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

Form 10

GENERAL FORM FOR REGISTRATION OF SECURITIES
PURSUANT TO SECTION 12(b) OR 12(g) OF
THE SECURITIES EXCHANGE ACT OF 1934
(Amendment No. 8)

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

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

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

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

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)

INFORMATION REQUIRED IN REGISTRATION STATEMENT

CROSS-REFERENCE SHEET BETWEEN INFORMATION STATEMENT AND ITEMS OF FORM 10

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1. **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.

2. **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.

3. **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.

4. **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.

5. **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.

6. **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.

7. **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.

8. **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.

9. **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.

    - 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.

11. **Item 10. Recent Sales of Unregistered Securities**
    - None.

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Item 11. Description of Registrant’s Securities to be Registered

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

Item 12. Indemnification of Directors and Officers

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

Item 13. Financial Statements and Supplementary Data

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

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

None.

Item 15. Financial Statements and Exhibits

(a) Financial Statements

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

(b) Exhibits

The following documents are filed as exhibits hereto:

<table>
<thead>
<tr>
<th>Exhibit No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Form of Restated Certificate of Incorporation of Huntington Ingalls Industries, Inc.††††</td>
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<tr>
<td>3.2</td>
<td>Form of Restated Bylaws of Huntington Ingalls Industries, Inc.††††</td>
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<tr>
<td>4.1</td>
<td>Indenture dated as of March 11, 2011 between Huntington Ingalls Industries, Inc. and The Bank of New York Mellon, as trustee.</td>
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<tr>
<td>10.1</td>
<td>Form of Employee Matters Agreement among Northrop Grumman Corporation, New P, Inc. and Huntington Ingalls Industries, Inc.†††</td>
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<tr>
<td>10.2</td>
<td>Form of Insurance Matters Agreement among Northrop Grumman Corporation, New P, Inc. and Huntington Ingalls Industries, Inc.†††</td>
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<tr>
<td>10.3</td>
<td>Form of Intellectual Property License Agreement between Northrop Grumman Systems Corporation and Northrop Grumman Shipbuilding, Inc.†††</td>
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<td>Form of Tax Matters Agreement between New P, Inc. and Huntington Ingalls Industries, Inc.†††</td>
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<td>10.6</td>
<td>Loan Agreement dated as of May 1, 1999 between Ingalls Shipbuilding, Inc. and the Mississippi Business Finance Corporation relating to the Economic Revenue Development Bonds (Ingalls Shipbuilding, Inc. Project) Taxable Series 1999A due 2024.†</td>
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<td>10.10</td>
<td>Guaranty Agreement dated as of May 1, 1999 between Litton Industries, Inc. and The First National Bank of Chicago, as Trustee.††</td>
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<td>Guaranty Agreement dated as of December 1, 2006 between Northrop Grumman Corporation and The Bank of New York Trust Company, N.A., as Trustee.††</td>
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<td>Performance and Indemnity Agreement dated as of , 20 between Huntington Ingalls Industries, Inc. and Northrop Grumman Corporation. †††</td>
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† Previously filed on November 24, 2010.
†† Previously filed on December 21, 2010.
††† Previously filed on January 18, 2011.
†††† Previously filed on February 9, 2011.
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: March 15, 2011
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EXHIBIT E  DTC Legend
EXHIBIT F  Regulation S Certificate
EXHIBIT G  Rule 144A Certificate
EXHIBIT H  Institutional Accredited Investor Certificate
EXHIBIT I  Certificate of Beneficial Ownership
EXHIBIT J  Temporary Offshore Global Note Legend
INDENTURE, dated as of March 11, 2011, between Huntington Ingalls Industries, Inc., a Delaware corporation, as the Company, the Guarantors party hereto and The Bank of New York Mellon, as Trustee.

RE bâtals

The Company has duly authorized the execution and delivery of the Indenture to provide for the issuance of up to $600,000,000 aggregate principal amount of the Company’s 6.875% Senior Notes Due 2018 (together with, if and when issued, any Additional Notes of such series together with any Exchange Notes issued in exchange therefor as provided herein, the “2018 Notes”) and up to $600,000,000 aggregate principal amount of the Company’s 7.125% Senior Notes Due 2021 (together with, if and when issued, any Additional Notes of such series together with any Exchange Notes issued in exchange therefor as provided herein, the “2021 Notes”, and collectively with the 2018 Notes, the “Notes”). Each of the 2018 Notes and the 2021 Notes constitute a separate series hereunder. All things necessary to make the Indenture a valid agreement of the Company, in accordance with its terms, have been done, and the Company has done all things necessary to make the Notes (in the case of the Additional Notes, when duly authorized), when executed by the Company and authenticated and delivered by the Trustee and duly issued by the Company, the valid obligations of the Company as hereinafter provided.

This Indenture is subject to, and will be governed by, the provisions of the Trust Indenture Act that are required to be a part of and govern indentures qualified under the Trust Indenture Act.

THIS INDENTURE WITNESSETH

For and in consideration of the premises and the purchase of the Notes by the Holders thereof, the parties hereto covenant and agree, for the equal and proportionate benefit of all Holders, as follows:
ARTICLE 1 Definitions And Incorporation By Reference

Section 1.01 Definitions.

"Accrued Yield" means, an amount in respect of each $1,000 principal amount of a Note that, together with the accrued interest to be paid in a Special Redemption or a Mandatory Redemption, will provide the Holder thereof with the yield to maturity on such Note, calculated on the basis of a 360 day year and payable for the actual number of days elapsed from the Issue Date. "Yield to maturity" means the annual yield to maturity of the Notes, calculated based on market convention and as reflected in the pricing term sheet for the offering of the Initial Notes.

"Acquired Debt" means Debt of a Person existing at the time the Person merges with or into, or becomes a, Restricted Subsidiary or is assumed in connection with the acquisition of assets from such Person and not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary or such acquisition.

"Additional Interest" means additional interest owed to the Holders pursuant to a Registration Rights Agreement.

"Additional Notes" means any Notes issued under the Indenture in addition to the Original Notes of a series, including any Exchange Notes issued in exchange for such Additional Notes, having the same terms in all respects as the Original Notes of a series, or in all respects except with respect to the initial Interest Payment Date and interest paid or payable on or prior to the first Interest Payment Date after the issuance of such Additional Notes and such Additional Notes may have different issuance prices, initial interest accrual dates or initial interests payment dates and may not have the benefit of any registration rights.

"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”) with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Agent" means any Registrar, Paying Agent or Authenticating Agent.

"Agent Member" means a member of, or a participant in, the Depositary.
“Applicable Premium” means, with respect to any Note on any redemption date, the greater of (1) 1.0% of the principal amount of such Note; and (2) the excess, if any, of (a) the present value at such redemption date of (i) the redemption price of such Note on March 15, 2015 in the case of the 2018 Notes and March 15, 2016 in the case of the 2021 Notes each as set forth under Section 3.01 plus (ii) all required interest payments due on such Note through March 15, 2015 in the case of the 2018 Notes and March 15, 2016 in the case of the 2021 Notes (in each case, excluding accrued but unpaid interest, if any, to the redemption date), computed using a discount rate equal to the applicable Treasury Rate as of such redemption date plus 50 basis points; over (b) the principal amount of such Note.

“Asset Sale” means any sale, lease, transfer or other disposition of any assets by the Company or any Restricted Subsidiary, including by means of a merger, consolidation or similar transaction and including any sale or issuance of the Equity Interests (other than directors’ qualifying shares or shares or interests held by foreign nationals as required by law) of any Restricted Subsidiary (each of the above referred to as a “disposition”), provided that the following are not included in the definition of “Asset Sale”:

1. A disposition to the Company or a Restricted Subsidiary, including the sale or issuance by the Company or any Restricted Subsidiary of any Equity Interests of any Restricted Subsidiary to the Company or any Restricted Subsidiary;

2. The disposition by the Company or any Restricted Subsidiary of assets in the ordinary course of business, including inventory and other assets acquired and held for resale or rights granted to others pursuant to leases or licenses;

3. The disposition of cash, Cash Equivalents and cash management investments;

4. The disposition of scrap, damaged, worn out, obsolete, surplus, permanently retired assets, or property or equipment that is no longer useful in the conduct of the business of the Company and its Restricted Subsidiaries;

5. The sale or discount of accounts receivable arising in the ordinary course of business not in connection with a securitization or factoring transaction;

6. A transaction covered by Article 5;

7. A Restricted Payment permitted under Section 4.07 or a Permitted Investment;
(8) the issuance of Disqualified Stock or Preferred Stock of a non-Guarantor Restricted Subsidiary pursuant to Section 4.06

(9) the disposition of the Company’s interest, including Equity Interests and assets related to, the shipyard located in Avondale, Louisiana or the facilities in Waggaman, Louisiana, or Tallulah, Louisiana;

(10) any sale of Equity Interests in, or Debt or other securities of, an Unrestricted Subsidiary;

(11) dispositions of Investments in joint ventures to the extent required by, or made pursuant to, customary buy/sell or put/call arrangements between the joint venture parties set forth in joint venture arrangements and similar binding arrangements;

(12) any disposition in a transaction or series of related transactions of assets with a fair market value of less than $10.0 million; and

(13) any disposition of assets pursuant to the Transactions or the Interim Ordinary Course Transactions.

“Authenticating Agent” refers to a Person engaged to authenticate the Notes in the stead of the Trustee.

“Average Life” means, with respect to any Debt, the quotient obtained by dividing (i) the sum of the products of (x) the number of years from the date of determination to the dates of each successive scheduled principal payment of such Debt and (y) the amount of such principal payment by (ii) the sum of all such principal payments.

“bankruptcy default” has the meaning assigned to such term in Section 6.01.

“Board of Directors” means the board of directors or comparable governing body of the Company, or any committee thereof duly authorized to act on its behalf.

“Board Resolution” means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect as of the date of such certification.

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in New York City or in the city where the Corporate
Trust Office of the Trustee is located are authorized by law or executive order to close.

“Capital Lease” means, with respect to any Person, any lease of any property which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

“Capital Stock” means, with respect to any Person, any and all shares of stock of a corporation, partnership interests or other equivalent interests (however designated, whether voting or non-voting) in such Person’s equity, entitling the holder to receive a share of the profits and losses, and a distribution of assets, after liabilities, of such Person.

“Cash Equivalents” means

(1) United States dollars, or money in other currencies received in the ordinary course of business,

(2) U.S. Government Obligations or certificates representing an ownership interest in U.S. Government Obligations with maturities not exceeding two years from the date of acquisition,

(3) (i) demand deposits, (ii) time deposits and certificates of deposit with maturities of one year or less from the date of acquisition, (iii) bankers’ acceptances with maturities not exceeding one year from the date of acquisition, and (iv) overnight bank deposits, in each case with any bank or trust company organized or licensed under the laws of the United States or any state thereof having capital, surplus and undivided profits in excess of $500 million whose short-term debt is rated “A-2” or higher by S&P or “P-2” or higher by Moody’s,

(4) repurchase obligations with a term of not more than 180 days for underlying securities of the type described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above,

(5) commercial paper rated at least P-1 by Moody’s or A-1 by S&P and maturing within six months after the date of acquisition,

(6) direct obligations issued by any state of the United States or any political subdivision or public instrumentality thereof rated at least Investment Grade, provided that such Investments mature within 365 days after the date of acquisition, and

(7) money market funds at least 95% of the assets of which consist of investments of the type described in clauses (1) through (6) above.
“Certificate of Beneficial Ownership” means a certificate substantially in the form of Exhibit I.

“Certificated Note” means a Note in registered form without interest coupons and that is not a Global Note.

“Change of Control” means:

(1) the merger or consolidation of the Company with or into another Person or the merger of another Person with or into the Company or the merger of any Person with or into a Subsidiary of the Company if Capital Stock of the Company is issued in connection therewith, or the sale of all or substantially all the assets of the Company to another Person, unless holders of a majority of the aggregate voting power of the Voting Stock of the Company, immediately prior to such transaction, hold securities of the surviving or transferee Person that represent, immediately after such transaction, at least a majority of the aggregate voting power of the Voting Stock of the surviving Person;

(2) any “person” or “group” (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rules 13d-3 under the Exchange Act), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Company;

(3) individuals who on the Issue Date constituted the board of directors of the Company, together with any new directors whose election by the board of directors or whose nomination for election by the stockholders of the Company was approved by a majority of the directors then still in office who were either directors or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or

(4) the adoption of a plan relating to the liquidation or dissolution of the Company.

Notwithstanding anything to the contrary set forth above, the consummation of the Transactions will be disregarded in determining the occurrence of a Change of Control.


“Commission” means the United States Securities and Exchange Commission.
“Company” means the party named as such in the first paragraph of the Indenture or any successor obligor under the Indenture and the Notes pursuant to Article 5.

“Completion Date” means the date on which all Escrow Conditions are satisfied and the proceeds of the escrow account referred to in the Escrow Agreement are released.

“Consolidated Net Income” means, for any period, the aggregate net income (or loss) of the Company and its Restricted Subsidiaries for such period determined on a consolidated basis in conformity with GAAP, provided that the following (without duplication) will be excluded in computing Consolidated Net Income:

1. the net income (but not loss) of any Person that is not a Restricted Subsidiary (including minority interests in unconsolidated Persons or Investments in Unrestricted Subsidiaries), except to the extent of the dividends or other distributions actually paid in cash (which, for the avoidance of doubt, will increase Consolidated Net Income) to the Company or any of its Restricted Subsidiaries by such Person during such period (including dividends and distributions from joint ventures);

2. solely for purposes of determining the amount available for Restricted Payments under Section 4.07(a)(3), the net income of any Restricted Subsidiary (other than a Guarantor) to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income would not have been permitted for the relevant period by charter or by any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;

3. any net after-tax gains or losses attributable to Asset Sales or the extinguishment or conversion of Debt, in each case net of fees and expenses relating to the transaction giving rise thereto;

4. all extraordinary gains or losses (net of fees and expenses relating to the transaction giving rise thereto), income, expenses or charges;

5. the cumulative effect of a change in accounting principles;

6. non-recurring expenses and charges related to the Spin-Off and related financings;

7. non-recurring non-cash charges attributable to the closing of manufacturing facilities or the lay-off of employees, in either case which
are recorded as “restructuring and other specific charges” in accordance with GAAP;

(8) non-cash compensation expense incurred with any issuance of Equity Interests of the Company to an employee of the Company or any Restricted Subsidiary;

(9) any one-time expenses or charges (including financing, financial and other advisory fees, accounting and consulting fees and legal fees) related to any acquisition, Investment, Asset Sale, disposition, issuance of Equity Interests, Debt or amendment or modification of any Debt, and including, in each case, any such transaction undertaken but not completed, in each case whether or not successful;

(10) any expenses, charges or losses that are covered by indemnification or other reimbursement provisions in connection with any Investment or any sale, conveyance, transfer or other disposition of assets permitted under the Indenture, to the extent actually reimbursed, or, so long as the Company has made a determination that a reasonable basis exists for indemnification or reimbursement and only to the extent that such amount is in fact indemnified or reimbursed within 365 days of such determination (with a deduction in the applicable future period for any amount so added back to the extent not so indemnified or reimbursed within such 365 days);

(11) any expenses, charges or losses with respect to liability or casualty events or business interruption to the extent covered by insurance and actually reimbursed, or, so long as the Company has made a determination that there exists reasonable evidence that such amount will in fact be reimbursed by the insurer and only to the extent that such amount is in fact reimbursed within 365 days of the date of such determination (with a deduction in the applicable future period for any amount so added back to the extent not so reimbursed within such 365 days);

(12) any non-cash impairment charges or asset write-off or write-down, or from fair value accounting required by Statement of Financial Accounting; and

(13) cash or non-cash restructuring costs, charges or losses relating to the closing of the shipyard in Avondale, Louisiana, the construction of the LPD-23 Anchorage or the construction of the LPD-25 Somerset, up to an aggregate amount for all such cash costs, charges and losses of (i) for the 2011 fiscal year, $50.0 million, (ii) for the 2012 fiscal year, $35.0 million and (iii) for any fiscal year thereafter, $25.0 million.
“Consolidated Net Tangible Assets” of any Person means the aggregate amount of assets of such Person and its Restricted Subsidiaries after deducting therefrom (to the extent otherwise included therein) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles, all as set forth on the most recent quarterly or annual (as the case may be) consolidated balance sheet (prior to the relevant date of determination for which internal financial statements are available) of such Person and its Restricted Subsidiaries in accordance with GAAP.

“Consolidated Secured Leverage Ratio” means, on any date (the “transaction date”), the ratio of

(x) the aggregate amount of Debt of the Company and its Restricted Subsidiaries as of the date of determination that is secured by a Lien on any asset of the Company or any of its Restricted Subsidiaries (“Secured Debt”) to

(y) the aggregate amount of EBITDA for the four fiscal quarters immediately prior to the transaction date for which internal financial statements are available.

Such ratio shall be calculated on a pro forma basis (in accordance with Regulation S-X) as appropriate and consistent with the pro forma adjustments set forth in the definition of Fixed Charge Coverage Ratio.

“Corporate Trust Office” means the office of the Trustee at which the corporate trust business of the Trustee is principally administered, which at the date of the Indenture is located at 101 Barclay Street, Floor 8 West, New York, New York, 10286.

“Credit Agreement” means the credit agreement to be dated on or about the Completion Date among the Company, the guarantors named therein, the lenders party thereto and JPMorgan Chase Bank, N.A., as agent, together with any related documents (including any security documents and guarantee agreements), as such agreement may be amended, modified, supplemented, restated, extended, renewed, refinanced or replaced or substituted from time to time in one or more agreements or instruments (in each case with the same or new lender, group of lenders, purchasers or debtholders), including pursuant to any agreement extending the maturity thereof or otherwise restructuring all or any portion of the Debt thereunder or increasing the amount loaned or issued thereunder.

“Credit Facilities” means one or more (i) credit facilities (including the Credit Agreement) with banks or other lenders providing for revolving credit loans or term loans or the issuance of letters of credit or bankers’ acceptances or the like, (ii) note purchase agreements and indentures providing for the sale of
debt securities, and (iii) agreements that refinance any Debt Incurred under any agreement described in clause (i) or (ii) or this clause (iii), including in each case any successor or replacement agreement or agreements or indentures.

“Current NGC” means Northrop Grumman Corporation as such company is referred to as of the Issue Date.

“Date of Determination” has the meaning assigned to such term in Section 3.03.

“Debt” means, with respect to any Person, without duplication,

(1) all indebtedness of such Person for borrowed money;

(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments, excluding obligations in respect of trade letters of credit or bankers’ acceptances issued in respect of trade payables; provided that such obligations shall not constitute Debt except to the extent drawn upon or presented and not paid within 10 Business Days;

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services which are recorded as liabilities under GAAP, excluding trade payables arising in the ordinary course of business;

(5) all obligations of such Person as lessee under Capital Leases;

(6) all Debt of other Persons Guaranteed by such Person to the extent so Guaranteed;

(7) all Debt of other Persons secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person;

(8) all Disqualified Stock; and

(9) all obligations of such Person under Hedging Agreements at the time of determination.

The amount of Debt of any Person will be deemed to be:

(A) with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation;
(B) with respect to Debt secured by a Lien on an asset of such Person but not otherwise the obligation, contingent or otherwise, of such Person, the lesser of (x) the fair market value of such asset on the date the Lien attached and (y) the amount of such Debt;

(C) with respect to any Debt issued with original issue discount, the face amount of such Debt less the remaining unamortized portion of the original issue discount of such Debt;

(D) with respect to any Hedging Agreement, the net amount payable if such Hedging Agreement terminated at that time due to default by such Person;

(E) with respect to any Disqualified Equity Interests, the maximum amount that the Company and its Restricted Subsidiaries may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Equity Interests or portion thereof, exclusive of accrued dividends; and

(F) otherwise, the outstanding principal amount thereof.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Depositary” means the depositary of each Global Note, which will initially be DTC.

“Designated Non-cash Consideration” means any non-cash consideration received by the Company or a Restricted Subsidiary in connection with an Asset Sale that is designated as Designated Non-cash Consideration pursuant to an Officers’ Certificate executed by an officer of the Company or such Restricted Subsidiary at the time of such Asset Sale, less the amount of cash or Cash Equivalents received in connection with a subsequent sale of or collection on such Designated Non-cash Consideration provided that any such amount is deemed to be Net Cash Proceeds of an Asset Sale for purposes of Section 4.12.

“Disqualified Equity Interests” means Equity Interests that by their terms or upon the happening of any event prior to the Stated Maturity of the Notes are (1) required to be redeemed or redeemable at the option of the holder for consideration other than Qualified Equity Interests, or (2) convertible at the option of the holder into Disqualified Equity Interests or exchangeable for Debt;
provided that only the portion of such Equity Interests that is required to be redeemed, is so redeemable or is so convertible at the option of the holder thereof before such date will be deemed to be Disqualified Equity Interests and Equity Interests will not constitute Disqualified Equity Interests solely because of provisions giving holders thereof the right to require repurchase or redemption upon an “asset sale” or “change of control” occurring prior to the Stated Maturity of the Notes if those provisions

(A) are no more favorable to the holders than Section 4.11 and Section 4.12, and

(B) specifically state that repurchase or redemption pursuant thereto will not be required prior to the Company’s repurchase of the Notes as required by the Indenture.

“Disqualified Stock” means Capital Stock constituting Disqualified Equity Interests.

“DTC” means The Depository Trust Company, a New York corporation, and its successors.

“DTC Legend” means the legend set forth in Exhibit E.

“Domestic Restricted Subsidiary” means any Restricted Subsidiary formed under the laws of the United States of America or any jurisdiction thereof.

“EBITDA” means, for any period, the sum of

1. Consolidated Net Income, plus

2. Fixed Charges, to the extent deducted in calculating Consolidated Net Income, plus

3. to the extent deducted in calculating Consolidated Net Income and as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP:

(A) income taxes, including any penalties and interest related to such taxes or arising from any tax examinations;

(B) depreciation, amortization (including amortization of goodwill, other intangibles, deferred financing fees, debt issuance costs, commissions, fees and expenses) and all other non-cash items reducing Consolidated Net Income (not including non-cash charges in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income;
(C) any costs and expenses incurred by the Company or any Restricted Subsidiary pursuant to any management equity plan or stock option plan or any other management or employee benefit plan or agreement, any stock subscription or shareholder agreement, to the extent that such costs or expenses are funded with the cash proceeds contributed to the capital of the Company or net cash proceeds from an issuance of Equity Interests of the Company (other than Disqualified Equity Interests); and

(D) all non-recurring losses (and minus all non-recurring gains).

“Equity Interests” means all Capital Stock and all warrants or options with respect to, or other rights to purchase, Capital Stock, but excluding Debt convertible into equity.

“Escrow Agent” means Wells Fargo Bank, National Association.

“Escrow Agreement” means the escrow and security agreement, dated as of March 11, 2011, among the Company, the Trustee, the Financial Institution (as defined therein) and the Escrow Agent.

“Escrow Conditions” means the conditions set forth in Section 1.05(b) of the Escrow Agreement required to be satisfied to cause the release of the proceeds of the escrow account referred to therein.

“Event of Default” has the meaning assigned to such term in Section 6.01.

“Excess Proceeds” has the meaning assigned to such term in Section 4.12.


“Exchange Notes” means the Notes of a series of the Company issued pursuant to the Indenture in exchange for, and up to an aggregate principal amount equal to, the Initial Notes or Initial Additional Notes of such series in compliance with the terms of a Registration Rights Agreement and containing terms substantially identical to the Initial Notes or Initial Additional Notes of such series (except that (i) such Exchange Notes will be registered under the Securities Act and will not be subject to transfer restrictions or bear the Restricted Legend, and (ii) the provisions relating to Additional Interest will be eliminated).

“Exchange Offer” means an offer by the Company to the Holders of the Initial Notes or Initial Additional Notes to exchange outstanding Notes of a series for Exchange Notes of such series, as provided for in a Registration Rights Agreement.
“Exchange Offer Registration Statement” means the Exchange Offer Registration Statement as defined in a Registration Rights Agreement.

“Fixed Charge Coverage Ratio” means, on any date (the “transaction date”), the ratio of

(x) the aggregate amount of EBITDA for the four fiscal quarters immediately prior to the transaction date for which internal financial statements are available (the “reference period”) to

(y) the aggregate Fixed Charges during such reference period.

In making the foregoing calculation,

(1) pro forma effect will be given to any Incurrence or repayment, defeasance or redemption of Debt (other than pursuant to revolving credit facilities) or Preferred Stock and the application of the proceeds thereof during the reference period or subsequent thereto and on or prior to the date of determination as if such Incurrence, repayment or redemption occurred on the first day of the reference period;

(2) pro forma calculations of interest on Debt bearing a floating interest rate will be made as if the rate in effect on the transaction date (taking into account any Hedging Agreement applicable to the Debt) had been the applicable rate for the entire reference period; and

(3) Fixed Charges related to any Debt or Preferred Stock no longer outstanding or to be repaid, defeased or redeemed on the transaction date, except for Consolidated Interest Expense accrued during the reference period under a revolving credit to the extent of the commitment thereunder (or under any successor revolving credit) in effect on the transaction date, will be excluded;

(4) pro forma effect (calculated in accordance with Regulation S-X) will be given to

(A) the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries,

(B) the acquisition or disposition of companies, divisions or lines of businesses by the Company and its Restricted Subsidiaries, including any acquisition or disposition of a company, division or line of business since the beginning of the reference period by a Person that became a Restricted Subsidiary after the beginning of the reference period, and
(C) discontinued operations and the discontinuation of any discontinued operations but, in the case of Fixed Charges, only to the extent that the obligations giving rise to the Fixed Charges will not be obligations of the Company or any Restricted Subsidiary following the transaction date that have occurred since the beginning of the reference period as if such events had occurred, and, in the case of any disposition, the proceeds thereof applied, on the first day of the reference period. To the extent that pro forma effect is to be given to an acquisition or disposition of a company, division or line of business, the pro forma calculation will be based upon the most recent four full fiscal quarters for which the relevant financial information is available.

“Fixed Charges” means, for any period, the sum of

(1) Interest Expense for such period; and

(2) the product of

(x) cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock, and dividends paid during such period on any Preferred Stock, of the Company or a Restricted Subsidiary, except for dividends payable in the Company’s Qualified Stock or paid to the Company or to a Restricted Subsidiary and excluding items eliminated in consolidation, and

(y) a fraction, the numerator of which is one and the denominator of which is one minus the sum of the currently effective combined Federal, state, local and foreign tax rate applicable to the Company and its Restricted Subsidiaries.

“Foreign Restricted Subsidiary” means any Restricted Subsidiary that is not a Domestic Restricted Subsidiary.

“GAAP” means generally accepted accounting principles in the United States of America as in effect as of the Issue Date.

“Global Note” means a Note in registered global form without interest coupons.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other
obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof, in whole or in part; provided that the term “Guarantee” does not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Guarantor” means (i) each Domestic Restricted Subsidiary of the Company in existence on the Completion Date that Guarantees any Debt under the Credit Agreement at such time and (ii) each Domestic Restricted Subsidiary that executes a supplemental indenture in the form of Exhibit C to the Indenture providing for the guaranty of the payment of the Notes, or any successor obligor under its Note Guaranty pursuant to Article 5, in each case unless and until such Guarantor is released from its Note Guaranty pursuant to the Indenture.

“Hedging Agreement” means (i) any interest rate swap agreement, interest rate cap agreement or other agreement designed to protect against fluctuations in interest rates or (ii) any foreign exchange forward contract, currency swap agreement or other agreement designed to protect against fluctuations in foreign exchange rates or (iii) any commodity or raw material futures contract or any other agreement designed to protect against fluctuations in raw material prices.

“Holder” or “Noteholder” means the registered holder of any Note.

“IAI Global Note” means a Global Note representing Notes resold to Institutional Accredited Investors bearing the Restricted Legend.

“Incur” means, with respect to any Debt, to incur, create, issue, assume or Guarantee such Debt. If any Person becomes a Restricted Subsidiary on any date after the Issue Date (including by redesignation of an Unrestricted Subsidiary or failure of an Unrestricted Subsidiary to meet the qualifications necessary to remain an Unrestricted Subsidiary), the Debt of such Person outstanding on such date will be deemed to have been Incurred by such Person on such date for purposes of Section 4.06, but with respect to Disqualified Stock will not be considered the sale or issuance of Equity Interests for purposes of Section 4.12. The accretion of original issue discount or payment of interest in kind will not be considered an Incurrence of Debt.

“Indenture” means this indenture, as amended or supplemented from time to time.
“Initial Additional Notes” means Additional Notes issued in an offering not registered under the Securities Act and any Notes issued in replacement thereof, but not including any Exchange Notes issued in exchange therefor.

“Initial Notes” means the Notes issued on the Issue Date and any Notes issued in replacement thereof, but not including any Exchange Notes issued in exchange therefor.

“Initial Purchasers” means the initial purchasers party to a purchase agreement with the Company relating to the sale of the Initial Notes or Initial Additional Notes by the Company.

“Institutional Accredited Investor” means an institutional “accredited investor” (as defined) in Rule 501(a), (2), (3) or (7) under the Securities Act.

“Institutional Accredited Investor Certificate” means a certificate substantially in the form of Exhibit H hereto.

“interest”, in respect of the Notes, unless the context otherwise requires, refers to interest and Additional Interest, if any.

“Interest Expense” means, for any period, the consolidated interest expense of the Company and its Restricted Subsidiaries, plus, to the extent not included in such consolidated interest expense, and to the extent incurred, accrued or payable by the Company or its Restricted Subsidiaries, without duplication, (i) amortization of debt discount but excluding the amortization or write-off of debt issuance costs, deferred financing fees, commissions, fees and expenses and expensing of interim loan commitment and other financing fees, (ii) capitalized interest, (iii) non-cash interest expense, (iv) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers’ acceptance financing, and (v) net costs associated with Hedging Agreements (including the amortization of fees) in respect of interest rate protection, as determined on a consolidated basis and in accordance with GAAP.

“Interest Payment Date” means each March 15 and September 15 of each year, commencing September 15, 2011.

“Interim Ordinary Course Transactions” has the meaning assigned to such term in Section 4.17.

“Internal Reorganization” means the internal reorganization that is conducted on the terms described in the Offering Circular.

“Investment” means

(1) any direct or indirect advance, loan or other extension of credit to another Person,
(2) any capital contribution to another Person, by means of any transfer of cash or other property or assets,

(3) any purchase or acquisition of Equity Interests, bonds, notes or other Debt, or other instruments or securities issued by another Person, including the receipt of any of the above as consideration for the disposition of assets or rendering of services, or

(4) any Guarantee of the Debt of another Person

but shall exclude: (a) accounts receivable and other extensions of trade credit arising in the ordinary course of business; (b) the acquisition or use of property and assets from suppliers and other vendors in the ordinary course of business; (c) prepaid expenses and workers’ compensation, utility, lease and similar deposits, in the ordinary course of business; and (d) negotiable instruments held for collection and endorsements for deposit or collection in the ordinary course of business.

If the Company or any Restricted Subsidiary (x) sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary so that, after giving effect to that sale or disposition, such Person is no longer a Subsidiary of the Company, or (y) designates any Restricted Subsidiary as an Unrestricted Subsidiary in accordance with Section 4.15 of the Indenture, all remaining Investments of the Company and the Restricted Subsidiaries in such Person shall be deemed to have been made at such time.

“Investment Grade” means BBB- or higher by S&P and Baa3 or higher by Moody’s, or the equivalent of such ratings by another Rating Agency.

“Issue Date” means March 11, 2011, the date on which the Original Notes are originally issued under the Indenture.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or Capital Lease having substantially the same economic effect as any of the foregoing).

“Mandatory Redemption Price” has the meaning assigned to such term in Section 3.04.

“Mandatory Redemption” has the meaning assigned to such term in Section 3.04.

“Mandatory Redemption Date” has the meaning assigned to such term in Section 3.04.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.
“Net Cash Proceeds” means, with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash (including (i) payments in respect of deferred payment obligations to the extent corresponding to principal, but not interest, when received in the form of cash, and (ii) proceeds from the conversion of other consideration received when converted to cash), net of

(1) brokerage commissions and other fees and expenses related to such Asset Sale, including all legal, accounting, title and recording tax expenses, commissions and other fees and expenses incurred;

(2) provisions for federal, state, foreign and local taxes as a result of such Asset Sale taking into account the consolidated results of operations of the Company and its Restricted Subsidiaries;

(3) payments required to be made to holders of minority interests in Restricted Subsidiaries as a result of such Asset Sale or to repay Debt outstanding at the time of such Asset Sale that is secured by a Lien on the property or assets sold; and

(4) amounts by contract to be held in escrow pending determination of whether a purchase price adjustment will be made and appropriate amounts to be provided as a reserve against liabilities associated with such Asset Sale, including pension and other post-employment benefit liabilities, liabilities related to environmental matters and indemnification obligations associated with such Asset Sale, with any subsequent reduction of the reserve other than by payments made and charged against the reserved amount or release from escrow to be deemed a receipt of cash.

“Non-Recourse Debt” means Debt as to which neither the Company nor any Restricted Subsidiary provides any Guarantee and no default as to which would, as such, constitute a default under any Debt of the Company or any Restricted Subsidiary.

“Non-U.S. Person” means a Person that is not a U.S. person, as defined in Regulation S.

“NGC” means the company that will be renamed Northrop Grumman Corporation after the Spin-off, together with its consolidated Subsidiaries after the Spin-off.

“Notes” has the meaning assigned to such term in the Recitals.

“Note Guaranty” means the guaranty of the Notes by a Guarantor pursuant to the Indenture.
“Obligations” means, with respect to any Debt, all obligations (whether in existence on the Issue Date or arising afterwards, absolute or contingent, direct or indirect) for or in respect of principal (when due, upon acceleration, upon redemption, upon mandatory repayment or repurchase pursuant to a mandatory offer to purchase, or otherwise), premium, interest, penalties, fees, indemnification, reimbursement and other amounts payable and liabilities with respect to such Debt, including all interest accrued or accruing after the commencement of any bankruptcy, insolvency or reorganization or similar case or proceeding at the contract rate (including, any contract rate applicable upon default) specified in the relevant documentation, whether or not the claim for such interest is allowed as a claim in such case or proceeding.

“Offer to Purchase” has the meaning assigned to such term in Section 3.06.

“Offering Circular” means the offering circular relating to the issuance of the Notes dated March 4, 2011.

“Officer” means any vice president, the chief executive officer, the chief financial officer, the treasurer or any assistant treasurer, or the secretary or any assistant secretary, of the Company.

“Officers’ Certificate” means a certificate signed in the name of the Company by an Officer.

“Offshore Global Note” means a Global Note representing Notes issued and sold pursuant to Regulation S.

“Opinion of Counsel” means a written opinion signed by legal counsel, who may be an employee of or counsel to the Company, satisfactory to the Trustee.

“Original Notes” means the Initial Notes and any Exchange Notes issued in exchange therefor.

“Paying Agent” means any Person authorized by the Company to pay the principal of or interest on any Notes on behalf of the Company.

“Permanent Offshore Global Note” means an Offshore Global Note that does not bear the Temporary Offshore Global Note Legend.

“Permitted Bank Debt” has the meaning assigned to such term in Section 4.06.

