allocated between the Northrop Grumman common stock and our common stock received in the distribution, in proportion with relative fair market values at the time of the distribution;
• the holding period of our common stock received by each Northrop Grumman stockholder will include the period during which the stockholder held the Northrop Grumman common stock on which the distribution is made, provided that the Northrop Grumman common stock is held as a capital asset on the distribution date;
• any cash received in lieu of fractional share interest in our common stock will give rise to taxable gain or loss equal to the difference between the amount of cash received and the tax basis allocable to the fractional share interests, determined as described above, and such gain will be capital gain or loss if the Northrop Grumman common stock on which the distribution is made is held as a capital asset on the distribution date; and
• no gain or loss will be recognized by Northrop Grumman upon the distribution of our common stock.

U.S. Treasury regulations require certain stockholders that receive stock in a spin-off to attach to their respective U.S. Federal income tax returns, for the year in which the spin-off occurs, a detailed statement setting forth certain information relating to the spin-off. Shortly after the distribution, Northrop Grumman will provide stockholders who receive our common stock in the distribution with the information necessary to comply with that requirement, as well as information to help stockholders allocate their stock basis between their Northrop Grumman common stock and our common stock.

The IRS Ruling is, and the opinion of counsel will be, conditioned on the truthfulness and completeness of certain factual statements and representations provided by Northrop Grumman and us. If those factual statements and representations are incomplete or untrue in any material respect, the IRS Ruling and opinion of counsel could become inoperative. Northrop Grumman and we have reviewed the statements of fact and representations on which the IRS Ruling is, and the opinion of counsel will be, based, and neither Northrop Grumman nor we are aware of any facts or circumstances that would cause any of the statements of fact or representations to be incomplete or untrue. Both Northrop Grumman and we have agreed to some restrictions on our future actions to provide further assurance that the distribution will qualify as a tax-free distribution under Section 355 of the Code.

If the holding company reorganization does not qualify as a tax-free reorganization, taxable gain or loss would be recognized by each holder of Northrop Grumman stock. The amount of such gain or loss would be equal to the difference between the fair market value of such holder’s New NGC stock (including our stock received in the distribution) and such holder’s adjusted basis in his, her or its Current NGC stock. In addition, if the holding company reorganization does not qualify as a tax-free organization, taxable gain would be recognized by Northrop Grumman. The amount of such gain would result in a significant 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 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 Northrop Grumman Systems Corporation, 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 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 traded 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 __________, 20__. 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 as of the record date 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, shares of our common stock, based on the distribution ratio for each share 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 our common stock or prohibit employees who use self-directed accounts in the HII 401(k) Plan from investing their accounts in our 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 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 , 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 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, which shall remain in full force and effect, that the spin-off 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 received (i) the net proceeds from the HII Debt and made the Contribution and (ii) entered into the HII Credit Facility, all on terms and conditions acceptable to Northrop Grumman;

• no order, injunction or decree pending, threatened or issued by any governmental authority of competent jurisdiction or 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 date that, in the judgment of the board of directors of Northrop Grumman, would result in the spin-off having a material adverse effect on Northrop Grumman or its stockholders;

• prior to the distribution date, 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 be the members of our board of directors immediately after the distribution;

• prior to the distribution, Northrop Grumman shall have delivered to us resignations from those HII positions, effective as of immediately after the distribution, of each individual who will be an employee of Northrop Grumman after the distribution and who is our officer or director prior to the distribution; and

• immediately prior to the distribution date, 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 , 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.

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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>As of September 30, 2010</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(unaudited)</td>
</tr>
<tr>
<td>Cash and Cash Equivalents(1)</td>
<td>$—</td>
</tr>
</tbody>
</table>

Capitalization:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Historical</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total current liabilities</td>
<td>2,004</td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>283</td>
<td></td>
</tr>
<tr>
<td>Other post-retirement plan liabilities</td>
<td>512</td>
<td></td>
</tr>
<tr>
<td>Pension plan liabilities</td>
<td>406</td>
<td></td>
</tr>
<tr>
<td>Workers’ compensation liabilities</td>
<td>267</td>
<td></td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>152</td>
<td></td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>74</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity</th>
<th>Historical</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock ($1.00 par value)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Preferred stock (authorized but unissued, par value $1.00)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Parent’s equity in unit(1)</td>
<td>1,985</td>
<td>—</td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(498)</td>
<td>—</td>
</tr>
</tbody>
</table>

Total capitalization | $5,185 | $ |

(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 net effect of transfers of cash to and from the Northrop Grumman cash management accounts are reflected in the parent’s equity in unit account in the consolidated statements of financial position.
SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents the selected historical condensed consolidated financial data for NGSB. The condensed consolidated financial data set forth below for the years ended December 31, 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 traded 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>Year ended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>September 30</td>
<td>December 31</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
<td>2008</td>
</tr>
<tr>
<td>Sales and service revenues</td>
<td>$4,987</td>
<td>$4,610</td>
<td>$6,292</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td></td>
<td></td>
<td>2,490</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>144</td>
<td>146</td>
<td>211</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>72</td>
<td>81</td>
<td>124</td>
</tr>
<tr>
<td>Total assets</td>
<td>5,185</td>
<td>5,001</td>
<td>4,760</td>
</tr>
<tr>
<td>Long-term debt</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>1,790</td>
</tr>
<tr>
<td>Free cash flow (1)</td>
<td>55</td>
<td>(329)</td>
<td>(269)</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.
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 distribution of HII common stock by Northrop Grumman to its stockholders; and (ii) 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 traded company during such periods. In addition, they are not necessarily indicative of our future results of operations or financial condition.
### HII

**Unaudited Pro Forma Condensed Consolidated Income Statement**

**Year ended December 31, 2009**

<table>
<thead>
<tr>
<th></th>
<th>Historical</th>
<th>Pro Forma Adjustments</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>
</tr>
<tr>
<td><strong>Cost of sales and service revenues</strong></td>
<td>6,081</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating income (loss)</strong></td>
<td>211</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other (expense) income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>(36)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other, net</strong></td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Earnings (loss) before income taxes</strong></td>
<td>176</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Federal income taxes</strong></td>
<td>52</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net earnings (loss)</strong></td>
<td>$124</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>Other comprehensive income (loss), net of tax</strong></td>
<td>86</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Comprehensive income (loss)</strong></td>
<td>$210</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

**Pro forma earnings per share from continuing operations**

<table>
<thead>
<tr>
<th></th>
<th>Basic</th>
<th>Diluted</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pro forma weighted-average shares outstanding</strong></td>
<td>Basic</td>
<td>Diluted</td>
</tr>
</tbody>
</table>

*See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements.*

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**Unaudited Pro Forma Condensed Consolidated Income Statement**

*Nine months ended September 30, 2010*

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>Historical</th>
<th>Pro Forma Adjustments</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales and service revenues</strong></td>
<td>$4,987</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>Cost of sales and service revenues</strong></td>
<td>4,843</td>
<td>[A]</td>
<td></td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>144</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other expense</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>(30)</td>
<td>[B]</td>
<td></td>
</tr>
<tr>
<td><strong>Earnings before income taxes</strong></td>
<td>114</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Federal income taxes</strong></td>
<td>42</td>
<td>[A]</td>
<td></td>
</tr>
<tr>
<td><strong>Net earnings</strong></td>
<td>$72</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>Other comprehensive income, net of tax</strong></td>
<td>33</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Comprehensive income</strong></td>
<td>$105</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

**Pro forma earnings per share from continuing operations**
- **Basic**
- **Diluted**

**Pro forma weighted-average shares outstanding**
- **Basic**
- **Diluted**

*See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements.*

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## HII

### Unaudited Pro Forma Condensed Consolidated Balance Sheet

#### September 30, 2010

<table>
<thead>
<tr>
<th></th>
<th>Historical</th>
<th>Pro Forma Adjustments</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Sheet Data:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>$755</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Inventoried costs, net</td>
<td>295</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>293</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>22</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>1,365</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment, net</td>
<td>1,929</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>1,134</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other purchased intangibles, net of accumulated amortization</td>
<td>591</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension plan asset</td>
<td>110</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous other assets</td>
<td>56</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total other assets</strong></td>
<td>1,891</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$5,185</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td><strong>Liabilities and equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes payable to parent</td>
<td></td>
<td>537</td>
<td>[D]</td>
</tr>
<tr>
<td>Trade accounts payable</td>
<td></td>
<td>218</td>
<td>[C]</td>
</tr>
<tr>
<td>Current portion of workers’ compensation liabilities</td>
<td></td>
<td>256</td>
<td></td>
</tr>
<tr>
<td>Accrued interest on notes payable to parent</td>
<td></td>
<td>232</td>
<td>[D]</td>
</tr>
<tr>
<td>Current portion of post-retirement plan liabilities</td>
<td></td>
<td>175</td>
<td></td>
</tr>
<tr>
<td>Accrued employees' compensation</td>
<td></td>
<td>186</td>
<td></td>
</tr>
<tr>
<td>Provision for contract losses</td>
<td></td>
<td>102</td>
<td></td>
</tr>
<tr>
<td>Advance payments and billings in excess of costs incurred</td>
<td></td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Other current liabilities</td>
<td></td>
<td>218</td>
<td></td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>2,004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td></td>
<td>283</td>
<td>[C]</td>
</tr>
<tr>
<td>Other post-retirement plan liabilities</td>
<td></td>
<td>512</td>
<td></td>
</tr>
<tr>
<td>Pension plan liabilities</td>
<td></td>
<td>406</td>
<td></td>
</tr>
<tr>
<td>Workers’ compensation liabilities</td>
<td></td>
<td>267</td>
<td></td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td></td>
<td>152</td>
<td></td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td></td>
<td>74</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>3,698</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock (par value $1.00)</td>
<td></td>
<td>—</td>
<td>[D]</td>
</tr>
<tr>
<td>Preferred stock (authorized but unissued, par value $1.00)</td>
<td></td>
<td>—</td>
<td>[D]</td>
</tr>
<tr>
<td>Parent’s equity in unit</td>
<td></td>
<td>1,985</td>
<td>[D]</td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td></td>
<td>(498)</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>$5,185</td>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>

*See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements.*

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Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

[A] The adjustment to Federal income taxes represents the tax effect of the pro forma adjustment impacting Earnings (loss) before income taxes discussed in [B] below, calculated using the U.S. effective tax rate of 35%, for the nine months ended September 30, 2010.

[B] The adjustment to Interest expense reflects HII’s issuance of $ of debt in 20 at an interest rate of % as described in Note [C] below.