“Permitted Debt” has the meaning assigned to such term in Section 4.06.
“Permitted Business” means any of the businesses in which the Company and its Restricted Subsidiaries are engaged on the Issue Date and Completion Date after giving effect to the Transactions, and any business reasonably related, incidental, complementary or ancillary thereto.

“Permitted Investments” means:

(1) Investments in existence on the Issue Date not otherwise permitted by clause (2) below or required pursuant to any agreement in effect on the Issue Date;

(2) any Investment in the Company or in a Restricted Subsidiary of the Company;

(3) any Investment in Cash Equivalents;

(4) any Investment by the Company or any Subsidiary of the Company in a Person, if as a result of such Investment,
   (A) such Person becomes a Restricted Subsidiary of the Company, or
   (B) such Person is merged or consolidated with or into, or transfers or conveys substantially all its assets to, or is liquidated into, the Company or a Restricted Subsidiary;

(5) Investments received as non-cash consideration in an Asset Sale made pursuant to and in compliance with Section 4.12 or any disposition of property not constituting an Asset Sale;

(6) Hedging Agreements otherwise permitted under the Indenture;

(7) (i) receivables owing to the Company or any Restricted Subsidiary and advances to suppliers if created or acquired in the ordinary course of business, (ii) Cash Equivalents, (iii) endorsements for collection or deposit in the ordinary course of business, and (iv) securities, instruments or other obligations received in compromise or settlement of debts created in the ordinary course of business, or by reason of a composition or readjustment of debts or reorganization of another Person, or in satisfaction of claims or judgments;

(8) Investments in an aggregate amount, taken together with all other Investments made in reliance on this clause, not to exceed the greater of (A) $150.0 million and (B) 4.0% of Consolidated Net Tangible Assets (net of, with respect to the Investment in any particular Person, the cash return thereon received after the Issue Date as a result of any sale for
cash, repayment, redemption, liquidating distribution or other cash realization (not included in Consolidated Net Income), not to exceed the amount of Investments in such Person made after the Issue Date in reliance on this clause);

(9) payroll, travel and other loans or advances to, or Guarantees issued to support the obligations of, officers and employees, in each case in the ordinary course of business, not in excess of $10.0 million outstanding at any time;

(10) Investments in joint ventures and Unrestricted Subsidiaries (measured on the date each such investment is made and without giving effect to subsequent changes in value) in an aggregate amount not to exceed the greater of (A) $150.0 million and (B) 4.0% of Consolidated Net Tangible Assets (net of, with respect to the Investment in any particular Person, the cash return thereon received after the Issue Date as a result of any sale for cash, repayment, redemption, liquidating distribution or other cash realization (not included in Consolidated Net Income), not to exceed the amount of Investments in such Person made after the Issue Date in reliance on this clause);

(11) extensions of credit to customers and suppliers in the ordinary course of business; and

(12) Investments resulting from the disposition of interests in the shipyard in Avondale, Louisiana or the facilities in Waggaman, Louisiana, or Tallulah, Louisiana.

“Permitted Liens” means

(1) Liens existing on the Issue Date or arising on or prior to the Completion Date pursuant to the Transactions and the Interim Ordinary Course Transactions, in each case not otherwise constituting Permitted Liens;

(2) Liens securing the Notes or any Note Guaranties;

(3) Liens securing (A) Permitted Bank Debt plus (B) Debt Incurred under Section 4.06(a) in an aggregate principal amount not to exceed (X) an amount that does not cause the Consolidated Secured Leverage Ratio to exceed 2.65:1 minus (Y) an amount equal to $1,500 million less any amount of Permitted Bank Debt permanently repaid as provided under Section 4.12, plus (C) Obligations in respect thereof and any cash management obligations or agreements with respect to similar banking services;

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(4) pledges or deposits under worker’s compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts or leases, or to secure public or statutory obligations, surety bonds, customs duties and the like, or for the payment of rent, in each case incurred in the ordinary course of business and not securing Debt;

(5) Liens imposed by law, such as carriers’, vendors’, warehousemen’s and mechanics’ liens, in each case for sums not yet due or being contested in good faith and by appropriate proceedings;

(6) Liens in respect of taxes and other governmental assessments and charges which are not yet due or which are being contested in good faith and by appropriate proceedings;

(7) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the proceeds thereof;

(8) minor survey exceptions, minor encumbrances, easements or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property, not interfering in any material respect with the conduct of the business of the Company and its Restricted Subsidiaries;

(9) licenses or leases or subleases as licensor, lessor or sublessor of any of its property, including intellectual property, in the ordinary course of business;

(10) customary Liens in favor of trustees and escrow agents, and netting and setoff rights, banker’s liens and the like in favor of financial institutions and counterparties to financial obligations and instruments, including Hedging Agreements;

(11) Liens on assets pursuant to merger agreements, stock or asset purchase agreements and similar agreements in respect of the disposition of such assets;

(12) judgment liens, and Liens securing appeal bonds or letters of credit issued in support of or in lieu of appeal bonds, so long as no Event of Default then exists as a result thereof;

(13) Liens (including the interest of a lessor under a Capital Lease) on property that secure Debt Incurred under clause 11 of Permitted Debt for the purpose of financing all or any part of the purchase price or
cost of construction or improvement of such property and which attach within 180 days after the date of such purchase or the completion of construction or improvement;

(14) Liens on property of a Person at the time such Person becomes a Restricted Subsidiary of the Company, provided such Liens were not created in contemplation thereof and do not extend to any other property of the Company or any Restricted Subsidiary;

(15) Liens on property at the time the Company or any of the Restricted Subsidiaries acquires such property, including any acquisition by means of a merger or consolidation with or into the Company or a Restricted Subsidiary of such Person, provided such Liens were not created in contemplation thereof and do not extend to any other property of the Company or any Restricted Subsidiary;

(16) Liens securing Debt or other obligations of the Company or a Restricted Subsidiary to the Company or a Restricted Subsidiary;

(17) Liens securing Hedging Agreements so long as such Hedging Agreements relate to Debt for borrowed money that is, and is permitted to be under the Indenture, secured by a Lien on the same property securing such Hedging Agreements;

(18) Liens in favor of customs or revenue authorities arising as a matter of law to secure payments of customs duties in connection with the importation of goods incurred in the ordinary course of business;

(19) deposits in the ordinary course of business to secure liability to insurance carriers;

(20) any interest of title of an owner of equipment or inventory on a loan or consignment to the Company or any of its Restricted Subsidiaries and Liens arising from Uniform Commercial Code financing statement filings regarding operating leases entered into by the Company or any Restricted Subsidiary in the ordinary course of business;

(21) Liens securing obligations for third party customer financing in the ordinary course of business;

(22) options, put and call arrangements, rights of first refusal and similar rights relating to Investments in joint ventures, limited liability companies, partnerships and the like permitted to be made under the Indenture;

(23) Liens deemed to exist in connection with Investments in repurchase agreements that constitute Permitted Investments; provided
that such Liens do not extend to any assets other than those assets that are the subject of such repurchase agreements;

(24) Liens on property necessary to defease Debt that was not incurred in violation of the Indenture;

(25) extensions, renewals or replacements of any Liens referred to in clauses (1), (2), (13), (14) or (15) in connection with the refinancing of the obligations secured thereby, provided that such Lien does not extend to any other property and, except as contemplated by the definition of "Permitted Refinancing Debt", the amount secured by such Lien is not increased; and

(26) other Liens securing obligations in an aggregate amount not exceeding $210.0 million.

"Permitted Refinancing Debt" has the meaning assigned to such term in Section 4.06.

"Person" means an individual, a corporation, a partnership, a limited liability company, an association, a trust or any other entity, including a government or political subdivision or an agency or instrumentality thereof.

"Preferred Stock" means, with respect to any Person, any and all Capital Stock which is preferred as to the payment of dividends or distributions, upon liquidation or otherwise, over another class of Capital Stock of such Person.

"principal" of any Debt means the principal amount of such Debt, (or if such Debt was issued with original issue discount, the face amount of such Debt less the remaining unamortized portion of the original issue discount of such Debt), together with, if the context so requires, any premium then payable on such Debt.

"Qualified Equity Interests" means all Equity Interests of a Person other than Disqualified Equity Interests.

"Qualified Equity Offering" means any public or private offering, after the Issue Date, of Qualified Stock of the Company other than pursuant to employee benefit plans or otherwise in compensation to officers, directors or employees.

"Qualified Stock" means all Capital Stock of a Person other than Disqualified Stock.

"Rating Agencies" means S&P and Moody’s; provided, that if either S&P or Moody’s (or both) shall cease issuing a rating on the Notes for reasons outside
the control of the Company, the Company may select a nationally recognized statistical rating agency to substitute for S&P or Moody’s (or both).

“refinance” has the meaning assigned to such term in Section 4.06.

“Register” has the meaning assigned to such term in Section 2.09.

“Registrar” means a Person engaged to maintain the Register.

“Registration Rights Agreement” means (i) the Registration Rights Agreement dated on or about the Issue Date between the Company and the Initial Purchasers party thereto with respect to the Initial Notes, and (ii) with respect to any Additional Notes, any registration rights agreements between the Company and the Initial Purchasers party thereto relating to rights given by the Company to the purchasers of Additional Notes to register such Additional Notes or exchange them for Notes registered under the Securities Act.

“Regular Record Date” for the interest payable on any Interest Payment Date means the March 1 or September 1 (whether or not a Business Day) next preceding such Interest Payment Date.

“Regulation S” means Regulation S under the Securities Act.

“Regulation S Certificate” means a certificate substantially in the form of Exhibit F hereto.

“Replacement Assets” means all or substantially all of the assets of a Permitted Business, or a majority of the Voting Stock of another Person that thereupon becomes a Restricted Subsidiary engaged in a Permitted Business or assets (other than inventory, securities or Cash Equivalents) that are used or useful in a Permitted Business.

“Restricted Legend” means the legend set forth in Exhibit D.

“Restricted Payment” has the meaning assigned to such term in Section 4.07.

“Restricted Period” means the relevant 40-day distribution compliance period as defined in Regulation S, commencing on the Issue Date in the case of the Initial Notes.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“Reversion Date” has the meaning assigned to such term in Section 4.20.

“Rule 144A” means Rule 144A under the Securities Act.
“Rule 144A Certificate” means (i) a certificate substantially in the form of Exhibit G hereto or (ii) a written certification addressed to the Company and the Trustee to the effect that the Person making such certification (x) is acquiring such Note (or beneficial interest) for its own account or one or more accounts with respect to which it exercises sole investment discretion and that it and each such account is a qualified institutional buyer within the meaning of Rule 144A, (y) is aware that the transfer to it or exchange, as applicable, is being made in reliance upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A, and (z) acknowledges that it has received such information regarding the Company as it has requested pursuant to Rule 144A(d)(4) or has determined not to request such information.


“Securities Act” means the Securities Act of 1933.

“Significant Subsidiary” means any Restricted Subsidiary, or group of Restricted Subsidiaries, that would, taken together, be a “significant subsidiary” as defined in Article 1, Rule 1-02 (w)(1) or (2) of Regulation S-X promulgated under the Securities Act, as such regulation is in effect on the Issue Date.

“Special Redemption” has the meaning assigned to such term in Section 3.03.

“Special Redemption Date” has the meaning assigned to such term in Section 3.03.

“Special Redemption Price” means a cash redemption price equal to 100% of the issue price of the applicable Note (as set forth on the cover of the Offering Circular), plus the Accrued Yield on such Note and accrued and unpaid interest on such Note from the Issue Date to the Special Redemption Date.

“Spin-off” means the Spin-off transaction pursuant to which the shares of the Company will be distributed to the stockholders of Northrop Grumman Corporation as described in the Offering Circular.

“Spin-off Date” means the date on which the Spin-off is consummated.

“Spin-off Determination Date” has the meaning assigned to such term in Section 3.04.

“Stated Maturity” means (i) with respect to any Debt, the date specified as the fixed date on which the final installment of principal of such Debt is due and payable or (ii) with respect to any scheduled installment of principal or interest on any Debt, the date specified as the fixed date on which such installment is due and payable as, in each case, set forth in the documentation.
governing such Debt, not including any contingent obligation to repay, redeem or repurchase prior to the regularly scheduled date for payment.

“Subordinated Debt” means any Debt of the Company or any Guarantor which is subordinated in right of payment to the Notes or the Note Guaranty, as applicable, pursuant to a written agreement to that effect.

“Subsidiary” means with respect to any Person, any corporation, association or other business entity of which more than 50% of the outstanding Voting Stock is owned, directly or indirectly, by, or, in the case of a partnership, the sole general partner or the managing partner or the only general partners of which are, such Person and one or more Subsidiaries of such Person (or a combination thereof). Unless otherwise specified, “Subsidiary” means a Subsidiary of the Company.

“Suspended Covenants” has the meaning assigned to such term in Section 4.20.

“Suspension Period” has the meaning assigned to such term in Section 4.20.

“Temporary Offshore Global Note” means an Offshore Global Note that bears the Temporary Offshore Global Note Legend.

“Temporary Offshore Global Note Legend” means the legend set forth in Exhibit J.

“Transactions” means, collectively, the Internal Reorganization and the Spin-off, including the transactions set forth in the instruments and documents relating thereto to occur in connection therewith (including any actions necessary to effect such transactions), the offering of the Notes and borrowings under the Credit Agreement and the application of the proceeds thereof (including the contribution of a portion of the proceeds of the offering of the Notes and Credit Agreement borrowings to NGC), and the payment of the fees and expenses and reimbursement of advances related thereto (including financing, financial and other advisory fees, accounting and consulting fees and legal fees), in each case substantially on the terms described in the Offering Circular.

“Treasury Rate” means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to March 15, 2015 in the case of the 2018 Notes and March 15, 2016 in the case of the 2021 Notes; provided that if the period
from the redemption date to such date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

“Trustee” means the party named as such in the first paragraph of the Indenture or any successor trustee under the Indenture pursuant to Article 7.

“Trust Indenture Act” means the Trust Indenture Act of 1939.

“U.S. Global Note” means a Global Note that bears the Restricted Legend representing Notes issued and sold pursuant to Rule 144A.

“U.S. Government Obligations” means (i) obligations issued or directly and fully guaranteed or insured by the United States of America or by any agent or instrumentality thereof, provided that the full faith and credit of the United States of America is pledged in support thereof; (ii) repurchase agreements with respect to debt obligations referred to in clause (i); (iii) money market accounts that invest solely in the debt obligations referred to in clause (i) and/or repurchase obligations referred to in clause (ii) above; and (iv) U.S. dollars.

“Unrestricted Subsidiary” means (i) all Subsidiaries of NGC that are not intended to be the Company or a Subsidiary of the Company following the Spin-off, (ii) Current NGC and (iii) any Subsidiary of the Company that at the time of determination has previously been designated, and continues to be, an Unrestricted Subsidiary in accordance with Section 4.15.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members, as applicable, of the governing body of such Person.

“Wholly Owned” means, with respect to any Restricted Subsidiary, a Restricted Subsidiary all of the outstanding Capital Stock of which (other than any director’s qualifying shares) is owned by the Company and one or more Wholly Owned Restricted Subsidiaries (or a combination thereof).

Section 1.02. Rules of Construction. Unless the context otherwise requires or except as otherwise expressly provided,

(1) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(2) “herein,” “hereof” and other words of similar import refer to the Indenture as a whole and not to any particular Section, Article or other subdivision; and the word “including” means “including without limitation”;
ARTICLE 2
The Notes

Section 2.01. Form, Dating and Denominations; Legends. (a) The 2018 Notes and the Trustee’s certificate of authentication thereon will be substantially in the form attached as Exhibit A. The 2021 Notes and the Trustee’s certificate of authentication thereon will be substantially in the form attached as Exhibit B. The terms and provisions contained in the respective forms of the 2018 Notes annexed as Exhibit A and the 2021 Notes annexed as Exhibit B constitute, and are hereby expressly made, a part of the Indenture. The Notes of each series may have notations, legends or endorsements required by law, rules of or agreements with national securities exchanges to which the Company is subject, or usage. Each Note will be dated the date of its authentication. The Notes of each series will be issuable in denominations of $2,000 and higher integral multiples of $1,000.

(b) (1) Except as otherwise provided in paragraph (c), Section 2.09(b)(4) or Section 2.10(b)(3), (b)(5), or (e), each Initial Note or Initial Additional Note (other than a Permanent Offshore Note) will bear the Restricted Legend.

(2) Each Global Note, whether or not an Initial Note or Additional Note, will bear the DTC Legend.

(3) Each Temporary Offshore Global Note will bear the Temporary Offshore Global Note Legend.

(4) Initial Notes and Initial Additional Notes offered and sold in reliance on Regulation S will be issued as provided in Section 2.11(a).

(5) Initial Notes and Initial Additional Notes offered and sold in reliance on Rule 144A will be in the form of one or more U.S. Global Notes.
(6) Initial Notes and Initial Additional Notes offered and sold in reliance on any exemption under the Securities Act other than Regulation S and Rule 144A will be issued in the form of Certificated Notes.

(7) Initial Notes resold to Institutional Accredited Investors will be in the form of one or more IAI Global Notes.

(8) Exchange Notes will be issued, subject to Section 2.09(b), in the form of one or more Global Notes.

c(1) If the Company determines (upon the advice of counsel and based on such other certifications and evidence as the Company may reasonably require) that a Note is eligible for resale pursuant to Rule 144 under the Securities Act (or a successor provision) without the need for current public information and that the Restricted Legend is no longer necessary or appropriate in order to ensure that subsequent transfers of the Note (or a beneficial interest therein) are effected in compliance with the Securities Act, or

c(2) after an Initial Note or any Initial Additional Note is

(x) sold pursuant to an effective registration statement under the Securities Act, pursuant to the Registration Rights Agreement or otherwise, or (y) is validly tendered for exchange into an Exchange Note pursuant to an Exchange Offer

the Company may instruct the Trustee to cancel the Note and issue to the Holder thereof (or to its transferee) a new Note of the same series, of like tenor and amount, registered in the name of the Holder thereof (or its transferee), that does not bear the Restricted Legend, and the Trustee will comply with such instruction.

(d) By its acceptance of any Note bearing the Restricted Legend (or any beneficial interest in such a Note), each Holder thereof and each owner of a beneficial interest therein acknowledges the restrictions on transfer of such Note (and any such beneficial interest) set forth in this Indenture and in the Restricted Legend and agrees that it will transfer such Note (and any such beneficial interest) only in accordance with the Indenture and such legend.

Section 2.02. Execution and Authentication; Exchange Notes; Additional Notes. (a) An Officer shall execute the Notes for the Company by facsimile or manual signature in the name and on behalf of the Company. If an Officer whose signature is on a Note no longer holds that office at the time the Note is authenticated, the Note will still be valid.

(b) A Note will not be valid until the Trustee manually signs the certificate of authentication on the Note by an authorized signatory, with the
signature conclusive evidence that the Note has been authenticated under the Indenture.

(c) At any time and from time to time after the execution and delivery of the Indenture, the Company may deliver Notes of a series executed by the Company to the Trustee for authentication. The Trustee will authenticate and deliver

(i) Initial Notes for original issue in the aggregate principal amount not to exceed $600,000,000 aggregate principal amount of the 2018 Notes and $600,000,000 aggregate principal amount of the 2021 Notes,

(ii) Initial Additional Notes from time to time for original issue in aggregate principal amounts specified by the Company, and

(iii) Exchange Notes from time to time for issue in exchange for a like principal amount of Initial Notes or Initial Additional Notes of the same series after the following conditions have been met:

(1) Receipt by the Trustee of an Officers' Certificate specifying

   (A) the amount of Notes to be authenticated and the date on which the Notes are to be authenticated,

   (B) whether the Notes are to be Initial Notes, Additional Notes or Exchange Notes,

   (C) in the case of Initial Additional Notes, that the issuance of such Notes does not contravene any provision of Article 4,

   (D) whether the Notes are to be issued as one or more Global Notes or Certificated Notes, and

   (E) other information the Company may determine to include or the Trustee may reasonably request.

(2) In the case of Initial Additional Notes, receipt by the Trustee of an Opinion of Counsel confirming that the Holders of the outstanding Notes will be subject to federal income tax in the same amounts, in the same manner and at the same times as would have been the case if such Additional Notes were not issued.
In the case of Exchange Notes, effectiveness of an Exchange Offer Registration Statement and consummation of the exchange offer thereunder (and receipt by the Trustee of an Officers’ Certificate to that effect). Initial Notes or Initial Additional Notes exchanged for Exchange Notes will be cancelled by the Trustee.

Section 2.03. Registrar, Paying Agent and Authenticating Agent; Paying Agent to Hold Money in Trust. (a) The Company may appoint one or more Registrars and one or more Paying Agents, and the Trustee may appoint an Authenticating Agent, in which case each reference, if any, in the Indenture to the Trustee in respect of the obligations of the Trustee to be performed by that Agent will be deemed to be references to the Agent. The Company may act as Registrar or (except for purposes of Article 8) Paying Agent. In each case the Company and the Trustee will enter into an appropriate agreement with the Agent (if other than the Trustee) implementing the provisions of the Indenture relating to the obligations to be performed by the Agent and the related rights. The Company initially appoints the Trustee as Registrar and Paying Agent.

(b) The Company will require each Paying Agent other than the Trustee to agree in writing that the Paying Agent will hold in trust for the benefit of the Holders or the Trustee all money held by the Paying Agent for the payment of principal of and interest on the Notes and will promptly notify the Trustee of any default by the Company in making any such payment. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee and account for any funds disbursed, and the Trustee may at any time during the continuance of any payment default, upon written request to a Paying Agent, require the Paying Agent to pay all money held by it to the Trustee and to account for any funds disbursed. Upon doing so, the Paying Agent will have no further liability for the money so paid over to the Trustee.

Section 2.04. Replacement Notes. If a mutilated Note is surrendered to the Trustee or if the Trustee receives evidence to its satisfaction that a Note has been lost, destroyed or wrongfully taken, the Company will issue and the Trustee will authenticate a replacement Note of like series, tenor and principal amount and bearing a number not contemporaneously outstanding. Every replacement Note is an additional obligation of the Company and entitled to the benefits of the Indenture. If required by the Trustee or the Company, an indemnity must be furnished that is sufficient in the judgment of both the Trustee and the Company to protect the Company and the Trustee from any loss they may suffer if a Note is replaced. The Company may charge the Holder for the expenses of the Company and the Trustee in replacing a Note. In case the mutilated, lost, destroyed or wrongfully taken Note has become or is about to become due and payable, the Company in its discretion may pay the Note instead of issuing a replacement Note. The provisions of this Section 2.04 shall be exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or wrongfully taken Notes.
Section 2.05. Outstanding Notes. (a) Notes outstanding at any time are all Notes that have been authenticated by the Trustee except for

1) Notes cancelled by the Trustee or delivered to it for cancellation;

2) any Note which has been replaced or paid pursuant to Section 2.04 unless and until the Trustee and the Company receive proof satisfactory to them that the replaced or paid Note is held by a bona fide purchaser; and

3) on or after the maturity date or any redemption date or date for purchase of the Notes pursuant to an Offer to Purchase, those Notes payable or to be redeemed or purchased on that date for which the Trustee (or Paying Agent, other than the Company or an Affiliate of the Company) holds money sufficient to pay all amounts then due.

(b) A Note does not cease to be outstanding because the Company or one of its Affiliates holds the Note, provided that in determining whether the Holders of the requisite principal amount of the outstanding Notes have given or taken any request, demand, authorization, direction, notice, consent, waiver or other action hereunder, Notes owned by the Company or any Affiliate of the Company will be disregarded and deemed not to be outstanding, (it being understood that in determining whether the Trustee is protected in relying upon any such request, demand, authorization, direction, notice, consent, waiver or other action, only Notes which the Trustee knows to be so owned will be so disregarded). Notes so owned which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee’s right so to act with respect to such Notes and that the pledgee is not the Company or any Affiliate of the Company.

Section 2.06. Temporary Notes. Until definitive Notes are ready for delivery, the Company may prepare and the Trustee will authenticate temporary Notes. Temporary Notes will be substantially in the form of definitive Notes of the applicable series but may have insertions, substitutions, omissions and other variations determined to be appropriate by the Officer executing the temporary Notes, as evidenced by the execution of the temporary Notes. If temporary Notes are issued, the Company will cause definitive Notes to be prepared without unreasonable delay. After the preparation of definitive Notes, the temporary Notes will be exchangeable for definitive Notes of the same series upon surrender of the temporary Notes at the office or agency of the Company designated for the purpose pursuant to Section 4.02, without charge to the Holder. Upon surrender for cancellation of any temporary Notes the Company will execute and the Trustee will authenticate and deliver in exchange therefor a like principal amount of definitive Notes of the same series of authorized denominations. Until so
exchanged, the temporary Notes will be entitled to the same benefits under the Indenture as definitive Notes of the applicable series.

Section 2.07. Cancellation. The Company at any time may deliver to the Trustee for cancellation any Notes previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee for cancellation any Notes previously authenticated hereunder which the Company has not issued and sold. Any Registrar or the Paying Agent will forward to the Trustee any Notes surrendered to it for transfer, exchange or payment. The Trustee will cancel all Notes surrendered for transfer, exchange, payment or cancellation and dispose of them in accordance with its normal procedures or the written instructions of the Company. The Company may not issue new Notes to replace Notes it has paid in full or delivered to the Trustee for cancellation.

Section 2.08. CUSIP and CINS Numbers. The Company in issuing the Notes may use “CUSIP” and “CINS” numbers, and the Trustee will use CUSIP numbers or CINS numbers in notices of redemption or exchange or in Offers to Purchase as a convenience to Holders, the notice to state that no representation is made as to the correctness of such numbers either as printed on the Notes or as contained in any notice of redemption or exchange or Offer to Purchase. The Company will promptly notify the Trustee of any change in the CUSIP or CINS numbers.

Section 2.09. Registration, Transfer and Exchange. (a) The Notes will be issued in registered form only, without coupons, and the Company shall cause the Trustee to maintain a register (the “Register”) of the Notes, for registering the record ownership of the Notes by the Holders and transfers and exchanges of the Notes.

(b) (1) Each Global Note will be registered in the name of the Depositary or its nominee and, so long as DTC is serving as the Depositary thereof, will bear the DTC Legend.

(2) Each Global Note will be delivered to the Trustee as custodian for the Depositary. Transfers of a Global Note (but not a beneficial interest therein) will be limited to transfers thereof in whole, but not in part, to the Depositary, its successors or their respective nominees, except (1) as set forth in Section 2.09(b)(4) and (2) transfers of portions thereof in the form of Certificated Notes of the same series may be made upon request of an Agent Member (for itself or on behalf of a beneficial owner) by written notice given to the Trustee by or on behalf of the Depositary in accordance with customary procedures of the Depositary and in compliance with this Section and Section 2.10.

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(3) Agent Members will have no rights under the Indenture with respect to any Global Note held on their behalf by the Depositary, and the Depositary may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner and Holder of such Global Note for all purposes whatsoever. Notwithstanding the foregoing, the Depositary or its nominee may grant proxies and otherwise authorize any Person (including any Agent Member and any Person that holds a beneficial interest in a Global Note through an Agent Member) to take any action which a Holder is entitled to take under the Indenture or the Notes, and nothing herein will impair, as between the Depositary and its Agent Members, the operation of customary practices governing the exercise of the rights of a holder of any security.

(4) If (x) the Depositary notifies the Company that it is unwilling or unable to continue as Depositary for a Global Note and a successor depositary is not appointed by the Company within 90 days of the notice or (y) an Event of Default has occurred and is continuing and the Trustee has received a request from the Depositary, the Trustee will promptly exchange each beneficial interest in the Global Note for one or more Certificated Notes in authorized denominations having an equal aggregate principal amount registered in the name of the owner of such beneficial interest, as identified to the Trustee by the Depositary, and thereupon the Global Note will be deemed canceled. If such Note does not bear the Restricted Legend, then the Certificated Notes issued in exchange therefor will bear the Restricted Legend, provided that any Holder of any such Certificated Note issued in exchange for a beneficial interest in a Temporary Offshore Global Note will have the right upon presentation to the Trustee of a duly completed Certificate of Beneficial Ownership after the Restricted Period to exchange such Certificated Note for a Certificated Note of like tenor and amount that does not bear the Restricted Legend, registered in the name of such Holder.

(5) None of the Company, the Trustee nor any agent of the Company or the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Global Note or maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(c) Each Certificated Note will be registered in the name of the holder thereof or its nominee.

(d) A Holder may transfer a Note (or a beneficial interest therein) to another Person or exchange a Note (or a beneficial interest therein) for another
Note or Notes of the same series of any authorized denomination by presenting to the Trustee a written request therefor stating the name of the proposed transferee or requesting such an exchange, accompanied by any certification, opinion or other document required by Section 2.10. For avoidance of doubt, neither the Trustee nor the Registrar shall have any responsibilities with respect to the transfer of beneficial interests within the same Global Note. The Trustee will promptly register any transfer or exchange that meets the requirements of this Section by noting the same in the register maintained by the Trustee for the purpose; provided that

(x) no transfer or exchange will be effective until it is registered in such register,

(y) the Trustee will not be required (i) to issue, register the transfer of or exchange any Note for a period of 15 days before a selection of Notes to be redeemed or purchased pursuant to an Offer to Purchase, (ii) to register the transfer of or exchange any Note so selected for redemption or purchase in whole or in part, except, in the case of a partial redemption or purchase, that portion of any Note not being redeemed or purchased, or (iii) if a redemption or a purchase pursuant to an Offer to Purchase is to occur after a Regular Record Date but on or before the corresponding Interest Payment Date, to register the transfer of or exchange any Note on or after the Regular Record Date and before the date of redemption or purchase. Prior to the registration of any transfer, the Company, the Trustee and their agents will treat the Person in whose name the Note is registered as the owner and Holder thereof for all purposes (whether or not the Note is overdue), and will not be affected by notice to the contrary, and

(z) every Note presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing.

From time to time the Company will execute and the Trustee will authenticate additional Notes as necessary in order to permit the registration of a transfer or exchange in accordance with this Section. In order to facilitate the execution, authentication and delivery of Certificated Notes, the Company shall deliver a supply of Certificated Notes to the Trustee in sufficient time to permit the execution, authentication and delivery thereof on a timely basis.

No service charge will be imposed in connection with any transfer or exchange of any Note, but the Company may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection with the transfer or exchange of such Note.
therewith (other than a transfer tax or other similar governmental charge payable upon exchange pursuant to subsection (b)(4)).

(e) (1) Global Note to Global Note. If a beneficial interest in a Global Note is transferred or exchanged for a beneficial interest in another Global Note, the Trustee will (x) record a decrease in the principal amount of the Global Note being transferred or exchanged equal to the principal amount of such transfer or exchange and (y) record a like increase in the principal amount of the other Global Note of the same series. Any beneficial interest in one Global Note that is transferred to a Person who takes delivery in the form of an interest in another Global Note, or exchanged for an interest in another Global Note, will, upon transfer or exchange, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer and exchange restrictions, if any, and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such an interest.

(2) Global Note to Certificated Note. If a beneficial interest in a Global Note is transferred or exchanged for a Certificated Note, the Trustee will (x) record a decrease in the principal amount of such Global Note equal to the principal amount of such transfer or exchange and (y) deliver one or more new Certificated Notes of the same series in authorized denominations having an equal aggregate principal amount to the transferee (in the case of a transfer) or the owner of such beneficial interest (in the case of an exchange), registered in the name of such transferee or owner, as applicable.

(3) Certificated Note to Global Note. If a Certificated Note is transferred or exchanged for a beneficial interest in a Global Note, the Trustee will (x) cancel such Certificated Note, (y) record an increase in the principal amount of such Global Note of the same series equal to the principal amount of such transfer or exchange and (z) in the event that such transfer or exchange involves less than the entire principal amount of the canceled Certificated Note, deliver to the Holder thereof one or more new Certificated Notes of the same series in authorized denominations having an aggregate principal amount equal to the untransferred or unexchanged portion of the canceled Certificated Note, registered in the name of the Holder thereof.

(4) Certificated Note to Certificated Note. If a Certificated Note is transferred or exchanged for another Certificated Note, the Trustee will (x) cancel the Certificated Note being transferred or exchanged, (y) deliver one or more new Certificated Notes of the same series in authorized denominations having an aggregate principal amount equal to the principal amount of such transfer or exchange to the transferee (in the case of a

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transfer) or the Holder of the canceled Certificated Note (in the case of an exchange), registered in the name of such transferee or Holder, as applicable, and (z) if such transfer or exchange involves less than the entire principal amount of the canceled Certificated Note, deliver to the Holder thereof one or more Certificated Notes of the same series in authorized denominations having an aggregate principal amount equal to the untransferred or unexchanged portion of the canceled Certificated Note, registered in the name of the Holder thereof.

Section 2.10. Restrictions on Transfer and Exchange. (a) The transfer or exchange of any Note (or a beneficial interest therein) may only be made in accordance with this Section and Section 2.09 and, in the case of a Global Note (or a beneficial interest therein), the applicable rules and procedures of the Depositary. The Trustee shall refuse to register any requested transfer or exchange that does not comply with the preceding sentence.

(b) Subject to paragraph (c), the transfer or exchange of any Note (or a beneficial interest therein) of the type set forth in column A below for a Note (or a beneficial interest therein) of the type set forth opposite in column B below may only be made in compliance with the certification requirements (if any) described in the clause of this paragraph set forth opposite in column C below.

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Global Note</td>
<td>U.S. Global Note</td>
<td>(1)</td>
</tr>
<tr>
<td>U.S. Global Note</td>
<td>Offshore Global Note</td>
<td>(2)</td>
</tr>
<tr>
<td>U.S. Global Note</td>
<td>IAI Global Note</td>
<td>(6)</td>
</tr>
<tr>
<td>U.S. Global Note</td>
<td>Certificated Note</td>
<td>(3)</td>
</tr>
<tr>
<td>Offshore Global Note</td>
<td>U.S. Global Note</td>
<td>(4)</td>
</tr>
<tr>
<td>Offshore Global Note</td>
<td>Offshore Global Note</td>
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<td>Offshore Global Note</td>
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<td>(6)</td>
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<td>(5)</td>
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<td>IAI Global Note</td>
<td>U.S. Global Note</td>
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<tr>
<td>IAI Global Note</td>
<td>Offshore Global Note</td>
<td>(2)</td>
</tr>
<tr>
<td>IAI Global Note</td>
<td>IAI Global Note</td>
<td>(1)</td>
</tr>
<tr>
<td>IAI Global Note</td>
<td>Certificated Note</td>
<td>(3)</td>
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<tr>
<td>Certificated Note</td>
<td>U.S. Global Note</td>
<td>(4)</td>
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<tr>
<td>Certificated Note</td>
<td>Offshore Global Note</td>
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<tr>
<td>Certificated Note</td>
<td>IAI Global Note</td>
<td>(6)</td>
</tr>
<tr>
<td>Certificated Note</td>
<td>Certificated Note</td>
<td>(3)</td>
</tr>
</tbody>
</table>

(1) No certification is required.

(2) The Person requesting the transfer or exchange must deliver or cause to be delivered to the Trustee a duly completed Regulation S Certificate; provided that if the requested transfer or exchange is made by
the Holder of a Certificated Note that does not bear the Restricted Legend, then no certification is required.

(3) The Person requesting the transfer or exchange must deliver or cause to be delivered to the Trustee (x) a duly completed Rule 144A Certificate, (y) a duly completed Regulation S Certificate or (z) a duly completed Institutional Accredited Investor Certificate, and/or, in the case of clauses (x), (y) and (z), an Opinion of Counsel and such other certifications and evidence as the Company may reasonably require in order to determine that the proposed transfer or exchange is being made in compliance with the Securities Act and any applicable securities laws of any state of the United States; provided that if the requested transfer or exchange is made by the Holder of a Certificated Note that does not bear the Restricted Legend, then no certification is required. In the event that (i) the requested transfer or exchange takes place after the Restricted Period and a duly completed Regulation S Certificate is delivered to the Trustee or (ii) a Certificated Note that does not bear the Restricted Legend is surrendered for transfer or exchange, upon transfer or exchange the Trustee will deliver a Certificated Note that does not bear the Restricted Legend.

(4) The Person requesting the transfer or exchange must deliver or cause to be delivered to the Trustee a duly completed Rule 144A Certificate.

(5) Notwithstanding anything to the contrary contained herein, no such exchange is permitted if the requested exchange involves a beneficial interest in a Temporary Offshore Global Note. If the requested transfer involves a beneficial interest in a Temporary Offshore Global Note, the Person requesting the transfer must deliver or cause to be delivered to the Trustee (x) a duly completed Rule 144A Certificate or (y) a duly completed Institutional Accredited Investor Certificate and/or an Opinion of Counsel and such other certifications and evidence as the Company may reasonably require in order to determine that the proposed transfer is being made in compliance with the Securities Act and any applicable securities laws of any state of the United States. If the requested transfer or exchange involves a beneficial interest in a Permanent Offshore Global Note, no certification is required and the Trustee will deliver a Certificated Note that does not bear the Restricted Legend.

(6) The Person requesting the transfer or exchange must deliver or cause to be delivered to the Trustee a duly completed Institutional Accredited Investor Certificate.
(c) No certification is required in connection with any transfer or exchange of any Note (or a beneficial interest therein)

1) after such Note is eligible for resale pursuant to Rule 144 under the Securities Act (or a successor provision) without the need for current public information; provided that the Company has provided the Trustee with an Officers’ Certificate to that effect, and the Company may require from any Person requesting a transfer or exchange in reliance upon this clause (1) an opinion of counsel and any other reasonable certifications and evidence in order to support such certificate; or

2)(x) sold pursuant to an effective registration statement, pursuant to the Registration Rights Agreement or otherwise or (y) which is validly tendered for exchange into an Exchange Note pursuant to an Exchange Offer.

Any Certificated Note delivered in reliance upon clause (c) will not bear the Restricted Legend.

(d) The Trustee will retain copies of all certificates, opinions and other documents received in connection with the transfer or exchange of a Note (or a beneficial interest therein), and the Company will have the right to inspect and make copies thereof at any reasonable time upon written notice to the Trustee.

Section 2.11. Temporary Offshore Global Notes. (a) Each Note originally sold by the Initial Purchasers in reliance upon Regulation S will be evidenced by one or more Offshore Global Notes that bear the Temporary Offshore Global Note Legend.

(b) An owner of a beneficial interest in a Temporary Offshore Global Note (or a Person acting on behalf of such an owner) may provide to the Trustee (and the Trustee will accept) a duly completed Certificate of Beneficial Ownership at any time after the Restricted Period (it being understood that the Trustee will not accept any such certificate during the Restricted Period). Promptly after acceptance of a Certificate of Beneficial Ownership with respect to such a beneficial interest, the Trustee will cause such beneficial interest to be exchanged for an equivalent beneficial interest in a Permanent Offshore Global Note, and will (x) permanently reduce the principal amount of such Temporary Offshore Global Note by the amount of such beneficial interest and (y) increase the principal amount of such Permanent Offshore Global Note by the amount of such beneficial interest.

(c) Notwithstanding paragraph (b), if after the Restricted Period any Initial Purchaser owns a beneficial interest in a Temporary Offshore Global Note, such Initial Purchaser may, upon written request to the Trustee accompanied by a certification as to its status as an Initial Purchaser, exchange such beneficial
interest for an equivalent beneficial interest in a Permanent Offshore Global Note, and the Trustee will comply with such request and will (x) permanently reduce the principal amount of such Temporary Offshore Global Note by the amount of such beneficial interest and (y) increase the principal amount of such Permanent Offshore Global Note by the amount of such beneficial interest.

(d) Notwithstanding anything to the contrary contained herein, any owner of a beneficial interest in a Temporary Offshore Global Note shall not be entitled to receive payment of principal or interest on such beneficial interest or other amounts in respect of such beneficial interest until such beneficial interest is exchanged for an interest in a Permanent Offshore Global Note or transferred for an interest in another Global Note or a Certificated Note.

ARTICLE 3
Redemption; Offer to Purchase

Section 3.01. Optional Redemption. (a) At any time and from time to time prior to March 15, 2015, the Company may redeem, in whole or in part, the 2018 Notes at a price of 100% of the principal amount of the Notes redeemed plus the Applicable Premium, plus accrued and unpaid interest, if any, to, but excluding, the redemption date.

(b) At any time and from time to time on or after March 15, 2015, the Company may redeem the 2018 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest to the redemption date.

<table>
<thead>
<tr>
<th>12-month period commencing March 15 in Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>103.438%</td>
</tr>
<tr>
<td>2016</td>
<td>101.719%</td>
</tr>
<tr>
<td>2017 and thereafter</td>
<td>100%</td>
</tr>
</tbody>
</table>

(c) At any time and from time to time prior to March 15, 2016, the Company may redeem, in whole or in part, the 2021 Notes at a price of 100% of the principal amount of the Notes redeemed plus the Applicable Premium, plus accrued and unpaid interest, if any, to, but excluding, the redemption date.

(d) At any time and from time to time on or after March 15, 2016, the Company may redeem the 2021 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest to the redemption date.

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The Company, and not the Trustee, shall be responsible for calculating the Applicable Premium. Promptly after the calculation thereof, the Company shall give the Trustee notice of the amount of the Applicable Premium.

Section 3.02. Redemption with Proceeds of Public Equity Offering. (a) At any time and from time to time prior to March 15, 2014, the Company may redeem the 2018 Notes with the net cash proceeds received by the Company from any Qualified Equity Offering at a redemption price equal to 106.875% of the principal amount plus accrued and unpaid interest to the redemption date, in an aggregate principal amount for all such redemptions not to exceed 35% of the aggregate principal amount of the 2018 Notes, including Additional Notes, provided that

(1) in each case the redemption takes place not later than 90 days after the closing of the related Qualified Equity Offering, and
(2) not less than 65% in principal amount of the 2018 Notes, including Additional Notes, remains outstanding immediately thereafter.

(b) At any time and from time to time prior to March 15, 2014, the Company may redeem the 2021 Notes with the net cash proceeds received by the Company from any Qualified Equity Offering at a redemption price equal to 107.125% of the principal amount plus accrued and unpaid interest to the redemption date, in an aggregate principal amount for all such redemptions not to exceed 35% of the aggregate principal amount of the 2021 Notes, including Additional Notes, provided that

(1) in each case the redemption takes place not later than 90 days after the closing of the related Qualified Equity Offering, and
(2) not less than 65% in principal amount of the 2021 Notes, including Additional Notes, remains outstanding immediately thereafter.

Section 3.03. Special Redemption. In the event that the Completion Date has not occurred on or prior to the earlier to occur of (i) the determination by the Board of Directors in its good faith judgment that the Completion Date will not occur by June 30, 2011, or (ii) June 30, 2011 (such earlier date, the “Date of

<table>
<thead>
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<th>Year</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>2016</td>
<td>103.563%</td>
</tr>
<tr>
<td>2017</td>
<td>102.375%</td>
</tr>
<tr>
<td>2018</td>
<td>101.188%</td>
</tr>
<tr>
<td>2019 and thereafter</td>
<td>100%</td>
</tr>
</tbody>
</table>
Determination”), the Company shall redeem each Note (the “Special Redemption”), on the date that is five Business Days after the Date of Determination (the “Special Redemption Date”), at the Special Redemption Price. If the Completion Date has not occurred on or prior to the Date of Determination, upon the receipt of written instruction from the Company, which instruction shall include a statement that the Date of Determination has occurred and a notice as to the amount of the Special Redemption Price, and an Officers’ Certificate and Opinion of Counsel, each to the effect that all conditions precedent provided for in the Indenture to the Special Redemption have been complied with, which the Company is required to provide by the close of business on the Date of Determination, the Trustee will send a notice of such Special Redemption on behalf of the Company to the Holders of the Notes (in the form provided to it by the Company) on the next Business Day after the Date of Determination.

Section 3.04. Mandatory Redemption. In the event that the Spin-off is not consummated within five Business Days after the Completion Date (the “Spin-off Determination Date”), the Company shall redeem each Note (the “Mandatory Redemption”), on the date that is five Business Days after the Spin-off Determination Date (the “Mandatory Redemption Date”), at a cash redemption price equal to the issue price of such Note (as set forth on the cover page of the Offering Circular), plus the Accrued Yield and accrued interest on such Note to the date of redemption (the “Mandatory Redemption Price”). If the Spin-off has not occurred on or prior to the Spin-off Determination Date, upon the receipt of written instruction from the Company, which instructions shall include a statement that the Spin-off Determination Date has occurred and a notice as to the amount of the Mandatory Redemption Price, and an Officers’ Certificate and Opinion of Counsel each to the effect that all conditions precedent provided for in the Indenture to the Mandatory Redemption have been complied with, which the Company is required to provide by the close of business on the Spin-off Determination Date, the Trustee will send a notice of such Mandatory Redemption on behalf of the Company to the Holders of the Notes (in the form provided to it by the Company) on the next Business Day after the Spin-off Determination Date.

Section 3.05. Method and Effect of Redemption. (a) If the Company elects to redeem Notes of a series, it must notify the Trustee of the redemption date and the principal amount of Notes to be redeemed by delivering an Officers’ Certificate at least 60 days before the redemption date (unless a shorter period is satisfactory to the Trustee) except as set forth in Section 3.03 and Section 3.04, such Officers’ Certificate to state that all conditions precedent provided for in the Indenture to such redemption have been complied with. If fewer than all of the Notes of a series are being redeemed, the Trustee will select the Notes of such series to be redeemed, no later than 30 days prior to the redemption date, pro rata, by lot or by any other method the Trustee in its sole discretion deems fair and appropriate, in denominations of $2,000 principal amount and higher integral multiples of $1,000; provided, that the unredeemed portion of a Note must be in a
minimum principal amount of $2,000. The Trustee will notify the Company promptly of the Notes or portions of Notes to be called for redemption. Except as
provided in Section 3.03 and Section 3.04, notice of redemption must be sent by the Company to Holders whose Notes are to be redeemed at least 30 days
but not more than 60 days before the redemption date. At the Company’s request in connection with an optional redemption, the Trustee shall give the notice
of redemption in the Company’s name and at its expense; provided, however, that the Company shall have delivered to the Trustee, at least 45 days prior to
the redemption date (or such shorter period as may be acceptable to the Trustee), an Officers’ Certificate requesting that the Trustee give such notice and
setting forth the information to be stated in such notice as provided in Section 3.05(b).

(b) The notice of redemption will identify the Notes to be redeemed and will include or state the following:

1. the redemption date;
2. the redemption price, or if not then ascertainable, the manner of calculation thereof, including the portion thereof representing any accrued interest;
3. the place or places where Notes are to be surrendered for redemption;
4. Notes called for redemption must be so surrendered in order to collect the redemption price;
5. on the redemption date the redemption price will become due and payable on Notes called for redemption, and interest on Notes called for
   redemption will cease to accrue on and after the redemption date;
6. if any Note is redeemed in part, on and after the redemption date, upon surrender of such Note, new Notes equal in principal amount to the
   unredeemed portion will be issued; and
7. if any Note contains a CUSIP or CINS number, no representation is being made as to the correctness of the CUSIP or CINS number either as printed
   on the Notes or as contained in the notice of redemption and that the Holder should rely only on the other identification numbers printed on the Notes.

(c) Once notice of redemption is sent to the Holders, Notes called for redemption become due and payable at the redemption price on the redemption date,
and upon surrender of the Notes called for redemption, the Company shall redeem such Notes at the redemption price. Commencing on the redemption date,
Notes redeemed will cease to accrue interest; provided, that the Company has not
defaulted in depositing the redemption price in accordance with the provisions hereof. Upon surrender of any Note redeemed in part, the Holder will receive a new Note equal in principal amount to the unredeemed portion of the surrendered Note.

Section 3.06. Offer to Purchase. (a) An “Offer to Purchase” means an offer by the Company to purchase Notes as required by the Indenture. An Offer to Purchase must be made by written offer (the “offer”) sent to the Holders. The Company will notify the Trustee at least 15 days (or such shorter period as is acceptable to the Trustee) prior to sending the offer to Holders of its obligation to make an Offer to Purchase, and the offer will be sent by the Company or, at the Company’s request, by the Trustee in the name and at the expense of the Company. Such request shall be evidenced by an Officers’ Certificate requesting that the Trustee give such notice and setting forth the information to be stated in such notice as provided in Section 3.06(b).

(b) The offer must include or state the following as to the terms of the Offer to Purchase:

(1) the provision of the Indenture pursuant to which the Offer to Purchase is being made;

(2) the aggregate principal amount of the outstanding Notes offered to be purchased by the Company pursuant to the Offer to Purchase (including, if less than 100%, the manner by which such amount has been determined pursuant to the Indenture) (the “purchase amount”);

(3) the purchase price, including the portion thereof representing accrued interest;

(4) an expiration date (the “expiration date”) not less than 30 days or more than 60 days after the date of the offer, and a settlement date for purchase (the “purchase date”) not more than five Business Days after the expiration date;

(5) describe the transaction or transactions that constituted the requirement to make the Offer to Purchase;

(6) a Holder may tender all or any portion of its Notes, subject to the requirement that any portion of a Note tendered must be equal to $2,000 principal amount or a higher multiple of $1,000 principal amount (provided that any unpurchased portion of the Note must be in a minimum principal amount of $2,000);

(7) the place or places where Notes are to be surrendered for tender pursuant to the Offer to Purchase;
(8) each Holder electing to tender a Note pursuant to the offer will be required to surrender such Note at the place or places specified in the offer prior to the close of business on the expiration date (such Note being, if the Company or the Trustee so requires, duly endorsed or accompanied by a duly executed written instrument of transfer);

(9) interest on any Note not tendered, or tendered but not purchased by the Company pursuant to the Offer to Purchase, will continue to accrue;

(10) on the purchase date the purchase price will become due and payable on each Note accepted for purchase, and interest on Notes purchased will cease to accrue on and after the purchase date;

(11) Holders are entitled to withdraw Notes tendered by giving notice, which must be received by the Company or the Trustee not later than the close of business on the expiration date, setting forth the name of the Holder, the principal amount of the tendered Notes, the certificate number of the tendered Notes and a statement that the Holder is withdrawing all or a portion of the tender;

(12) (i) if Notes in an aggregate principal amount less than or equal to the purchase amount are duly tendered and not withdrawn pursuant to the Offer to Purchase, the Company will purchase all such Notes, and (ii) if the Offer to Purchase is for less than all of the outstanding Notes and Notes in an aggregate principal amount in excess of the purchase amount are tendered and not withdrawn pursuant to the offer, the Company will purchase Notes of both series having an aggregate principal amount equal to the purchase amount on a pro rata basis (based on the principal amount of all Notes of both series tendered), with adjustments so that only Notes in multiples of $1,000 principal amount will be purchased;

(13) if any Note is purchased in part, new Notes equal in principal amount to the unpurchased portion of the Note will be issued; and

(14) if any Note contains a CUSIP or CINS number, no representation is being made as to the correctness of the CUSIP or CINS number either as printed on the Notes or as contained in the offer and that the Holder should rely only on the other identification numbers printed on the Notes.

(c) Prior to the purchase date, the Company will accept tendered Notes for purchase as required by the Offer to Purchase and deliver to the Trustee all Notes so accepted together with an Officers’ Certificate specifying which Notes have been accepted for purchase. On the purchase date the purchase price will
become due and payable on each Note accepted for purchase, and interest on Notes purchased will cease to accrue on and after the purchase date; provided, that the Company has not defaulted in depositing the purchase price in accordance with the provisions hereof. The Trustee will promptly return to Holders any Notes not accepted for purchase and send to Holders new Notes equal in principal amount to any unpurchased portion of any Notes accepted for purchase in part.

(d) The Company will comply with Rule 14e-1 under the Exchange Act and all other applicable laws in making any Offer to Purchase, and the above procedures will be deemed modified as necessary to permit such compliance, and the Company shall not be deemed to have breached its obligations hereunder as a result of such compliance.

ARTICLE 4
Covenants

Section 4.01. Payment Of Notes. (a) The Company agrees to pay the principal of and interest on the Notes on the dates and in the manner provided in the Notes and the Indenture. Not later than 9:00 A.M. (New York City time) on the due date of any principal of or interest on any Notes, or any redemption or purchase price of the Notes, the Company will deposit with the Trustee (or Paying Agent) money in immediately available funds sufficient to pay such amounts, provided that if the Company or any Affiliate of the Company is acting as Paying Agent, it will, on or before each due date, segregate and hold in a separate trust fund for the benefit of the Holders a sum of money sufficient to pay such amounts until paid to such Holders or otherwise disposed of as provided in the Indenture. In each case the Company will promptly notify the Trustee of its compliance with this paragraph.

(b) An installment of principal or interest will be considered paid on the date due if the Trustee (or Paying Agent, other than the Company or any Affiliate of the Company) holds on that date money designated for and sufficient to pay the installment. If the Company or any Affiliate of the Company acts as Paying Agent, an installment of principal or interest will be considered paid on the due date only if paid to the Holders.

(c) The Company agrees to pay interest on overdue principal, and, to the extent lawful, overdue installments of interest at the rate per annum specified in the Notes.

(d) Payments in respect of the Notes represented by the Global Notes are to be made by wire transfer of immediately available funds to DTC for transfer to the accounts of its participants. With respect to Certificated Notes, the Company will make all payments by wire transfer of immediately available funds to the accounts specified by the Holders thereof or, if no such account is specified
to the Trustee or the Paying Agent at least 15 calendar days prior to the applicable payment date, by mailing a check to each Holder’s registered address.

Section 4.02. Maintenance Of Office Or Agency. The Company will maintain in the United States of America, an office or agency where Notes may be surrendered for registration of transfer or exchange or for presentation for payment and where notices and demands to or upon the Company in respect of the Notes and the Indenture may be served. The Company hereby initially designates the Corporate Trust Office of the Trustee as such agency of the Company. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company fails to maintain any such required office or agency or fails to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served upon the Trustee.

The Company may also from time to time designate one or more other offices or agencies where the Notes may be surrendered or presented for any of such purposes and may from time to time rescind such designations. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

Section 4.03. Existence. The Company will do or cause to be done all things necessary to preserve and keep in full force and effect its existence and the existence of each of its Restricted Subsidiaries in accordance with their respective organizational documents, and the material rights, licenses and franchises of the Company and each Restricted Subsidiary, provided that the Company is not required to preserve any such right, license or franchise, or the existence of any Restricted Subsidiary, if the maintenance or preservation thereof is no longer desirable in the conduct of the business of the Company and its Restricted Subsidiaries taken as a whole; and provided further that this Section does not prohibit any transaction otherwise permitted by Section 4.12 or Article 5.

Section 4.04. [Reserved].

Section 4.05. [Reserved].

Section 4.06. Limitation on Debt. (a) The Company

(1) will not, and will not permit any of its Restricted Subsidiaries to, Incur any Debt; and

(2) will not permit any of its Restricted Subsidiaries that is not a Guarantor to Incur any Preferred Stock (other than Preferred Stock of Restricted Subsidiaries held by the Company or a Restricted Subsidiary, so long as it is so held);
provided that the Company or any Restricted Subsidiary may Incur Debt and any Restricted Subsidiary that is not a Guarantor may Incur Preferred Stock if, on the date of the Incurrence, after giving effect to the Incurrence and the receipt and application of the proceeds therefrom, the Fixed Charge Coverage Ratio is not less than 2.0:1.0.

(b) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur the following (“Permitted Debt”):

1. Debt (“Permitted Bank Debt”) of the Company or any Guarantor pursuant to Credit Facilities; provided that the aggregate principal amount at any time outstanding does not exceed $1,500.0 million, less any amount of such Debt permanently repaid as provided under Section 4.12;

2. Debt of the Company or any Restricted Subsidiary to the Company or any Restricted Subsidiary so long as such Debt continues to be owed to the Company or a Restricted Subsidiary;

3. Debt of the Company pursuant to the Notes (other than Additional Notes, but including Exchange Notes in respect of Notes and Additional Notes) and Debt of any Guarantor pursuant to a Note Guaranty of the Notes (including Additional Notes and Exchange Notes);

4. Debt (“Permitted Refinancing Debt”) constituting an extension or renewal of, replacement of, or substitution for, or issued in exchange for, or the net proceeds of which are used to repay, redeem, repurchase, refinance or refund, including by way of defeasance (all of the above, for purposes of this clause, “refinance”) then outstanding Debt in an amount not to exceed the principal amount of the Debt so refinanced, plus premiums, fees and expenses; provided that

   A) in case the Debt to be refinanced is Subordinated Debt, the new Debt, by its terms or by the terms of any agreement or instrument pursuant to which it is outstanding is expressly made subordinate in right of payment to the Notes at least to the extent that the Debt to be refinanced is subordinated to the Notes,

   B) the new Debt either does not have a Stated Maturity prior to the Stated Maturity of the Debt to be refinanced or has a Stated Maturity at least 91 days after the maturity of the Notes, and the Average Life of the new Debt is at least equal to the remaining Average Life of the Debt to be refinanced,
(C) in no event may Debt of the Company or any Guarantor be refinanced pursuant to this clause by means of any Debt of any Restricted Subsidiary that is not a Guarantor, and

(D) Debt Incurred pursuant to clauses (1), (2), (5), (6), (9), (10), (12), (13), (14) and (15) may not be refinanced pursuant to this clause;

(5) Hedging Agreements of the Company or any Restricted Subsidiary entered into in the ordinary course of business for the purpose of limiting risks associated with the business of the Company and its Restricted Subsidiaries and not for speculation;

(6) Debt of the Company or any Restricted Subsidiary incurred in respect of workers’ compensation claims and self-insurance obligations and with respect to letters of credit and bankers’ acceptances issued in the ordinary course of business and not supporting Debt, including letters of credit for operating purposes or completion guarantees or supporting indemnity, bid, warranty, performance, surety, appeal or similar bonds, or indemnification, adjustment of purchase price or similar obligations incurred in connection with the acquisition or disposition of any business or assets;

(7) Debt of the Company or any Restricted Subsidiary (a) that is outstanding on the Issue Date or will be Incurred on or prior to the Completion Date as a result of the Transactions or (b) Incurred under the Interim Ordinary Course Transactions (and, for purposes of clause (4)(D), not otherwise constituting Permitted Debt); provided that no Debt for borrowed money Incurred under clause (b) shall remain outstanding following the Spin-Off Date;

(8) Acquired Debt; provided that, after giving effect to the incurrence thereof,

(A) the Company could incur at least $1.00 of Debt pursuant to paragraph (a) above or

(B) the Fixed Charge Coverage Ratio of the Company would be greater than such ratio immediately prior to such incurrence;

(9) Obligations of the Company or any Restricted Subsidiary in respect of customer advances received and held in the ordinary course of business;
(10) Debt of the Company and any of its Restricted Subsidiaries consisting of (i) the financing of insurance premiums or (ii) take-or-pay obligations contained in supply arrangements, in each case, incurred in the ordinary course of business;

(11) Debt of the Company or any Restricted Subsidiary, which may include Capital Leases, mortgage financings or purchase money obligations, Incurred on or after the Issue Date no later than 180 days after the date of purchase or completion of construction or improvement of property, plant or equipment for the purpose of financing all or any part of the purchase price or cost of construction or improvement; provided that the aggregate principal amount of any Debt (including the aggregate outstanding amount of Permitted Refinancing Debt Incurred to refinance Debt Incurred pursuant to this clause) at any time outstanding pursuant to this clause may not exceed the greater of (A) $75.0 million and (B) 2.0% of Consolidated Net Tangible Assets of the Company;

(12) Debt of the Company or any Restricted Subsidiary consisting of Guarantees of Debt of the Company or any Restricted Subsidiary Incurred under any other clause of this covenant;

(13) Debt incurred on behalf of, or representing Guarantees of Debt of, joint ventures not to exceed the greater of (A) $100.0 million and (B) 2.6% of Consolidated Net Tangible Assets at any time outstanding;

(14) Debt supported by a letter of credit Incurred under clause (1) above in the same principal amount; and

(15) Debt of the Company or any Restricted Subsidiary Incurred on or after the Issue Date not otherwise permitted in an aggregate principal amount at any time outstanding not to exceed the greater of (A) $200.0 million and (B) 5.3% of Consolidated Net Tangible Assets.

(c) Notwithstanding any other provision of this covenant, for purposes of determining compliance with this covenant, increases in Debt solely due to fluctuations in the exchange rates of currencies will not be deemed to exceed the maximum amount that the Company or a Restricted Subsidiary may Incur under this covenant. For purposes of determining compliance with any U.S. dollar-denominated restriction on the Incurrence of Debt, the U.S. dollar-equivalent principal amount of Debt denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Debt was Incurred; provided that if such Debt is Incurred to refinance other Debt denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S.
dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Debt does not exceed the principal amount of such Debt being refinanced. The principal amount of any Debt Incurred to refinance other Debt, if Incurred in a different currency from the Debt being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such respective Debt is denominated that is in effect on the date of such refinancing. Guarantees or Liens in respect of, or obligations in respect of letters of credit relating to, Debt which is otherwise included in the determination of a particular amount of Debt shall not be included in the determination of such amount of Debt; provided that the Incurrence of the Debt represented by such guarantee, Lien or letter of credit, as the case may be, was in compliance with this covenant.

(d) In the event that an item, or a portion of such item, taken by itself, of Debt or Preferred Stock meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (14) above or such item is (or a portion, taken by itself (without taking into account any other Permitted Debt (other than Permitted Debt under clause (8) above) being incurred on the same date, would be) entitled to be Incurred pursuant to paragraph (a) of this covenant, the Company shall, in its sole discretion, classify or reclassify, or later divide, classify or reclassify, such item of Debt in any manner that complies with this covenant, and may change the classification of an item of Debt (or any portion thereof) to any other type of Debt described in this covenant at any time; provided that Debt under the Credit Agreement outstanding on the Completion Date shall be deemed at all times to be incurred under clause (1) of Permitted Debt.

(e) Neither the Company nor any Guarantor may Incure any Debt that is subordinated in right of payment to other Debt of the Company or the Guarantor unless such Debt is also subordinated in right of payment to the Notes or the relevant Note Guaranty to the same extent. This does not apply to distinctions between categories of Debt that exist by reason of any structural subordination, Liens or Guarantees securing or in favor of some but not all of such Debt.

Section 4.07. Limitation on Restricted Payments. (a) The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments and other actions described in the following clauses being collectively “Restricted Payments”):

(i) declare or pay any dividend or make any distribution on its Equity Interests (other than dividends or distributions paid in the Company’s Qualified Equity Interests) held by Persons other than the Company or any of its Restricted Subsidiaries;
(ii) purchase, redeem or otherwise acquire or retire for value any Equity Interests of the Company or any direct or indirect parent of the Company held by Persons other than the Company or any of its Restricted Subsidiaries;

(iii) repay, redeem, repurchase, defease or otherwise acquire or retire for value, or make any payment on or with respect to, any Subordinated Debt (except (1) a payment of interest or principal at Stated Maturity or (2) the purchase, repurchase or other acquisition of Subordinated Debt or payments of principal and interest in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case, within one year of the due date thereof); or

(iv) make any Investment other than a Permitted Investment;

unless, at the time of, and after giving effect to, the proposed Restricted Payment:

(1) no Default has occurred and is continuing,

(2) the Company could Incur at least $1.00 of Debt under Section 4.06(a), and

(3) the aggregate amount expended for all Restricted Payments made on or after the Issue Date would not, subject to paragraph (c), exceed the sum of

(A) 50% of the aggregate amount of the Consolidated Net Income (or, if the Consolidated Net Income is a loss, minus 100% of the amount of the loss) accrued on a cumulative basis during the period, taken as one accounting period, from January 1, 2011, and ending on the last day of the Company’s most recently completed fiscal quarter for which internal financial statements are available immediately preceding the date of such proposed Restricted Payment, plus

(B) subject to paragraph (c), the aggregate net cash proceeds and the fair market value (determined in the good faith of the Company) of any property other than cash received by the Company (other than from a Subsidiary) after the Issue Date from

(i) the issuance and sale of its Qualified Equity Interests, including by way of issuance of its Disqualified Equity Interests or Debt to the extent since converted into Qualified Equity Interests of the Company, or

(ii) as a contribution to its common equity, plus
(C) an amount equal to the sum, for all Unrestricted Subsidiaries, of the following:

  (x) the cash and the fair market value as determined in good faith by the Company of property, after the Issue Date, received on Investments (other than Permitted Investments) in an Unrestricted Subsidiary made after the Issue Date as a result of any sale, repayment, redemption, liquidating distribution or other realization other than pursuant to clause (D) below (to the extent not included in Consolidated Net Income), plus

  (y) the portion (proportionate to the Company’s equity interest in such Subsidiary) of the fair market value (as determined in good faith by the Company) of the assets less liabilities of an Unrestricted Subsidiary at the time such Unrestricted Subsidiary is designated a Restricted Subsidiary, not to exceed, in the case of any Unrestricted Subsidiary, the amount of Investments made after the Issue Date by the Company and its Restricted Subsidiaries in such Unrestricted Subsidiary pursuant to this paragraph (a); plus

  (D) the cash and the fair market value (as determined in good faith by the Company) of property, after the Issue Date, received on any other Investment (other than Permitted Investments) made after the Issue Date as a result of any payments of interest on Debt, dividends, repayments of loans or advances, or sale, repayment, redemption, liquidating distribution or other realization (to the extent not included in Consolidated Net Income) not to exceed the amount of such Investment as made.

The amount expended in any Restricted Payment, if other than in cash, will be deemed to be the fair market value of the relevant non-cash assets, as determined in good faith by the Board of Directors, whose determination will be conclusive and evidenced by a Board Resolution.

(b) The foregoing will not prohibit:

  (1) the payment of any dividend within 60 days after the date of declaration thereof if, at the date of declaration, such payment would comply with paragraph (a);
(2) dividends or distributions by a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Company, to all holders of its Equity Interests;

(3) the repayment, redemption, repurchase, defeasance or other acquisition or retirement of Subordinated Debt with the net cash proceeds of, or in exchange for, a substantially concurrent issuance of new Subordinated Debt Incurred in accordance with the Indenture;

(4) the purchase, redemption or other acquisition or retirement of Equity Interests of the Company or any direct or indirect parent in exchange for, or out of the net cash proceeds of a substantially concurrent offering of, Qualified Equity Interests of the Company or of a cash contribution to the common equity of the Company;

(5) the repayment, redemption, repurchase, defeasance or other acquisition or retirement of Subordinated Debt of the Company in exchange for, or out of the net cash proceeds of, a substantially concurrent offering of, Qualified Equity Interests of the Company or of a cash contribution to the common equity of the Company;

(6) any Investment made in exchange for, or out of the net cash proceeds of a substantially concurrent offering of Qualified Equity Interests of the Company or of a cash contribution to the common equity of the Company;

(7) the purchase, redemption or other acquisition or retirement for value of Equity Interests of the Company in connection with issuances of Equity Interests pursuant to employee benefit plans or otherwise in compensation to officers, directors or employees, which purchase, redemption or other acquisition or retirement for value is in order to minimize dilution; provided that the aggregate cash consideration paid therefor in any twelve-month period after the Issue Date does not exceed an aggregate amount of $10.0 million; provided further, that any unused amounts in any calendar year may be carried forward to one or more future periods subject to a maximum aggregate amount of repurchases made pursuant to this clause (7) not to exceed $20.0 million in any calendar year;

(8) the defeasance, redemption, repurchase or other acquisition of any Subordinated Debt at a purchase price not greater than (x) 101% of the principal amount thereof in the event of a change of control pursuant to a provision no more favorable to the holders thereof than Section 4.11 or (y) 100% of the principal amount thereof in the event of an Asset Sale pursuant to a provision no more favorable to the holders thereof than Section 4.12, in each case plus accrued interest, provided that, in each
case, prior to or contemporaneously with the defeasance, redemption, repurchase or other acquisition the Company has made an Offer to Purchase and repurchased all Notes issued under the Indenture that were validly tendered for payment and not withdrawn in connection with the Offer to Purchase;

(9) the declaration and payment of dividends on Disqualified Stock of the Company or any Restricted Subsidiary issued or Incurred in compliance with Section 4.06 to the extent such dividends are included in Fixed Charges;

(10) repurchases of Equity Interests deemed to occur upon the exercise of stock options, warrants or other convertible or exchangeable securities, or cash payments, in lieu of issuance of fractional shares, in connection with the exercise of stock options, warrants or other securities convertible into or exchangeable for the Equity Interests of the Company or any Restricted Subsidiary;

(11) the declaration and payment of dividends on the Company’s Equity Interests, or the purchase, repurchase, redemption, defeasance or other acquisition or retirement of any Qualified Equity Interests of the Company, not to exceed an aggregate amount pursuant to this clause (11) of $30.0 million in any calendar year provided, that any unused amounts in any calendar year may be carried forward to one or more future periods; and

(12) Restricted Payments not otherwise permitted hereby in an aggregate amount not to exceed $100.0 million.

provided that, in the case of clause (11), no Event of Default has occurred and is continuing or would occur as a result thereof.

(c) Proceeds of the issuance of Qualified Equity Interests will be included under clause (3) of paragraph (a) only to the extent they are not applied as described in clause (4), (5), or (6) of paragraph (b). Restricted Payments permitted pursuant to clause (2) through (7), (9), (10) or (12) will not be included in making the calculations under clause (3) of paragraph (a).

(d) Notwithstanding anything to the contrary set forth above, (i) none of (x) the consummation of the Transactions, including the Internal Reorganization, the distribution of the Equity Interests of any Unrestricted Subsidiary by the Company or any Restricted Subsidiary to NGC or any of its Subsidiaries (other than the Company or any of its Subsidiaries) and the contribution of a portion of the proceeds of the offering and Credit Agreement borrowings to NGC, in each case as described in the Offering Circular, or (y) the Interim Ordinary Course Transactions will constitute a Restricted Payment,
and(ii) any contribution to the Company’s equity or issuance of Equity Interests of the Company in connection with the Transactions will be disregarded for purposes of clause (a)(3) above.

Section 4.08. Limitation on Liens. The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur or permit to exist any Liens of any nature whatsoever that secure Debt on any of its properties or assets, whether owned at the Issue Date or thereafter acquired, other than Permitted Liens, without effectively providing that the Notes are secured equally and ratably with (or, if the obligation to be secured by the Lien is subordinated in right of payment to the Notes or any Note Guaranty, prior to) the obligations so secured for so long as such obligations are so secured.