[C] The adjustment to Trade accounts payable and Long-term debt reflects the HII Debt in an amount of $ , at an interest rate of %, maturing on , 20 and the Contribution in the amount of $ to NGSC, the primary operating subsidiary of Northrop Grumman after completion of the spin-off. Any costs and expenses related to obtaining the HII Debt will be capitalized in accordance with GAAP.

[D] The adjustment to Notes payable to parent, Accrued interest on notes payable to parent, Common stock and Parent’s equity in unit represent the recapitalization of HII in which our common stock held by Northrop Grumman will be converted into approximately shares of common stock. In connection with this recapitalization, the amount of Northrop Grumman’s net investment in HII, including intercompany debt which was recorded as Notes payable to parent in our consolidated statement of financial position, was reclassified to Additional paid-in capital.
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 , 20 , Northrop Grumman approved the spin-off of HII from Northrop Grumman, following which we will be an independent, publicly traded 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 traded 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 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 Federal Acquisition Regulation (“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 September 30</th>
<th>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>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 September 30</th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<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

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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 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>788</td>
<td>1,027</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 employee compensation costs and increased state income tax expense. 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. 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 and lower state tax expense. 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.”

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>$ in millions</th>
<th>Nine months ended September 30</th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and Service Revenues</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>Total sales and service revenues</td>
<td>$4,987</td>
<td>$4,610</td>
</tr>
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</table>

<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>Operating Income (Loss)</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>Total Segment Operating Income (Loss)</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>Total operating income (loss)</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 14.
Gulf Coast

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>$ in millions</th>
<th>Nine months ended September 30</th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<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>

Sales and Service Revenues

*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></th>
<th>September 30, 2010</th>
<th>December 31, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Funded</td>
<td>Unfunded</td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>$ 4,095</td>
<td>$ 671</td>
</tr>
<tr>
<td>Newport News</td>
<td>5,807</td>
<td>6,539</td>
</tr>
<tr>
<td>Total backlog</td>
<td>$ 9,902</td>
<td>$ 7,210</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. 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 traded 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. 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”). 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. 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 , 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 estimated at $. It is anticipated that this HII Credit Facility will be undrawn at the time of this spin-off.

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 any capital needed in excess of the amounts generated by our operating activities. After completion of the spin-off, we will be an independent, publicly traded 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 traded 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 2010, NGSB purchased $ 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, $ 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 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>Contractual Obligations with Pro Forma Adjustments</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ in millions</td>
</tr>
<tr>
<td>Notes payable to parent (1)</td>
</tr>
<tr>
<td>Accrued interest on notes payable to parent (1)</td>
</tr>
<tr>
<td>Long-term debt</td>
</tr>
<tr>
<td>Interest payments on long-term debt</td>
</tr>
<tr>
<td>Operating leases</td>
</tr>
<tr>
<td>Purchase obligations (2)</td>
</tr>
<tr>
<td>Other long-term liabilities (3)</td>
</tr>
<tr>
<td>Total contractual obligations</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 New Ships (749) (749) - - -

Portion of long-term debt retired through 2010 tender offer 0 0 - - -

Interest payments on long-term debt retired through tender 0 0 - - -

Interest payments on New Ships Debt 0 0 - - -

Notes payable to parent and accrued interest contributed by Northrop Grumman to the capital of New Ships

Portion of long-term debt retired through 2010 tender offer

Interest payments on long-term debt retired through tender

Interest payments on New Ships Debt

(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.
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.

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 refueler of nuclear-powered aircraft carriers, the sole supplier and builder of amphibious assault and expeditionary warfare ships to the U.S. Navy, the sole builder of National Security Cutters for the U.S. Coast Guard, one of only two companies currently designing and building nuclear-powered submarines for the U.S. Navy and one of only two companies that builds the U.S. Navy’s current fleet of DDG-51 Arleigh Burke-class destroyers. We build more ships, in more ship types and classes, than any other U.S. naval shipbuilder. We are also a full-service systems provider for the design, engineering, construction and life cycle support of major programs for 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:

<table>
<thead>
<tr>
<th>Newport News Programs</th>
<th>Program Name</th>
<th>Program Description</th>
<th>Contract Overview</th>
<th>Funding Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrier New Construction CVN-78 Gerald R. Ford-class</td>
<td>• New aircraft carrier for the 21st century&lt;br&gt;• Increased warfighting capabilities&lt;br&gt;• New propulsion plant&lt;br&gt;• Reduced ship manning&lt;br&gt;• Focused on operating cost reduction&lt;br&gt;• Designed for modular construction</td>
<td>• Cost plus incentive fee&lt;br&gt;• Exclusive provider&lt;br&gt;• Incentivized capital investment under the planning contract&lt;br&gt;• 8-year design, 7.5-year construction</td>
<td>• New construction contract expected to be awarded approximately every 5 years</td>
<td></td>
</tr>
<tr>
<td>Carrier RCOH</td>
<td>• Complex overhaul of the ship’s machinery and equipment&lt;br&gt;• Refueling of both of the ship’s reactors&lt;br&gt;• Significant renovation and modernization work</td>
<td>• Cost plus incentive fee&lt;br&gt;• Exclusive provider&lt;br&gt;• 3-year advanced planning&lt;br&gt;• Approximately 3.5-year overhaul execution</td>
<td>• RCOH Execution contracts expected to be awarded approximately every 4 years</td>
<td></td>
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<tr>
<td>Submarine New Construction SSN-774 Virginia-class and Fleet Support</td>
<td>• Post-Cold War design focused on maneuverability, stealth, warfighting capability and affordability&lt;br&gt;• Designed for modular construction&lt;br&gt;• Constructed under a teaming agreement with Electric Boat&lt;br&gt;• Planning yard services for Los Angeles-class and Seawolf-class</td>
<td>• Fixed price incentive&lt;br&gt;• Exclusive provider through joint production arrangement&lt;br&gt;• Incentivized capital investment&lt;br&gt;• Multi-ship buys&lt;br&gt;• 5-year construction</td>
<td>• Rate increasing from 1 to 2 annually in 2011&lt;br&gt;• 7 delivered, 11 additional in program backlog&lt;br&gt;• Block IV expected to include 9 submarines with anticipated award at the end of 2013</td>
<td></td>
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</tbody>
</table>
The table below sets forth the potential future programs in our Newport News segment:

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Program Description</th>
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</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 Nimitz-class carriers expected to be awarded approximately every 4 years beginning in 2023 |
| 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 San Antonio-class amphibious transport dock ships: LPD-22 San Diego (scheduled for delivery in 2011) and LPD-24 Arlington (scheduled for delivery in 2012) in our Pascagoula, Mississippi shipyard, and LPD-23 Anchorage (scheduled for delivery in 2012) and LPD-25 Somerset (scheduled for delivery in 2013) in our Avondale shipyard. Long-lead procurement is currently underway for LPD-26. As we complete work on LPD-23 Anchorage and LPD-25 Somerset, we intend to wind down our construction activities at Avondale, our Louisiana shipyard, and two Louisiana components facilities and consolidate all Gulf Coast construction into our Mississippi facilities. We believe that consolidation in Pascagoula would allow us to realize the benefits of serial production, reduce program costs on existing contracts and make future vessels more affordable, thereby reducing overhead rates and realizing cost savings for the U.S. Navy and the U.S. Coast Guard. We are also exploring the potential for alternative uses of the Avondale facility by new owners, including alternative opportunities for the workforce there. We expect that process to take some time.
In 2009, construction of the LHD-1 Wasp-class amphibious assault ships was concluded with the delivery of LHD-8 USS Makin Island, and the first ship of the follow-on class of large-deck amphibious assault ships, LHA-6 America, is currently under construction and we expect to deliver it in 2013. Long-lead procurement is currently underway for LHA-7.

We are one of only two companies that build the U.S. Navy’s current fleet of DDG-51 Arleigh Burke-class destroyers, a program for which the U.S. Navy recently decided to restart production. 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 December 2010). 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:

<table>
<thead>
<tr>
<th>Gulf Coast Programs</th>
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<tbody>
<tr>
<td><strong>Program Name</strong></td>
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</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 |
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

The table below sets forth a potential future program in our Gulf Coast segment:

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Program Description</th>
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<tbody>
<tr>
<td>LSD(X) Amphibious Dock Landing Ship</td>
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</table>
- Expected to begin in 2017  
- 30-Year Plan calls for 12 LSD(X) ships (one every other year)  
- 4-year construction |

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

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• 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 19 of the U.S. Navy’s 31 classes of ship. We build more ships, in more types and classes, than any other U.S. naval shipbuilder and we are the exclusive builder of eight of U.S. Navy’s 31 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 eight of the U.S. Navy’s 31 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 stern, 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 expect to receive $1 billion over the next nine years on subcontract work on the SSBN(X) Ohio-class Submarine Replacement Program design. 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 December 2010). 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-101 *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 the fourth quarter of 2010 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...
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 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 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.

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."

**Competition**

We primarily compete with General Dynamics and to a lesser extent with smaller shipyards, one or more of whom may be teamed with a large defense contractor. Intense competition related to programs, resources and funding, and long operating cycles are both key characteristics of our business and the defense industry. It is common in this industry for work on major programs to be shared among a number of companies. A company competing to be a prime contractor may, upon ultimate award of the contract to another party, turn out to be a subcontractor for the ultimate prime contracting party. It is not uncommon to compete for a contract award with a peer company and, simultaneously, perform as a supplier to or a customer of such competitor on other contracts. The nature of major defense programs, conducted under binding contracts, allows companies that perform well to benefit from a level of program continuity not common in many industries.

We believe we are well-positioned in the market. Because we are the only company currently capable of building and refueling the U.S. Navy’s nuclear-powered aircraft carriers, we believe we are in a strong competitive position to be awarded any contracts to build or refuel nuclear-powered aircraft carriers. We are the only builder of large deck amphibious assault and expeditionary warfare ships for the U.S. Navy, including LHD, LHA and LPD, and would be positioned to be awarded any future contracts for these types of vessels. Our success in the competitive shipbuilding defense industry depends upon our ability to develop, market and produce our products and services at a cost consistent with the U.S. Navy’s budget, as well as our ability to provide the people, technologies, facilities, equipment and financial capacity needed to deliver those products and services with maximum efficiency.

**Environmental, Health and Safety**

Our manufacturing operations are subject to and affected by federal, state and local laws and regulations relating to the protection of the environment. We provide for the estimated cost to complete environmental remediation where we determine it is probable that we will incur such costs in the future in amounts we can reasonably estimate to address environmental impacts at currently or formerly owned or leased operating facilities, or at sites where we are named a Potentially Responsible Party ("PRP") by the U.S. Environmental Protection Agency or similarly designated by other environmental agencies. These estimates may change given the inherent difficulty in estimating environmental cleanup costs to be incurred in the future due to the uncertainties regarding the extent of the required cleanup, determination of legally responsible parties, and the status of laws, regulations and their interpretations.