Section 4.09. Limitation on Dividend and other Payment Restrictions Affecting Restricted Subsidiaries. (a) Except as provided in paragraph (b), the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any Restricted Subsidiary to

1. pay dividends or make any other distributions on any Equity Interests of the Restricted Subsidiary owned by the Company or any other Restricted Subsidiary,
2. pay any Debt or other obligation owed to the Company or any other Restricted Subsidiary,
3. make loans or advances to the Company or any other Restricted Subsidiary, or
4. transfer any of its property or assets to the Company or any other Restricted Subsidiary.

(b) The provisions of paragraph (a) do not apply to any encumbrances or restrictions

1. existing (a) on the Issue Date in the Indenture or any other agreements in effect on the Issue Date, or (b) existing on the Completion Date in the Credit Agreement or any other agreement relating to the Transactions (in each case on the terms described in the Offering Circular), and any extensions, renewals, replacements or refinancings of any of the foregoing; provided that the encumbrances and restrictions in the extension, renewal, replacement or refinancing are, taken as a whole, no less favorable in any material respect to the Noteholders than the encumbrances or restrictions being extended, renewed, replaced or refinanced;
(2) existing under or by reason of applicable law, rule, regulation or order;

(3) existing

(A) with respect to any Person, or to the property or assets of any Person, at the time the Person is acquired by the Company or any Restricted Subsidiary, or

(B) with respect to any Unrestricted Subsidiary at the time it is designated or is deemed to become a Restricted Subsidiary, which encumbrances or restrictions (i) are not applicable to any other Person or the property or assets of any other Person and (ii) were not put in place in anticipation of such event, and any extensions, renewals, replacements or refinancings of any of the foregoing, provided the encumbrances and restrictions in the extension, renewal, replacement or refinancing are, taken as a whole, no less favorable in any material respect to the Noteholders than the encumbrances or restrictions being extended, renewed, replaced or refinanced;

(4) of the type described in clause (a)(4) arising or agreed to in the ordinary course of business (i) that restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, (ii) are contained in agreements related to the license of copyrighted or patented materials or other intellectual property or (iii) by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of, the Company or any Restricted Subsidiary;

(5) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, the Restricted Subsidiary that is permitted by Section 4.12;

(6) encumbrances or restrictions that are customary provisions in joint venture agreements, asset sale agreements, stock sale agreements, sale leaseback agreements or other similar arrangements with respect to the disposition or distribution of assets or property subject to such agreements;

(7) any other agreements governing Debt entered into after the Issue Date that contains encumbrances and restrictions that are not materially more restrictive with respect to any Restricted Subsidiary than
those in effect on the Issue Date with respect to that Restricted Subsidiary pursuant to agreements in effect on the Issue Date;

(8) any restriction with respect to the Company or a Restricted Subsidiary (or any of its property or assets) imposed by customary provisions in Hedging Agreements not entered into for speculative purposes;

(9) existing under, by reason of or with respect to Debt Incurred by any Guarantor permitted to be Incurred under Section 4.06; or

(10) required pursuant to the Indenture.

Section 4.10. Guaranties by Restricted Subsidiaries. On the Completion Date, each Domestic Restricted Subsidiary that Guarantees any Debt under the Credit Agreement shall guarantee the Notes pursuant to Article 10. If any Restricted Subsidiary Guarantees Debt under the Credit Agreement after the Completion Date, such Restricted Subsidiary shall guarantee the Notes pursuant to Article 10. A Restricted Subsidiary required to provide a Note Guaranty shall execute a supplemental indenture in the form of Exhibit C, and deliver an Opinion of Counsel to the Trustee to the effect that the supplemental indenture has been duly authorized, executed and delivered by the Restricted Subsidiary and constitutes a valid and binding obligation of the Restricted Subsidiary, enforceable against the Restricted Subsidiary in accordance with its terms (subject to customary exceptions).

Section 4.11. Repurchase of Notes Upon a Change of Control. Not later than 30 days following a Change of Control, the Company will make an Offer to Purchase all outstanding Notes at a purchase price equal to 101% of the principal amount plus accrued interest to the date of purchase.

The Company will not be required to make an Offer to Purchase upon a Change of Control if (i) a third party makes such Offer to Purchase contemporaneously with or upon a Change of Control in the manner, at the times and otherwise in compliance with the requirements of the Indenture and purchases all Notes validly tendered and not withdrawn under such Offer to Purchase or (ii) a notice of redemption to the holders of the Notes has been given pursuant to the Indenture as described under Section 3.05.

Section 4.12. Limitation on Asset Sales. (a) The Company will not, and will not permit any Restricted Subsidiary to, make any Asset Sale unless the following conditions are met:

(1) The Asset Sale is for consideration at least equal to fair market value, as determined in good faith by the Board of Directors.
(2) At least 75% of the consideration consists of cash, Cash Equivalents or Replacement Assets or a combination thereof received at closing. For purposes of this clause (2):

(A) the assumption by the purchaser of Debt or other obligations (other than Subordinated Debt) of the Company or a Restricted Subsidiary pursuant to a customary novation agreement,

(B) instruments or securities received from the purchaser that are promptly, but in any event within 180 days of the closing, converted by the Company to cash, to the extent of the cash actually so received, and

(C) any Designated Non-cash Consideration received by the Company in such Asset Sale having an aggregate fair market value (as determined in good faith by the Company), taken together with all other Designated Non-cash Consideration received pursuant to this clause (C) that is at that time outstanding, not to exceed the greater of $50.0 million and 1.3% of Consolidated Net Tangible Assets at the time of the receipt of such Designated Non-cash Consideration (with the fair market value of each item of Designated Non-cash Consideration being measured at the time received and without giving effect to subsequent changes in value)

shall be considered cash received at closing.

(3) Within 365 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Net Cash Proceeds may be used

(A) to permanently repay secured Debt of the Company or a Guarantor or any Debt of a Restricted Subsidiary that is not a Guarantor (and in the case of a revolving credit facility, permanently reduce the commitment thereunder by such amount), in each case owing to a Person other than the Company or any Subsidiary, or

(B) to acquire Replacement Assets or to make capital expenditures or expenditures for maintenance, repair or improvement of existing capital assets; provided that if during such 365-day period the Company or a Restricted Subsidiary enters into a definitive written agreement committing it to apply such Net Cash Proceeds in accordance with the requirements of clause (B) above, such 365-day period shall be extended with respect to the amount of Net Cash Proceeds so committed until the earlier of the date required to be paid in accordance with such agreement and 180 days.
The Net Cash Proceeds of an Asset Sale not applied pursuant to clause (3) within 365 days of the Asset Sale (as may be extended as set forth above) constitute “Excess Proceeds”. Excess Proceeds of less than $50.0 million will be carried forward and accumulated. When accumulated Excess Proceeds equals or exceeds such amount, the Company must, within 30 days, make an Offer to Purchase Notes of both series having a principal amount equal to

(A) accumulated Excess Proceeds, multiplied by

(B) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes of both series and (y) the denominator of which is equal to the outstanding principal amount of the Notes of both series and all pari passu Debt similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest $1,000. The purchase price for the Notes will be 100% of the principal amount plus accrued interest to the date of purchase. Upon completion of the Offer to Purchase, Excess Proceeds will be reset at zero, and any Excess Proceeds remaining after consummation of the Offer to Purchase may be used for any purpose not otherwise prohibited by the Indenture.

Section 4.13. Limitation on Transactions with Affiliates. (a) The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with any Affiliate of the Company or any Restricted Subsidiary, for consideration in excess of $10.0 million (a “Related Party Transaction”), except upon fair and reasonable terms not materially less favorable to the Company or the Restricted Subsidiary than could be obtained in a comparable arm’s-length transaction with a Person that is not an Affiliate of the Company.

(b) Any Related Party Transaction or series of Related Party Transactions with an aggregate value in excess of $20.0 million must first be approved by a majority of the Board of Directors who are disinterested in the subject matter of the transaction pursuant to a Board Resolution delivered to the Trustee. Prior to entering into any Related Party Transaction or series of Related Party Transactions with an aggregate value in excess of $50.0 million, the Company must in addition obtain and deliver to the Trustee a favorable written opinion from a nationally recognized investment banking firm as to the fairness of the transaction to the Company and its Restricted Subsidiaries from a financial point of view.

(c) The foregoing paragraphs do not apply to
(1) any transaction between the Company and any of its Restricted Subsidiaries or between Restricted Subsidiaries of the Company;

(2) the payment of reasonable and customary compensation paid to, or loans made to, and indemnities and other benefits provided to officers, directors, employees or consultants of the Company or any Subsidiary, as determined by the Company in good faith;

(3) any Restricted Payments and Permitted Investments (other than Permitted Investments referred to in clause (4) thereof) if permitted by the Indenture;

(4) any transaction with a joint venture, partnership, limited liability company or other entity that constitutes an Affiliate solely because the Company or a Restricted Subsidiary owns an equity interest in such joint venture, partnership, limited liability company or other entity;

(5) sales or leases of goods, or providing or receiving services, to or from joint ventures and Affiliates (but excluding any officers or directors) in the ordinary course of business for less than fair market value but not for less than cost;

(6) transactions with customers, clients, suppliers or purchasers or sellers of goods or services, or transactions with joint ventures, in each case on terms that are not materially less favorable to the Company or any of its Restricted Subsidiaries, as the case may be, as determined in good faith by the Company, than those that could be obtained in a comparable arm’s length transaction with a Person that is not an Affiliate of the Company;

(7) contributions to the equity capital of the Company or a Restricted Subsidiary or sales of Qualified Equity Interests of the Company or a Guarantor;

(8) transactions or arrangements pursuant to (a) any agreements in effect on the Issue Date, (b) Interim Ordinary Course Transactions at any time prior to the Spin-Off Date, or (c) any agreements to be entered into in connection with the Transactions, and, in the case of agreements referred to in clauses (a) and (c), as such agreements may be amended, modified or replaced from time to time so long as the amended, modified or new agreements, taken as a whole, are not materially less favorable to the holders of the Notes than those in effect on the Issue Date in the case of clause (a) or those described in the Offering Circular in the case of clause (c).
Section 4.14. Line of Business. The Company will not, and will not permit any of its Restricted Subsidiaries, to engage in any business other than a Permitted Business, except to an extent that so doing would not be material to the Company and its Restricted Subsidiaries, taken as a whole.

Section 4.15. Designation of Restricted and Unrestricted Subsidiaries. (a) The Board of Directors may designate any Subsidiary, including a newly acquired or created Subsidiary, to be an Unrestricted Subsidiary if it meets the following qualifications and the designation would not cause a Default.

(1) At the time of the designation, the designation would be permitted under Section 4.07.

(2) To the extent the Debt of the Subsidiary is not Non-Recourse Debt, any Guarantee or other credit support thereof by the Company or any Restricted Subsidiary is permitted under Section 4.06 and Section 4.07.

(3) The Subsidiary is not party to any transaction or arrangement with the Company or any Restricted Subsidiary that would not be permitted under Section 4.13.

(4) Neither the Company nor any Restricted Subsidiary has any obligation to subscribe for additional Equity Interests of the Subsidiary or to maintain or preserve its financial condition or cause it to achieve specified levels of operating results except to the extent permitted by Section 4.06 and Section 4.07.

Once so designated the Subsidiary will remain an Unrestricted Subsidiary, subject to paragraph (b).

(b) (1) A Subsidiary previously designated an Unrestricted Subsidiary pursuant to clause (iii) of the definition thereof which fails to meet the qualifications set forth in paragraph (a) will be deemed to become at that time a Restricted Subsidiary, subject to the consequences set forth in paragraph (d).

(2) The Board of Directors may designate an Unrestricted Subsidiary to be a Restricted Subsidiary if the designation would not cause a Default.

(c) Upon a Restricted Subsidiary becoming an Unrestricted Subsidiary,

(1) all existing Investments of the Company and the Restricted Subsidiaries therein (valued at the Company’s proportional share of the fair market value of its assets less liabilities (as determined in good faith by the Company)) will be deemed made at that time;
(2) all existing Capital Stock or Debt of the Company or a Restricted Subsidiary held by it will be deemed Incurred at that time, and all Liens on property of the Company or a Restricted Subsidiary held by it will be deemed incurred at that time;

(3) all existing transactions between it and the Company or any Restricted Subsidiary will be deemed entered into at that time;

(4) it is released at that time from its Note Guaranty, if any; and

(5) it will cease to be subject to the provisions of the Indenture as a Restricted Subsidiary.

(d) Upon an Unrestricted Subsidiary becoming, or being deemed to become, a Restricted Subsidiary,

(1) all of its Debt and Preferred Stock will be deemed Incurred at that time for purposes of Section 4.06, but will not be considered the sale or issuance of Equity Interests for purposes of Section 4.12;

(2) Investments therein previously charged under Section 4.07 will be credited as provided thereunder;

(3) it may be required to issue a Note Guaranty pursuant to Section 4.10; and

(4) it will thenceforward be subject to the provisions of the Indenture as a Restricted Subsidiary.

(e) Any designation by the Board of Directors of a Subsidiary as a Restricted Subsidiary or Unrestricted Subsidiary will be evidenced to the Trustee by promptly filing with the Trustee a copy of the Board Resolution giving effect to the designation and an Officer’s Certificate certifying that the designation complied with the foregoing provisions.

(f) Notwithstanding the foregoing, each of NGC and its Subsidiaries (after giving effect to the Transactions) and Current NGC shall be deemed an Unrestricted Subsidiary of the Company at all times on and after and for so long as it becomes a Subsidiary of the Company (which designation shall occur automatically and without the need to comply with clause (a) above).

Section 4.16. Limitation on Actions of Current NGC. Following the Completion Date, the Company shall not permit or cause Current NGC to engage at any time in any business or have any material assets or liabilities, other than (a) its liabilities as a guarantor under debt and certain contracts of the Company and its Restricted Subsidiaries outstanding on the Issue Date, (b) indemnities from the Company in support of the liabilities listed in (a), (c) liabilities reasonably
incurred in connection with the maintenance of its corporate existence, and (d) liabilities that may arise from its contractual obligations under the agreements to which NGC is a party relating to the Transactions.

Section 4.17. Restrictive Covenants. (a) Beginning on the Issue Date, all restrictive covenants set forth in the Indenture will be applicable to each of the Persons that are intended to be one of the Company’s Restricted Subsidiaries on the Completion Date, each of which shall be deemed a Restricted Subsidiary of the Company beginning on the Issue Date. Each Person that is not engaged in the shipbuilding business of Northrop Grumman Corporation and is not intended to be a Subsidiary of the Company following the Spin-Off Date, and Current NGC, will be automatically designated an Unrestricted Subsidiary when it becomes a Subsidiary of the Company, and such designation will not be treated as a Restricted Payment. Such Unrestricted Subsidiaries will accordingly not be party hereto, will not guaranty the Notes and will not be subject to the restrictive covenants hereunder applicable to the Company and the Restricted Subsidiaries.

(b) Notwithstanding the restrictive covenants in the Indenture, the Company and its Restricted Subsidiaries will be permitted, prior to the Completion Date, to engage in the ordinary course of their collective business consistent with past practice, including with Current NGC, NGC and their respective Subsidiaries, and to consummate transactions in connection therewith (the “Interim Ordinary Course Transactions”), and prior to the Completion Date, the Interim Ordinary Course Transactions will be exempt from the limitations set forth under Section 4.06 to Section 4.16, Section 4.18 and Section 4.19.

(c) For purposes of applying the covenants under the Indenture and compliance thereunder, the Transactions will be deemed to have occurred immediately prior to the Issue Date.

Section 4.18. Financial Reports. (a) Whether or not the Company is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company must provide the Trustee and Noteholders within the time periods specified in those sections with

1) all quarterly and annual reports that would be required to be filed with the Commission on Forms 10-Q and 10-K if the Company were required to file such reports, and

2) all current reports that would be required to be filed with the Commission on Form 8-K if the Company were required to file such reports.

In addition, whether or not required by the Commission, the Company will, if the Commission will accept the filing, file a copy of all of the information
and reports referred to in clauses (1) and (2) with the Commission for public availability within the time periods specified in the Commission’s rules and regulations. For purposes of this covenant, the Company will be deemed to have provided all required reports referred to in this covenant to the Trustee and the Noteholders as required by this covenant if it has timely filed such reports with the Commission via the EDGAR filing system (or its successor system). If the Company had any Unrestricted Subsidiaries during the relevant period, then the quarterly and annual reports required by this covenant shall include a reasonably detailed presentation of the financial condition and results of operations of the Company and its Restricted Subsidiaries, excluding in all respects the Unrestricted Subsidiaries, separate from the financial condition and results of operations of the Unrestricted Subsidiaries.

Notwithstanding anything herein to the contrary, the Company will not be deemed to have failed to comply with any of its obligations under this Section for purposes of Section 6.01(4) until 90 days after the date any report hereunder is due.

(b) For so long as any of the Notes remain outstanding and constitute “restricted securities” under Rule 144, the Company will furnish to the Holders of the Notes and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

(c) All obligors on the Notes will comply with Section 314(a) of the Trust Indenture Act.

(d) Delivery of these reports and information to the Trustee is for informational purposes only and the Trustee’s receipt of them will not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company’s compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers’ Certificates).

Section 4.19. Reports to Trustee. (a) The Company and each Guarantor will deliver to the Trustee within 120 days after the end of each fiscal year a certificate from the principal executive, financial or accounting officer of the Company and such Guarantor stating that the officer has conducted or supervised a review of the activities of the Company and its Restricted Subsidiaries and their performance under the Indenture and that, based upon such review, the Company and each Guarantor has fulfilled its obligations hereunder or, if there has been a Default, specifying the Default and its nature and status.

(b) The Company will deliver to the Trustee, as soon as possible and in any event within 30 days after the Company becomes aware of the occurrence of a Default, an Officers’ Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

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Section 4.20. Suspension Of Certain Covenants. If at any time after the Issue Date (i) the Notes are rated Investment Grade by each of S&P and Moody’s (or, if either (or both) of S&P and Moody’s have been substituted in accordance with the definition of “Rating Agencies”, by each of the then applicable Rating Agencies) and (ii) no Default has occurred and is continuing hereunder, the Company and its Restricted Subsidiaries will not be subject to the covenants in Sections 4.06, 4.07, 4.09, 4.12, 4.13, 4.14 and 5.01(a)(iii)(3) (the “Suspended Covenants”).

At such time as the above referenced covenants are suspended (a “Suspension Period”), the Company will no longer be permitted to designate any Restricted Subsidiary as an Unrestricted Subsidiary unless the Company would have been permitted to designate such Subsidiary as an Unrestricted Subsidiary if a Suspension Period had not been in effect for any period and such designation shall be deemed to have created a Restricted Payment as set forth under Section 4.07 following the Reversion Date (as defined below).

In the event that the Company and its Restricted Subsidiaries are not subject to the Suspended Covenants for any period of time as a result of the foregoing, and on any subsequent date (the “Reversion Date”) the condition set forth in clause (i) of the first paragraph of this section is no longer satisfied, then the Company and its Restricted Subsidiaries will thereafter again be subject to the Suspended Covenant with respect to future events.

On each Reversion Date, all Debt incurred during the Suspension Period prior to such Reversion Date will be deemed to be Debt incurred pursuant to clause (b)(7) under Section 4.06. For purposes of calculating the amount available to be made as Restricted Payments under Section 4.07(a)(3), calculations under such covenant shall be made as though such covenant had been in effect during the entire period of time after the Issue Date (including the Suspension Period). Restricted Payments made during the Suspension Period not otherwise permitted under Section 4.07(b) will reduce the amount available to be made as Restricted Payments under Section 4.07(a)(3) of such covenant. For purposes of Section 4.12, on the Reversion Date, the amount of Excess Proceeds will be reset to zero.

Notwithstanding that the Suspended Covenants may be reinstated, no Default or Event of Default shall be deemed to have occurred as a result of a failure to comply with the Suspended Covenants during a Suspension Period (or on the Reversion Date after a Suspension Period based solely on events that occurred during the Suspension Period).

Promptly after the commencement of a Suspension Period or the occurrence of a Reversion Date, the Company shall furnish to the Trustee an Officers’ Certificate to the effect that such Suspension Period has begun or that such Reversion Date has occurred, as the case may be, and stating that all
ARTICLE 5
Consolidation, Merger or Sale of Assets

Section 5.01. Consolidation, Merger or Sale of Assets by the Company. (a) The Company will not
(i) consolidate with or merge with or into any Person, or
(ii) sell, convey, transfer, lease or otherwise dispose of all or substantially all of its assets and the assets of its Restricted Subsidiaries, taken as a whole, as an entirety or substantially an entirety, in one transaction or a series of related transactions, to any Person or
(iii) permit any Person to merge with or into the Company unless

(1) either (x) the Company is the continuing Person or (y) the resulting, surviving or transferee Person is a corporation, limited liability company or partnership (provided that if the resulting, surviving or transferee Person is a limited liability company or partnership, a corporate Wholly Owned Restricted Subsidiary becomes a co-obligor at such time) organized and validly existing under the laws of the United States of America or any jurisdiction thereof and expressly assumes by supplemental indenture in form satisfactory to the Trustee all of the obligations of the Company under the Indenture, the Escrow Agreement and the Notes and the Registration Rights Agreement;
(2) immediately after giving effect to the transaction, no Default has occurred and is continuing;
(3) immediately after giving effect to the transaction on a pro forma basis, the Company or the resulting surviving or transferee Person could Incure at least $1.00 of Debt under Section 4.06(a); and
(4) the Company delivers to the Trustee an Officers’ Certificate and an Opinion of Counsel, each stating that the consolidation, merger, sale, conveyance, transfer, lease or other
disposition and the supplemental indenture (if any) comply with the Indenture;

provided, that (a) clauses (2) and (3) do not apply (i) to the consolidation or merger of the Company with or into a Wholly Owned Restricted Subsidiary or the consolidation or merger of a Wholly Owned Restricted Subsidiary with or into the Company, or to the sale, lease, conveyance, transfer, or other disposition of all or substantially all of its assets and the assets of its Restricted Subsidiaries, taken as a whole, as an entirety or substantially an entirety, to a Wholly-Owned Restricted Subsidiary that is a Guarantor, or (ii) if the sole purpose of the transaction is to change the jurisdiction of incorporation of the Company and (b) the foregoing does not apply to the consummation of the Transactions.

(b) Upon the consummation of any transaction effected in accordance with these provisions, if the Company is not the continuing Person, the resulting, surviving or transferee Person will succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture and the Notes with the same effect as if such successor Person had been named as the Company in the Indenture. Upon such substitution, except in the case of a lease, the Company will be released from its obligations under the Indenture, the Notes, the Escrow Agreement and the Registration Rights Agreement.

Section 5.02. Consolidation, Merger or Sale of Assets by a Guarantor. (a) No Guarantor may

(i) consolidate with or merge with or into any Person, or

(ii) sell, convey, transfer or dispose of, all or substantially all its assets as an entirety or substantially as an entirety, in one transaction or a series of related transactions, to any Person, or

(iii) permit any Person to merge with or into the Guarantor

unless

(A) the other Person is the Company or any Restricted Subsidiary that is a Guarantor or becomes a Guarantor concurrently with the transaction; or

(B) (1) either (x) the Guarantor is the continuing Person or (y) the resulting, surviving or transferee Person expressly assumes by supplemental indenture in form satisfactory to the Trustee all of the obligations of the Guarantor under its Note Guaranty; and

(2) immediately after giving effect to the transaction, no Default has occurred and is continuing; or
ARTICLE 6
Default and Remedies

Section 6.01. Events of Default. An “Event of Default” occurs with respect to Notes of a series if:

1. The Company defaults in the payment of the principal of any Note of such series when the same becomes due and payable at maturity, upon acceleration or redemption, or otherwise (other than pursuant to an Offer to Purchase);

2. The Company defaults in the payment of interest (including any Additional Interest) on any Note of such series when the same becomes due and payable, and the default continues for a period of 30 days;

3. The Company fails (A) after 45 days after written notice to the Company by the Trustee or to the Company and the Trustee by the Holders of 25% or more in aggregate principal amount of the Notes of such series to make an Offer to Purchase (which notice requires that the failure be remedied and states that it is a notice of default under the Indenture) or (B) to thereafter accept and pay for Notes validly tendered when and as required pursuant to Section 4.11 or Section 4.12;

4. The Company defaults in the performance of or breaches any other covenant or agreement of the Company in the Indenture or under the Notes of such series and the default or breach continues for a period of 60 consecutive days after written notice to the Company by the Trustee or to the Company and the Trustee by the Holders of 25% or more in aggregate principal amount of the Notes of such series (which notice requires that the default be remedied and states that it is a notice of default under the Indenture);

5. There occurs with respect to any Debt of the Company or any of its Restricted Subsidiaries having an outstanding principal amount of $50.0 million 

(C) the transaction constitutes a sale or other disposition (including by way of consolidation or merger) of the Guarantor or the sale or disposition of all or substantially all the assets of the Guarantor (in each case other than to the Company or a Restricted Subsidiary) otherwise permitted by the Indenture, and

(D) the Company delivers to the Trustee an Officers’ Certificate and an Opinion of Counsel, each stating that the consolidation, merger, sale, conveyance, transfer or other disposition and the supplemental indenture (if any) comply with the Indenture.
or more in the aggregate for all such Debt of all such Persons (i) an event of default that results in such Debt being due and payable prior to its scheduled maturity or (ii) a failure to make a principal payment when due and such defaulted payment is not made, waived or extended within the applicable grace period;

(6) one or more final judgments or orders for the payment of money are rendered against the Company or any of its Restricted Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed $50.0 million (in excess of amounts which the Company’s insurance carriers have not challenged under applicable policies or which indemnifying parties have not challenged under applicable third party indemnities) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

(7) a decree or order for relief is entered against the Company or any Significant Subsidiary in an involuntary case or other proceeding commenced against the Company or any Significant Subsidiary with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such decree or order remains in effect and unstayed for a period of 60 days;

(8) the Company or any of its Significant Subsidiaries (i) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (ii) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any of its Significant Subsidiaries or for all or substantially all of the property and assets of the Company or any of its Significant Subsidiaries or (iii) effects any general assignment for the benefit of creditors (an event of default specified in clause (7) or (8) a “bankruptcy default”);

(9) any Note Guaranty of a Significant Subsidiary ceases to be in full force and effect, other than in accordance the terms of the Indenture, or a Guarantor that is a Significant Subsidiary denies or disaffirms its obligations under its Note Guaranty; or

(10) at any time prior to the Completion Date, the Company defaults in the performance of, or breaches, any covenant or agreement of the Company in the Escrow Agreement, or the lien of the Escrow Agreement on the Account and the U.S. Government Obligations ceases to be perfected or have the priority intended to be provided, or the Escrow Agreement ceases to be in full force and effect or the Company asserts the invalidity thereof.

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Section 6.02. Acceleration. (a) If an Event of Default, other than a bankruptcy default with respect to the Company, occurs and is continuing under the Indenture with respect to Notes of a series, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes of such series then outstanding, by written notice to the Company (and to the Trustee if the notice is given by the Holders), may, and the Trustee at the request of such Holders shall, declare the principal of and accrued interest on the Notes of such series to be immediately due and payable. Upon a declaration of acceleration, such principal and interest will become immediately due and payable. If a bankruptcy default occurs with respect to the Company, the principal of and accrued interest on the Notes of each series then outstanding will become immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

In the event of a declaration of acceleration of the Notes solely because an Event of Default described in clause (5) above has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically rescinded and annulled if the event of default or payment default triggering such Event of Default pursuant to clause (5) shall be remedied or cured by the Company or a Restricted Subsidiary of the Company or waived (and the related declaration of acceleration rescinded or annulled) by the holders of the relevant Debt within 20 Business Days after the declaration of acceleration with respect to the Notes and if the rescission and annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction obtained by the Trustee for the payment of amounts due on the Notes.

(b) The Holders of a majority in principal amount of the outstanding Notes of a series by written notice to the Company and to the Trustee may waive all past defaults and rescind and annul a declaration of acceleration and its consequences with respect to such Notes if

   (1) all existing Events of Default with respect to such Notes, other than the nonpayment of the principal of, premium, if any, and interest on the Notes of such series that have become due solely by the declaration of acceleration, have been cured or waived,

   (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction, and

   (3) all sums paid or advanced by the Trustee under the Indenture and the reasonable fees, expenses and disbursements of the Trustee, its agents and counsel have been paid.

Section 6.03. Waiver of Past Defaults. Except as otherwise provided in Sections 6.02, 6.07 and 9.02, the Holders of a majority in principal amount of the outstanding Notes of a series may, by notice to the Trustee, waive an existing Default and its consequences with respect to such series. Upon such waiver, the
Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

Section 6.04. Other Remedies. If an Event of Default with respect to the Notes of a series occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes of such series or to enforce the performance of any provision of the Notes of such series or the Indenture with respect to the Notes of a series. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding.

Section 6.05. Control by Majority. The Holders of a majority in aggregate principal amount of the outstanding Notes of a series may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Notes of such series. However, the Trustee may refuse to follow any direction that conflicts with law, the Indenture or the Escrow Agreement, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders of Notes of such series not joining in the giving of such direction, and may take any other action it deems proper that is not inconsistent with any such direction received from Holders of Notes of such series.

Section 6.06. Limitation on Suits. A Holder of Notes of a series may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes of such series, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes of such series, unless:

1. the Holder has previously given to the Trustee written notice of a continuing Event of Default with respect to the Notes of such series;
2. Holders of at least 25% in aggregate principal amount of outstanding Notes of such series have made written request to the Trustee to institute proceedings in respect of the Event of Default in its own name as Trustee under the Indenture;
3. Holders have offered to the Trustee indemnity reasonably satisfactory to the Trustee against any costs, liabilities or expenses to be incurred in compliance with such request;
4. the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
(5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes of such series have not given the Trustee a direction that is inconsistent with such written request.

Section 6.07. Rights of Holders to Receive Payment. Notwithstanding anything herein to the contrary, the right of a Holder of a Note to receive payment of principal of or interest on its Note on or after the Stated Maturities thereof or on or after a redemption or repurchase date therefor, or to bring suit for the enforcement of any such payment on or after such respective dates, may not be impaired or affected without the consent of that Holder.

Section 6.08. Collection Suit by Trustee. If an Event of Default in payment of principal or interest specified in clause (1) or (2) of Section 6.01 occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust for the whole amount of principal and accrued interest remaining unpaid, together with interest on overdue principal and, to the extent lawful, overdue installments of interest, in each case at the rate specified in the Notes, and such further amount as is sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and any other amounts due the Trustee hereunder.

Section 6.09. Trustee May File Proofs of Claim. The Trustee may file proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee hereunder) and the Holders allowed in any judicial proceedings relating to the Company or any Guarantor or their respective creditors or property, and is entitled and empowered to collect, receive and distribute any money, securities or other property payable or deliverable upon conversion or exchange of the Notes or upon any such claims. Any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, if the Trustee consents to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agent and counsel, and any other amounts due the Trustee hereunder. Nothing in the Indenture will be deemed to empower the Trustee to authorize or consent to, or accept or adopt on behalf of any Holder, any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.
Section 6.10. Priorities. If the Trustee collects any money pursuant to this Article or Section 1.05(f) of the Escrow Agreement, it shall pay out the money in the following order:

First: to the Trustee for all amounts due to it hereunder;

Second: to Holders of Notes of the series in respect of which such money is collected for amounts then due and unpaid for principal of and interest on the Notes, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal and interest; and

Third: to the Company or as a court of competent jurisdiction may direct.

The Trustee, upon written notice to the Company, may fix a record date and payment date for any payment to Holders pursuant to this Section.

Section 6.11. Restoration of Rights and Remedies. If the Trustee or any Holder has instituted a proceeding to enforce any right or remedy under the Indenture and the proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to the Holder, then, subject to any determination in the proceeding, the Company, any Guarantors, the Trustee and the Holders will be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Company, any Guarantors, the Trustee and the Holders will continue as though no such proceeding had been instituted.

Section 6.12. Undertaking for Costs. In any suit for the enforcement of any right or remedy under the Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court may require any party litigant in such suit (other than the Trustee) to file an undertaking to pay the costs of the suit, and the court may assess reasonable costs, including reasonable attorneys fees, against any party litigant (other than the Trustee) 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 a Holder to enforce payment of principal of or interest on any Note on the respective due dates, or a suit by Holders of more than 10% in principal amount of the outstanding Notes of a series.

Section 6.13. Rights and Remedies Cumulative. No right or remedy conferred or reserved to the Trustee or to the Holders under this Indenture is intended to be exclusive of any other right or remedy, and all such rights and remedies are, to the extent permitted by law, cumulative and in addition to every other right and remedy hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or exercise of any right or remedy hereunder, or
otherwise, will not prevent the concurrent assertion or exercise of any other right or remedy.

Section 6.14, Delay or Omission Not Waiver. No delay or omission of the Trustee or of any Holder to exercise any right or remedy accruing upon any Event of Default will impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

Section 6.15, Waiver of Stay, Extension or Usury Laws. The Company and each Guarantor covenants, to the extent that it may lawfully do so, that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury law or other law that would prohibit or forgive the Company or the Guarantor from paying all or any portion of the principal of, or interest on the Notes as contemplated herein, wherever enacted, now or at any time hereafter in force, or that may affect the covenants or the performance of the Indenture. The Company and each Guarantor hereby expressly waives, to the extent that it may lawfully do so, all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE 7
The Trustee

Section 7.01, General. (a) The duties and responsibilities of the Trustee are as provided by the Trust Indenture Act and as set forth herein. Whether or not expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to this Article.

(b) Except during the continuance of an Event of Default, the Trustee need perform only those duties that are specifically set forth in the Indenture and no others, and no implied covenants or obligations will be read into the Indenture against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee shall exercise those rights and powers vested in it by the 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.

(c) Except as provided in Section 315(d) of the Trust Indenture Act, no provision of the Indenture shall be construed to relieve the Trustee from
liability for its own negligent action, its own negligent failure to act or its own willful misconduct.

Section 7.02. Certain Rights of Trustee. Subject to Trust Indenture Act Sections 315(a) through (d):

(1) In the absence of bad faith on its part, the Trustee may rely, and will be protected in acting or refraining from acting, upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in any document, but, in the case of any document which is specifically required to be furnished to the Trustee pursuant to any provision hereof, the Trustee shall examine the document to determine whether it conforms to the requirements of the Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein). The Trustee, in its discretion, may make further inquiry or investigation into such facts or matters as it sees fit.

(2) Before the Trustee acts or refrains from acting, it may require an Officers’ Certificate or an Opinion of Counsel conforming to Section 12.05 and the Trustee will not be liable for any action it takes or omits to take in good faith in reliance on the certificate or opinion.

(3) The Trustee may act through its attorneys and agents and will not be responsible for the misconduct or negligence of any attorney or agent appointed with due care.

(4) The Trustee will be under no obligation to exercise any of the rights or powers vested in it by the Indenture or in the Escrow Agreement at the request or direction of any of the Holders, unless such Holders have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities that might be incurred by it in compliance with such request or direction.

(5) The Trustee will not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within its rights or powers or for any action it takes or omits to take in accordance with the direction of the Holders in accordance with Section 6.05 relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Indenture.
(6) The Trustee may consult with counsel, and the written advice of such counsel or any Opinion of Counsel will be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(7) No provision of the Indenture or the Escrow Agreement will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties hereunder, or in the exercise of its rights or powers, unless it receives indemnity satisfactory to it against any loss, liability or expense.

(8) Unless otherwise specifically provided in the Indenture or the Escrow Agreement, any demand, instruction, request, direction or notice from the Company shall be sufficient if signed by an Officer of the Company.

(9) The Trustee may request that the Company deliver an Officers’ Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to the Indenture or the Escrow Agreement, which Officers’ Certificate may be signed by any person authorized to sign an Officers’ Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

(10) In no event shall the Trustee be responsible or liable for special, indirect, or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

(11) The Trustee shall not be charged with knowledge of any Default or any Event of Default unless either (i) an officer of the Trustee responsible for the administration of the Indenture shall have actual knowledge of such Default or Event of Default or (ii) written notice of such Default or Event of Default shall have been given to the Trustee by the Company or any other obligor on the Notes, or by any Holder of the Notes.

(12) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder.

(13) In no event shall the Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder or under the Escrow Agreement arising out of or caused by, directly or indirectly,
forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services; it being understood that the Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

(14) The Trustee shall have no responsibility for perfecting or maintaining the perfection of the security interest granted to it under the Escrow Agreement or for filing any financing statement or continuation statement or other notice in any public office at any time or times and shall not be liable for the acts or omissions of the Escrow Agent.

Section 7.03. Individual Rights of Trustee. The Trustee, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not the Trustee. Any Agent may do the same with like rights. However, the Trustee is subject to Trust Indenture Act Sections 310(b) and 311. For purposes of Trust Indenture Act Section 311(b)(4) and (6):

(a) "cash transaction" means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand; and

(b) "self-liquidating paper" means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred for the purpose of financing the purchase, processing, manufacturing, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

Section 7.04. Trustee’s Disclaimer. The Trustee (i) makes no representation as to the validity or adequacy of the Indenture, the Notes, the Escrow Agreement, the Escrow Property (as defined in the Escrow Agreement) or the security interest granted to it under the Escrow Agreement (ii) is not accountable for the Company’s use or application of the proceeds from the Notes or for determining the value of the Escrow Property and (iii) is not responsible for any statement in the Notes other than its certificate of authentication.
Section 7.05. Notice of Default. If any Default occurs and is continuing and is known to the Trustee, the Trustee will send notice of the Default to each Holder within 90 days after it occurs, unless the Default has been cured; provided that, except in the case of a default in the payment of the principal of or interest on any Note, the Trustee may withhold the notice if and so long as the board of directors, the executive committee or a trust committee of directors of the Trustee or of officers of the Trustee responsible for the administration of the Indenture in good faith determines that withholding the notice is in the interest of the Holders. Notice to Holders under this Section will be given in the manner and to the extent provided in Trust Indenture Act Section 313(c).

Section 7.06. Reports by Trustee to Holders. Within 60 days after each March 15, beginning with March 15, 2012, the Trustee will mail to each Holder, as provided in Trust Indenture Act Section 313(c), a brief report dated as of such March 15, if required by Trust Indenture Act Section 313(a), and file such reports with each stock exchange upon which the Notes are listed and with the Commission as required by Trust Indenture Act Section 313(d). The Company will promptly notify the Trustee when any Notes are listed on any stock exchange.

Section 7.07. Compensation and Indemnity. (a) The Company will pay the Trustee compensation as agreed upon in writing for its services. The compensation of the Trustee is not limited by any law on compensation of a Trustee of an express trust. The Company will reimburse the Trustee upon request for all reasonable out-of-pocket expenses, disbursements and advances incurred or made by the Trustee, including the reasonable compensation and expenses of the Trustee’s agents and counsel.

(b) The Company will indemnify the Trustee for, and hold it harmless against, any loss or liability or expense (including the reasonable compensation and expenses of the Trustee’s agents and counsel) incurred by it without negligence or bad faith on its part arising out of or in connection with the acceptance or administration of the Indenture and the Escrow Agreement and its duties under the Indenture, the Escrow Agreement and the Notes, including the costs and expenses of defending itself against any claim or liability and of complying with any process served upon it or any of its officers in connection with the exercise or performance of any of its powers or duties under the Indenture, the Escrow Agreement and the Notes.

(c) To secure the Company’s payment obligations in this Section, the Trustee will have a lien prior to the Notes on all money or property held or collected by the Trustee, in its capacity as Trustee, except money or property held in trust to pay principal of, and interest on particular Notes.

(d) The obligations of the Company and the Guarantors under this Section shall survive the payment of the Notes, the satisfaction and discharge of the Indenture and the resignation or removal of the Trustee.
Section 7.08. Replacement of Trustee. (a) (1) The Trustee may resign at any time by written notice to the Company.

(2) The Holders of a majority in principal amount of the outstanding Notes may remove the Trustee by written notice to the Trustee.

(3) If the Trustee is no longer eligible under Section 7.10 or in the circumstances described in Trust Indenture Act Section 310(b), any Holder that satisfies the requirements of Trust Indenture Act Section 310(b) may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(4) The Company may remove the Trustee if: (i) the Trustee is no longer eligible under Section 7.10; (ii) the Trustee is adjudged a bankrupt or an insolvent; (iii) a receiver or other public officer takes charge of the Trustee or its property; or (iv) the Trustee becomes incapable of acting.

A resignation or removal of the Trustee and appointment of a successor Trustee will become effective only upon the successor Trustee’s acceptance of appointment as provided in this Section.

(b) If the Trustee has been removed by the Holders, Holders of a majority in principal amount of the Notes may appoint a successor Trustee with the consent of the Company. Otherwise, if the Trustee resigns or is removed, or if a vacancy exists in the office of Trustee for any reason, the Company will promptly appoint a successor Trustee. If the successor Trustee does not deliver its written acceptance within 30 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of a majority in principal amount of the outstanding Notes may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(c) Upon delivery by the successor Trustee of a written acceptance of its appointment to the retiring Trustee and to the Company, (i) the retiring Trustee will transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 7.07, (ii) the resignation or removal of the retiring Trustee will become effective, and (iii) the successor Trustee will have all the rights, powers and duties of the Trustee under the Indenture. Upon request of any successor Trustee, the Company will execute any and all instruments for fully and vesting in and confirming to the successor Trustee all such rights, powers and trusts. The Company will give notice of any resignation and any removal of the Trustee and each appointment of a successor Trustee to all Holders, and include in the notice the name of the successor Trustee and the address of its Corporate Trust Office.
(d) Notwithstanding replacement of the Trustee pursuant to this Section, the Company’s and the Guarantors’ obligations under Section 7.07 will continue for the benefit of the retiring Trustee.

(e) The Trustee agrees to give the notices provided for in, and otherwise comply with, Trust Indenture Act Section 310(b), subject to its right to seek a stay of its duty to resign in accordance with the penultimate paragraph thereof.

Section 7.09. Successor Trustee by Merger. If the Trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation or national banking association, the resulting, surviving or transferee corporation or national banking association without any further act will be the successor Trustee with the same effect as if the successor Trustee had been named as the Trustee in the Indenture.

Section 7.10. Eligibility. The Indenture must always have a Trustee that satisfies the requirements of Trust Indenture Act Section 310(a) and has a combined capital and surplus of at least $25,000,000 as set forth in its most recent published annual report of condition.

Section 7.11. Money Held in Trust. The Trustee will not be liable for interest on any money received by it except as it may agree with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law and except for money held in trust under Article 8.

ARTICLE 8
Defeasance and Discharge

Section 8.01. Discharge of Company’s Obligations. (a) Subject to paragraph (b), the Company’s obligations under the Notes of a series and the Indenture with respect to such Notes, and each Guarantor’s obligations under its Note Guaranty with respect to such Notes, will terminate if:

(1) all Notes of such series previously authenticated and delivered (other than (i) destroyed, lost or stolen Notes that have been replaced or paid under Section 2.04 or (ii) Notes that are paid pursuant to Section 4.01 or (iii) Notes for whose payment money or U.S. Government Obligations have been held in trust and then repaid to the Company pursuant to Section 8.05) have been cancelled or delivered to the Trustee for cancellation and the Company has paid all sums payable by it hereunder; or
(2) (A) the Notes of such series mature within one year, or all of the Notes of such series are to be called for redemption within one year under arrangements satisfactory to the Trustee for giving the notice of redemption,

(B) the Company irrevocably deposits in trust with the Trustee, as trust funds solely for the benefit of the Holders, money sufficient or U.S. Government Obligations, the principal of and interest on which will be sufficient, or a combination sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certificate delivered to the Trustee, which opinion need be given only if U.S. Government Obligations have been deposited, without consideration of any reinvestment, to pay principal of and interest on the Notes of such series to maturity or redemption, as the case may be, and to pay all other sums payable by it hereunder,

(C) the Company has paid or caused to be paid all other sums payable under the Indenture by the Company,

(D) the deposit will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the Indenture) to which the Company is a party or by which it is bound, and

(E) the Company delivers to the Trustee an Officers’ Certificate and an Opinion of Counsel, in each case stating that all conditions precedent provided for herein relating to the satisfaction and discharge of the Indenture have been complied with.

(b) After satisfying the conditions in clause (a)(1) of this Section 8.01, only the Company’s obligations under Section 7.07 and Section 8.04 will survive in respect of such series. After satisfying the conditions in clause (a)(2) of this Section 8.01, only the Company’s obligations in Article 2 and Sections 4.02, 7.07, 7.08, 8.04, 8.05 and 8.06 will survive in respect of such series. In either case, the Trustee upon request will acknowledge in writing the discharge of the Company’s obligations under the Notes of such series and the Indenture with respect to such Notes other than the surviving obligations.

Section 8.02. Legal Defeasance. Following the deposit referred to in clause (1) of this Section 8.02, the Company will be deemed to have paid and will be discharged from its obligations in respect of the Notes of a series and the Indenture with respect to such Notes, other than its obligations in Article 2 and Sections 4.02, 7.07, 7.08, 8.04, 8.05 and 8.06 in respect of such series, and each Guarantor’s obligations under its Note Guaranty in respect of such series will terminate, provided the following conditions have been satisfied:
(1) The Company has irrevocably deposited in trust with the Trustee, as trust funds solely for the benefit of the Holders, money sufficient or U.S. Government Obligations, the principal of and interest on which will be sufficient, or a combination sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certificate thereof delivered to the Trustee, without consideration of any reinvestment, to pay principal of and interest on the Notes of such series to maturity or redemption, as the case may be, provided that any redemption before maturity has been irrevocably provided for under arrangements satisfactory to the Trustee.

(2) No Default has occurred and is continuing on the date of the deposit (other than a Default resulting from the borrowing of funds to be applied to such deposit and the grant of any Lien securing such borrowings).

(3) The deposit will not result in a breach or violation of, or constitute a default under, the Indenture (other than a Default resulting from the borrowing of funds to be applied to such deposit and the grant of any Lien securing such borrowings) or any other material agreement or instrument to which the Company is a party or by which it is bound.

(4) The Company has delivered to the Trustee

   (A) either (x) a ruling received from the Internal Revenue Service to the effect that the Holders will not recognize income, gain or loss for federal income tax purposes as a result of the defeasance and will be subject to federal income tax on the same amount and in the same manner and at the same times as would otherwise have been the case or (y) an Opinion of Counsel, based on a change in law after the date of the Indenture, to the same effect as the ruling described in clause (x), and

   (B) an Opinion of Counsel to the effect that, and assuming no intervening bankruptcy of the Company between the date of the deposit and the 91st day following the date of deposit and that no Holder is an insider of the Company, after the passage of 91 days following the deposit, the trust funds will not be subject to the effect of Section 547 of the United States Bankruptcy Code.

(5) If the Notes are listed on a national securities exchange, the Company has delivered to the Trustee an Opinion of Counsel to the effect that the deposit and defeasance will not cause the Notes to be delisted.

(6) The Company has delivered to the Trustee an Officers’ Certificate and an Opinion of Counsel, in each case stating that all
conditions precedent provided for herein relating to the defeasance have been complied with.

Thereafter, the Trustee upon request will acknowledge in writing the discharge of the Company’s obligations under the Notes of such series and the Indenture with respect to such series except for the surviving obligations specified above.

Section 8.03. Covenant Defeasance. Following the deposit referred to in clause (1) of this Section 8.03, the Company’s obligations set forth in Sections 4.06 through 4.15 inclusive and Section 5.01(a)(iii)(3) with respect to Notes of a series, and each Guarantor’s obligations under its Note Guaranty with respect to such series, will terminate, and clauses (3), (4) (solely with respect to the covenants being defeased), (5), (6), (9) and (10) of Section 6.01 will no longer constitute Events of Default with respect to the Notes of such series, provided the following conditions have been satisfied:

1. The Company has complied with clauses (1), (2), (3), 4(B), (5) and (6) of Section 8.02; and
2. the Company has delivered to the Trustee an Opinion of Counsel to the effect that the Holders will not recognize income, gain or loss for federal income tax purposes as a result of the defeasance and will be subject to federal income tax on the same amount and in the same manner and at the same times as would otherwise have been the case.

Except as specifically stated above, none of the Company’s obligations under the Indenture will be discharged.

Section 8.04. Application of Trust Money. Subject to Section 8.05, the Trustee will hold in trust the money or U.S. Government Obligations (including the proceeds thereof) deposited with it pursuant to Section 8.01, 8.02 or 8.03, and apply the deposited money and the proceeds from deposited U.S. Government Obligations to the payment of principal of and interest on the Notes of the applicable series in accordance with the Notes of such series and the Indenture. Such money and U.S. Government Obligations need not be segregated from other funds except to the extent required by law.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the money or U.S. Government Obligations deposited pursuant to Section 8.01, 8.02 or 8.03 hereof or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of the outstanding Notes.
Section 8.05. Repayment to Company. Subject to Sections 7.07, 8.01, 8.02 and 8.03, the Trustee will promptly pay to the Company upon request any money held by the Trustee at any time under Section 8.01, 8.02 or 8.03, which in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee (in case U.S. Government Obligations have been deposited) are in excess of the amount thereof that would then be required to be deposited to effect an equivalent discharge or defeasance under such Sections and thereupon be relieved from all liability with respect to such money. The Trustee will pay to the Company upon request any money held for payment with respect to the Notes of a series that remains unclaimed for two years, provided that before making such payment the Trustee may at the expense of the Company publish once in a newspaper of general circulation in New York City, or send to each Holder entitled to such money, notice that the money remains unclaimed and that after a date specified in the notice (at least 30 days after the date of the publication or notice) any remaining unclaimed balance of money will be repaid to the Company. After payment to the Company, Holders entitled to such money must look solely to the Company for payment, unless applicable law designates another Person, and all liability of the Trustee with respect to such money will cease.

Section 8.06. Reinstatement. If and for so long as the Trustee is unable to apply any money or U.S. Government Obligations held in trust pursuant to Section 8.01, 8.02 or 8.03 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Company’s obligations under the Notes of the applicable series and the Indenture with respect to such Notes will be reinstated as though no such deposit in trust had been made. If the Company makes any payment of principal of or interest on any Notes of such series because of the reinstatement of its obligations, it will be subrogated to the rights of the Holders of such Notes to receive such payment from the money or U.S. Government Obligations held in trust.

Section 8.07. U.S. Government Obligations. Any U.S. Government Obligations deposited pursuant to this Article shall be non-callable by the issuer thereof.

ARTICLE 9
Amendments, Supplements and Waivers

Section 9.01. Amendments without Consent of Holders. The Company and the Trustee may amend or supplement the Indenture, the Escrow Agreement or the Notes without notice to or the consent of any Noteholder

(1) to cure any ambiguity, defect or inconsistency in the Indenture or the Notes;
(2) to comply with Article 5;
(3) to comply with any requirements of the Commission in connection with the qualification of the Indenture under the Trust Indenture Act;
(4) to evidence and provide for the acceptance of an appointment hereunder by a successor Trustee;
(5) to provide for uncertificated Notes in addition to or in place of certificated Notes, provided that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code;
(6) to provide for any Guarantee of the Notes, to secure the Notes or to confirm and evidence the release, termination or discharge of any Guarantee or Lien securing the Notes when such release, termination or discharge is permitted by the Indenture;
(7) to provide for or confirm the issuance of Additional Notes;
(8) to make any other change that does not materially and adversely affect the rights of any Holder;
(9) to provide for the issuance of Exchange Notes;
(10) to add to the covenants of the Company for the benefit of the Noteholders;
(11) to add additional Events of Default; or
(12) to conform any provision hereof to the “Description of Notes” section in the Offering Circular.

Section 9.02. Amendments with Consent of Holders. (a) Except as otherwise provided in Sections 6.02, 6.03 and 6.07 or paragraph (b), the Company and the Trustee may amend the Indenture, the Escrow Agreement and the Notes with respect to a series of Notes with the written consent of the Holders of a majority in principal amount of the outstanding Notes of such series, and the Holders of a majority in principal amount of the outstanding Notes of such series by written notice to the Trustee may waive future compliance by the Company with any provision of the Indenture or the Notes with respect to such series.
(b) Notwithstanding the provisions of paragraph (a), without the consent of each Holder affected, an amendment or waiver may not

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(1) reduce the principal amount of or change the Stated Maturity of any installment of principal of any Note,
(2) reduce the rate of or change the Stated Maturity of any interest payment on any Note,
(3) reduce the amount payable upon the redemption of any Note or change the time of any mandatory redemption or, in respect of an optional redemption, the times at which any Note may be redeemed or, once notice of redemption has been given, the time at which it must thereupon be redeemed,
(4) after the time an Offer to Purchase is required to have been made, reduce the purchase amount or purchase price, or extend the latest expiration date or purchase date thereunder,
(5) make any Note payable in money other than that stated in the Note,
(6) impair the right of any Holder of Notes to receive any principal payment or interest payment on such Holder’s Notes, on or after the Stated Maturity thereof or any redemption or repurchase date therefor, or to institute suit for the enforcement of any such payment,
(7) make any change in the percentage of the principal amount of the Notes required for amendments or waivers,
(8) modify or change any provision of the Indenture affecting the ranking of the Notes or any Note Guaranty in a manner adverse to the Holders of the Notes, or
(9) make any change in any Note Guaranty that would adversely affect the Noteholders in any material respect.

(c) It is not necessary for Noteholders to approve the particular form of any proposed amendment, supplement or waiver, but is sufficient if their consent approves the substance thereof.

(d) An amendment, supplement or waiver under this Section will become effective on receipt by the Company and the Trustee of written consents from the Holders of the requisite percentage in principal amount of the outstanding Notes. After an amendment, supplement or waiver under this Section becomes effective, the Company will send to the Holders affected thereby a notice briefly describing the amendment, supplement or waiver. The Company will send supplemental indentures to Holders upon request. Any failure of the Company to send such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such supplemental indenture or waiver.
Section 9.03. **Effect of Consent.** (a) After an amendment, supplement or waiver becomes effective, it will bind every Holder unless it is of the type requiring the consent of each Holder affected. If the amendment, supplement or waiver is of the type requiring the consent of each Holder affected, the amendment, supplement or waiver will bind each Holder that has consented to it and every subsequent Holder of a Note that evidences the same debt as the Note of the consenting Holder.

(b) If an amendment, supplement or waiver changes the terms of a Note, the Trustee may require the Holder to deliver it to the Trustee so that the Trustee may place an appropriate notation of the changed terms on the Note and return it to the Holder, or exchange it for a new Note that reflects the changed terms. The Trustee may also place an appropriate notation on any Note thereafter authenticated. However, the effectiveness of the amendment, supplement or waiver is not affected by any failure to annotate or exchange Notes in this fashion.

Section 9.04. **Trustee’s Rights and Obligations.** The Trustee is entitled to receive, and will be fully protected in relying upon, an Opinion of Counsel stating that the execution of any amendment, supplement or waiver authorized pursuant to this Article is authorized or permitted by the Indenture. If the Trustee has received such an Opinion of Counsel, it shall sign the amendment, supplement or waiver so long as the same does not adversely affect the rights, duties or immunities of the Trustee under the Indenture or otherwise. The Trustee may, but is not obligated to, execute any amendment, supplement or waiver that affects the Trustee’s own rights, duties or immunities under the Indenture or otherwise.

Section 9.05. **Conformity with Trust Indenture Act.** Every supplemental indenture executed pursuant to this Article shall comply with the Trust Indenture Act.

Section 9.06. **Payments for Consents.** Neither the Company nor any of its Subsidiaries may, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture, the Escrow Agreement or the Notes unless such consideration is offered to be paid or agreed to be paid to all Holders of the Notes that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to the consent, waiver or amendment.

### ARTICLE 10
Guaranties

Section 10.01. **The Guaranties.** Subject to the provisions of this Article, each Guarantor that executes a supplemental indenture in the form of Exhibit C
hereto hereby irrevocably and unconditionally guarantees, jointly and severally, on an unsecured basis, the full and punctual payment (whether at Stated Maturity, upon redemption, purchase pursuant to an Offer to Purchase or acceleration, or otherwise) of the principal of, premium, if any, and interest on, and all other amounts payable under, each Note, and the full and punctual payment of all other amounts payable by the Company under the Indenture. Upon failure by the Company to pay punctually any such amount, each Guarantor shall forthwith on demand pay the amount not so paid at the place and in the manner specified in the Indenture. The Note Guaranty of each Guarantor shall be a guarantee of payment and not of collection.

Section 10.02. Guaranty Unconditional. The obligations of each Guarantor hereunder are unconditional and absolute and, without limiting the generality of the foregoing, will not be released, discharged or otherwise affected by

(1) any extension, renewal, settlement, compromise, waiver or release in respect of any obligation of the Company under the Indenture or any Note, by operation of law or otherwise;

(2) any modification or amendment of or supplement to the Indenture or any Note;

(3) any change in the corporate existence, structure or ownership of the Company, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting the Company or its assets or any resulting release or discharge of any obligation of the Company contained in the Indenture or any Note;

(4) the existence of any claim, set-off or other rights which the Guarantor may have at any time against the Company, the Trustee or any other Person, whether in connection with the Indenture or any unrelated transactions, provided that nothing herein prevents the assertion of any such claim by separate suit or compulsory counterclaim;

(5) any invalidity or unenforceability relating to or against the Company for any reason of the Indenture or any Note, or any provision of applicable law or regulation purporting to prohibit the payment by the Company of the principal of or interest on any Note or any other amount payable by the Company under the Indenture; or

(6) any other act or omission to act or delay of any kind by the Company, the Trustee or any other Person or any other circumstance whatsoever which might, but for the provisions of this paragraph, constitute a legal or equitable discharge of or defense to such Guarantor’s obligations hereunder.
Section 10.03. Discharge; Reinstatement. Subject to Section 10.09, each Guarantor’s obligations hereunder will remain in full force and effect until the principal of, premium, if any, and interest on the Notes and all other amounts payable by the Company under the Indenture have been paid in full. If at any time any payment of the principal of, premium, if any, or interest on any Note or any other amount payable by the Company under the Indenture is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy or reorganization of the Company or otherwise, each Guarantor’s obligations hereunder with respect to such payment will be reinstated as though such payment had been due but not made at such time.

Section 10.04. waiver by the Guarantors. Each Guarantor irrevocably waives acceptance hereof, presentment, demand, protest and any notice not provided for herein, as well as any requirement that at any time any action be taken by any Person against the Company or any other Person.

Section 10.05. Subrogation and Contribution. Upon making any payment with respect to any obligation of the Company under this Article, the Guarantor making such payment will be subrogated to the rights of the payee against the Company with respect to such obligation, provided that the Guarantor may not enforce either any right of subrogation, or any right to receive payment in the nature of contribution, or otherwise, from any other Guarantor, with respect to such payment so long as any amount payable by the Company hereunder or under the Notes remains unpaid.

Section 10.06. Stay of Acceleration. If acceleration of the time for payment of any amount payable by the Company under the Indenture or the Notes is stayed upon the insolvency, bankruptcy or reorganization of the Company, all such amounts otherwise subject to acceleration under the terms of the Indenture are nonetheless payable by the Guarantors hereunder forthwith on demand by the Trustee or the Holders.

Section 10.07. Limitation on Amount of Guaranty. Notwithstanding anything to the contrary in this Article, each Guarantor, and by its acceptance of Notes, each Holder, hereby confirms that it is the intention of all such parties that the Note Guaranty of such Guarantor not constitute a fraudulent conveyance under applicable fraudulent conveyance provisions of the United States Bankruptcy Code or any comparable provision of state law. To effectuate that intention, the Trustee, the Holders and the Guarantors hereby irrevocably agree that the obligations of each Guarantor under its Note Guaranty are limited to the maximum amount that would not render the Guarantor’s obligations subject to avoidance under applicable fraudulent conveyance provisions of the United States Bankruptcy Code or any comparable provision of state law.

Section 10.08. Execution and Delivery of Guaranty. The execution by each Guarantor of a supplemental indenture in the form of Exhibit C evidences...
the Note Guaranty of such Guarantor, whether or not the person signing as an officer of the Guarantor still holds that office at the time of authentication of any Note. The delivery of any Note by the Trustee after authentication constitutes due delivery of the Note Guaranty set forth in the Indenture on behalf of each Guarantor.

Section 10.09. Release of Guaranty. The Note Guaranty of a Guarantor will terminate upon

(1) a sale or other disposition (including by way of consolidation or merger) of Capital Stock of the Guarantor if, as a result of such disposition, such Guarantor ceases to be a Subsidiary or the sale or disposition of all or substantially all the assets of the Guarantor (other than to the Company or a Restricted Subsidiary) otherwise permitted by the Indenture,

(2) the release of the Guarantee by such Guarantor of Debt under the Credit Agreement, other than a discharge through payment thereon,

(3) the designation in accordance with the Indenture of the Guarantor as an Unrestricted Subsidiary, or

(4) defeasance or discharge of the Notes, as provided in Article 8.

Upon delivery by the Company to the Trustee of an Officers’ Certificate and an Opinion of Counsel to the foregoing effect, the Trustee will execute any documents reasonably required in order to evidence the release of the Guarantor from its obligations under its Note Guaranty.

ARTICLE 11
Escrow Arrangements

Section 11.01. Escrow Account. Notwithstanding anything in the Indenture, on the Issue Date simultaneously with the issuance of the Notes, the Company will, pursuant to the terms of the Escrow Agreement, deposit into an account pledged to the Trustee (the “Escrow Account”) the proceeds of the offering of the Notes, together with an additional amount in cash (collectively with any other property from time to time held by the Escrow Agent, the “Escrow Property”), sufficient to redeem the Notes at the Special Redemption Price on July 8, 2011. Funds held in the Escrow Account shall, pending release to fund the Special Redemption as set forth in Section 3.03 or as a result of the satisfaction of the Escrow Conditions as set forth in Section 11.03, be invested at the direction of

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the Company in U.S. Government Obligations as more fully set forth in the Escrow Agreement.

Section 11.02. Special Redemption. If the Escrow Conditions have not been satisfied on or prior to the Date of Determination, the Company shall cause the Escrow Agent, on or before the Business Day immediately prior to the Special Redemption Date, to cause the liquidation of all investments of Escrow Property then held by the Escrow Agent and to cause the release of all of the Escrow Property for application as payment to the Holders of the Special Redemption Price pursuant to Section 3.03.

Section 11.03. Release of Escrow Property. Upon the satisfaction of the Escrow Conditions, including the execution and delivery by each Domestic Restricted Subsidiary of the Company of a supplemental indenture in the form of Exhibit C hereto, the Escrow Property will be released to the Company, in accordance with the terms of the Escrow Agreement.

Section 11.04. Trustee Direction to Execute Escrow Agreement. The Trustee is hereby authorized and directed to execute and deliver the Escrow Agreement.

ARTICLE 12
Miscellaneous

Section 12.01. Trust Indenture Act of 1939. The Indenture shall incorporate and be governed by the provisions of the Trust Indenture Act that are required to be part of and to govern indentures qualified under the Trust Indenture Act.

Section 12.02. Noteholder Communications: Noteholder Actions. (a) The rights of Holders to communicate with other Holders with respect to the Indenture or the Notes are as provided by the Trust Indenture Act, and the Company and the Trustee shall comply with the requirements of Trust Indenture Act Sections 312(a) and 312(b). Neither the Company nor the Trustee will be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act.

(b)(1) Any request, demand, authorization, direction, notice, consent to amendment, supplement or waiver or other action provided by this Indenture to be given or taken by a Holder (an “act”) may be evidenced by an instrument signed by the Holder delivered to the Trustee. The fact and date of the execution of the instrument, or the authority of the person executing it, may be proved in any manner that the Trustee deems sufficient.
(2) The Trustee may make reasonable rules for action by or at a meeting of Holders, which will be binding on all the Holders.

(c) Any act by the Holder of any Note binds that Holder and every subsequent Holder of a Note that evidences the same debt as the Note of the acting Holder, even if no notation thereof appears on the Note. Subject to paragraph (d), a Holder may revoke an act as to its Notes, but only if the Trustee receives the notice of revocation before the date the amendment or waiver or other consequence of the act becomes effective.

(d) The Company may, but is not obligated to, fix a record date (which need not be within the time limits otherwise prescribed by Trust Indenture Act Section 316(c)) for the purpose of determining the Holders entitled to act with respect to any amendment or waiver or in any other regard, except that during the continuance of an Event of Default, only the Trustee may set a record date as to notices of default, any declaration or acceleration or any other remedies or other consequences of the Event of Default or related directions or waivers. If a record date is fixed, those Persons that were Holders of the applicable Notes at such record date and only those Persons will be entitled to act, or to revoke any previous act, whether or not those Persons continue to be Holders after the record date. No act will be valid or effective for more than 90 days after the record date.

Section 12.03. Notices. (a) Any notice or communication to the Company will be deemed given if in writing (i) when delivered in person or (ii) five days after mailing when mailed by first class mail, or (iii) when sent by facsimile transmission, with transmission confirmed. Notices or communications to a Guarantor will be deemed given if given to the Company. Any notice to the Trustee shall be in writing and will be effective only upon receipt. In each case the notice or communication should be addressed as follows:

if to the Company:
    Huntington Ingalls Industries, Inc.,
    4101 Washington Avenue
    Newport News, Virginia 23607
    (757) 380-2000

if to the Trustee:
    The Bank of New York Mellon
    101 Barclay Street, Floor 8 West
    New York, New York 10286
    (212) 815-5707

The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.
The Trustee agrees to accept and act upon instructions or directions pursuant to the Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods; provided, however, that (a) the party providing such electronic instructions or directions, subsequent to the transmission thereof, shall provide the originally executed instructions or directions to the Trustee in a timely manner and (b) such originally executed instructions or directions shall be signed by an authorized representative of the party providing such instructions or directions. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee’s reliance upon and compliance with such instructions or directions notwithstanding such instructions or directions conflict or are inconsistent with a subsequent written instruction or direction or if the subsequent written instruction or direction is never received. The party providing instructions or directions by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, as aforesaid, agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(b) Except as otherwise expressly provided with respect to published notices, any notice or communication to a Holder will be deemed given when mailed to the Holder at its address as it appears on the Register by first class mail or, as to any Global Note registered in the name of DTC or its nominee, as agreed by the Company, the Trustee and DTC. Copies of any notice or communication to a Holder, if given by the Company, will be mailed to the Trustee at the same time. Defect in mailing a notice or communication to any particular Holder will not affect its sufficiency with respect to other Holders.

(c) Where the Indenture provides for notice, the notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and the waiver will be the equivalent of the notice. Waivers of notice by Holders must be filed with the Trustee, but such filing is not a condition precedent to the validity of any action taken in reliance upon such waivers.

Section 12.04. Certificate and Opinion as to Conditions Precedent. Upon any request or application by the Company to the Trustee to take any action under the Indenture, the Company will furnish to the Trustee:

(1) an Officers’ Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in the Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel stating that all such conditions precedent have been complied with.
Section 12.05. Statements Required in Certificate or Opinion. Each certificate or opinion with respect to compliance with a condition or covenant provided for in the Indenture must include:

(1) a statement that each person signing the certificate or opinion has read the covenant or condition and the related definitions;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statement or opinion contained in the certificate or opinion is based;

(3) a statement that, in the opinion of each such person, that person has made such examination or investigation as is necessary to enable the person to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of each such person, such condition or covenant has been complied with, provided that an Opinion of Counsel may rely on an Officers’ Certificate or certificates of public officials with respect to matters of fact.

Section 12.06. Payment Date Other Than a Business Day. If any payment of principal of, premium, if any, or interest on any Note (including any payment to be made on any date fixed for redemption or purchase of any Note) is due on a day which is not a Business Day, then the payment need not be made on such date, but may be made on the next Business Day with the same force and effect as if made on such date, and no interest will accrue on the payment so deferred for the intervening period.

Section 12.07. Governing Law; Waiver of Trial by Jury. The Indenture, including any Note Guaranties, and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to principles of conflicts of laws. Each of the Company, the Guarantors, the Trustee and the Holders hereby irrevocably waive, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Indenture, the Note Guaranties or the Notes.

Section 12.08. No Adverse Interpretation of Other Agreements. The Indenture may not be used to interpret another indenture or loan or debt agreement of the Company or any Subsidiary of the Company, and no such indenture or loan or debt agreement may be used to interpret the Indenture.

Section 12.09. Successors. All agreements of the Company or any Guarantor in the Indenture and the Notes will bind its successors. All agreements of the Trustee in the Indenture will bind its successor.
Section 12.10. **Duplicate Originals.** The parties may sign any number of copies of the Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 12.11. **Separability.** In case any provision in the Indenture or in the Notes is invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions will not in any way be affected or impaired thereby.

Section 12.12. **Table of Contents and Headings.** The Table of Contents, Cross-Reference Table and headings of the Articles and Sections of the Indenture have been inserted for convenience of reference only, are not to be considered a part of the Indenture and in no way modify or restrict any of the terms and provisions of the Indenture.

Section 12.13. **No Liability of Directors, Officers, Employees, Incorporators, Members and Stockholders.** No director, officer, employee, incorporator, member, general or limited partner or stockholder past, present and future, of the Company or any of its Subsidiaries or NGC or any of its subsidiaries, as such, will have any liability for any obligations of the Company or any Guarantor under the Notes, any Note Guaranty or the Indenture or for any claim based on, in respect of, or by reason of, such obligations. Each Holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes.
SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused the Indenture to be duly executed as of the date first written above.

Huntington Ingalls Industries, Inc.
as Issuer

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

The Bank of New York Mellon
as Trustee

By: /s/ Laurence J. O'Brien
    Name: Laurence J. O'Brien
    Title: Vice President
Huntington Ingalls Industries, Inc., a Delaware corporation (the “Company”, which term includes any successor under the Indenture hereinafter referred to), for value received, promises to pay to [Cede & Co.], or its registered assigns, the principal sum of ____________ DOLLARS ($______) [or such other amount as indicated on the Schedule of Exchange of Notes attached hereto] on March 15, 2018.

Initial Interest Rate: 6.875% per annum.

Interest Payment Dates: March 15 and September 15, commencing September 15, 2011.