We assess the potential impact on our financial statements by estimating the range of reasonably possible remediation costs that we could incur on a site-by-site basis, taking into account currently available facts on each site as well as the current state of technology and prior experience in remediating contaminated sites. We review our estimates periodically and adjust them to reflect changes in facts and technical and legal circumstances. We record accruals for environmental cleanup costs in the accounting period in which it becomes probable we have incurred a liability and the costs can be reasonably estimated. We record insurance recoveries only when we determine that collection is probable and we do not include any litigation costs related to environmental matters in our environmental remediation accrual.

We estimate that as of December 31, 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 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 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.

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
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 shutdown for several days and a resulting minor delay in ship construction throughout the yards; however, the storm caused no significant physical damage to the yards, we believe in part due to our successful hardening and improvement after Hurricane Katrina. Hurricane Ike severely impacted a subcontractor’s operations in Texas. The subcontractor produced compartments for two of the LPD amphibious transport dock ships under construction at the Gulf Coast shipyards. As a result of the delays and cost growth caused by the subcontractor’s production delays, our operating income was reduced during the second half of 2008.

We intend to wind down our construction activities at Avondale, our Louisiana shipyard, in 2013 and two Louisiana components facilities by 2013 and consolidate all Gulf Coast construction into our Mississippi facilities. We expect that consolidation of operations in Mississippi would reduce program costs on existing contracts and make future vessels more affordable, thereby reducing rates and realizing cost savings for the U.S. Navy and the U.S. Coast Guard. We are also exploring the potential for alternative uses of the Avondale facility by new owners, including alternative opportunities for the workforce there. We expect that process to take some time.

Legal Proceedings

U.S. Government Investigations and Claims. Departments and agencies of the U.S. Government have the authority to investigate various transactions and operations of our company, and the results of such investigations may lead to administrative, civil or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments or compensatory or treble damages. U.S. Government regulations provide that certain findings against a contractor may lead to suspension or debarment from future U.S. Government contracts or the loss of export privileges for a company or a division or subdivision. Suspension or debarment could have a material adverse effect on us because of our reliance on government contracts.
In the second quarter of 2007, the U.S. Coast Guard issued a revocation of acceptance under the Deepwater Modernization Program for eight converted 123-foot patrol boats (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 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.”
MANAGEMENT

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. Petter’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. Shalikashvilli 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 Corp. His service included six tours in Washington, D.C. and five Commands in the Pacific, Indian Ocean and Middle East.

**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 our system of internal controls. In addition, the Audit Committee will appoint or discharge our independent auditor, and review and approve auditing services and permissible non-audit services to be provided by the independent auditor in order to evaluate the impact of undertaking such added services on the independence of the auditor. The responsibilities of the Audit Committee, which are anticipated to be substantially identical to the responsibilities of Northrop Grumman’s Audit Committee, will be more fully described in our Audit Committee charter. The Audit Committee charter will be posted on our website at www. .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 re-election 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 (1) ($)</th>
<th>Stock Awards (2) ($)</th>
<th>Total ($)</th>
</tr>
</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>
</tr>
<tr>
<td>Audit Committee Chair Retainer</td>
<td>20,000</td>
</tr>
<tr>
<td>Compensation Committee Chair Retainer</td>
<td>10,000</td>
</tr>
<tr>
<td>Governance Committee Chair Retainer</td>
<td>10,000</td>
</tr>
<tr>
<td>Policy Committee Chair Retainer</td>
<td>7,500</td>
</tr>
<tr>
<td>Non-executive Chairman of the Board</td>
<td>250,000</td>
</tr>
</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>

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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:

Comensation 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:

<table>
<thead>
<tr>
<th>Target Industry Peer Group</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Alcoa, Inc.</td>
<td>Honeywell International, Inc.</td>
</tr>
<tr>
<td>The Boeing Co.</td>
<td>Johnson &amp; Johnson</td>
</tr>
<tr>
<td>The Dow Chemical Co.</td>
<td>Lockheed Martin Corp.</td>
</tr>
<tr>
<td>E. I. du Pont de Nemours &amp; Co.</td>
<td>Raytheon Co.</td>
</tr>
<tr>
<td>General Dynamics Corp.</td>
<td>United Technologies Corp.</td>
</tr>
<tr>
<td>General Electric Co.</td>
<td></td>
</tr>
</tbody>
</table>
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:

<table>
<thead>
<tr>
<th>General Industry Peer Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>3M</td>
</tr>
<tr>
<td>Abbott Laboratories</td>
</tr>
<tr>
<td>The Boeing Co.</td>
</tr>
<tr>
<td>Caterpillar, Inc.</td>
</tr>
<tr>
<td>Chevron Corp.</td>
</tr>
<tr>
<td>Comcast Corp.</td>
</tr>
<tr>
<td>CVGS Corp.</td>
</tr>
<tr>
<td>Deere &amp; Co.</td>
</tr>
<tr>
<td>The Dow Chemical Co.</td>
</tr>
<tr>
<td>Emerson Electric Co.</td>
</tr>
<tr>
<td>FedEx Corp.</td>
</tr>
<tr>
<td>General Dynamics Corp.</td>
</tr>
<tr>
<td>General Electric Co.</td>
</tr>
<tr>
<td>General Motors Corp.</td>
</tr>
<tr>
<td>Honeywell International, Inc.</td>
</tr>
<tr>
<td>Humana, Inc.</td>
</tr>
<tr>
<td>IBM Corp.</td>
</tr>
<tr>
<td>International Paper Co.</td>
</tr>
<tr>
<td>Johnson &amp; Johnson</td>
</tr>
<tr>
<td>Johnson Controls, Inc.</td>
</tr>
<tr>
<td>Kraft Foods, Inc.</td>
</tr>
<tr>
<td>Lockheed Martin Corp.</td>
</tr>
<tr>
<td>Lowe’s Companies, Inc.</td>
</tr>
<tr>
<td>Macy’s, Inc.</td>
</tr>
<tr>
<td>Medco Health Solutions, Inc.</td>
</tr>
<tr>
<td>PepsiCo, Inc.</td>
</tr>
<tr>
<td>Philip Morris International</td>
</tr>
<tr>
<td>The Procter &amp; Gamble Co.</td>
</tr>
<tr>
<td>Sears Holding Corp.</td>
</tr>
<tr>
<td>Target Corp.</td>
</tr>
<tr>
<td>Time Warner, Inc.</td>
</tr>
<tr>
<td>United Technologies Corp.</td>
</tr>
<tr>
<td>Valero Energy Corp.</td>
</tr>
<tr>
<td>The Walt Disney Co.</td>
</tr>
<tr>
<td>Wellpoint, Inc.</td>
</tr>
</tbody>
</table>

**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.

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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.

SECTION II
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  
                         |                           | 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:  
                         |                           | Equity              |
| Other Benefits          | • supplemental retirement, savings, medical, severance and change-in-control plans consistent with industry practice | Not variable | Cash |

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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:

\[
\text{Base Salary} \times \text{Target \%} = \text{Target Bonus}
\]

\[
\text{Target Bonus} \times \text{CPF (or SPF)} \times \text{IPF} = \text{Final Bonus Award}
\]

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

<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 Funding</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>$299</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% 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% each, becoming fully vested after three years and expiring after seven years.

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. For other NEOs who were not general managers, the Northrop Grumman CEO approved awards 100% in the form of RPSRs.

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.

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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.

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**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:

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For our President

- Lump sum cash payment = \(1\frac{1}{2} \times (\text{Base Salary} + \text{Target Bonus})\)
- 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
- Auto allowance for one year in the amount of $13,000

For the Remaining HII NEOs

- Lump sum cash payment = \(1 \times (\text{Base Salary} + \text{Target Bonus})\)
- Continue to pay portion of medical & dental benefits for 12 months concurrent with COBRA coverage. The employee is responsible for his/her portion
- Outplacement assistance up to 1 year after termination
- Continued reimbursement of eligible financial planning expenses for the year of termination and the following year, up to a maximum of $5,000 per year

Additional information on the benefits provided under 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\(\frac{1}{2}\) x base salary

Shares that satisfy the stock ownership guidelines included:

- Stock owned outright by an officer
- Restricted Stock Rights, whether or not vested
- Value of equivalent shares held in the Northrop Grumman Savings Plan 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 (1) ($)</th>
<th>Bonus ($)</th>
<th>Stock Awards (2) ($)</th>
<th>Option Awards (3) ($)</th>
<th>Non-Equity Incentive Plan Compensation ($)</th>
<th>Change in Pension Value and Non-Qualified Deferred Compensation ($)</th>
<th>All Other Compensation (5) ($)</th>
<th>Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters, President and Chief Executive Officer</td>
<td>2009</td>
<td>572,788</td>
<td>0</td>
<td>1,490,069</td>
<td>861,877</td>
<td>350,000</td>
<td>593,065</td>
<td>76,789</td>
<td>3,944,588</td>
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<td>2008</td>
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<td>2,169,476</td>
<td>946,494</td>
<td>603,750</td>
<td>490,672</td>
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<td>2007</td>
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<td>584,380</td>
<td>660,000</td>
<td>439,476</td>
<td>57,529</td>
<td>3,348,864</td>
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<tr>
<td>Barbara A. Niland, Vice President and Chief Financial Officer</td>
<td>2009</td>
<td>312,115</td>
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<td>920,387</td>
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<td>2008</td>
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<td>174,300</td>
<td>376,568</td>
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<td>1,476,677</td>
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<td>2007</td>
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<td>192,100</td>
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<td>76,337</td>
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<td>Irwin F. Edenzon, Vice President and General Manager – Gulf Coast Operations</td>
<td>2009</td>
<td>347,115</td>
<td>0</td>
<td>1,051,902</td>
<td>59,061</td>
<td>140,000</td>
<td>340,778</td>
<td>60,144</td>
<td>1,999,000</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>322,231</td>
<td>0</td>
<td>512,947</td>
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<td>266,050</td>
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<td>2007</td>
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<td>176,500</td>
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<td>76,046</td>
<td>947,580</td>
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<tr>
<td>Matthew J. Mulherin, Vice President and General Manager – Newport News Operations</td>
<td>2009</td>
<td>347,115</td>
<td>0</td>
<td>1,051,902</td>
<td>59,061</td>
<td>140,000</td>
<td>273,103</td>
<td>73,885</td>
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<td>2008</td>
<td>328,040</td>
<td>0</td>
<td>552,348</td>
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<td>199,200</td>
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<td>75,601</td>
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<td>2007</td>
<td>273,413</td>
<td>0</td>
<td>437,567</td>
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<td>219,500</td>
<td>197,672</td>
<td>73,094</td>
<td>1,201,246</td>
</tr>
<tr>
<td>William R. Ermatinger, Vice President and Chief Human Resources Officer</td>
<td>2009</td>
<td>267,471</td>
<td>0</td>
<td>670,603</td>
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<td>90,000</td>
<td>309,530</td>
<td>75,247</td>
<td>1,412,851</td>
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<td>2008</td>
<td>257,500</td>
<td>0</td>
<td>328,452</td>
<td>0</td>
<td>124,500</td>
<td>256,685</td>
<td>75,263</td>
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<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>
</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>Threshold ($)</th>
<th>Target ($)</th>
<th>Maximum ($)</th>
<th>Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)</th>
<th>Estimated Future Payouts Under Equity Incentive Plan Awards (2)</th>
<th>All Other Stock Awards: Number of Shares of Stock orUnits Underlying Options (3)</th>
<th>All Other Option Awards: Number of Securities Underlying Options (4)</th>
<th>Exercise or Base Price of Option Awards (S/$B)</th>
<th>Grant Date Fair Value of Stock and Option Awards (4)</th>
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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>
<td>0</td>
<td>0</td>
<td>119,050</td>
<td>44.99</td>
<td>1,490,069</td>
<td>861,877</td>
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<tr>
<td>President and Chief</td>
<td>RPSRs</td>
<td>2/17/09</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>44.99</td>
<td></td>
<td></td>
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<tr>
<td>Executive Officer</td>
<td>Options</td>
<td>2/17/09</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></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>
<td>260,000</td>
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<td>0</td>
<td>12,786</td>
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<td>Vice President and Chief</td>
<td>RPSRs</td>
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<tr>
<td>Irwin F. Edenzon</td>
<td>Incentive</td>
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<td>0</td>
<td>162,000</td>
<td>324,000</td>
<td>0</td>
<td>14,613</td>
<td>7,469</td>
<td>44.99</td>
<td>1,051,902</td>
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<tr>
<td>Vice President and General</td>
<td>RPSRs</td>
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<tr>
<td>Manager – Gulf Coast</td>
<td>Options</td>
<td>2/17/09</td>
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<tr>
<td>Operations</td>
<td>Options</td>
<td>2/17/09</td>
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<tr>
<td>Matthew J. Mulherin</td>
<td>Incentive</td>
<td>2/17/09</td>
<td>0</td>
<td>162,000</td>
<td>324,000</td>
<td>0</td>
<td>14,613</td>
<td>7,469</td>
<td>44.99</td>
<td>1,051,902</td>
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<tr>
<td>Vice President and General</td>
<td>RPSRs</td>
<td>2/17/09</td>
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<tr>
<td>Manager – Newport News</td>
<td>Options</td>
<td>2/17/09</td>
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<td>William R. Ermatinger</td>
<td>Incentive</td>
<td>2/17/09</td>
<td>0</td>
<td>111,700</td>
<td>223,400</td>
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<td>9,316</td>
<td>7,469</td>
<td>44.99</td>
<td>670,603</td>
<td></td>
</tr>
<tr>
<td>Vice President and Chief</td>
<td>RPSRs</td>
<td>2/17/09</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Human Resources Officer</td>
<td>RPSRs</td>
<td>2/17/09</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Footnotes:

1. Amounts in these columns show the range of payouts that was possible under Northrop Grumman’s annual bonus plan based on performance during 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 (3)</th>
<th>Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights that Have Not Vested (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Securities</td>
<td></td>
<td>Number of Securities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Underlying Unearned Options (a)</td>
<td></td>
<td>Underlying Unearned Options (a)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Exercisable (1)</td>
<td></td>
<td>Unexercisable (1)</td>
<td></td>
</tr>
<tr>
<td>C. Michael Petters</td>
<td>0</td>
<td>119,050</td>
<td>0</td>
<td>2/17/09</td>
</tr>
<tr>
<td>President and Chief</td>
<td>19,850</td>
<td>39,700</td>
<td>0</td>
<td>2/27/08</td>
</tr>
<tr>
<td>Executive Officer</td>
<td>18,000</td>
<td>18,000</td>
<td>0</td>
<td>2/28/07</td>
</tr>
<tr>
<td></td>
<td>30,000</td>
<td>10,000</td>
<td>0</td>
<td>2/15/06</td>
</tr>
<tr>
<td></td>
<td>20,000</td>
<td>0</td>
<td>0</td>
<td>11/3/04</td>
</tr>
<tr>
<td></td>
<td>10,000</td>
<td>0</td>
<td>0</td>
<td>6/14/04</td>
</tr>
<tr>
<td></td>
<td>8,000</td>
<td>0</td>
<td>0</td>
<td>8/20/03</td>
</tr>
<tr>
<td></td>
<td>8,000</td>
<td>0</td>
<td>0</td>
<td>8/20/02</td>
</tr>
<tr>
<td></td>
<td>4,000</td>
<td>0</td>
<td>0</td>
<td>1/18/02</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2/17/09</td>
</tr>
<tr>
<td>Vice President and</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2/27/08</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2/28/07</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>0</td>
<td>7,469</td>
<td>0</td>
<td>2/17/09</td>
</tr>
<tr>
<td>Vice President and</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2/27/08</td>
</tr>
<tr>
<td>General Manager –</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3/20/08</td>
</tr>
<tr>
<td>Gulf Coast Operations</td>
<td>0</td>
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<td>0</td>
<td>2/28/07</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>0</td>
<td>7,469</td>
<td>0</td>
<td>2/17/09</td>
</tr>
<tr>
<td>Vice President and</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2/27/08</td>
</tr>
<tr>
<td>General Manager –</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2/28/07</td>
</tr>
<tr>
<td>Newport News</td>
<td>8,000</td>
<td>0</td>
<td>0</td>
<td>6/14/04</td>
</tr>
<tr>
<td>Operations</td>
<td>5,000</td>
<td>0</td>
<td>0</td>
<td>8/20/03</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>0</td>
<td>7,469</td>
<td>0</td>
<td>2/17/09</td>
</tr>
<tr>
<td>Vice President and</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2/27/08</td>
</tr>
<tr>
<td>Chief Human</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2/28/07</td>
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<tr>
<td>Resources Officer</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2/28/07</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>Option Awards</th>
<th>Stock Awards</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Shares Acquired on Exercise (#)</td>
<td>Value Realized on Exercise ($)</td>
</tr>
<tr>
<td>C. Michael Petters</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>President and Chief Executive Officer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and Chief Financial Officer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and General Manager – Gulf Coast Operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and Chief Human Resources Officer</td>
<td></td>
<td></td>
</tr>
</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 (#)</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>
</tr>
<tr>
<td>President and Chief Executive Officer</td>
<td></td>
<td></td>
<td>1,871,122</td>
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</tr>
<tr>
<td>Officer</td>
<td>NNS Restoration</td>
<td>21.50</td>
<td></td>
<td>426,153</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></td>
<td>239,594</td>
<td>0</td>
</tr>
<tr>
<td>Officer</td>
<td>ERISA 2</td>
<td>6.50</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>ES Executive Pension Plan</td>
<td>31.00</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>NNS Salaried Pension Plan</td>
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<td></td>
<td>510,898</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</td>
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<td>351,210</td>
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<tr>
<td>Coast Operations</td>
<td>NNS Restoration</td>
<td>12.17</td>
<td></td>
<td>370,992</td>
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<tr>
<td></td>
<td>NNS Salaried Pension Plan</td>
<td>12.17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>OSERP</td>
<td>29.00</td>
<td>704,697</td>
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<tr>
<td>Vice President and General Manager – Newport</td>
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<td></td>
<td>760,464</td>
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<td>News Operations</td>
<td>NNS Restoration</td>
<td>27.50</td>
<td></td>
<td>472,804</td>
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<tr>
<td></td>
<td>NNS Salaried Pension Plan</td>
<td>27.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>OSERP</td>
<td>22.58</td>
<td>772,555</td>
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</tr>
<tr>
<td>Vice President and Chief Human Resources Officer</td>
<td></td>
<td></td>
<td>87,505</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>ERISA 2</td>
<td>6.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ES Executive Pension Plan</td>
<td>22.55</td>
<td></td>
<td>248,885</td>
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<tr>
<td></td>
<td>Northrop Grumman Pension Plan</td>
<td>22.55</td>
<td></td>
<td>293,505</td>
</tr>
</tbody>
</table>

Footnote: (*) While benefits may be spread over different plans, it is Northrop Grumman’s policy that an executive’s total benefit under these plans is essentially limited to 60% of such executive’s final average pay.

(***) Service listed above in the CPC SERP represents employment while in a CPC position. The pension benefits for Mr. Petters under the CPC SERP are based on an alternate formula (as described in more detail in the CPC SERP section below) which includes total Northrop Grumman service.

The pension values included in this table are the present value of the benefits expected to be paid in the future. They do not represent actual lump sum values that may be paid from a plan. The amount of future payments is based on the
current accrued pension benefit as of December 31, 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

<table>
<thead>
<tr>
<th>Part A</th>
<th>+</th>
<th>or</th>
<th>Part D</th>
<th>=</th>
<th>Pension Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit under the historical plan formula before the transition period</td>
<td>(if greater)</td>
<td>Benefit under the cash balance formula after the transition period</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Part C**
**(5-Year Transition Benefit)**
Benefit under the cash balance formula during the transition period

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.
Table 1 (Heritage)

<table>
<thead>
<tr>
<th>Points (attained age and total service)</th>
<th>Credit Amount</th>
<th>Eligible Pay in Excess of Social Security Wage Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 25</td>
<td>6.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>25 to 34</td>
<td>6.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>35 to 44</td>
<td>7.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>45 to 54</td>
<td>7.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>55 to 64</td>
<td>8.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>65 to 74</td>
<td>8.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>75 to 84</td>
<td>9.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Over 84</td>
<td>9.5%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

Table 2 (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 Wage Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 25</td>
<td>3.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>25 to 34</td>
<td>4.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>35 to 44</td>
<td>4.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>45 to 54</td>
<td>5.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>55 to 64</td>
<td>5.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>65 to 74</td>
<td>6.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>75 to 84</td>
<td>7.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Over 84</td>
<td>9.0%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

- **Vesting.** 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 OMERP) for all Company pension benefits. Optional forms of payment are generally the same as those from the qualified plan, plus a 13-month delayed lump sum option on a portion of the ERISA 2 benefit. Reductions for early retirement apply in the same manner as under the associated qualified plan.
Ms. Niland and Mr. Ermatinger began participation under the ERISA 2 plan on July 1, 2003; the date ERISA 2 was amended to cover NG ESPP participants.