Regular Record Dates: March 1 and September 1 (whether or not a Business Day).

Reference is hereby made to the further provisions of this Note set forth on the reverse hereof, which will for all purposes have the same effect as if set forth at this place.

1 For Global Notes
IN WITNESS WHEREOF, the Company has caused this Note to be signed manually or by facsimile by one of its duly authorized officers.

Date: 

Huntington Ingalls Industries, Inc.

By: 

Name: 

Title: 

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(Form of Trustee’s Certificate of Authentication)

This is one of the 6.875% Senior Notes Due 2018 described in the Indenture referred to in this Note.

The Bank of New York Mellon, as Trustee

By: ______________________________
    Authorized Signatory

A-3
1. **Principal and Interest.**

The Company promises to pay the principal of this Note on March 15, 2018.

The Company promises to pay interest on the principal amount of this Note on each Interest Payment Date, as set forth on the face of this Note, at the rate of 6.875% per annum [(subject to adjustment as provided below)].

Interest will be payable semiannually (to the Holder of record of this Note at the close of business on the March 1 or September 1 (whether or not a Business Day) immediately preceding the Interest Payment Date) on each Interest Payment Date, commencing September 15, 2011.

[The Holder of this Note is entitled to the benefits of the Registration Rights Agreement, dated March 11, 2011, between the Company and the Initial Purchasers named therein (the “Registration Rights Agreement”), including the right to receive Additional Interest (as defined in the Registration Rights Agreement) as and when set forth thereon. Such Additional Interest shall be payable at the same times, in the same manner and to the same Persons as ordinary interest on this Note.]

Interest on this Note will accrue from the most recent date to which interest has been paid or duly provided for on this Note [or the Note surrendered in exchange for this Note] or, if there is no existing default in the payment of interest and if this Note is authenticated between a Regular Record Date and the next Interest Payment Date, from such Interest Payment Date) or, if no interest has been paid, from the Issue Date. Interest will be computed in the basis of a 360-day year of twelve 30-day months.

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2. Include only for Initial Note or Initial Additional Note.
3. Include only for Initial Note or Initial Additional Note.
4. Include only for Exchange Note.
5. For Additional Notes, should be the date of their original issue, unless otherwise provided with respect to such Notes.

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The Company will pay interest on overdue principal, premium, if any, and interest at the rate per annum otherwise applicable to this Note. Interest not paid when due and any interest on principal, premium or interest not paid when due will be paid to the Persons that are Holders on a special record date, which will be the 15th day preceding the date fixed by the Company for the payment of such interest, whether or not such day is a Business Day. At least 15 days before a special record date, the Company will send to each Holder and to the Trustee a notice that sets forth the special record date, the payment date and the amount of interest to be paid.

2. Indentures; Note Guaranty.

This is one of the 2018 Notes (the “Notes”) issued as a series of notes under an Indenture dated as of March 11, 2011 (as amended from time to time, the “Indenture”), between the Company and The Bank of New York Mellon, as Trustee. Capitalized terms used herein are used as defined in the Indenture unless otherwise indicated. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act. The Notes are subject to all such terms, and Holders are referred to the Indenture and the Trust Indenture Act for a statement of all such terms. To the extent permitted by applicable law, in the event of any inconsistency between the terms of this Note and the terms of the Indenture, the terms of the Indenture will control.

The Notes are general unsecured obligations of the Company. The Indenture limits the original aggregate principal amount of the Notes to $600,000,000, but Additional Notes of the same tenor and series may be issued pursuant to the Indenture, and the originally issued Notes and all such Additional Notes vote together for all purposes as a single class. This Note is guarantied as set forth in the Indenture.

3. Redemption and Repurchase; Discharge Prior to Redemption or Maturity.

The Notes are subject to optional redemption, and may be the subject of an Offer to Purchase, Special Redemption or Mandatory Redemption, as further described in the Indenture. Except for such Special Redemption or Mandatory Redemption, there is no sinking fund or mandatory redemption applicable to this Note.

If the Company deposits with the Trustee money or U.S. Government Obligations or a combination thereof sufficient to pay the then outstanding principal of, premium, if any, and accrued interest on the Notes to redemption or maturity, the Company may in certain circumstances be discharged from the Indenture and the Notes or may be discharged from certain of its obligations under certain provisions of the Indenture.

4. Registered Form; Denominations; Transfer; Exchange.
The Notes are in registered form without coupons in denominations of $2,000 principal amount and higher integral multiples of $1,000. A Holder may register the transfer or exchange of Notes in accordance with the Indenture. The Trustee may require a Holder to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. Pursuant to the Indenture, there are certain periods during which the Trustee will not be required to issue, register the transfer of or exchange any Note or certain portions of a Note.

5. Defaults and Remedies.

If an Event of Default, as defined in the Indenture, with respect to the Notes occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the Notes may declare all the Notes to be due and payable. If a bankruptcy or insolvency default with respect to the Company occurs and is continuing, the Notes automatically become due and payable. Holders may not enforce the Indenture or the Notes except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Indenture or the Notes. Subject to certain limitations, Holders of a majority in principal amount of the Notes then outstanding may direct the Trustee in its exercise of remedies.

6. Amendment and Waiver.

Subject to certain exceptions, the Indenture and the Notes may be amended, or default may be waived, with respect to the Notes with the consent of the Holders of a majority in principal amount of the outstanding Notes. Without notice to or the consent of any Holder, the Company and the Trustee may amend or supplement the Indenture or the Notes to, among other things, cure any ambiguity, defect or inconsistency or if such amendment or supplement does not materially and adversely affect the rights of any Holders.

7. Authentication.

This Note is not valid until the Trustee (or Authenticating Agent) signs the certificate of authentication on the other side of this Note.


This Note shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to principles of conflicts of laws.

9. Abbreviations.

Customary abbreviations may be used in the name of a Holder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the

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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).

The Company will furnish a copy of the Indenture to any Holder upon written request and without charge.
[FORM OF TRANSFER NOTICE]

FOR VALUE RECEIVED the undersigned registered holder hereby sell(s), assign(s) and transfer(s) unto
Insert Taxpayer Identification No.

Please print or typewrite name and address including zip code of assignee

the within Note and all rights thereunder, hereby irrevocably constituting and appointing

attorney to transfer said Note on the books of the Company with full power of substitution in the premises.

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[THE FOLLOWING PROVISION TO BE INCLUDED ON ALL CERTIFICATED NOTES BEARING A RESTRICTED LEGEND]

In connection with any transfer of this Note occurring prior to ______________ 6, the undersigned confirms that such transfer is made without utilizing any general solicitation or general advertising and further as follows:

Check One

☐ (1) This Note is being transferred to a “qualified institutional buyer” in compliance with Rule 144A under the Securities Act of 1933, as amended and certification in the form of Exhibit G to the Indenture is being furnished herewith.

☐ (2) This Note is being transferred to a Non-U.S. Person in compliance with the exemption from registration under the Securities Act of 1933, as amended, provided by Regulation S thereunder, and certification in the form of Exhibit F to the Indenture is being furnished herewith.

or

☐ (3) This Note is being transferred other than in accordance with (1) or (2) above and documents are being furnished which comply with the conditions of transfer set forth in this Note and the Indenture.

If none of the foregoing boxes is checked, the Trustee is not obligated to register this Note in the name of any Person other than the Holder hereof unless and until the conditions to any such transfer of registration set forth herein and in the Indenture have been satisfied.

Date: ____________

__________________________
Seller

By __________________________

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within-mentioned instrument in every particular, without alteration or any change whatsoever.

6 One year after the date of initial issuance or a later date when purchased from an affiliate.

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Signature Guarantee: by an “eligible guarantor institution” meeting the requirements of the Registrar, which requirements include membership or participation in the Securities Transfer Association Medallion Program (“STAMP”) or such other “signature guarantee program” as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

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OPTION OF HOLDER TO ELECT PURCHASE

If you wish to have all of this Note purchased by the Company pursuant to Section 4.11 or Section 4.12 of the Indenture, check the appropriate box below:

☐ Section 4.11  ☐ Section 4.12

If you wish to have a portion of this Note purchased by the Company pursuant to Section 4.11 or Section 4.12 of the Indenture, state the amount (in original principal amount) below:

$___________________ ($2,000 or integral multiples of $1,000 in excess thereof, provided that any unpurchased portion of this Note must be in a minimum denomination of $2,000).

Date:____________
Your Signature:__________________________
(Sign exactly as your name appears on the other side of this Note)
Signature Guarantee:  

1 Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Trustee, which requirements include membership or participation in the Securities Transfer Association Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Trustee in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.
The following exchanges of a part of this Global Note for Certificated Notes or a part of another Global Note have been made:

<table>
<thead>
<tr>
<th>Date of Exchange</th>
<th>Amount of decrease in principal amount of this Global Note</th>
<th>Amount of increase in principal amount of this Global Note</th>
<th>Principal amount of this Global Note following such decrease (or increase)</th>
<th>Signature of authorized signatory of Trustee</th>
</tr>
</thead>
</table>

1 For Global Notes.

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Huntington Ingalls Industries, Inc., a Delaware corporation (the “Company”, which term includes any successor under the Indenture hereinafter referred to), for value received, promises to pay to [Cede & Co.], or its registered assigns, the principal sum of ____________ DOLLARS ($______) [or such other amount as indicated on the Schedule of Exchange of Notes attached hereto] on [*], 2021.

Initial Interest Rate: 7.125% per annum.

Interest Payment Dates: March 15 and September 15, commencing September 15, 2011.

Regular Record Dates: March 1 and September 1 (whether or not a Business Day).

Reference is hereby made to the further provisions of this Note set forth on the reverse hereof, which will for all purposes have the same effect as if set forth at this place.
IN WITNESS WHEREOF, the Company has caused this Note to be signed manually or by facsimile by one of its duly authorized officers.

Date: 

Huntington Ingalls Industries, Inc.

By: 

Name: 
Title: 

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(Form of Trustee’s Certificate of Authentication)
This is one of the 7.125% Senior Notes Due 2021 described in the Indenture referred to in this Note.

The Bank of New York Mellon, as Trustee

By: __________________________________________
   Authorized Signatory

B-3
1. **Principal and Interest.**

   The Company promises to pay the principal of this Note on March 15, 2021.

   The Company promises to pay interest on the principal amount of this Note on each Interest Payment Date, as set forth on the face of this Note, at the rate of 7.125% per annum [(subject to adjustment as provided below)].

   Interest will be payable semiannually (to the Holder of Record of this Note at the close of business on the March 1 or September 1 (whether or not a Business Day) immediately preceding the Interest Payment Date) on each Interest Payment Date, commencing September 15, 2011.

   [The Holder of this Note is entitled to the benefits of the Registration Rights Agreement, dated March 11, 2011, between the Company and the Initial Purchasers named therein (the "Registration Rights Agreement"), including the right to receive Additional Interest (as defined in the Registration Rights Agreement) as and when set forth thereon. Such Additional Interest shall be payable at the same times, in the same manner and to the same Persons as ordinary interest on this Note.]

   Interest on this Note will accrue from the most recent date to which interest has been paid or duly provided for on this Note [or the Note surrendered in exchange for this Note] (or, if there is no existing default in the payment of interest and if this Note is authenticated between a Regular Record Date and the next Interest Payment Date, from such Interest Payment Date) or, if no interest has been paid, from [the Issue Date].

   Interest will be computed in the basis of a 360-day year of twelve 30-day months.

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8 Include only for Initial Note or Initial Additional Note.
9 Include only for Initial Note or Initial Additional Note.
10 Include only for Exchange Note.
11 For Additional Notes, should be the date of their original issue, unless otherwise provided with respect to such Notes.
The Company will pay interest on overdue principal, premium, if any, and interest at the rate per annum otherwise applicable to this Note. Interest not paid when due and any interest on principal, premium or interest not paid when due will be paid to the Persons that are Holders on a special record date, which will be the 15th day preceding the date fixed by the Company for the payment of such interest, whether or not such day is a Business Day. At least 15 days before a special record date, the Company will send to each Holder and to the Trustee a notice that sets forth the special record date, the payment date and the amount of interest to be paid.

2. Indentures; Note Guaranty.

This is one of the 2021 Notes (the “Notes”) issued as a series of notes under an Indenture dated as of March 11, 2011 (as amended from time to time, the “Indenture”), between the Company and The Bank of New York Mellon, as Trustee. Capitalized terms used herein are used as defined in the Indenture unless otherwise indicated. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act. The Notes are subject to all such terms, and Holders are referred to the Indenture and the Trust Indenture Act for a statement of all such terms. To the extent permitted by applicable law, in the event of any inconsistency between the terms of this Note and the terms of the Indenture, the terms of the Indenture will control.

The Notes are general unsecured obligations of the Company. The Indenture limits the original aggregate principal amount of the Notes to $600,000,000, but Additional Notes of the same tenor and series may be issued pursuant to the Indenture, and the originally issued Notes and all such Additional Notes vote together for all purposes as a single class. This Note is guarantied as set forth in the Indenture.

3. Redemption and Repurchase; Discharge Prior to Redemption or Maturity.

The Notes are subject to optional redemption, and may be the subject of an Offer to Purchase, Special Redemption or Mandatory Redemption, as further described in the Indenture. Except for such Special Redemption or Mandatory Redemption, there is no sinking fund or mandatory redemption applicable to this Note.

If the Company deposits with the Trustee money or U.S. Government Obligations or a combination thereof sufficient to pay the then outstanding principal of, premium, if any, and accrued interest on the Notes to redemption or maturity, the Company may in certain circumstances be discharged from the Indenture and the Notes or may be discharged from certain of its obligations under certain provisions of the Indenture.

4. Registered Form; Denominations; Transfer; Exchange.
The Notes are in registered form without coupons in denominations of $2,000 principal amount and higher integral multiples of $1,000. A Holder may register the transfer or exchange of Notes in accordance with the Indenture. The Trustee may require a Holder to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. Pursuant to the Indenture, there are certain periods during which the Trustee will not be required to issue, register the transfer of or exchange any Note or certain portions of a Note.

5. Defaults and Remedies.

If an Event of Default, as defined in the Indenture, with respect to the Notes occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the Notes may declare all the Notes to be due and payable. If a bankruptcy or insolvency default with respect to the Company occurs and is continuing, the Notes automatically become due and payable. Holders may not enforce the Indenture or the Notes except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Indenture or the Notes. Subject to certain limitations, Holders of a majority in principal amount of the Notes then outstanding may direct the Trustee in its exercise of remedies.

6. Amendment and Waiver.

Subject to certain exceptions, the Indenture and the Notes may be amended, or default may be waived, with respect to the Notes with the consent of the Holders of a majority in principal amount of the outstanding Notes. Without notice to or the consent of any Holder, the Company and the Trustee may amend or supplement the Indenture or the Notes to, among other things, cure any ambiguity, defect or inconsistency or if such amendment or supplement does not materially and adversely affect the rights of any Holders.

7. Authentication.

This Note is not valid until the Trustee (or Authenticating Agent) signs the certificate of authentication on the other side of this Note.


This Note shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to principles of conflicts of laws.

9. Abbreviations.

Customary abbreviations may be used in the name of a Holder 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).

The Company will furnish a copy of the Indenture to any Holder upon written request and without charge.
[FORM OF TRANSFER NOTICE]

FOR VALUE RECEIVED the undersigned registered holder hereby sell(s), assign(s) and transfer(s) unto

Insert Taxpayer Identification No.

Please print or typewrite name and address including zip code of assignee

the within Note and all rights thereunder, hereby irrevocably constituting and appointing

attorney to transfer said Note on the books of the Company with full power of substitution in the premises.

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In connection with any transfer of this Note occurring prior to _______________, the undersigned confirms that such transfer is made without utilizing any general solicitation or general advertising and further as follows:

Check One

☐ (1) This Note is being transferred to a “qualified institutional buyer” in compliance with Rule 144A under the Securities Act of 1933, as amended and certification in the form of Exhibit G to the Indenture is being furnished herewith.

☐ (2) This Note is being transferred to a Non-U.S. Person in compliance with the exemption from registration under the Securities Act of 1933, as amended, provided by Regulation S thereunder, and certification in the form of Exhibit F to the Indenture is being furnished herewith.

or

☐ (3) This Note is being transferred other than in accordance with (1) or (2) above and documents are being furnished which comply with the conditions of transfer set forth in this Note and the Indenture.

If none of the foregoing boxes is checked, the Trustee is not obligated to register this Note in the name of any Person other than the Holder hereof unless and until the conditions to any such transfer of registration set forth herein and in the Indenture have been satisfied.

Date: ____________________

___________

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within-mentioned instrument in every particular, without alteration or any change whatsoever.

12 One year after date of initial issuance or a later date when purchased from an affiliate.
Signatures must be guaranteed by an “eligible guarantor institution” meeting the requirements of the Registrar, which requirements include membership or participation in the Securities Transfer Association Medallion Program (“STAMP”) or such other “signature guarantee program” as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.
OPTION OF HOLDER TO ELECT PURCHASE

If you wish to have all of this Note purchased by the Company pursuant to Section 4.11 or Section 4.12 of the Indenture, check the appropriate box below:

☐ Section 4.11  ☐ Section 4.12

If you wish to have a portion of this Note purchased by the Company pursuant to Section 4.11 or Section 4.12 of the Indenture, state the amount (in original principal amount) below:

$_____________________ ($2,000 or integral multiples of $1,000 in excess thereof, provided that any unpurchased portion of this Note must be in a minimum denomination of $2,000).

Date:____________

Your Signature:__________________________

(Sign exactly as your name appears on the other side of this Note)

Signature Guarantee:1 ______________________________

1 Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Trustee, which requirements include membership or participation in the Securities Transfer Association Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Trustee in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.
### SCHEDULE OF EXCHANGES OF NOTES

The following exchanges of a part of this Global Note for Certificated Notes or a part of another Global Note have been made:

<table>
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<tr>
<th>Date of Exchange</th>
<th>Amount of decrease in principal amount of this Global Note</th>
<th>Amount of increase in principal amount of this Global Note</th>
<th>Principal amount of this Global Note following such decrease (or increase)</th>
<th>Signature of authorized signatory of Trustee</th>
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1 For Global Notes

B-12
SUPPLEMENTAL INDENTURE
dated as of [●], 2011
among
Huntington Ingalls Industries, Inc.,
The Guarantor(s) Party Hereto
and
The Bank of New York Mellon,
as Trustee

6.875% Senior Notes due 2018
7.125% Senior Notes due 2021

C-1
THIS SUPPLEMENTAL INDENTURE (this “Supplemental Indenture”), entered into as of [*], 2011, among Huntington Ingalls Industries, Inc., a Delaware corporation (the “Company”), [insert each Guarantor executing this Supplemental Indenture and its jurisdiction of incorporation] (each an “Undersigned”) and The Bank of New York Mellon, as trustee (the “Trustee”).

RECITALS

WHEREAS, the Company and the Trustee entered into the Indenture, dated as of March 11, 2011 (the “Indenture”), relating to the Company’s 6.875% Senior Notes due 2018 (the “2018 Notes”) and 7.125% Senior Notes due 2021 (the “2021 Notes” and together with the 2018 Notes, the “Notes”);

WHEREAS, as a condition to the Trustee entering into the Indenture and the purchase of the Notes by the Holders, the Company agreed pursuant to the Indenture to cause Domestic Restricted Subsidiaries that Guarantee any Debt under the Credit Agreement to enter into this Supplemental Indenture to provide Guaranties.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained and intending to be legally bound, the parties to this Supplemental Indenture hereby agree as follows:

Section 1. Capitalized terms used herein and not otherwise defined herein are used as defined in the Indenture.

Section 2. Each Undersigned, by its execution of this Supplemental Indenture, agrees to be a Guarantor under the Indenture and to be bound by the terms of the Indenture applicable to Guarantors, including, but not limited to, Article 10 thereof.

Section 3. This Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

Section 4. This Supplemental Indenture may be signed in various counterparts which together will constitute one and the same instrument.

Section 5. This Supplemental Indenture is an amendment supplemental to the Indenture and the Indenture and this Supplemental Indenture will henceforth be read together.

Section 6. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the other parties hereto.
IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed as of the date first above written.

Huntington Ingalls Industries, Inc., as Issuer

By:  

Name:  
Title:  

[GUARANTOR]

By:  

Name:  
Title:  

The Bank of New York Mellon, as Trustee

By:  

Name:  
Title:  

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RESTRICTED LEGEND

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER

(1) REPRESENTS THAT

(A) IT AND ANY ACCOUNT FOR WHICH IT IS ACTING IS A “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT,

(B) IT IS AN INSTITUTIONAL “ACCREDITED INVESTOR” (WITHIN THE MEANING OF RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN “INSTITUTIONAL ACCREDITED INVESTOR”) OR

(C) IT IS NOT A U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) AND

(2) AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ONLY

(A) TO THE COMPANY,

(B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT,

(C) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT,

(D) IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT,
(E) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $250,000 TO AN INSTITUTIONAL ACCREDITED INVESTOR THAT, PRIOR TO SUCH TRANSFER, DELIVERS TO THE TRUSTEE A DULY COMPLETED AND SIGNED CERTIFICATE (THE FORM OF WHICH MAY BE OBTAINED FROM THE TRUSTEE) RELATING TO THE RESTRICTIONS ON TRANSFER OF THIS NOTE, OR

(F) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT OR ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH (2)(C) ABOVE OR (2)(D) ABOVE, A DULY COMPLETED AND SIGNED CERTIFICATE (THE FORM OF WHICH MAY BE OBTAINED FROM THE TRUSTEE) MUST BE DELIVERED TO THE TRUSTEE. PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH (2)(E) OR (F) ABOVE, THE COMPANY RESERVES THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY RULE 144 EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.
DTC LEGEND

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS A BENEFICIAL INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL NOTE ARE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO DTC, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR’S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE ARE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE TRANSFER PROVISIONS OF THE INDENTURE.
Regulation S Certificate

The Bank of New York Mellon
101 Barclay Street, Floor 8W
New York, NY 10286
Attention: Corporate Trust Administration

Re: Huntington Ingalls Industries, Inc. (the “Company”) [6.875% Senior Notes due 2018] [7.125% Senior Notes due 2021] (the “Notes”) Issued under the Indenture (the “Indenture”) dated as of March 11, 2011 relating to the Notes

Ladies and Gentlemen:

Terms are used in this Certificate as used in Regulation S (“Regulation S”) under the Securities Act of 1933, as amended (the “Securities Act”), except as otherwise stated herein.

[CHECK A OR B AS APPLICABLE.]

☐ A. This Certificate relates to our proposed transfer of $____ principal amount of Notes issued under the Indenture. We hereby certify as follows:

1. The offer and sale of the Notes was not and will not be made to a person in the United States (unless such person is excluded from the definition of “U.S. person” pursuant to Rule 902(k)(2)(vi) or the account held by it for which it is acting is excluded from the definition of “U.S. person” pursuant to Rule 902(k)(2)(i) under the circumstances described in Rule 902(h)(3)) and such offer and sale was not and will not be specifically targeted at an identifiable group of U.S. citizens abroad.

2. Unless the circumstances described in the parenthetical in paragraph 1 above are applicable, either (a) at the time the buy order was originated, the buyer was outside the United States or we and any person acting on our behalf reasonably believed that the buyer was outside the United States or (b) the transaction was executed in, on or through the facilities

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of a designated offshore securities market, and neither we nor any person acting on our behalf knows that the transaction was pre-arranged with a buyer in the United States.

3. Neither we, any of our affiliates, nor any person acting on our or their behalf has made any directed selling efforts in the United States with respect to the Notes.

4. The proposed transfer of Notes is not part of a plan or scheme to evade the registration requirements of the Securities Act.

5. If we are a dealer or a person receiving a selling concession, fee or other remuneration in respect of the Notes, and the proposed transfer takes place during the Restricted Period (as defined in the Indenture), or we are an officer or director of the Company or an Initial Purchaser (as defined in the Indenture), we certify that the proposed transfer is being made in accordance with the provisions of Rule 904(b) of Regulation S.

☐ B. This Certificate relates to our proposed exchange of $____ principal amount of Notes issued under the Indenture for an equal principal amount of Notes to be held by us. We hereby certify as follows:

1. At the time the offer and sale of the Notes was made to us, either (i) we were not in the United States or (ii) we were excluded from the definition of “U.S. person” pursuant to Rule 902(k)(2)(vi) or the account held by us for which we were acting was excluded from the definition of “U.S. person” pursuant to Rule 902(k)(2)(i) under the circumstances described in Rule 902(h)(3); and we were not a member of an identifiable group of U.S. citizens abroad.

2. Unless the circumstances described in paragraph 1(ii) above are applicable, either (a) at the time our buy order was originated, we were outside the United States or (b) the transaction was executed in, on or through the facilities of a designated offshore securities market and we did not pre-arrange the transaction in the United States.

3. The proposed exchange of Notes is not part of a plan or scheme to evade the registration requirements of the Securities Act.
You and the Company are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours,

[NAME OF SELLER (FOR TRANSFERS)
OR OWNER (FOR EXCHANGES)]

By: 

Name: 
Title: 
Address: 

Date: ________________

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Rule 144A Certificate

The Bank of New York Mellon
101 Barclay Street, Floor 8W
New York, NY 10286
Attention: Corporate Trust Administration

Re: Huntington Ingalls Industries, Inc. (the “Company”) [6.875% Senior Notes due 2018] [7.125% Senior Notes due 2021] (the “Notes”) Issued under the Indenture (the “Indenture”) dated as of March 11, 2011 relating to the Notes

Ladies and Gentlemen:

This Certificate relates to:

[CHECK A OR B AS APPLICABLE.]

☐ A. Our proposed purchase of $____ principal amount of Notes issued under the Indenture.

☐ B. Our proposed exchange of $____ principal amount of Notes issued under the Indenture for an equal principal amount of Notes to be held by us.

We and, if applicable, each account for which we are acting in the aggregate owned and invested more than $100,000,000 in securities of issuers that are not affiliated with us (or such accounts, if applicable), as of _________, 20__, which is a date on or since close of our most recent fiscal year. We and, if applicable, each account for which we are acting, are a qualified institutional buyer within the meaning of Rule 144A (“Rule 144A”) under the Securities Act of 1933, as amended (the “Securities Act”). If we are acting on behalf of an account, we exercise sole investment discretion with respect to such account. We are aware that the transfer of Notes to us, or such exchange, as applicable, is being made in reliance upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Prior to the date of this Certificate we have received such information regarding the Company as we have requested pursuant to Rule 144A(d)(4) or have determined not to request such information.

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You and the Company are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours,

[NAME OF PURCHASER (FOR TRANSFERS) OR OWNER (FOR EXCHANGES)]

By: 

Name: 
Title: 
Address: 

Date: _________________

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Institutional Accredited Investor Certificate

The Bank of New York Mellon
101 Barclay Street, Floor 8W
New York, NY 10286
Attention: Corporate Trust Administration

Re: Huntington Ingalls Industries, Inc. (the “Company”)
[6.875% Senior Notes due 2018]
[7.125% Senior Notes due 2021] (the “Notes”)
Issued under the Indenture (the “Indenture”) dated as of March 11, 2011 relating to the Notes

Ladies and Gentlemen:

This Certificate relates to:

[CHECK A OR B AS APPLICABLE.]

☐ A. Our proposed purchase of $____ principal amount of Notes issued under the Indenture.

☐ B. Our proposed exchange of $____ principal amount of Notes issued under the Indenture for an equal principal amount of Notes to be held by us.

We hereby confirm that:

1. We are an institutional “accredited investor” within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act of 1933, as amended (the “Securities Act”) (an “Institutional Accredited Investor”).

2. Any acquisition of Notes by us will be for our own account or for the account of one or more other Institutional Accredited Investors as to which we exercise sole investment discretion.

3. We have such knowledge and experience in financial and business matters that we are capable of evaluating the merits and risks of an investment in the Notes and we and any accounts for which we are acting are able to bear the economic risks of and an entire loss of our or their investment in the Notes.

H-1
4. We are not acquiring the Notes with a view to any distribution thereof in a transaction that would violate the Securities Act or the securities laws of any State of the United States or any other applicable jurisdiction; provided that the disposition of our property and the property of any accounts for which we are acting as fiduciary will remain at all times within our and their control.

5. We acknowledge that the Notes have not been registered under the Securities Act and that the Notes may not be offered or sold within the United States or to or for the benefit of U.S. persons except as set forth below.

6. The principal amount of Notes to which this Certificate relates is at least equal to $250,000.

We agree for the benefit of the Company, on our own behalf and on behalf of each account for which we are acting, that such Notes may be offered, sold, pledged or otherwise transferred only in accordance with the Securities Act and any applicable securities laws of any State of the United States and only (a) to the Company, (b) pursuant to a registration statement which has become effective under the Securities Act, (c) to a qualified institutional buyer in compliance with Rule 144A under the Securities Act, (d) in an offshore transaction in compliance with Rule 904 of Regulation S under the Securities Act, (e) in a principal amount of not less than $250,000, to an Institutional Accredited Investor that, prior to such transfer, delivers to the Trustee a duly completed and signed certificate (the form of which may be obtained from the Trustee) relating to the restrictions on transfer of the Notes or (f) pursuant to an exemption from registration provided by Rule 144 under the Securities Act or any other available exemption from the registration requirements of the Securities Act.

Prior to the registration of any transfer in accordance with (c) or (d) above, we acknowledge that a duly completed and signed certificate (the form of which may be obtained from the Trustee) must be delivered to the Trustee. Prior to the registration of any transfer in accordance with (e) or (f) above, we acknowledge that the Company reserves the right to require the delivery of such legal opinions, certifications or other evidence as may reasonably be required in order to determine that the proposed transfer is being made in compliance with the Securities Act and applicable state securities laws. We acknowledge that no representation is made as to the availability of any Rule 144 exemption from the registration requirements of the Securities Act.

We understand that the Trustee will not be required to accept for registration of transfer any Notes acquired by us, except upon presentation of evidence satisfactory to the Company and the Trustee that the foregoing restrictions on transfer have been complied with. We further agree to provide to any person acquiring any of the Notes from us a notice advising such person that...
resales of the Notes are restricted as stated herein and that certificates representing the Notes will bear a legend to that effect.

We agree to notify you promptly in writing if any of our acknowledgments, representations or agreements herein ceases to be accurate and complete.

We represent to you that we have full power to make the foregoing acknowledgments, representations and agreements on our own behalf and on behalf of any account for which we are acting.

You and the Company are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours,

[NAME OF PURCHASER (FOR TRANSFERS) OR OWNER (FOR EXCHANGES)]

By: ________________________________

Name: ________________
Title: ________________
Address: ________________

Date: ________________

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Upon transfer, the Notes would be registered in the name of the new beneficial owner as follows:

By: ________________________________

Date: ______________________________

Taxpayer ID number: ____________________

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To: The Bank of New York Mellon  
101 Barclay Street, Floor 8W  
New York, NY 10286  
Attention: Corporate Trust Administration OR  

[Name of DTC Participant]]  

Re: Huntington Ingalls Industries, Inc. (the “Company”)  
[6.875% Senior Notes due 2018]  
[7.125% Senior Notes due 2021] (the “Notes”)  
Issued under the Indenture (the “Indenture”) dated  
as of March 11, 2011 relating to the Notes  

Ladies and Gentlemen:  

We are the beneficial owner of $____ principal amount of Notes issued under the Indenture and represented by a Temporary Offshore Global Note (as defined in the Indenture).  

We hereby certify as follows:  

[CHECK A OR B AS APPLICABLE.]  

☐ A. We are a non-U.S. person (within the meaning of Regulation S under the Securities Act of 1933, as amended).  

☐ B. We are a U.S. person (within the meaning of Regulation S under the Securities Act of 1933, as amended) that purchased the Notes in a transaction that did not require registration under the Securities Act of 1933, as amended.  

You and the Company are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

I-1
Very truly yours,

[NAME OF BENEFICIAL OWNER]

By: ________________________________________________

Name: 
Title: 
Address: 

Date: __________________

[FORM II]

Certificate of Beneficial Ownership

To: The Bank of New York Mellon
    101 Barclay Street, Floor 8W
    New York, NY 10286
    Attention: Corporate Trust Administration

Re: Huntington Ingalls Industries, Inc. (the "Company")
    [6.875% Senior Notes due 2018]
    [7.125% Senior Notes due 2021] (the "Notes")
    Issued under the Indenture (the "Indenture") dated
    as of March 11, 2011 relating to the Notes

Ladies and Gentlemen:

This is to certify that based solely on certifications we have received in writing, by tested telex or by electronic transmission from Institutions appearing in our records as persons being entitled to a portion of the principal amount of Notes represented by a Temporary Offshore Global Note issued under the above-referenced Indenture, that as of the date hereof, $____ principal amount of Notes represented by the Temporary Offshore Global Note being submitted herewith for exchange is beneficially owned by persons that are either (i) non-U.S. persons (within the meaning of Regulation S under the Securities Act of 1933, as amended) or (ii) U.S. persons that purchased the Notes in a transaction that did not require registration under the Securities Act of 1933, as amended.

We further certify that (i) we are not submitting herewith for exchange any portion of such Temporary Offshore Global Note excepted in such certifications and (ii) as of the date hereof we have not received any notification from any Institution to the effect that the statements made by such Institution with respect
to any portion of such Temporary Offshore Global Note submitted herewith for exchange are no longer true and cannot be relied upon as of the date hereof.

You and the Company are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Yours faithfully,

[Name of DTC Participant]

By: ________________________________

Name: _______________________________

Title: _______________________________

Address: _____________________________

Date: _______________________________

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THIS NOTE IS A TEMPORARY GLOBAL NOTE. PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD APPLICABLE HERETO, BENEFICIAL INTERESTS HEREIN MAY NOT BE HELD BY ANY PERSON OTHER THAN (1) A NON-U.S. PERSON OR (2) A U.S. PERSON THAT PURCHASED SUCH INTEREST IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”). BENEFICIAL INTERESTS HEREIN ARE NOT EXCHANGEABLE FOR PHYSICAL NOTES OTHER THAN A PERMANENT GLOBAL NOTE IN ACCORDANCE WITH THE TERMS OF THE INDENTURE. TERMS IN THIS LEGEND ARE USED AS USED IN REGULATION S UNDER THE SECURITIES ACT.

NO BENEFICIAL OWNERS OF THIS TEMPORARY GLOBAL NOTE SHALL BE ENTITLED TO RECEIVE PAYMENT OF PRINCIPAL OR INTEREST HEREON UNTIL SUCH BENEFICIAL INTEREST IS EXCHANGED OR TRANSFERRED FOR AN INTEREST IN ANOTHER NOTE.
1. Purpose

The purpose of the Huntington Ingalls Industries, Inc. 2011 Long-Term Incentive Stock Plan (the “Plan”) is to promote the long-term success of Huntington Ingalls Industries, Inc. (the “Company”) and to increase stockholder value by providing its directors, officers and selected employees with incentives to create excellent performance and to continue service with the Company, its subsidiaries and affiliates. Both by encouraging such directors, officers and employees to become owners of the common stock of the Company and by providing actual ownership through Plan awards, it is intended that Plan participants will view the Company from an ownership perspective.