NNS Restoration Plan

NNS Restoration Plan is a nonqualified plan which provides benefits that would have been paid under the NNS Plan but for the Code section 401(a)(17) limit on the amount of compensation that may be taken into account under a qualified plan and the Code Section 415 limit on benefits that may be paid under a qualified plan. The NNS Restoration Plan also provides benefits based on total compensation (generally base pay plus bonus earned in a calendar year) including compensation deferred under a Northrop Grumman deferred compensation plan. Benefits under the NNS Restoration Plan are subject to a general limitation of 60% of final average pay (reduced for early retirement, if applicable, according to the rules of the OSERP) for all Northrop Grumman pension benefits. Optional forms of payment are the same as those under the NNS Plan. Reductions for early retirement apply in the same manner as under the NNS Plan.

Mr. Petters, Mr. Edenzon and Mr. Mulherin began participation under the NNS Restoration Plan when they reached applicable pay grades for inclusion in the Plan.

ES Executive Pension Plan

The ES EPP is a nonqualified plan, frozen to new entrants on July 1, 2003. It provides a gross supplemental pension equal to 1.47% of final average pay for each year or portion thereof that the participant was making maximum contributions to the NG ESPP or predecessor plan. Final average pay is the average of the highest five annualized base salaries at December of each year on or after 1995 plus the average of the highest five annual incentive payments since January 1, 1995. The final ES EPP benefit is reduced by benefits from the NG ESPP and ERISA 2. Participants vest in their ES EPP benefits upon attaining age 58 and completion of 30 years of service, attaining age 60 and completion of 10 years of service or attaining age 65 and completion of 5 years of service. These milestones must be attained prior to termination from the Company. Currently, Ms. Niland and Mr. Ermatinger are not vested in their respective ES EPP benefits. Optional forms of payment are the same as those from the NG ESPP.

OSERP

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>Executive Contributions in Last FY (1) ($)</th>
<th>Registrant Contributions in Last FY (2) ($)</th>
<th>Aggregate Earnings in Last FY (3) ($)</th>
<th>Aggregate Withdrawals/Distributions (4) ($)</th>
<th>Aggregate Balance at Last FYE (4) ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>Deferred</td>
<td>0</td>
<td>0</td>
<td>390,087</td>
<td>0</td>
<td>2,289,621</td>
</tr>
<tr>
<td>President and Chief Executive Officer</td>
<td>Compensation</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>Deferred</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and Chief Financial Officer</td>
<td>Compensation</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>Deferred</td>
<td>0</td>
<td>0</td>
<td>59,958</td>
<td>0</td>
<td>164,169</td>
</tr>
<tr>
<td>Vice President and General Manager – Gulf</td>
<td>Compensation</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Coast Operations</td>
<td>Savings Excess</td>
<td>0</td>
<td>0</td>
<td>19,171</td>
<td>0</td>
<td>100,096</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>Deferred</td>
<td>100,390</td>
<td>0</td>
<td>387,212</td>
<td>0</td>
<td>1,320,098</td>
</tr>
<tr>
<td>Vice President and General Manager –</td>
<td>Compensation</td>
<td>0</td>
<td>0</td>
<td>1,188</td>
<td>0</td>
<td>4,024</td>
</tr>
<tr>
<td>Newport News Operations</td>
<td>Savings Excess</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>Deferred</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and Chief Human Resources</td>
<td>Compensation</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Officer</td>
<td>Savings Excess</td>
<td>20,576</td>
<td>5,879</td>
<td>15,536</td>
<td>0</td>
<td>95,147</td>
</tr>
</tbody>
</table>

### Footnotes:

1. Executive contributions in this column also are included in the salary and non-equity incentive plan columns of the 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</td>
<td>Participants may make elections on a daily basis as to how their account balances will</td>
</tr>
<tr>
<td></td>
<td>will be deemed invested for purposes of crediting earnings to the account.</td>
<td>be deemed invested for purposes of crediting earnings to the account.</td>
</tr>
<tr>
<td></td>
<td>Deemed investments are chosen from a limited list of investment options selected by</td>
<td>Deemed investments are chosen from a limited list of investment options selected by the</td>
</tr>
<tr>
<td></td>
<td>the Committee administering the Plan.</td>
<td>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**

<table>
<thead>
<tr>
<th>At Termination of Employment</th>
<th>Based on advance election, payment made in lump sum or installments over period of up to 15 years.</th>
<th>Based on advance election, payment made in lump sum or installments over a 5, 10, or 15-year period.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheduled In-Service Distribution</td>
<td>Not available</td>
<td>Available with advance election. Payment made in lump sum or installments over 2-5 years.</td>
</tr>
<tr>
<td>Non-Scheduled In-Service Distribution</td>
<td>Not available</td>
<td>Up to 90% of the pre-2005 account balance may be distributed. A 10% forfeiture penalty will apply.</td>
</tr>
<tr>
<td>Hardship Withdrawals</td>
<td>Not available</td>
<td>Available</td>
</tr>
</tbody>
</table>

All deferred compensation that was not earned and vested before January 1, 2005 is subject to the requirements under Internal Revenue Code section 409A. Those requirements largely restrict an executive’s ability to control the form and timing of distributions from nonqualified plans such as those listed in this chart.

**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.
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</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>$ 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 and Perquisites</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>Retirement Medical and Life</td>
<td>$ 397,506</td>
<td>$ 397,506</td>
<td>$ 397,506</td>
<td>$ 397,506</td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td></td>
<td></td>
<td></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>280G 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</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>$ 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 and Perquisites</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>Retirement Medical and Life</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
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<td></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>
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</tr>
<tr>
<td>Outplacement Services</td>
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</tr>
<tr>
<td>280G 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

<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>
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<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>
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</tbody>
</table>

**Benefits and Perquisites**

<table>
<thead>
<tr>
<th>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>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>
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</tr>
<tr>
<td>Medical/Dental Continuation</td>
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<tr>
<td>Car Allowance</td>
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<tr>
<td>Financial Planning/Income Tax</td>
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<td>$0</td>
<td>$0</td>
</tr>
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<td>Outplacement Services</td>
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<td>$0</td>
</tr>
<tr>
<td>280G Tax Gross-up</td>
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<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

**Footnotes:**

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### Termination Payments

Matthew J. Mulherin  
Vice President and General Manager — Newport News Operations

<table>
<thead>
<tr>
<th>Executive Benefits</th>
<th>Voluntary Termination</th>
<th>Involuntary Termination Not For Cause (2)</th>
<th>Post-CIC Involuntary or Good Reason Termination</th>
<th>Death or Disability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>$0</td>
<td>$360,000</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Short-term Incentives</td>
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</tr>
<tr>
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<td>$584,489</td>
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**Benefits and Perquisites**

<table>
<thead>
<tr>
<th>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>Incremental Pension</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Retiree Medical and Life Insurance</td>
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<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Medical/Dental Continuation</td>
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<tr>
<td>Life Insurance Coverage</td>
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<tr>
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</tr>
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<td>$0</td>
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<tr>
<td>280G Tax Gross-up</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

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## Termination Payments
William R. Ermatinger
Vice President and Chief Human Resources Officer

### Executive Benefits

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Voluntary Termination</th>
<th>Involuntary Termination Not For Cause (2)</th>
<th>Post-CIC Involuntary or Good Reason Termination</th>
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<tr>
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<td></td>
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</tr>
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<td>Incremental Pension</td>
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<td>$ 0</td>
</tr>
<tr>
<td>Retiree Medical and Life Insurance</td>
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<td>$ 0</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Medical/Dental Continuation</td>
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<tr>
<td>Life Insurance Coverage</td>
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<td>$ 0</td>
<td>$ 0</td>
<td>$ 0</td>
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<tr>
<td>Car Allowance</td>
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<td>$ 13,000</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Financial Planning/Income Tax</td>
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</tr>
<tr>
<td>Outplacement Services</td>
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<tr>
<td>280G 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).

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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.

<table>
<thead>
<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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<tbody>
<tr>
<td>C. Michael Petters</td>
<td>$1,292,883</td>
<td>$698,125</td>
<td>$869,398</td>
<td>$2,860,406</td>
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<tr>
<td>President and Chief Executive Officer</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>$0</td>
<td>$0</td>
<td>$469,363</td>
<td>$469,363</td>
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<tr>
<td>Vice President and Chief Financial Officer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>$81,113</td>
<td>$0</td>
<td>$487,627</td>
<td>$568,740</td>
</tr>
<tr>
<td>Vice President and General Manager – Gulf Coast Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>$81,113</td>
<td>$0</td>
<td>$503,376</td>
<td>$568,740</td>
</tr>
<tr>
<td>Vice President and General Manager – Newport News Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>$0</td>
<td>$0</td>
<td>$311,475</td>
<td>$311,475</td>
</tr>
<tr>
<td>Vice President and Human Resources Officer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Agreements with Northrop Grumman Related to the Spin-Off

This section of the information statement summarizes material agreements between us and Northrop Grumman that will govern the ongoing relationships between the two companies after the spin-off and are intended to provide for an orderly transition to our status as an independent, publicly traded 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 intend to enter into a Separation and Distribution Agreement with Northrop Grumman 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 spin-off from Northrop Grumman. 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.”

- The Separation and Distribution Agreement will describe certain actions related to our separation from Northrop Grumman including the internal reorganization. See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Separation and Distribution Agreement.”

Effective on the distribution date, all agreements, arrangements, commitments and understandings, including all intercompany accounts payable or accounts receivable, including intercompany indebtedness, 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.

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.

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 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 Northrop Grumman will agree to indemnify each other and each of our respective affiliates, current and former 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 each 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.

**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.

**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.

**Intellectual Property License Agreement**

We 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.

**Tax Matters Agreement**

We 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, 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. 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. The Tax Matters Agreement will provide for certain covenants that 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. Though 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.

We anticipate that under the Transition Services Agreement, Northrop Grumman will provide certain enterprise shared services (including information technology, financial, procurement and human resource services), benefits support services and other specified services to HII. We expect that these services will be provided at cost and are planned to extend for a period of six to twelve months.

**Other Agreements**

Effective upon the distribution, we intend for certain intercompany work orders and/or informal intercompany commercial arrangements to be converted into third-party contracts based on Northrop Grumman’s standard terms and conditions.

We intend to enter into an Indemnification Agreement with NGSC to indemnify NGSC for all costs arising out of or related to its guarantee obligations of the Economic Development 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, 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.

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. The notes, with a principal amount of $537 million, are demand notes with an annual interest rate of 5%.

In addition to new debt incurred prior to the spin-off, our obligations to the MBFC under one loan agreement in connection with certain economic development revenue bonds issued by the MBFC for our benefit will continue following the spin-off, and with another loan agreement with the MBFC that may 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.

Although the GO Zone IRBs are not currently subject to optional redemption or optional mandatory tender for purchase, in connection with and prior to the spin-off, NGSB intends to tender for the GO Zone IRBs at par. There may be remaining GO Zone IRBs untendered by holders.

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.

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 and all other amounts due under the loan agreement, is guaranteed by Northrop Grumman Systems Corporation, a subsidiary of Northrop Grumman. We intend to enter into an indemnity agreement with Northrop Grumman Systems Corporation to indemnify Northrop Grumman Systems Corporation 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” 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.
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 , 20 , giving effect to a distribution ratio of shares of our common stock for each share 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 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.

Stock Ownership of Certain Beneficial Owners

We anticipate, based on information to our knowledge as of , 20 , that the following entities will beneficially own more than 5% of our common stock after the spin-off.

<table>
<thead>
<tr>
<th>Name and Address of Beneficial Owner</th>
<th>Amount and Nature of Beneficial Ownership</th>
<th>Percent of Class</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a) %</td>
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<td></td>
<td>(b) %</td>
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<tr>
<td></td>
<td>(c) %</td>
<td></td>
</tr>
</tbody>
</table>

(a)

(b)

(c)
<table>
<thead>
<tr>
<th>Stock Ownership of Officers and Directors</th>
<th>Shares of Common Stock Beneficially Owned</th>
<th>Shares Subject to Option(^1)</th>
<th>Share Equivalents(^2)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-Employee Directors</strong></td>
<td></td>
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<tr>
<td><strong>Named Executive Officers</strong></td>
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<tr>
<td><strong>Directors and Executive Officers</strong> as a Group (persons)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^1\)\(^2\)

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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 of 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 so 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, 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 66⅔% 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.”

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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.

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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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### Condensed Consolidated Statements of Operations
(Unaudited)

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2010</th>
<th>2009</th>
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<td><strong>Sales and Service Revenues</strong></td>
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<tr>
<td>Product sales</td>
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<td>Service revenues</td>
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<td>937</td>
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<tr>
<td><strong>Total sales and service revenues</strong></td>
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<td><strong>Cost of Sales and Service Revenues</strong></td>
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<td>Corporate home office and other general and administrative costs</td>
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<td>146</td>
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<td><strong>Other expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>(30)</td>
<td>(33)</td>
</tr>
<tr>
<td><strong>Earnings before income taxes</strong></td>
<td>114</td>
<td>113</td>
</tr>
<tr>
<td><strong>Federal income taxes</strong></td>
<td>42</td>
<td>32</td>
</tr>
<tr>
<td><strong>Net earnings</strong></td>
<td>$72</td>
<td>$81</td>
</tr>
</tbody>
</table>

**Net earnings from above** $72 $81

**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><strong>Other comprehensive income, net of tax</strong></td>
<td>33</td>
<td>28</td>
</tr>
<tr>
<td><strong>Comprehensive income</strong></td>
<td>$105</td>
<td>$109</td>
</tr>
</tbody>
</table>

*The accompanying notes are an integral part of these condensed consolidated financial statements.*
### NORTHROP GRUMMAN SHIPBUILDING

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited)

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>September 30 2010</th>
<th>December 31 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</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** |                   |                  |
| 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)

**Parent’s Equity in Unit**

| 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 |

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

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Nine Months Ended September 30

<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>$81</td>
</tr>
<tr>
<td>Adjustments to reconcile to net cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>124</td>
<td>113</td>
</tr>
<tr>
<td>Amortization of purchased intangibles</td>
<td>19</td>
<td>23</td>
</tr>
<tr>
<td>Loss on disposal of property, plant, and equipment</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>24</td>
<td>(65)</td>
</tr>
<tr>
<td>Increase in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(218)</td>
<td>(112)</td>
</tr>
<tr>
<td>Inventoried costs</td>
<td>(10)</td>
<td>(60)</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>3</td>
<td>(7)</td>
</tr>
<tr>
<td>Increase (decrease) in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accruals</td>
<td>79</td>
<td>(109)</td>
</tr>
<tr>
<td>Retiree benefits</td>
<td>79</td>
<td>(71)</td>
</tr>
<tr>
<td>Other non-cash transactions, net</td>
<td>(24)</td>
<td>(2)</td>
</tr>
<tr>
<td>Net cash provided by (used in) operations</td>
<td>151</td>
<td>(209)</td>
</tr>
<tr>
<td><strong>Investing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions to property, plant, and equipment</td>
<td>(96)</td>
<td>(120)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(96)</td>
<td>(120)</td>
</tr>
<tr>
<td><strong>Financing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net transfers (to) from parent</td>
<td>(55)</td>
<td>329</td>
</tr>
<tr>
<td>Net cash (used in) provided by financing activities</td>
<td>(55)</td>
<td>329</td>
</tr>
<tr>
<td>Increase (decrease) in cash and cash equivalents</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$ -</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
NORTHROP GRUMMAN SHIPBUILDING

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN PARENT’S EQUITY IN UNIT
(Unaudited)

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent’s Equity in Unit</td>
<td></td>
<td></td>
</tr>
<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 |       |       |
| At beginning of year | (531) | (617) |
| Other comprehensive income, net of tax | 33   | 28    |
| At end of period     | (498) | (589) |
| Total parent’s equity in unit | $1,487 | $1,399 |

The accompanying notes are an integral part of these condensed consolidated financial statements.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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.
NORTHROP GRUMMAN SHIPBUILDING

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. We estimate that these future costs could approximate $310 million and such costs would be recoverable under existing flexibly priced contracts or future negotiated contracts at our Gulf Coast operations in accordance with Federal Acquisition Regulation (FAR) provisions relating to the treatment of restructuring and shutdown related costs. We are currently in discussions with our customer regarding our FAR compliant cost submission to support the recoverability of these costs and this submission is subject to review and acceptance by the customer. We anticipate these discussions will result in an agreement with the customer that is substantially in accord with our cost recovery expectations. Accordingly, we have not recognized a provision for loss related to these restructuring and shutdown related costs.

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 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 at par (see Note 11).

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.

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NORTHROP GRUMMAN SHIPBUILDING

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>$ in millions</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 Cost Accounting Standards (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 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>

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 over 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 conspiracy 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.
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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 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...
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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 Gulf Opportunity Zone Industrial Revenue Development Bonds 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).
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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 challenged certain post-Katrina depreciation costs charged or expected to be charged on contracts under construction in the Gulf Coast shipyards. The company believes that its depreciation practices are in conformity with the FAR, and that it will be able to successfully resolve this matter with the U.S. Navy 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 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. 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

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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.

**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.
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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>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pension Benefits</td>
<td>Medical and Life Benefits</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Components of Net Periodic Benefit Cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>$ 95</td>
<td>$ 86</td>
</tr>
<tr>
<td>Interest cost</td>
<td>136</td>
<td>127</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(175)</td>
<td>(145)</td>
</tr>
<tr>
<td>Amortization of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior service cost (credit)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Net loss from previous years</td>
<td>28</td>
<td>36</td>
</tr>
<tr>
<td>Net periodic benefit cost</td>
<td>$ 94</td>
<td>$ 114</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>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend yield</td>
<td>2.9%</td>
</tr>
<tr>
<td>Volatility rate</td>
<td>25%</td>
</tr>
<tr>
<td>Risk-free interest rate</td>
<td>2.3%</td>
</tr>
<tr>
<td>Expected option life (years)</td>
<td>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 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 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 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...
NORTHROP GRUMMAN SHIPBUILDING

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.

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Northrop Grumman Shipbuilding

(A Wholly Owned Subsidiary of
Northrop Grumman Corporation)

Consolidated Financial Statements as of
December 31, 2009 and 2008, and for each of the
Three Years in the Period ended
December 31, 2009 and
Independent Auditors’ Report
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<td>9. INCOME TAXES</td>
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<td>10. LONG-TERM DEBT</td>
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<td>12. LITIGATION</td>
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<tr>
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<td>16. RETIREMENT BENEFITS</td>
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<td>18. RELATED PARTY TRANSACTIONS AND PARENT COMPANY EQUITY</td>
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<tr>
<td>19. UNAUDITED SELECTED QUARTERLY DATA</td>
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<td>20. SUBSEQUENT EVENTS</td>
</tr>
</tbody>
</table>
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)
CONSOLIDATED STATEMENTS OF OPERATIONS

<table>
<thead>
<tr>
<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></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net earnings (loss) from above</td>
<td>$124</td>
<td>$(2,420)</td>
<td>276</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></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.
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### $ in millions

<table>
<thead>
<tr>
<th></th>
<th>December 31 2009</th>
<th>December 31 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<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>Accrued 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><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>
<tr>
<td><strong>Liabilities and Parent’s Equity In Unit</strong></td>
<td></td>
<td></td>
</tr>
<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>
<tr>
<td><strong>Commitments and Contingencies (Note 13)</strong></td>
<td></td>
<td></td>
</tr>
<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.

F-24
## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Earnings (Loss)</td>
<td>$124</td>
<td>$(2,420)</td>
<td>$276</td>
</tr>
<tr>
<td>Adjustments to reconcile to net cash provided by operating activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>156</td>
<td>137</td>
<td>129</td>
</tr>
<tr>
<td>Amortization of purchased intangibles</td>
<td>30</td>
<td>56</td>
<td>41</td>
</tr>
<tr>
<td>Impairment of goodwill</td>
<td></td>
<td>2,490</td>
<td></td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(98)</td>
<td>10</td>
<td>(6)</td>
</tr>
<tr>
<td>Net gain on AMSEC reorganization</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(56)</td>
<td>(103)</td>
<td>86</td>
</tr>
<tr>
<td>Inventoried costs</td>
<td>(101)</td>
<td>52</td>
<td>74</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>(1)</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Increase (decrease) in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accruals</td>
<td>(111)</td>
<td>145</td>
<td>(24)</td>
</tr>
<tr>
<td>Retiree benefits</td>
<td>(28)</td>
<td>(28)</td>
<td>49</td>
</tr>
<tr>
<td>Other non-cash transactions, net</td>
<td>(3)</td>
<td>(2)</td>
<td>5</td>
</tr>
<tr>
<td>Net cash (used in) provided by operations</td>
<td>(88)</td>
<td>339</td>
<td>610</td>
</tr>
<tr>
<td><strong>Investing Activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions to property, plant, and equipment</td>
<td>(181)</td>
<td>(218)</td>
<td>(246)</td>
</tr>
<tr>
<td>Proceeds from insurance carriers related to capital expenditures</td>
<td></td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Payment in conjunction with AMSEC reorganization</td>
<td></td>
<td>(8)</td>
<td></td>
</tr>
<tr>
<td>Decrease in restricted cash</td>
<td></td>
<td>61</td>
<td>66</td>
</tr>
<tr>
<td>Other investing activities, net</td>
<td>3</td>
<td>5</td>
<td>(5)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(178)</td>
<td>(152)</td>
<td>(189)</td>
</tr>
<tr>
<td><strong>Financing Activities</strong></td>
<td></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>Net cash provided by (used in) financing activities</td>
<td>266</td>
<td>(187)</td>
<td>(421)</td>
</tr>
<tr>
<td>Increase (decrease) in cash and cash equivalents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td><strong>Supplemental Cash Flow Disclosure</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash paid for interest</td>
<td>$16</td>
<td>$16</td>
<td>$16</td>
</tr>
<tr>
<td><strong>Non-Cash Investing and Financing Activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in AMSEC</td>
<td></td>
<td></td>
<td>$30</td>
</tr>
<tr>
<td>Capital expenditures accrued in accounts payable</td>
<td>$47</td>
<td>$42</td>
<td>$32</td>
</tr>
</tbody>
</table>