2. Term

The Plan shall become effective upon the approval by the stockholders of the Company (the “Effective Time”). Unless previously terminated by the Company’s Board of Directors (the “Board”), the Plan shall terminate at the close of business on the day before the tenth anniversary of the Board’s approval of the Plan. After termination of the Plan, no future awards may be granted but previously granted awards (and the Committee’s (as such term is defined in Section 3) authority with respect thereto) shall remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of the Plan.

3. Plan Administration

(a) The Plan shall be administered by the Compensation Committee (or its successor) of the Board; provided that the Plan shall be administered by the Board as to any award granted or to be granted, as the case may be, to a member of the Board who (at the time of grant of the award) is not employed by the Company or one of its subsidiaries. Subject to the following provisions of this Section 3(a), the Compensation Committee (or its successor) may delegate different levels of authority to make grants under the Plan to different committees, provided that each such committee consists of one or more members of the Board. With respect to awards intended to satisfy the requirements for performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), the Plan shall be administered by a committee consisting of two or more outside directors (as this requirement is applied under Section 162(m) of the Code). Transactions in or involving awards intended to be exempt under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the “1934 Act”), must be duly and timely authorized by the Board or a committee of non-employee directors (as this term is used in or under Rule 16b-3). (The appropriate acting body, be it the Board, Compensation Committee or another duly authorized committee of directors, is referred to as “Committee”.)

(b) The Committee shall have full and exclusive power to interpret the Plan and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper, all of which power shall be executed in the best interests of the Company and in keeping with the objectives of the Plan. This power includes, but is not limited to, selecting
award recipients, establishing all award terms and conditions and adopting modifications, amendments and procedures, including subplans and the like as may be necessary to comply with provisions of the laws and applicable regulatory rulings of countries in which the Company (or its subsidiaries or affiliates, as applicable) operates in order to assure the viability of awards granted under the Plan and to enable participants employed in such countries to receive advantages and benefits under the Plan and such laws and rulings. In no event other than as contemplated by Section 6, however, shall the Committee or its designee have the right to cancel or amend outstanding stock options for the purpose of repricing, replacing or regranting such options with a purchase price that is less than the purchase price of the original option.

(c) In making any determination or in taking or not taking any action under the Plan, the Committee may obtain and may rely on the advice of experts, including employees of and professional advisors to the Company. Any action taken by, or inaction of, the Committee relating to or pursuant to the Plan shall be within the absolute discretion of that entity or body and shall be conclusive and binding on all persons.

4. Eligibility

The Committee may grant one or more awards under the Plan to any individual or individuals who, at the time of grant of the particular award, are employed by the Company or are a member of the Board. For this purpose, individuals eligible to receive awards include any former employees of the Company and former members of the Board eligible to receive an assumed or replacement award as contemplated in Sections 5 and 6. For purposes of this Section 4, “Company” includes any entity that is directly or indirectly controlled by the Company or any entity in which the Company has a significant equity interest, as determined by the Committee.

5. Shares of Common Stock Subject to the Plan and Grant Limits

(a) Subject to Section 6 of the Plan, the aggregate number of shares of common stock of the Company (“Common Stock”) which may be issued or transferred pursuant to awards under the Plan shall not exceed 9,166,667 shares. For purposes of the Plan, (x) any shares of Common Stock which are forfeited back to the Company under the Plan, and (y) any shares which have been exchanged by a participant as full or partial payment to the Company in connection with any award under the Plan, as well as any shares exchanged by a participant or withheld by the Company to satisfy the tax withholding obligations related to an award under the Plan, shall be available for issuance under the Plan in subsequent periods. Shares issued in respect of any awards granted under the Plan other than stock options and SARs shall be counted against the foregoing share limit as 2.5 shares for every one share actually issued in connection with the award. (For example, if a stock bonus of 100 shares of Common Stock is paid under the Plan, 250 shares shall be charged against the foregoing share limit in connection with that award.)

(b) The maximum number of shares of Common Stock that may be delivered pursuant to stock options qualified as incentive stock options under Section 422 of the Code (“ISOs”) is 9,166,667 shares.
(c) In instances where a stock appreciation right (“SAR”) or other award is settled in cash or a form other than shares, the shares that would have been issued had there been no cash or other settlement shall not be counted against the shares available for issuance under the Plan. The payment of cash dividends and dividend equivalents in conjunction with outstanding awards shall not be counted against the shares available for issuance under the Plan. Any shares that are issued by the Company, and any awards that are granted by, or become obligations of, the Company, through the assumption by the Company or an affiliate of, or in substitution for, outstanding awards previously granted by an acquired company (or previously granted by a predecessor employer or direct or indirect parent thereof) in the case of persons that become employed by the Company (or a subsidiary or affiliate) in connection with a business or asset acquisition or similar transaction shall not be counted against the shares available for issuance under the Plan. For purposes of clarity, any shares that are issued and any awards that are granted by the Company under the Plan in connection with the Company’s spin-off from Northrop Grumman Corporation (the “Spin-Off”) in substitution for awards originally granted by Northrop Grumman Corporation shall be counted against the Plan’s share limits specified in Section 5(a), but not for purposes of the other applicable share limits under the Plan.

(d) Any shares issued under the Plan may consist in whole or in part of authorized and unissued shares or of treasury shares, and no fractional shares shall be issued under the Plan. Cash may be paid in lieu of any fractional shares in settlements of awards under the Plan.

(e) In no event shall the total number of shares of Common Stock that may be awarded to any eligible participant during any three year period pursuant to stock option grants and SAR grants hereunder exceed 1,500,000 shares. In no event shall “Performance-Based Awards” under Section 8(c)(ii) (other than stock options or SARs, and without giving effect to any related dividend equivalents) that are granted to any eligible participant during any three consecutive years relate to or provide for payment of more than 500,000 shares of Common Stock.

(f) Adjustments to the Plan’s aggregate share limit pursuant to Section 5(a), as well as the provisions of Section 5(c), are subject to any applicable limitations under Section 162(m) of the Code with respect to awards intended as performance-based compensation thereunder. The limits set forth in Sections 5(b) and 5(e) shall apply with respect to all Plan awards regardless of whether the underlying shares are attributable to the fixed number of shares made available for Plan award purposes or otherwise.

6. Adjustments and Reorganizations

(a) Upon (or, as may be necessary to effect the adjustment, immediately prior to): any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split; any merger, combination, consolidation, or other reorganization; any spin-off, split-up, or similar extraordinary dividend distribution in respect of the Common Stock; or any exchange of shares of Common Stock or other securities of the Company, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; then the Committee shall equitably and proportionately adjust (1) the number and type of shares of Common Stock (or other securities) that thereafter may be made the subject of awards (including the specific share limits, maximums and numbers of shares set forth elsewhere in this Plan), (2)
the number, amount and type of shares of Common Stock (or other securities or property) subject to any outstanding awards, (3) the grant, purchase, or
exercise price (which term includes the base price of any SAR or similar right) of any outstanding awards, and/or (4) the securities, cash or other property
deliverable upon exercise or payment of any outstanding awards, in each case to the extent necessary to preserve (but not increase) the level of incentives intended by this Plan and the then-outstanding awards.

Unless otherwise expressly provided in the applicable award agreement, upon (or, as may be necessary to effect the adjustment, immediately prior to)
any event or transaction described in the preceding paragraph or a sale of all or substantially all of the business or assets of the Company as an entirety, the
Committee shall equitably and proportionately adjust the performance standards applicable to any then-outstanding performance-based awards to the extent
necessary to preserve (but not increase) the level of incentives intended by the Plan and the then-outstanding performance-based awards.

It is intended that, if possible, any adjustments contemplated by the preceding two paragraphs be made in a manner that satisfies applicable legal, tax
(including, without limitation and as applicable in the circumstances, Section 424 of the Code, Section 409A of the Code and Section 162(m) of the Code)
and accounting (so as to not trigger any charge to earnings with respect to such adjustment) requirements.

(b) Notwithstanding anything to the contrary in Section 6(a), the provisions of this Section 6(b) shall apply to an outstanding Plan award if a Change in
Control (as defined in Section 6(e)) occurs. If the Company undergoes a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the
Company is not the surviving entity and the successor to the Company (if any) (or a parent thereof) does not agree in writing prior to the occurrence of the
Change in Control to continue and assume the award following the Change in Control, or if for any other reason the award would not continue after the
Change in Control, then upon the Change in Control: (i) if the award is a stock option, it shall vest fully and completely, any and all restrictions on
exercisability or otherwise shall lapse, and it shall be fully exercisable; (ii) if the award is a SAR, it shall vest fully and completely, any and all restrictions on
such SAR shall lapse, and it shall be fully exercisable; and (iii) if such award is an award or grant under Section 8(c) of the Plan, it shall immediately vest
fully and completely, and all restrictions shall lapse, provided, however, that if the award is performance-based, the earnout or payout of the award, as
applicable, shall be computed based on the performance terms of the award and based on actual performance achieved to the date of the Change in Control.

No acceleration of vesting, exercisability and/or payment of an outstanding Plan award shall occur in connection with a Change in Control if either (i) the
Company is the surviving entity, or (ii) the successor to the Company (if any) (or a parent thereof) agrees in writing prior to the Change in Control to assume
the award; provided, however, that individual awards may provide for acceleration under these circumstances as contemplated by Section 6(c) below. If a
stock option or other award is fully vested or becomes fully vested as provided in this paragraph but is not exercised or paid prior to a Change in Control
triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a parent
thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the award following the Change in Control, or if
for any other reason the award would not continue after the Change in Control, then the Committee may provide for the settlement in cash of the
award (such settlement to be calculated as though the award was paid or exercised simultaneously with the Change in Control and based upon the then Fair Market Value of a share of Common Stock and subject, in the case of a performance-based award, to the Change in Control payment provisions set forth above). An option or other award so settled by the Committee shall automatically terminate. If, in such circumstances, the Committee does not provide for the cash settlement of an option or other award, then upon the Change in Control such option or award shall terminate, subject to any provision that has been made by the Committee through a plan of reorganization or otherwise for the survival, substitution or exchange of such option or right; provided that the option or award holder shall be given reasonable notice of such intended termination and an opportunity to exercise the option or award (to the extent an award other than an option must be exercised in order for the participant to realize the intended benefits) prior to or upon the Change in Control.

(c) Notwithstanding the provisions of Section 6(b), awards issued under the Plan may contain specific provisions regarding the consequences of a Change in Control and, if contained in an award, those provisions shall be controlling in the event of any inconsistency. (For example, and without limitation, an award may provide that (i) acceleration of vesting will occur automatically upon a Change in Control, or (ii) acceleration will occur in connection with a Change in Control if the participant is terminated by the Company without cause or the participant terminates employment for good reason.) The occurrence of a particular Change in Control under the Plan shall have no effect on any award granted under the Plan after the date of that Change in Control.

(d) The Committee may make adjustments pursuant to Section 6(a) and/or deem an acceleration of vesting of awards pursuant to Section 6(b) to occur sufficiently prior to an event if necessary or deemed appropriate to permit the participant to realize the benefits intended to be conveyed with respect to the shares underlying the award; provided, however, that, the Committee may reinstate the original terms of an award if the related event does not actually occur.

(e) A “Change in Control” of the Company shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied after the date of the Spin-Off:

(i) Any Person (other than those Persons in control of the Company as of the Effective Time, or other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any affiliate of the Company or a successor) becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing twenty-five percent (25%) or more of either (1) the then-outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (2) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”), provided, however, that for purposes of this clause (i): (A) “Person” or “group” shall not include underwriters acquiring newly-issued voting securities (or securities convertible into voting securities) directly from the Company with a view towards distribution, (B) creditors of the Company who become stockholders of the Company in connection with any bankruptcy of the Company under the laws of the
United States shall not, by virtue of such bankruptcy, be deemed a “group” or a single Person for the purposes of this clause (i) (provided that any one of such creditors may trigger a Change in Control pursuant to this clause (i) if such creditor’s ownership of Company securities equals or exceeds the foregoing threshold), and (C) an acquisition shall not constitute a Change in Control if made by an entity pursuant to a transaction that is covered by and does not otherwise constitute a Change in Control under clause (iii) below;

(ii) On any day after the Effective Time (the “Measurement Date”) Continuing Directors cease for any reason to constitute either: (1) if the Company does not have a Parent, a majority of the Board; or (2) if the Company has a Parent, a majority of the Board of Directors of the Controlling Parent. A director is a “Continuing Director” if he or she either:

(1) was a member of the Board on the applicable Initial Date (an “Initial Director”); or

(2) was elected to the Board (or the Board of Directors of the Controlling Parent, as applicable), or was nominated for election by the Company’s or the Controlling Parent’s stockholders, by a vote of at least two-thirds (2/3) of the Initial Directors then in office.

A member of the Board (or Board of Directors of the Controlling Parent, as applicable) who was not a director on the applicable Initial Date shall be deemed to be an Initial Director for purposes of clause (2) above if his or her election, or nomination for election by the Company’s or the Controlling Parent’s stockholders, was approved by a vote of at least two-thirds (2/3) of the Initial Directors (including directors elected after the applicable Initial Date who are deemed to be Initial Directors by application of this provision) then in office. “Initial Date” means the later of (1) the Effective Time or (2) the date that is two (2) years before the Measurement Date.

(iii) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each, a “Business Combination”), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the Beneficial Owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination Beneficially Own, directly or indirectly, more than sixty percent (60%) of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, is a Parent of the Company or the successor of the Company) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (2) no Person
(excluding any entity resulting from such Business Combination or a Parent of the Company or any successor of the Company or any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination or a Parent of the Company or the successor entity) Beneficially Owns, directly or indirectly, twenty-five percent (25%) or more of, respectively, the then-outstanding shares of common stock of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, except to the extent that the ownership in excess of twenty-five percent (25%) existed prior to the Business Combination, and (3) a Change in Control is not triggered pursuant to clause (ii) above with respect to the Company (including any successor entity) or any Parent of the Company (or the successor entity).

(iv) A complete liquidation or dissolution of the Company other than in the context of a transaction that does not constitute a Change in Control of the Company under clause (iii) above.

Notwithstanding the foregoing, in no event shall the Spin-Off or a transaction or other event that occurred prior to the Effective Time constitute a Change in Control. Notwithstanding anything in clause (iii) above to the contrary, a change in ownership of the Company resulting from creditors of the Company becoming stockholders of the Company in connection with any bankruptcy of the Company under the laws of the United States shall not trigger a Change in Control pursuant to clause (iii) above.

“Beneficial Owner” shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the 1934 Act. “Controlling Parent” means the Company’s Parent so long as a majority of the voting stock or voting power of that Parent is not Beneficially Owned, directly or indirectly through one or more subsidiaries, by any other Person. In the event that the Company has more than one “Parent,” then “Controlling Parent” means the Parent of the Company the majority of the voting stock or voting power of which is not Beneficially Owned, directly or indirectly through one or more subsidiaries, by any other Person. “Parent” means an entity that Beneficially Owns a majority of the voting stock or voting power of the Company, or all or substantially all of the Company’s assets, directly or indirectly through one or more subsidiaries. “Person” shall have the meaning ascribed to such term in Section 3(a)(9) of the 1934 Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d) thereof.

7. Fair Market Value

“Fair Market Value” for all purposes under the Plan shall mean the closing price of a share of Common Stock as reported by the New York Stock Exchange (the “Exchange”) for the date in question. If no sales of Common Stock were made on the Exchange on that date, the closing price of a share of Common Stock as reported by the Exchange for the preceding day on which sales of Common Stock were made on the Exchange shall be substituted.
8. Awards

The Committee shall determine the type or types of award(s) to be made to each participant. Awards may be granted singly, in combination or in tandem. Awards also may be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for grants or rights under any other employee or compensation plan of the Company, including the plan of any acquired entity. The types of awards that may be granted under the Plan are:

(a) Stock Options—A grant of a right to purchase a specified number of shares of Common Stock during a specified period as determined by the Committee. The purchase price per share for each option shall be not less than 100% of Fair Market Value on the date of grant, except that, in the case of a stock option granted retroactively in tandem with or as a substitution for another award, the exercise or designated price may be no lower than the Fair Market Value of a share on the date such other award was granted. A stock option may be in the form of an ISO which, in addition to being subject to applicable terms, conditions and limitations established by the Committee, complies with Section 422 of the Code. If an ISO is granted, the aggregate Fair Market Value (determined on the date the option is granted) of Common Stock subject to an ISO granted to a participant by the Committee which first becomes exercisable in any calendar year shall not exceed $100,000.00 (otherwise, the intended ISO, to the extent of such excess, shall be rendered a nonqualified stock option). ISOs may only be granted to key employees of the Company or a subsidiary. The maximum term of each option (ISO or nonqualified) shall be ten (10) years. The price at which shares of Common Stock may be purchased under a stock option shall be paid in full at the time of the exercise in cash or such other method permitted by the Committee, including (i) tendering (either actually or by attestation) Common Stock; (ii) surrendering a stock award valued at Fair Market Value on the date of surrender; (iii) authorizing a third party to sell the shares (or a sufficient portion thereof) acquired upon exercise of a stock option and assigning the delivery to the Company of a sufficient amount of the sale proceeds to pay for all the shares acquired through such exercise; or (iv) any combination of the above. The Committee may grant stock options that provide for the award of a new option when the exercise price of the option and/or tax withholding obligations related to the exercise of the option have been paid by tendering shares of Common Stock to the Company or by the Company’s reduction of the number of shares otherwise deliverable to the optionee. Any new option grant contemplated by the preceding sentence (the re-load grant) would cover the number of shares tendered by the optionee or withheld by the Company with the option purchase price set at the then current Fair Market Value and would never extend beyond the remaining term of the originally exercised option.

(b) SARs—A right to receive a payment, in cash and/or Common Stock, equal to the excess of the Fair Market Value of a specified number of shares of Common Stock on the date the SAR is exercised over the Fair Market Value on the date the SAR was granted as set forth in the applicable award agreement, except that, in the case of a SAR granted retroactively in tandem with or as a substitution for another award, the exercise or designated price may be no lower than the Fair Market Value of a share on the date such other award was granted. The maximum term of an SAR shall be ten (10) years.
(c) Other Awards—Other awards, granted or denominated in Common Stock or units of Common Stock, may be granted under the Plan. Awards not granted or denominated in Common Stock or units of Common Stock (cash awards) also may be granted consistent with clause (ii) below.

(i) All or part of any stock award may be subject to conditions and restrictions established by the Committee, and set forth in the award agreement, which may include, but are not limited to, continuous service with the Company (or a subsidiary or affiliate), achievement of specific business objectives, and other measurements of individual, business unit or Company performance. Unless the Committee otherwise provides, awards under this Section 8(c) to employees of the Company or a subsidiary that are either granted or become vested, exercisable or payable based on attainment of one or more of the performance goals related to the business criteria identified below, shall be deemed to be intended as Performance-Based Awards under Section 8(c)(ii).

(ii) Without limiting the generality of the foregoing, and in addition to stock options and SAR grants, other performance-based awards within the meaning of Section 162(m) of the Code (“Performance-Based Awards”), whether in the form of restricted stock, performance stock, phantom stock or other rights, the vesting of which depends on the absolute or relative performance of the Company on a consolidated, segment, subsidiary, division, or plant basis with reference to revenue, net earnings (either before or after interest, taxes, depreciation, amortization and/or Net Pension Income (as defined below)), cash flow, free cash flow, return on equity or on assets or on investment (in each case which may, but need not, be on a net basis), cost containment or reduction, the total value of contracts awarded, stock price appreciation, total stockholder return, EVA (as defined below), or Pension Adjusted Operating Margin (as defined below) relative to preestablished performance goals, may be granted under the Plan. The applicable business criteria and the specific performance goals for Performance-Based Awards must be approved by the Committee in advance of applicable deadlines under the Code and while the performance relating to such goals remains substantially uncertain. The applicable performance period may range from one to ten years. Performance targets shall, to the extent determined by the Committee to be equitable and appropriate, be adjusted to mitigate the unbudgeted impact of material, unusual or nonrecurring gains and losses, accounting charges or other extraordinary events not foreseen at the time the targets were set. In no event shall share-based Performance-Based Awards granted to any eligible person under this Plan exceed the limit set forth in Section 5(e). In no event shall grants to any eligible person under this Plan of Performance-Based Awards payable only in cash in any calendar year and not related to shares provide for payment of more than $3,000,000. Except as otherwise permitted under Section 162(m) of the Code, before any Performance-Based Award is paid, the Committee must certify that the performance goal and any other material terms of the Performance-Based Award were in fact satisfied. The Committee shall have discretion to determine the conditions, restrictions or other limitations, in accordance with the terms of the Plan and Section 162(m) of the Code, on the payment of individual Performance-Based Awards. The Committee may reserve by express provision in any award agreement the right to reduce the amount payable in accordance with any standards or on any other basis (including the Committee’s discretion), as the Committee may impose. Performance-Based Awards
may be granted only to key employees of the Company or a subsidiary. “EVA” means operating profit after tax (which means net earnings after tax but before tax adjusted interest income and expense and goodwill amortization), less a charge for the use of capital (which is based on average total capital and the weighted average cost of capital). “Net Pension Income” means any positive difference between income from employee pension plan investments less the cost of employee pension benefits for the relevant period of time. “Pension Adjusted Operating Margin” means operating margin adjusted for the difference in pension cost between FAS (Financial Accounting Standards) and allowable and reimbursable pension costs under CAS (Cost Accounting Standards).

9. Dividends and Dividend Equivalents

The Committee may provide that any awards under the Plan earn dividends or dividend equivalents. Such dividends or dividend equivalents may be paid currently or may be credited to a participant’s account. Any crediting of dividends or dividend equivalents may be subject to such restrictions and conditions as the Committee may establish, including reinvestment in additional shares or share equivalents.

10. Deferrals and Settlements

Payment of awards may be in the form of cash, Common Stock, other awards or combinations thereof as the Committee shall determine, and with such restrictions as it may impose. The Committee may also require or permit participants to elect to defer the issuance of shares or the settlement of awards in cash under such rules and procedures as it may establish under the Plan. It may also provide that deferred settlements include the payment or crediting of interest on the deferral amounts, or the payment or crediting of dividend equivalents where the deferral amounts are denominated in shares.

11. Transferability and Exercisability

Unless otherwise expressly provided in (or pursuant to) this Section 11, by applicable law or by the award agreement, (i) all awards are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge; (ii) awards shall be exercised only by the holder; and (iii) amounts payable or shares issuable pursuant to an award shall be delivered only to (or for the account of) the holder. The foregoing exercise and transfer restrictions shall not apply to: (a) transfers to the Company; (b) the designation of a beneficiary to receive benefits in the event of the participant’s death or, if the participant has died, transfers to or exercises by the participant’s beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution; (c) transfers pursuant to a qualified domestic relations order (as defined in the Code) (in the case of ISOs, to the extent such transfers are permitted by the Code); (d) if the participant has suffered a disability, permitted transfers to or exercises on behalf of the holder by his or her legal representative; or (e) the authorization by the Committee of “cashless exercise” procedures. The Committee by express provision in the award or an amendment thereto may permit an award (other than an ISO) to be transferred to, exercised by and paid to certain persons or entities related to the participant, including but not limited to members of the participant’s family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are
members of the participant’s family and/or charitable institutions, or to such other persons or entities as may be expressly approved by the Committee, pursuant to such conditions and procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes (or to a “blind trust” in connection with the participant’s termination of employment or service with the Company (or a subsidiary or affiliate) to assume a position with a governmental, charitable, educational or similar non-profit institution) and on a basis consistent with the Company’s lawful issue of securities.

12. Award Agreements

Awards under the Plan shall be evidenced by agreements that set forth the terms, conditions and limitations for each award which may include the term of an award, the provisions applicable in the event the participant’s employment or service terminates, and the Company’s authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind any award; provided, however, that such authority shall not extend to the reduction of the exercise price of a previously granted option, except as provided in Section 6 hereof. The Committee need not require the execution of any such agreement, in which case acceptance of the award by the respective participant shall constitute agreement to the terms of the award.

13. Plan Amendment

The Plan may only be amended by a majority of the Board of Directors as it deems necessary or appropriate to better achieve the purpose of the Plan, except that no such amendment shall be made without the approval of the Company’s stockholders which would increase the number of shares available for issuance under the Plan (except for increases or adjustments expressly contemplated by Sections 5 and 6).

14. Tax Withholding

The Company shall have the right to deduct from any settlement of an award made under the Plan, including the delivery or vesting of shares, a sufficient amount to cover withholding (at the flat percentage rates applicable to supplemental wages) of any Federal, state or local taxes required by law or to take such other action as may be necessary to satisfy any such withholding obligations. The Committee may permit shares to be used to satisfy required tax withholding and such shares shall be valued at the Fair Market Value as of the settlement date of the applicable award.

15. Other Company Benefit and Compensation Programs

Unless otherwise specifically determined by the Committee, settlements of awards received by participants under the Plan shall not be deemed a part of a participant’s regular, recurring compensation for purposes of calculating payments or benefits from any benefit plan or severance program of the Company (or a subsidiary or affiliate), or any severance pay law of any country. Further, the Company may adopt other compensation programs, plans or arrangements as it deems appropriate or necessary.
16. Unfunded Plan

Unless otherwise determined by the Committee, the Plan shall be unfunded and shall not create (or be construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any participant or other person. To the extent any person holds any rights by virtue of a grant awarded under the Plan, such rights (unless otherwise determined by the Committee) shall be no greater than the rights of an unsecured general creditor of the Company.

17. Future Rights

No person shall have any claim or rights to be granted an award under the Plan, and no participant shall have any rights under the Plan to be retained in the employ or service of the Company (or any subsidiary or affiliate).

18. Governing Law; Severability; Legal Compliance

The validity, construction and effect of the Plan, any award agreements or other documents setting forth the terms of an award, and any actions taken or relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable Federal law. If any provision of the Plan, any award agreement, or any other document setting forth the terms of an award shall be held by a court of competent jurisdiction to be invalid and unenforceable, the remaining provisions of the Plan or such other document shall continue in effect.

The Plan, the granting and vesting of awards under the Plan and the issuance and delivery of Common Stock and/or the payment of money under the Plan or under awards granted hereunder are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities and banking laws) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. Any securities delivered under the Plan shall be subject to such restrictions as the Company may deem necessary or desirable to assure compliance with all applicable legal requirements.

The Plan and the awards granted under the Plan are intended to comply with (or be exempt from, as the case may be) Section 409A of the Code so as to avoid any tax, penalty or interest under Section 409A of the Code. The Plan shall be construed, operated and administered consistent with this intent.

19. Successors and Assigns

The Plan shall be binding on all successors and assigns of a participant, including, without limitation, the estate of such participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the participant’s creditors.

20. Rights as a Stockholder

Except as otherwise provided in the award agreement, a participant shall have no rights as a stockholder until he or she becomes the holder of record of shares of Common Stock.
CREDIT AGREEMENT
dated as of
March 11, 2011
among
HUNTINGTON INGALLS INDUSTRIES, INC.,
The Lenders Party Hereto,
JPMORGAN CHASE BANK, N.A.,
as Administrative Agent, Issuing Bank and Swingline Lender,
and
CREDIT SUISSE AG,
as Swingline Lender

J.P. MORGAN SECURITIES LLC, CREDIT SUISSE SECURITIES (USA) LLC, as Lead Arrangers

J.P. MORGAN SECURITIES LLC,
CREDIT SUISSE SECURITIES (USA) LLC,
WELLS FARGO SECURITIES, LLC and
RBS SECURITIES INC.,
as Joint Bookrunners

CREDIT SUISSE SECURITIES (USA) LLC,
as Syndication Agent

THE ROYAL BANK OF SCOTLAND PLC,
WELLS FARGO BANK, N.A.,
SUNTRUST BANK,
BNP PARIBAS and
SUMITOMO MITSUI BANKING CORPORATION,
as Documentation Agents
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Exhibit A  Form of Assignment and Assumption
Exhibit B  Form of Borrowing Request
Exhibit C  Form of LC Continuing Agreement
Exhibit D  Form of Guarantee and Security Agreement
Exhibit E  Form of Global Intercompany Note
Exhibit F  Form of Mortgages
Exhibit G  Form of Compliance Certificate
Exhibit H  Form of Confidentiality Agreement
Exhibit I  Form of U.S. Tax Certificate
CREDIT AGREEMENT dated as of March 11, 2011 among HUNTINGTON INGALLS INDUSTRIES, INC., the LENDERS party hereto, and JPMORGAN CHASE BANK, N.A., as Administrative Agent, an Issuing Bank and a Swingline Lender, and CREDIT SUISSE AG, as Swingline Lender.

The Borrower has requested the Lenders to extend credit in the form of (a) a term loan facility comprising Term Loans extended on the Funding Date, in an aggregate principal amount not in excess of $575,000,000, and (b) a revolving credit facility comprising Revolving Loans extended at any time and from time to time after the Spin-off, in an aggregate principal amount at any time outstanding not in excess of $650,000,000; and, as sub-facilities of such revolving credit facility, the Borrower has requested (x) the Swingline Lenders to extend credit, at any time after the Spin-off, in the form of Swingline Loans, in an aggregate principal amount at any time outstanding not in excess of $100,000,000, and (y) the Issuing Banks to issue Letters of Credit, at any time and from time to time on or after the Funding Date, in an aggregate face amount at any time outstanding not in excess of $350,000,000.

The Lenders are willing to extend such credit to the Borrower, and the Issuing Banks are willing to issue Letters of Credit for the account of the Borrower and its Restricted Subsidiaries, in each case on the terms and subject to the conditions set forth herein. In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE 1
Definitions

SECTION 1.01 Defined Terms.

As used in this Agreement, the following terms have the meanings specified below:

“ABR” when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

“Acquired Business” means the shipbuilding business of Northrop Grumman (including without limitation, the shipbuilding business conducted by the Main Shipbuilding Subsidiary and its subsidiaries) that is being transferred to the Borrower pursuant to the Distribution Agreement.

“Acquired Entity” has the meaning assigned to such term in Section 6.04(g).

“Adjusted LIBO Rate” means, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

“Administrative Agent” means JPMCB, in its capacity as administrative agent for the Lenders hereunder.
“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Administrative Agent.

“Affiliate” means, with respect to a specified Person as of any date of determination, another Person that as of such date directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

“Agents” has the meaning assigned to such term in Article 8.

“Agreement Value” means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include a Lender or any Affiliate of a Lender).

“Alternate Base Rate” means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1% and (c) the Adjusted LIBO Rate for a one month Interest Period on such day (or if such day is not a Business Day, the immediately preceding Business Day) plus 1%, provided that, for the avoidance of doubt, the Adjusted LIBO Rate for any day shall be based on the rate appearing on the Reuters BBA Libor Rates Page 3750 (or on any successor or substitute page of such page) at approximately 11:00 a.m. London time on such day. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Federal Funds Effective Rate or the Adjusted LIBO Rate shall be effective from and including the effective date of such change in the Prime Rate, the Federal Funds Effective Rate or the Adjusted LIBO Rate, respectively.

“Applicable ECF Percentage” means, with respect to any fiscal year, (i) 50%, if the Leverage Ratio at the end of such fiscal year is greater than 2.75 to 1.00, (ii) 25%, if the Leverage Ratio at the end of such fiscal year is greater than 2.00 to 1.00 but less than or equal to 2.75 to 1.00, and (iii) 0%, if the Leverage Ratio at the end of such fiscal year is equal to or less than 2.00 to 1.00.

“Applicable Margin” means, for any day, with respect to any ABR Loan or Eurodollar Loan, or with respect to the commitment fees payable hereunder, as the case may be, the applicable margin per annum set forth below under the caption “ABR Spread”, “Eurodollar Spread” or “Commitment Fee Rate”, as the case may be, based upon the Leverage Ratio (determined as of the last day of the previous fiscal quarter), provided that until the delivery to the Administrative Agent pursuant to Section 5.01 of the Borrower’s consolidated financial information for the Borrower’s second full fiscal quarter ending after the Funding Date, the “Applicable Margin” shall be the applicable rate per annum set forth below in Category 3:

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<table>
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<th>Leverage Ratio:</th>
<th>ABR Spread</th>
<th>Eurodollar Spread</th>
<th>Commitment Fee Rate</th>
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<tbody>
<tr>
<td>Category 1</td>
<td>≥ 4.0 to 1.0</td>
<td>2.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Category 2</td>
<td>&lt; 4.0 to 1.0 but ≥ 3.5 to 1.0</td>
<td>1.75%</td>
<td>2.75%</td>
</tr>
<tr>
<td>Category 3</td>
<td>&lt; 3.5 to 1.0 but ≥ 2.5 to 1.0</td>
<td>1.50%</td>
<td>2.50%</td>
</tr>
<tr>
<td>Category 4</td>
<td>&lt; 2.5 to 1.0 but ≥ 2.0 to 1.0</td>
<td>1.25%</td>
<td>2.25%</td>
</tr>
<tr>
<td>Category 5</td>
<td>&lt; 2.0 to 1.0</td>
<td>1.00%</td>
<td>2.00%</td>
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For purposes of the foregoing, (a) the Applicable Margin shall be determined as of the end of each fiscal quarter of the Borrower based upon the Borrower's annual or quarterly consolidated financial statements and certificates delivered pursuant to Section 5.01 (a) — (c) and (b) each change in the Applicable Margin resulting from a change in the Leverage Ratio shall be effective during the period commencing on and including the date of delivery to the Administrative Agent of such consolidated financial statements and certificates indicating such change and ending on the date immediately preceding the effective date of the next such change, provided that the Leverage Ratio shall be deemed to be in Category 1 (A) at any time that an Event of Default has occurred and is continuing or (B) if the Borrower fails to deliver the annual or quarterly consolidated financial statements and certificates required to be delivered by it pursuant to Section 5.01 (a) — (c), during the period from the expiration of the time for delivery thereof until such consolidated financial statements are delivered.

In the event that any financial statement or compliance certificate delivered pursuant to Section 5.01 (a) — (c) is inaccurate (regardless of whether this Agreement or the Commitments are in effect when such inaccuracy is discovered), (a) if such inaccuracy, if corrected, would have led to the application of a higher Applicable Margin for any period (an "Applicable Period") than the Applicable Margin applied for such Applicable Period, then (i) promptly after the discovery of any such inaccuracy by a Financial Officer, the Borrower shall deliver to the Administrative Agent a corrected financial statement and a corrected compliance certificate for such Applicable Period, and (ii) the Applicable Margin shall be determined based on the corrected compliance certificate for such Applicable Period, and (iii) the Borrower shall immediately pay to the Administrative Agent (for the account of the Lenders during the Applicable Period or their successors and assigns) the accrued additional interest owing as a result of such increased Applicable Margin for such Applicable Period; and (b) if such inaccuracy, if corrected, would have led to the application of a lower Applicable Margin for any Applicable Period than the Applicable Margin applied for such Applicable Period, the applicable Lenders shall have no obligation to repay any interest or fees to the Borrower, provided that if, as a result of any
restatement or other event a proper calculation of the Leverage Ratio would have resulted in higher pricing for one or more periods and lower pricing for one or more other periods (due to the shifting of income or expenses from one period to another period or any similar reason), then the amount payable by the Borrower pursuant to clause (a) above shall be based upon the excess, if any, of the amount of interest and fees that should have been paid for all applicable periods over the amount of interest and fees paid for all such periods. This paragraph shall not limit the rights of the Administrative Agent or the Lenders with respect to Section 2.14(c) and Article 7 hereof, and shall survive the termination of this Agreement.