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>Year ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td><strong>Parent's Equity in Unit</strong></td>
<td></td>
</tr>
<tr>
<td>At beginning of year</td>
<td>$1,578</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>124</td>
</tr>
<tr>
<td>Adoption of new GAAP accounting guidance</td>
<td>5</td>
</tr>
<tr>
<td>Net transfers from (to) parent</td>
<td>266</td>
</tr>
<tr>
<td>At end of year</td>
<td>1,968</td>
</tr>
<tr>
<td><strong>Accumulated Other Comprehensive Loss</strong></td>
<td></td>
</tr>
<tr>
<td>At beginning of year</td>
<td>(617)</td>
</tr>
<tr>
<td>Other comprehensive income (loss), net of tax</td>
<td>86</td>
</tr>
<tr>
<td>At end of year</td>
<td>(531)</td>
</tr>
<tr>
<td><strong>Total parent’s equity in unit</strong></td>
<td>$1,437</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
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. The allocations may not, however, reflect the expense NGSB would have incurred as a stand-alone company.

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.

**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. |

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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>Property</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 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
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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 in accordance with the relevant standards. For funded plans, Northrop Grumman’s funding policy is to contribute, at a minimum, the statutory 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.

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
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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>$ in millions</th>
<th>Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>Sales and Service Revenues</td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>2,865</td>
</tr>
<tr>
<td>Newport News</td>
<td>3,534</td>
</tr>
<tr>
<td>Intersegment eliminations</td>
<td>(107)</td>
</tr>
<tr>
<td>Total sales and service revenues</td>
<td>6,292</td>
</tr>
<tr>
<td>Operating Income (Loss)</td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>(29)</td>
</tr>
<tr>
<td>Newport News</td>
<td>313</td>
</tr>
<tr>
<td>Total Segment Operating Income (Loss)</td>
<td>284</td>
</tr>
<tr>
<td>Non-segment factors affecting operating income (loss)</td>
<td></td>
</tr>
<tr>
<td>Net pension and post-retirement benefits adjustment</td>
<td>(88)</td>
</tr>
<tr>
<td>Deferred State Income Taxes</td>
<td>15</td>
</tr>
<tr>
<td>Total operating income (loss)</td>
<td><strong>$ 211</strong></td>
</tr>
</tbody>
</table>

Sales transactions between segments are generally recorded at cost.

Goodwill Impairment Charge – The operating losses for the year ended December 31, 2008, reflect goodwill impairment charges for Gulf Coast and Newport News of $1.3 billion and $1.2 billion, respectively.

Net Pension and Post-Retirement Benefits Adjustment – The net pension and post-retirement benefits adjustment reflects the difference between expenses for pension and other post-retirement benefits determined in accordance with GAAP and the expenses for these items included in segment operating income in accordance with CAS.

Other Financial Information

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>Assets</td>
<td></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><strong>$ 5,001</strong></td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Capital Expenditures</th>
<th>Year ended December 31</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gulf Coast</td>
<td></td>
<td>102</td>
<td>153</td>
<td>181</td>
</tr>
<tr>
<td>Newport News</td>
<td></td>
<td>79</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td><strong>Total capital expenditures</strong></td>
<td></td>
<td><strong>$ 181</strong></td>
<td><strong>$ 218</strong></td>
<td><strong>$ 246</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Depreciation and Amortization</th>
<th>Year ended December 31</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gulf Coast</td>
<td></td>
<td>101</td>
<td>110</td>
<td>88</td>
</tr>
<tr>
<td>Newport News</td>
<td></td>
<td>85</td>
<td>83</td>
<td>82</td>
</tr>
<tr>
<td><strong>Total depreciation and amortization</strong></td>
<td></td>
<td><strong>$ 186</strong></td>
<td><strong>$ 193</strong></td>
<td><strong>$ 170</strong></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:

<table>
<thead>
<tr>
<th>Due From U.S. Government</th>
<th>$ in millions</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts billed</td>
<td>$ 240</td>
<td>$ 149</td>
</tr>
<tr>
<td>Recoverable costs and accrued profit on progress completed — unbilled</td>
<td>$ 288</td>
<td>$ 328</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 528</td>
<td>$ 477</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Due From Other Customers</th>
<th>$ in millions</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts billed</td>
<td>$ 11</td>
<td>$ 5</td>
</tr>
<tr>
<td>Recoverable costs and accrued profit on progress completed — unbilled</td>
<td>$ 1</td>
<td>$ 3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 12</td>
<td>$ 8</td>
</tr>
</tbody>
</table>

Total accounts receivable: $ 540, 485; Allowances for doubtful amounts: $(3), $(4); Total accounts receivable, net: $ 537, $ 481.

### 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><strong>Total</strong></td>
<td>$ 1,023</td>
</tr>
<tr>
<td>Progress payments received</td>
<td>$(811)</td>
</tr>
<tr>
<td>Raw material inventory</td>
<td>86</td>
</tr>
<tr>
<td><strong>Total inventoried costs, net</strong></td>
<td>$ 298</td>
</tr>
</tbody>
</table>

### 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>

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Prior to recording the goodwill impairment charge, NGSB tested its purchased intangible assets and other long-lived assets for impairment, and the carrying values of these assets were determined not to be impaired.

**Purchased Intangible Assets**

The table below summarizes the company’s aggregate purchased intangible assets, all of which are contract or program related intangible assets:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>December 31 2009</th>
<th>December 31 2008</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>$ in millions</th>
<th>Year ending December 31</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><strong>Income Taxes on Operations</strong></td>
<td></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><strong>Total federal income taxes</strong></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>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax expense (benefit) on operations at statutory rate</td>
<td>$ 61</td>
<td>$(838)</td>
<td>$ 144</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>872</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing deduction</td>
<td>(6)</td>
<td>(2)</td>
<td>(2)</td>
</tr>
<tr>
<td>Research tax credit</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Wage credit</td>
<td>(2)</td>
<td>(2)</td>
<td>(7)</td>
</tr>
<tr>
<td>Non taxable gain on AMSEC reorganization</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other, net</td>
<td>(3)</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Total federal income taxes</td>
<td>$ 52</td>
<td>$ 26</td>
<td>$ 135</td>
</tr>
</tbody>
</table>

**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.
NORTHROP GRUMMAN SHIPBUILDING

The tax effects of significant temporary differences and carryforwards that gave rise to year-end deferred federal and state tax balances, as presented in the consolidated statements of financial position, are as follows:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>December 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deferred Tax Assets</strong></td>
<td></td>
<td></td>
</tr>
<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><strong>Net deferred tax assets</strong></td>
<td>783</td>
<td>762</td>
</tr>
<tr>
<td><strong>Deferred Tax Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>363</td>
<td>363</td>
</tr>
<tr>
<td>Contract accounting differences</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Purchased intangibles</td>
<td>250</td>
<td>262</td>
</tr>
<tr>
<td>Other</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Gross deferred tax liabilities</td>
<td>613</td>
<td>635</td>
</tr>
<tr>
<td><strong>Total net deferred tax assets</strong></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>$ in millions</th>
<th>December 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2009</strong></td>
<td><strong>2008</strong></td>
<td></td>
</tr>
<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><strong>Total net deferred tax assets</strong></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.
NORTHROP GRUMMAN SHIPBUILDING

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>$ in millions</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying Amount</td>
<td>Fair Value</td>
<td>Carrying Amount</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>283</td>
<td>285</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 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.

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, asbestososis, 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.

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 39,900 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
NORTHROP GRUMMAN SHIPBUILDING

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.

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

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16. RETIREMENT BENEFITS

Plan Descriptions

Defined Benefit Pension Plans – The company participates in several defined benefit pension plans of Northrop Grumman covering the majority of its employees. Pension benefits for most employees are based on the employee’s years of service and compensation. It is the policy of Northrop Grumman to fund at least the minimum amount required for all the sponsored plans, using actuarial cost methods and assumptions acceptable under U.S. Government regulations, by making payments into benefit trusts separate from Northrop Grumman. The pension benefit for most employees is based upon criteria whereby employees earn age and service points over their employment period.

Defined Contribution Plans – The company also participates in Northrop Grumman-sponsored 401(k) defined contribution plans in which most employees are eligible to participate, as well as certain union employees. Northrop Grumman contributions for most plans are based on a cash matching of company employee contributions up to 4 percent of compensation. Certain hourly employees are covered under a target benefit plan. In addition to the 401(k) defined contribution benefit, non-union represented company employees hired after June 30, 2008, are eligible to participate in a Northrop Grumman-sponsored defined contribution program in lieu of a defined benefit pension plan. Northrop Grumman’s contributions to these defined contribution plans for company employees for the years ended December 31, 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:

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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>$ in millions</th>
<th>Pension Benefits</th>
<th>Medical and Life Benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
<td>2008</td>
<td>2007</td>
</tr>
<tr>
<td>Service cost</td>
<td>$ 114</td>
<td>$ 130</td>
<td>$ 128</td>
</tr>
<tr>
<td>Interest cost</td>
<td>169</td>
<td>156</td>
<td>144</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(193)</td>
<td>(231)</td>
<td>(210)</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>7</td>
<td>7</td>
</tr>
<tr>
<td>Net loss from previous years</td>
<td>48</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Net periodic benefit cost</td>
<td>$ 151</td>
<td>$ 64</td>
<td>$ 79</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.
NORTHROP GRUMMAN SHIPBUILDING

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>2009</th>
<th>2008</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in Benefit Obligation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$2,756</td>
<td>$2,555</td>
<td>$660</td>
<td>$650</td>
</tr>
<tr>
<td>Service cost</td>
<td>114</td>
<td>130</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Interest cost</td>
<td>169</td>
<td>156</td>
<td>40</td>
<td>39</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>5</td>
<td>5</td>
<td>15</td>
<td>12</td>
</tr>
<tr>
<td>Plan amendments</td>
<td>2</td>
<td>5</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Actuarial loss (gain)</td>
<td>114</td>
<td>(54)</td>
<td>5</td>
<td>(41)</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(98)</td>
<td>(93)</td>
<td>(51)</td>
<td>(46)</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Benefit obligation at end of year</strong></td>
<td>3,062</td>
<td>2,756</td>
<td>677</td>
<td>660</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  | 33   | 32   |
| Plan participants’ contributions | 5    | 5    | 15   | 12   |
| Benefits paid | (98) | (93) | (51) | (46) |
| Other | 3    | 2    |      |      |
| **Fair value of plan assets at end of year** | 2,789 | 2,297 |      |      |

| **Funded status** |      |      |      |      |
| $ (273) | $ (459) | $ (677) | $ (660) |

**Amounts Recognized in the Consolidated Statements of Financial Position**

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2009</th>
<th>2008</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td>$116</td>
<td>$119</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liability</td>
<td>(10)</td>
<td>(8)</td>
<td>$175</td>
<td>$176</td>
</tr>
<tr>
<td>Non-current liability</td>
<td>(379)</td>
<td>(570)</td>
<td>(502)</td>
<td>(484)</td>
</tr>
</tbody>
</table>

The following table shows those amounts expected to be recognized in net periodic benefit cost in 2010:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Pension Benefits</th>
<th>Medical and Life Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amounts Expected to be Recognized in 2010 Net Periodic Benefit Cost</strong></td>
<td></td>
<td></td>
</tr>
<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.

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2009</th>
<th>2008</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amounts Recorded in Accumulated Other Comprehensive Loss</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net actuarial loss</td>
<td>$654</td>
<td>$778</td>
<td>$150</td>
<td>$164</td>
</tr>
<tr>
<td>Prior service cost and net transition obligation</td>
<td>111</td>
<td>123</td>
<td>(46)</td>
<td>(55)</td>
</tr>
<tr>
<td>Income tax benefits related to above items</td>
<td>(298)</td>
<td>(351)</td>
<td>(40)</td>
<td>(42)</td>
</tr>
<tr>
<td>Unamortized benefit plan costs</td>
<td>$467</td>
<td>$550</td>
<td>$64</td>
<td>$67</td>
</tr>
</tbody>
</table>

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NORTHROP GRUMMAN SHIPBUILDING

Amounts for pension plans with accumulated benefit obligations in excess of fair value of plan assets associated with company employees are as follows:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>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:

<table>
<thead>
<tr>
<th>Assumptions Used to Determine Benefit Obligation at December 31</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<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>

<table>
<thead>
<tr>
<th>Assumptions Used to Determine Benefit Cost for the Year Ended December 31</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>6.25%</td>
<td>6.25%</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>8.50%</td>
<td>8.50%</td>
</tr>
<tr>
<td>Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year that the rate reaches the ultimate trend rate</td>
<td>2014</td>
<td>2014</td>
</tr>
</tbody>
</table>

The discount rate is generally based on the yield on high-quality corporate fixed-income investments. At the end of each year, the discount rate is primarily determined using the results of bond yield curve models based on a portfolio of high quality bonds matching the notional cash inflows with the expected benefit payments for each significant benefit plan.

The assumptions used for pension benefits are consistent with those used for retiree medical and life insurance benefits.

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>$ in millions</th>
<th>1-Percentage-Point Increase</th>
<th>1-Percentage-Point Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postretirement benefit expense</td>
<td>$2</td>
<td>$(2)</td>
</tr>
<tr>
<td>Postretirement benefit liability</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>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. equity</td>
<td>10 – 30%</td>
</tr>
<tr>
<td>International equity</td>
<td>5 – 25%</td>
</tr>
<tr>
<td>Long bonds</td>
<td>35 – 50%</td>
</tr>
<tr>
<td>Real estate and other</td>
<td>20 – 30%</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>Asset Category</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic equities</td>
<td>$507</td>
<td></td>
<td></td>
<td>$507</td>
</tr>
<tr>
<td>International equities</td>
<td>212</td>
<td>$218</td>
<td></td>
<td>430</td>
</tr>
<tr>
<td>Fixed income securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash &amp; cash equivalents (1)</td>
<td>17</td>
<td>272</td>
<td></td>
<td>289</td>
</tr>
<tr>
<td>U.S. Treasuries</td>
<td>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>Fair value of plan assets at end of year</td>
<td>$736</td>
<td>$1,488</td>
<td>$565</td>
<td>$2,789</td>
</tr>
</tbody>
</table>

(1) Cash & cash equivalents are predominantly held in money market funds
(2) Other includes futures, swaps, options, swaptions, insurance contracts and net payable for unsettled trades at year end.

At December 31, 2009, the fair value of the plan assets of $2,789 million in the table above consisted entirely of assets for pension benefits.

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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>$ in millions</th>
<th>Pension Plans</th>
<th>Medical and Life Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year Ending December 31</td>
<td></td>
<td></td>
</tr>
<tr>
<td>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
NORTHROP GRUMMAN SHIPBUILDING

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.

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></th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend yield</td>
<td>3.6%</td>
<td>1.8%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Volatility rate</td>
<td>25%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Risk-free interest rate</td>
<td>1.7%</td>
<td>2.8%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Expected option life (years)</td>
<td>5 &amp; 6</td>
<td>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.

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NORTHROP GRUMMAN SHIPBUILDING

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>65</td>
</tr>
<tr>
<td>Earnings (loss) before income taxes</td>
<td>57</td>
<td>(15)</td>
<td>71</td>
<td>63</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>39</td>
<td>(10)</td>
<td>52</td>
<td>43</td>
</tr>
</tbody>
</table>

In the first quarter of 2009, the company recognized a $48 million favorable adjustment on the LHD 8 contract due to risk retirement for earlier than expected completion of U.S. Navy acceptance sea trials and increased escalation recovery. This increase was more than offset by lower performance of $38 million each on the DDG 51 program and LPD 22 due to cost growth.

In the second quarter of 2009, the company recognized a $105 million pre-tax charge for cost growth on LPD-class ships and LHA 6. These adjustments reflected additional expense to improve design, engineering, production, and quality processes as well as increased production cost estimates for these ships.

### 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>99</td>
<td>99</td>
<td>(2,356)</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>(162)</td>
<td>66</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 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 that inundated its Pascagoula facility. The company intends to continue to pursue its breach of contract litigation against FM Global and will consider whether to bring a separate action against AON in State Court.
## Schedule II - Valuation and Qualifying Accounts
($ in thousands)

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance at Beginning of Period</th>
<th>Additions at Cost</th>
<th>Changes - Add (Deduct)</th>
<th>Balance at End of Period</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year End December 31, 2009</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserves and allowances deducted from asset accounts -</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowances for doubtful amounts (1)</td>
<td>$3,571</td>
<td>$1</td>
<td>$(131)</td>
<td>$3,440</td>
</tr>
<tr>
<td><strong>Year End December 31, 2008</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserves and allowances deducted from asset accounts -</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowances for doubtful amounts (1)</td>
<td>3,731</td>
<td>1</td>
<td>(161)</td>
<td>3,571</td>
</tr>
<tr>
<td><strong>Year End December 31, 2007</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserves and allowances deducted from asset accounts -</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowances for doubtful amounts (1)</td>
<td>4,006</td>
<td>77</td>
<td>(353)</td>
<td>3,731</td>
</tr>
</tbody>
</table>

(1) Uncollectible amounts written off, net of recoveries.
HUNTINGTON INGALLS INDUSTRIES, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Northrop Grumman Corporation
Los Angeles, California

We have audited the accompanying statement of financial position of Huntington Ingalls Industries, Inc. (formerly New Ships, Inc.) (the “Company”), a wholly owned subsidiary of Northrop Grumman Corporation, as of September 30, 2010. This financial statement is the responsibility of the Company’s management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial position is free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial position, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial position presentation. We believe that our audit of the statement of financial position provides a reasonable basis for our opinion.

In our opinion, such statement of financial position presents fairly, in all material respects, the financial position of Huntington Ingalls Industries, Inc. as of September 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Virginia Beach, Virginia

October 4, 2010

(November 23, 2010 as to the Note)
HUNTINGTON INGALLS INDUSTRIES, INC.

STATEMENT OF FINANCIAL POSITION

<table>
<thead>
<tr>
<th>in whole dollars</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 100</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$ 100</td>
</tr>
<tr>
<td><strong>Shareholder’s Equity</strong></td>
<td></td>
</tr>
<tr>
<td>Common stock, $1 par value; 100 shares authorized, issued and outstanding at September 30, 2010</td>
<td>$ 100</td>
</tr>
<tr>
<td><strong>Total shareholder’s equity</strong></td>
<td>$ 100</td>
</tr>
</tbody>
</table>
Note to Statement of Financial Position

On July 13, 2010, Northrop Grumman Corporation (Northrop Grumman) announced its decision to explore strategic alternatives for its shipbuilding business, including but not limited to, a spin-off to its shareholders to create a separate public company. On August 4, 2010, Northrop Grumman formed a new, wholly-owned subsidiary, New S HoldCo, Inc., to serve as the holding company for its shipbuilding business. The company was initially capitalized for $100 and issued 100 shares of its common stock, at $1 par value per share, to New P, Inc, a subsidiary of Northrop Grumman and sole shareholder of the company. Effective September 29, 2010, New S HoldCo, Inc. changed its name to New Ships, Inc. Effective November 23, 2010 New Ships, Inc. changed its name to Huntington Ingalls Industries, Inc. (the company).

In anticipation of a spin-off, Northrop Grumman and the company are planning to enter into a separation and distribution agreement under which Northrop Grumman will transfer various assets, liabilities and obligations (including employee benefits, intellectual property, information technology, insurance and tax-rated assets and liabilities) associated with the shipbuilding business. The assets and liabilities transferred to the company will be recorded at historical cost as a reorganization of entities under common control. Northrop Grumman is not planning to have any ownership interest in the company subsequent to the spin-off.

Management expects that the shares of the company will be distributed to Northrop Grumman shareholders in the form of a tax-free distribution to Northrop Grumman shareholders for U.S. Federal income tax purposes. The distribution will result in the company operating as a separate entity with publicly traded common stock.

Statements of operations and cash flows have not been presented as there has been no activity since formation.

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