“Applicable Revolving Percentage” means, with respect to any Revolving Credit Lender, the percentage of the total Revolving Credit Commitments represented by such Lender’s Revolving Credit Commitment; provided that in the case of Section 2.21 when a Defaulting Lender shall exist, “Applicable Revolving Percentage” shall mean the percentage of the total Revolving Credit Commitments (disregarding any Defaulting Lender’s Revolving Credit Commitment) represented by such Lender’s Revolving Credit Commitment. If the Revolving Credit Commitments have terminated or expired, the Applicable Revolving Percentages shall be determined based upon the Revolving Credit Commitments most recently in effect, giving effect to any assignments and to any Revolving Credit Lender’s status as a Defaulting Lender at the time of determination.

“Approved Fund” means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by a Lender, an Affiliate of a Lender or an entity or an Affiliate of an entity that administers or manages a Lender.

“Ascension” means Ascension Holding Company, LLC, a Delaware limited liability company and majority-owned joint venture of the Main Shipbuilding Subsidiary.

“Asset Sale” means the sale, transfer or other disposition (by way of merger, casualty, condemnation or otherwise, but not including by way of lease or license (except a “lease to own” or a sale leaseback transaction)) by the Borrower or any of the Restricted Subsidiaries to any Person other than (x) the Borrower and any Subsidiary Guarantor, or (y) any other Restricted Subsidiary if the transferor is not the Borrower or a Subsidiary Guarantor, of (a) any Equity Interests of any of the Subsidiaries (other than directors’ qualifying shares) or (b) any other assets of the Borrower or any of the Restricted Subsidiaries (other than (i) dispositions of inventory, damaged, obsolete, surplus or worn out assets, scrap and Permitted Investments, in each case disposed of in the ordinary course of business (provided that dispositions of surplus assets and scrap in connection with the closing of the shipyard in Avondale, Louisiana or the facilities in Waggaman, Louisiana, or Tallulah, Louisiana shall not be so required to be in the ordinary course of business), (ii) dispositions between or among Foreign Restricted Subsidiaries, (iii) any sale, transfer or other disposition or series of related sales, transfers or other dispositions having a value not in excess of $5,000,000 and (iv) dispositions made pursuant to the Transaction Documents (other than the Loan Documents and the Senior Note Documents)).

“Assignment and Assumption” means an assignment and assumption entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section
Available Retained Basket Amount" means, at any time, the sum of:

(a) the cumulative amount of Excess Cash Flow ((x) plus any Unused Withheld Amount from the prior fiscal years, which amount shall be added only after the Applicable ECF Percentage of such amount has been paid to the Term Lenders in accordance with Section 2.12(c) and (y) plus any amount by which the Excess Cash Withheld Amount is reduced in accordance with Section 2.12(d), which amount shall be added only after the Applicable ECF Percentage of such amount has been paid to the Term Lenders in accordance with Section 2.12(d) of the Borrower and its Restricted Subsidiaries for each fiscal year commencing with the fiscal year ending December 31, 2011 minus the portion of such Excess Cash Flow that has been (or is required to be) applied to the prepayment of Term Loans in accordance with Sections 2.12(c), 2.12(d) and 2.12(e); plus

(b) the cumulative amount of Net Cash Proceeds from the issue from time to time of Qualified Capital Stock of the Borrower after the date of the Spin-off, other than issuances to any Restricted Subsidiary, minus

(c) the cumulative aggregate, for each reduction in the Gross ECF Overpayment Amount pursuant to Section 2.12(c) at or prior to such time, of the product of (x) the associated Underestimated Amount giving rise to the portion of the Excess Cash Adjustment Amount so reduced, and (y) 1.00 less the applicable Applicable ECF Percentage, minus

(d) the Available Retained Basket Usage Amount at such time.

"Available Retained Basket Usage Amount" means, at any time, the aggregate amount of any investments outstanding at such time pursuant to Section 6.04(n), any Restricted Payments made prior to such time pursuant to Section 6.06(a)(iii) or (vii), any payment made prior to such time pursuant to Section 6.09(b)(iii) or (iv), or any amount of Capital Expenditures made prior to such time pursuant to Section 6.10(i).

"Availability Period" means (i) with respect to Revolving Loans and Swingline Loans, the period after the Spin-off to but excluding the earlier of the Revolving Credit Maturity Date and the date of termination of the Revolving Credit Commitments and (ii) with respect to Letters of Credit, the period from and including the Funding Date to but excluding the earlier of the Revolving Credit Maturity Date and the date of termination of the Revolving Credit Commitments.

"Bankruptcy Event" means, with respect to any Person, such Person becomes the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, administrator, custodian, assignee for the benefit of creditors or similar Person charged with the reorganization or liquidation of its business appointed for it, or, in the good faith determination of the Administrative Agent, has taken any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any such proceeding or appointment, provided that a Bankruptcy Event shall not result solely by virtue of any ownership interest, or the acquisition of any
ownership interest, in such Person by a Governmental Authority or instrumentality thereof, provided, further, that such ownership interest does not result in or provide such Person with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Person (or such Governmental Authority or instrumentality) to reject, repudiate, disavow or disaffirm any contracts or agreements made by such Person.

“Board” means the Board of Governors of the Federal Reserve System of the United States of America.

“Borrower” means Huntington Ingalls Industries, Inc., a Delaware corporation.

“Borrower Notice” has the meaning assigned to such term in Section 5.14.

“Borrowing” means (a) Loans of the same Class and Type made, (or converted or continued) on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect or (b) a Swingline Loan.

“Borrowing Request” means a request by the Borrower in accordance with Section 2.03 and substantially in the form of Exhibit B or such other form as shall be approved by the Administrative Agent.

“Business Day” means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; provided that, when used in connection with a Eurodollar Loan, the term “Business Day” shall also exclude any day on which banks are not open for dealings in US Dollar deposits in the London interbank market.

“CapEx Pull Forward Amount” has the meaning assigned to such term in Section 6.10.

“CapEx Rollover Amount” has the meaning assigned to such term in Section 6.10.

“Capital Expenditures” means, for any period, (a) the additions to property, plant and equipment and other capital expenditures that are (or should be) set forth in a consolidated statement of cash flows of the Borrower and the Restricted Subsidiaries for such period prepared in accordance with GAAP and (b) Capital Lease Obligations incurred by the Borrower and its consolidated Restricted Subsidiaries during such period, but excluding in each case any such expenditure made to restore, replace or rebuild property to the condition of such property (or its reasonable equivalent) immediately prior to any damage, loss, destruction or condemnation of such property, to the extent such expenditure is made with insurance proceeds, condemnation awards or damage recovery proceeds relating to any such damage, loss, destruction or condemnation.

“Capital Lease Obligations” of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and
accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

“Change in Control” means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof) of Equity Interests representing more than 35% of the aggregate ordinary voting power represented by the issued and outstanding Equity Interests of the Borrower (provided that the foregoing shall not apply to the ownership of such voting Equity Interests by Northrop Grumman on or prior to the completion of the Spin-off); (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of the Borrower by Persons who were neither (i) nominated by, or whose nomination was approved by, the board of directors of the Borrower nor (ii) appointed by directors so nominated; or (c) any “change of control” (or any comparable term) shall occur under the Senior Notes or any other Material Indebtedness to the extent resulting in a put right for the holders thereof.

“Change in Law” means (a) the adoption or taking effect of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or any Issuing Bank (or, for purposes of Section 2.16(b), by any lending office of such Lender or by such Lender’s or such Issuing Bank’s holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement; provided, however, that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a “Change in Law”, regardless of the date enacted, adopted or issued.

“Class”, when used in reference to (a) any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are Revolving Loans, Term Loans or Swingline Loans and (b) any Commitment, refers to whether such Commitment is a Revolving Credit Commitment or a Term Loan Commitment.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Collateral” means all the “Collateral” as defined in any Collateral Document and shall also include the Mortgaged Properties.

“Collateral Agent” means JPMCB, in its capacity as collateral agent under the Loan Documents.

“Collateral Documents” means the Mortgages, the Guarantee and Security Agreement and each of the security agreements, mortgages and other instruments and documents executed and delivered pursuant to any of the foregoing or pursuant to Section 5.11.
“Collateral Reversion Date” has the meaning assigned to such term in Section 9.16(b).

“Collateral Suspension Date” has the meaning assigned to such term in Section 9.16(a).

“Collateral Suspension Period” has the meaning assigned to such term in Section 9.16(b).

“Collateral Suspension Ratings Level” means the condition deemed to occur at any time after the consummation of the Spin-off at which (i) the Borrower’s senior unsecured non-credit enhanced long-term indebtedness is rated at least Baa3 (with a stable or better outlook) by Moody’s and at least BBB- (with a stable or better outlook) by S&P and (ii) the Borrower obtains and maintains a corporate credit rating of at least Baa3 (with a stable or better outlook) by Moody’s and a corporate family rating of at least BBB- (with a stable or better outlook) by S&P.

“Commitment” means, with respect to any Lender, such Lender’s Revolving Credit Commitment and Term Loan Commitment. The initial amount of each Lender’s Revolving Credit Commitment or Term Loan Commitment is set forth on Schedule 2.01, or in the Assignment and Assumption pursuant to which such Lender shall have assumed its Commitment, as applicable. The initial aggregate amount of the Lenders’ Commitments is $1,225,000,000.

“Compliance Certificate” means a certificate of a Financial Officer of the Borrower, substantially in the form of Exhibit G.

“Confidential Information Memorandum” means the Confidential Information Memorandum dated January 2011 relating to the Borrower and the Transactions.

“Confidentiality Agreement” means a binding confidentiality agreement substantially in the form of Exhibit H, which may be an electronic “click-through” agreement.

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus (a) without duplication and to the extent deducted in determining such Consolidated Net Income, the sum of (i) Consolidated Interest Expense for such period, (ii) letters of credit fees (to the extent not included in Consolidated Interest Expense) for such period, (iii) consolidated income tax expense for such period, (iv) all amounts attributable to depreciation and amortization for such period, (v) any non-cash charges (other than the write-down of current assets) for such period, (vi) any extraordinary charges for such period, (vii) any Incremental Spin-off Related Expenses for such period, not to exceed $40,000,000 in the aggregate over the term of this Agreement or $20,000,000 in any fiscal year, (viii) any financing fees, financial and other advisory fees, accounting and consulting fees and legal fees and related costs and expenses incurred during such period in connection with acquisitions, investments and asset sales permitted by this Agreement, (ix) any cash or non-cash charges or losses relating to the closing of the shipyard in Avondale, Louisiana or the facilities in Waggaman, Louisiana, or Tallulah, Louisiana, the construction of the LPD-23 Anchorage, the construction of the LPD-25 Somerset or any restructuring or reorganization of the Borrower or any of its Subsidiaries (including severance costs), up to an aggregate amount for all such charges and losses of (A) for the 2011 fiscal year, $50,000,000, (B) for the 2012 fiscal year, $35,000,000 and (C) for any fiscal year...
thereafter, $25,000,000 and (x) Transaction Expenses, minus (b) without duplication (i) all cash payments made during such period on account of reserves, restructuring charges and other non-cash charges added to Consolidated Net Income pursuant to clause (a)(v) above in a previous period and (ii) to the extent included in determining such Consolidated Net Income, any extraordinary gains and all non-cash items of income for such period, and plus/minus (c) unrealized losses/gains in respect of Swap Contracts, all determined on a consolidated basis in accordance with GAAP; provided that for purposes of calculating (x) the Leverage Ratio in connection with determining compliance with Section 6.12 and the Applicable Margin for any period and (y) the Interest Coverage Ratio for any period (A) the Consolidated EBITDA of any Acquired Entity acquired by the Borrower or any Restricted Subsidiary pursuant to a Permitted Acquisition during such period shall be included on a pro forma basis for such period (assuming the consummation of such acquisition and the incurrence or assumption of any Indebtedness in connection therewith occurred as of the first day of such period) and (B) the Consolidated EBITDA of any Person or line of business sold or otherwise disposed of by the Borrower or any Restricted Subsidiary during such period for shall be excluded for such period (assuming the consummation of such sale or other disposition and the repayment of any Indebtedness in connection therewith occurred as of the first day of such period). For purposes of determining Consolidated EBITDA under this Agreement for any period that includes any of the fiscal quarters ended on March 31, 2010, June 30, 2010, September 30, 2010 and December 31, 2010, Consolidated EBITDA will be deemed to be equal to (i) for the fiscal quarter ended March 31, 2010, $136,000,000, (ii) for the fiscal quarter ended June 30, 2010, $140,000,000, (iii) for the fiscal quarter ended September 30, 2010, $157,000,000 and (iv) for the fiscal quarter ended December 31, 2010, $119,700,000.

“Consolidated Interest Expense” means, for any period, (a) the interest expense (including without limitation imputed interest expense in respect of Capital Lease Obligations) of the Borrower and the Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP, plus (b) any interest accrued during such period in respect of Indebtedness of the Borrower or any Restricted Subsidiary that is required to be capitalized rather than included in consolidated interest expense for such period in accordance with GAAP, minus (c) the interest income with respect to unrestricted cash and Permitted Investments of the Borrower and the Restricted Subsidiaries earned during such period in accordance with GAAP. For purposes of the foregoing, interest expense shall be determined after giving effect to any net payments made or received by the Borrower or any Restricted Subsidiary with respect to interest rate Swap Contracts. For purposes of determining the Interest Coverage Ratio for any period ending prior to the first anniversary of the Funding Date, Consolidated Interest Expense shall be deemed to be equal to the actual Consolidated Interest Expense from the Funding Date through the date of determination multiplied by a fraction the numerator of which is 365 and the denominator of which is the number of days from the Funding Date through the date of determination.

“Consolidated Net Income” means, for any period, the net income or loss of the Borrower and the Restricted Subsidiaries for such period determined on a consolidated basis in accordance with GAAP, provided that there shall be excluded (a) the income of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by the Restricted Subsidiary of that income is not at the time permitted by operation of the terms of
its charter or any agreement, instrument, judgment, decree, statute, rule or governmental regulation applicable to such Restricted Subsidiary, (b) the income or loss of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Borrower or any Restricted Subsidiary or the date that such Person’s assets are acquired by the Borrower or any Restricted Subsidiary, (c) the income of any Person in which any other Person (other than the Borrower or a Wholly Owned Restricted Subsidiary or any director holding qualifying shares in accordance with applicable law) has a joint interest, except to the extent of the amount of dividends or other distributions actually paid to the Borrower or a Wholly Owned Restricted Subsidiary by such Person during such period, and (d) any gains attributable to sales of assets out of the ordinary course of business.

“Consolidated Net Tangible Assets” means, at any time, (a) the total assets appearing on the most recently prepared consolidated balance sheet of the Borrower and the Restricted Subsidiaries as of the end of the most recent fiscal quarter of the Borrower and the Restricted Subsidiaries for which such balance sheet is available, prepared in accordance with GAAP, minus (b) all intangible assets, including without limitation, goodwill, patents, trademarks, copyrights, franchises and research and development costs.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“Contribution” has the meaning assigned to such term in Schedule 1.01A.

“Credit Suisse” means Credit Suisse, AG and its successors.

“Current Assets” means, at any time, the consolidated current assets (other than cash and Permitted Investments) of the Borrower and the Restricted Subsidiaries.

“Current Liabilities” means, at any time, the consolidated current liabilities of the Borrower and the Restricted Subsidiaries at such time, but excluding, without duplication, (a) the current portion of any long-term Indebtedness and (b) outstanding Revolving Loans and Swingline Loans.

“Current NGC Parent” means Northrop Grumman Corporation, a Delaware corporation, to be renamed as Titan II Inc. after the consummation of the Holding Company Merger.

“Default” means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

“Defaulting Lender” means any Revolving Credit Lender that (a) has failed, within two Business Days of the date required to be funded or paid, to (i) fund any portion of its Revolving Loans, (ii) fund any portion of its participations in Letters of Credit or Swingline Loans or (iii) pay over to any Revolving Credit Party any other amount required to be paid by it hereunder, unless, in the case of clause (i) above, such Lender notifies the Administrative Agent in writing that such failure is the result of such Lender’s good faith determination that a condition
precedent to funding (specifically identified and including the particular default, if any) has not been satisfied, (b) has notified the Borrower or any Revolving Credit Party in writing, or has made a public statement to the effect, that it does not intend or expect to comply with any of its funding obligations under this Agreement (unless such writing or public statement indicates that such position is based on such Lender’s good faith determination that a condition precedent (specifically identified and including the particular default, if any) to funding a loan under this Agreement cannot be satisfied) or generally under other agreements in which it commits to extend credit, (c) has failed, within three Business Days after written request by a Revolving Credit Party, acting in good faith, to provide a certification in writing from an authorized officer of such Lender that it will comply with its obligations to fund prospective Loans and participations in then outstanding Letters of Credit and Swingline Loans under this Agreement, provided that such Lender shall cease to be a Defaulting Lender pursuant to this clause (c) upon such Revolving Credit Party’s receipt of such certification in form and substance satisfactory to it and the Administrative Agent, or (d) has become the subject of a Bankruptcy Event.

“Designated Foreign Currency” means, with respect to any applicable Letter of Credit, any foreign currency that is (a) freely traded and exchangeable into US Dollars and (b) approved by the applicable Issuing Bank.

“Designated Payment Account” means an account with the Administrative Agent designated from time to time by the Borrower in a writing executed by a Financial Officer.

“Disclosed Matters” means the actions, suits and proceedings and the environmental matters disclosed in Schedule 3.06.

“Disqualified Stock” means any Equity Interest that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, (a) matures (excluding any maturity as the result of an optional redemption by the issuer thereof) or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, in whole or in part, or requires the payment of any cash dividend or any other scheduled payment constituting a return of capital, in each case at any time on or prior to the first anniversary of the Term Loan Maturity Date, or (b) is convertible into or exchangeable (unless at the sole option of the issuer thereof) for (i) debt securities or (ii) any Equity Interest referred to in clause (a) above, in each case at any time prior to the first anniversary of the Term Loan Maturity Date.

“Distribution Agreement” means the Separation and Distribution Agreement to be entered into prior to the Internal Reorganization among the Borrower, the Current NGC Parent, New NGC, the Main Shipbuilding Subsidiary and Northrop Grumman Systems Corporation, a Delaware corporation, substantially in the form of the draft provided to the Administrative Agent prior to the date hereof.

“Domestic Restricted Subsidiary” means any Domestic Subsidiary that is a Restricted Subsidiary.

“Domestic Subsidiary” means any Subsidiary that is not a Foreign Subsidiary.

“Effective Date” means the date on which the conditions specified in Section 4.01 are satisfied (or waived in accordance with Section 9.02).

“Environmental Laws” means all laws (statutory, common or otherwise), rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or to health and safety matters.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) release or threatened release of any Hazardous Materials into the environment or (e) contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equity Interests” means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity interests in any Person, and any option, warrant or other right entitling the holder thereof to purchase or otherwise acquire any such equity interest (including through convertible securities); provided that any Indebtedness convertible or exchangeable for Equity Interests shall not be deemed to be Equity Interests, unless and until any such Indebtedness is so converted or exchanged.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“ERISA Affiliate” means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

“ERISA Event” means (a) any “reportable event”, as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30 day notice period is waived); (b) a determination that a Plan is, or is expected to be, in “at risk” status (as defined in Section 303(i)(4) of ERISA); (c) the failure to timely make a contribution required to be made with respect to any Plan or any Multiemployer Plan; (d) a determination that a Multiemployer Plan is, or is expected to be, in “endangered status” or “critical status” (each as defined in Section 305(b) of ERISA); (e) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of, or withdrawal or partial withdrawal from, any Plan or Multiemployer Plan; (f) the receipt by the
Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (g) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA; or (h) the occurrence of a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code which would reasonably be expected to result in liability to the Borrower or any of its ERISA Affiliates.

“Eurodollar”, when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

“Event of Default” has the meaning assigned to such term in Article 7.

“Excess Cash Adjustment Amount” shall mean, as of any date,

(a) the sum, for all fiscal years of the Borrower (starting with the fiscal year ended December 31, 2012) for which annual financial statements have been delivered pursuant to Section 5.01(a) on or prior to such date, of the Excess Cash Flow Overpayment Amount for each such year (the “Gross ECF Overpayment Amount”), minus

(b) the sum of all amounts by which the Gross ECF Overpayment Amount is reduced pursuant to Section 2.12(c).

“Excess Cash Flow” means, for any fiscal year of the Borrower (starting with the fiscal year ended December 31, 2011), the excess of (a) the sum, without duplication, of (i) Consolidated Net Income for such fiscal year, (ii) reductions to noncash working capital of the Borrower and the Restricted Subsidiaries for such fiscal year (i.e., the decrease, if any, in Current Assets minus Current Liabilities from the beginning to the end of such fiscal year), (iii) the amount of all non-cash charges (including depreciation and amortization) deducted in arriving at such Consolidated Net Income, (iv) an amount equal to the aggregate net non-cash loss on the disposition of property by the Borrower and the Restricted Subsidiaries during such fiscal year, to the extent deducted in arriving at such Consolidated Net Income, (v) the amount of income tax expense deducted in determining Consolidated Net Income for such period, and (vi) Consolidated Interest Expense for such period, over (b) the sum, without duplication, of (i) the amount of any incomes taxes payable in cash by the Borrower and the Restricted Subsidiaries with respect to such fiscal year, (ii) Consolidated Interest Expense for such fiscal year paid in cash plus, to the extent deducted from the calculation thereof, cash interest income during such fiscal year, (iii) Capital Expenditures and Permitted Acquisitions made in cash in accordance with Section 6.10 and Section 6.04(g), respectively, during such fiscal year, in each case to the extent financed with internally generated funds and not by utilizing the Available Retained Basket Amount, (iv) cash or in-kind investments made during such fiscal year pursuant to Section 6.04(p) or Section 6.04(q), and cash fees and expenses paid during such fiscal year in connection with any Investment permitted under Section 6.04, in each case to the extent financed with internally generated funds (other than in the case of any in-kind investment) and not by
utilizing the Available Retained Basket Amount, (v) permanent repayments of Indebtedness (other than mandatory prepayments of Term Loans under Section 2.12 and voluntary prepayments of Term Loans under Section 2.11) made in cash by the Borrower and the Restricted Subsidiaries during such fiscal year, but only to the extent that the Indebtedness so prepaid by its terms cannot be reborrowed or redrawn, such prepayments do not occur in connection with a refinancing of all or any portion of such Indebtedness and such prepayments are not financed with the Available Retained Basket Amount, (vi) additions to noncash working capital for such fiscal year (i.e., the increase, if any, in Current Assets minus Current Liabilities from the beginning to the end of such fiscal year), (vii) an amount equal to the aggregate net non-cash gain on the disposition of property by the Borrower and the Restricted Subsidiaries during such fiscal year, to the extent included in arriving at such Consolidated Net Income, (viii) cash payments during such fiscal year in respect of long-term liabilities other than Indebtedness and that were made with internally generated funds and were not deducted or excluded in calculating Consolidated Net Income and (ix) the Excess Cash Withheld Amount for such fiscal year.

“Excess Cash Flow Overpayment Amount” means, with respect to any fiscal year (starting with the fiscal year ended December 31, 2012) for which annual financial statements have been delivered pursuant to Section 5.01(a), the lesser of (x) the amount of outstanding Term Loans, if any, that have been prepaid in accordance with Section 2.12(c) based on the Excess Cash Flow calculated for the year preceding such fiscal year, and (y) the product of (A) the positive excess, if any, of the amount of Capital Expenditures and other expenditures for working capital requirements made by the Borrower and its Restricted Subsidiaries during such fiscal year over the Excess Cash Withheld Amount planned (as of the end of the preceding fiscal year) to be used during such fiscal year to make Capital Expenditures or for other working capital requirements (the “Underestimated Amount”), and (B) the Applicable ECF Percentage (calculated as of the end of the preceding fiscal year).

“Excess Cash Withheld Amount” means, as of the end of any fiscal year, an amount equal to the sum of (x) the amount of Capital Expenditures committed to be made in the following fiscal year by the Borrower and the Restricted Subsidiaries and (y) the amount of other working capital requirements of the Borrower and the Restricted Subsidiaries for the following fiscal year, in each case as certified in reasonable detail in a certificate signed by a Financial Officer and delivered to the Administrative Agent contemporaneously with the delivery of the Compliance Certificate for such fiscal year; provided that to the extent such Excess Cash Withheld Amount (as reduced in accordance with Section 2.12(d)) is not used for the purposes described in such officer’s certificate by the end of the following fiscal year (the “Unused Withheld Amount”), the Applicable ECF Percentage (applicable to the original fiscal year) of such Unused Withheld Amount shall be applied to mandatorily prepay Term Loans to the extent set forth in Section 2.12(e).

“Excluded Taxes” means, with respect to the Administrative Agent, any Lender, any Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower or any Guarantor hereunder, (a) income or franchise Taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits Taxes
imposed by the United States of America or any similar Tax imposed by any other jurisdiction described in clause (a) above, (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.20), any withholding Tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Foreign Lender's failure to comply with Section 2.18(f), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding Tax pursuant to Section 2.18(a) and (d) any U.S. federal withholding Tax imposed under FATCA.

“Existing JPM Letters of Credit” means the Existing Letters of Credit with respect to which JPMCB or an Affiliate thereof is the issuing bank.

“Existing Letters of Credit” means the letters of credit set forth on Schedule 2.05B.

“FATCA” means Sections 1471 through 1474 of the Code, as of the date of this Agreement and any regulations or official interpretations thereof.

“Federal Funds Effective Rate” means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

“Fee Letter” means the letter agreement, dated as of January 22, 2011, among the Borrower, the Current NGC Parent, the Lead Arrangers and the Administrative Agent.

“Financial Officer” means the chief financial officer, principal accounting officer, treasurer or controller of the Borrower.

“Fitch” means Fitch Ratings, a wholly owned subsidiary of Fimilac, S.A.


“Foreign Lender” means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“Foreign Restricted Subsidiary” means any Foreign Subsidiary that is a Restricted Subsidiary.

“Foreign Subsidiary” means any (i) Subsidiary that is treated as a corporation for U.S. federal income tax purposes that is organized under the laws of a jurisdiction other than the
United States of America or any State thereof or the District of Columbia, (ii) Subsidiary substantially all of the assets of which consist, directly or indirectly, of Subsidiaries described in clause (i) of this definition, (iii) entity treated as disregarded for U.S. federal income tax purposes that owns more than 65% of the voting stock of a Subsidiary described in clauses (i) or (ii) of this definition, and (iv) Subsidiary of an entity described in clauses (i), (ii), or (iii) of this definition.

“Funding Date” means the date on which the conditions specified in Section 4.02 are satisfied (or waived in accordance with Section 9.02).

“GAAP” means generally accepted accounting principles in the United States of America.

“Global Intercompany Note” means a global intercompany note in the form of Exhibit E pursuant to which intercompany obligations and advances owed by any Loan Party are subordinated to the Secured Obligations (as defined in the Guarantee and Security Agreement).

“Governmental Authority” means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“GO Zone Bonds” has the meaning assigned to such term in Section 4.02(i).

“Gross ECF Overpayment Amount” has the meaning assigned to such term in the definition of Excess Cash Adjustment Amount.

“Guarantee” of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Indebtedness or other obligation, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment of such Indebtedness or other obligation or (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation; provided, however, that the term “Guarantee” shall not include (x) endorsements for collection or deposit in the ordinary course of business or (y) any customary and reasonable indemnity obligations in effect on the Effective Date or entered into in connection with any acquisition or disposition of assets permitted under this Agreement (other than such obligations related to Indebtedness).

“Guarantee and Security Agreement” means the Guarantee and Security Agreement, substantially in the form of Exhibit D, among the Borrower, the Guarantors party thereto and the Collateral Agent for the benefit of the Secured Parties.
“Guarantors” means each of the Borrower’s direct and indirect Wholly Owned Domestic Restricted Subsidiaries.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any environmental law.

“Holding Company Merger” means the merger of Titan Merger Sub Inc., a Delaware corporation and a wholly owned indirect subsidiary of New NGC with and into the Current NGC Parent in a merger pursuant to Section 251(g) of the Delaware General Corporation Law, with the Current NGC Parent as the surviving entity and renamed “Titan II Inc.” and with New NGC renamed “Northrop Grumman Corporation.”

“Incremental Spin-off Related Expenses” means incremental costs for procurement of material and/or services resulting from renegotiation of pre-existing Intercompany Work Orders (IWOs) on an arm’s length basis with Northrop Grumman and its subsidiaries.

“Indebtedness” of any Person means, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (d) all obligations of such Person issued or assumed as the deferred purchase price of property or services (excluding trade and other current accounts payable and accrued obligations incurred in the ordinary course of business), (e) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed (but to the extent such Lien does not extend to any other property of such Person and is otherwise non-recourse against such Person, limited to the fair market value of such property), (f) all Guarantees by such Person of Indebtedness of others, (g) all Capital Lease Obligations of such Person, (h) net obligations of such Person under any Swap Contracts, valued at the Agreement Value thereof, (i) all obligations of such Person in respect of Disqualified Stock, (j) all obligations of such Person as an account party in respect of letters of credit and (k) all obligations of such Person in respect of bankers’ acceptances. The Indebtedness of any Person shall include the Indebtedness of any partnership in which such Person is a general partner, unless such Indebtedness is expressly made non-recourse to such Person.

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Interest Coverage Ratio” means, for any period, the ratio of (a) Consolidated EBITDA for such period to (b) Consolidated Interest Expense for such period.

“Interest Election Request” means a request by the Borrower to convert or continue a Borrowing in accordance with Section 2.07.
“Interest Payment Date” means (a) with respect to any ABR Loan (other than a Swingline Loan), the last day of each March, June, September and December, (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months’ duration, each day prior to the last day of such Interest Period that occurs at intervals of three months’ duration after the first day of such Interest Period and (c) with respect to any Swingline Loan, the day that such Loan is required to be repaid.

“Interest Period” means with respect to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, or, if agreed by all Revolving Credit Lenders, nine or twelve months thereafter, as the Borrower may elect; provided that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (ii) any Interest Period pertaining to a Eurodollar Borrowing that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

“Internal Reorganization” has the meaning assigned to such term in Schedule 1.01A.

“Investment” means, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of capital stock or other securities of another Person, (b) a loan, advance or capital contribution to, Guarantee or assumption of debt of, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, including any partnership or joint venture interest in such other Person and any arrangement pursuant to which the investor Guarantees Indebtedness of such other Person, or (c) the purchase or other acquisition (in one transaction or a series of transactions) of assets of another Person that constitute a business unit, line of business or division of such Person. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

“ISP” means, with respect to any Letter of Credit, the “International Standby Practices 1998” published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance).

“Issuing Bank” means JPMCB and each other Person that shall have become an Issuing Bank hereunder as provided in Section 2.05(i), in each case in its capacity as an issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.05(j). Each Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by its Affiliates provided that the identity and creditworthiness of the Affiliate is reasonably
acceptable to the Borrower), in which case the term “Issuing Bank” shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

“Issuing Bank Agreement” has the meaning assigned to such term in Section 2.05(i).

“JPMCB” means JPMorgan Chase Bank, N.A. and its successors.

“Joint Bookrunners” means J.P. Morgan Securities LLC, Credit Suisse Securities (USA) LLC, Wells Fargo Securities, LLC and RBS Securities Inc., in their capacity as joint bookrunners.

“Judgment Currency” has the meaning assigned to such term in Section 9.14.

“LC Commitment” means, with respect to each Issuing Bank, the commitment of such Issuing Bank to issue Letters of Credit pursuant to Section 2.05. The initial amount of each Issuing Bank’s LC Commitment is set forth on Schedule 2.05A, or in such Issuing Bank’s Issuing Bank Agreement.

“LC Continuing Agreement Form” has the meaning assigned to such term in Section 2.05(a).

“LC Disbursement” means a payment made by an Issuing Bank pursuant to a Letter of Credit.

“LC Exchange Rate” means, on any day, with respect to US Dollars in relation to any Designated Foreign Currency, the rate at which US Dollars may be exchanged into such currency, as set forth at approximately 12:00 noon, New York City time, on such day on the applicable Reuters World Currency Page. In the event that any such rate does not appear on the applicable Reuters World Currency Page, the LC Exchange Rate shall be determined by reference to such other publicly available service for displaying exchange rates as may be agreed upon by the Administrative Agent and the Borrower or, in the absence of such agreement, such LC Exchange Rate shall instead be the spot rate of exchange of the Administrative Agent, at or about 11:00 a.m., London time, on such date for the purchase of such Designated Foreign Currency with US Dollars for delivery two Business Days later; provided that if at the time of any such determination, for any reason, no such spot rate is being quoted, the Administrative Agent, after consultation with the Borrower, may use any reasonable method it deems appropriate to determine such rate, and such determination shall be conclusive absent manifest error.

“LC Exposure” means, at any time, the sum of (a) the aggregate of the US Dollar Equivalents of the undrawn amounts of all outstanding Letters of Credit at such time plus (b) the aggregate of the US Dollar Equivalents of all LC Disbursements that have not yet been reimbursed by or on behalf of the applicable Borrower at such time (determined as provided in Section 2.05 as of the applicable LC Participation Calculation Dates in the case of LC Disbursements in respect of which the Borrower’s reimbursement obligations have been converted to US Dollar amounts in accordance with such Section). The LC Exposure of any
Revolving Credit Lender at any time shall be its Applicable Revolving Percentage of the total LC Exposure at such time.

“LC Participation Calculation Date” means, with respect to any LC Disbursement made in a currency other than US Dollars, (a) the date on which the applicable Issuing Bank shall advise the Administrative Agent that it purchased with US Dollars the currency used to make such LC Disbursement, or (b) if such Issuing Bank shall not advise the Administrative Agent that it made such a purchase, the date on which such LC Disbursement is made.

“Lead Arrangers” means J.P. Morgan Securities LLC and Credit Suisse Securities (USA) LLC, in their capacity as lead arrangers.

“Lender Parent” means, with respect to any Lender, any Person as to which such Lender is, directly or indirectly, a subsidiary.

“Lenders” means the Persons listed on Schedule 2.01 and any other Person that shall have become a party hereto pursuant to an Assignment and Assumption, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Assumption. Unless the context otherwise requires, the term “Lenders” includes the Swingline Lender.

“Letter of Credit” means any letter of credit issued pursuant to this Agreement (including the Existing Letters of Credit).

“Leverage Ratio” means, on any date, the ratio of Total Debt on such date to Consolidated EBITDA for the period of four consecutive fiscal quarters most recently ended on or prior to such date.

“LIBO Rate” means, with respect to any Eurodollar Borrowing for any Interest Period, the rate per annum equal to the British Bankers Association LIBOR Rate (“BBA LIBOR”) from Telerate Successor Page 3750, as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Administrative Agent from time to time) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for US Dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the “LIBO Rate” with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which US Dollar deposits of $5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

“Lien” means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in or on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.
“Loan Documents” means this Agreement, the Letters of Credit, the Collateral Documents, any promissory note issued under Section 2.09(e) and any other document executed in connection with the foregoing.

“Loan Parties” means the Borrower and the Guarantors (but, in the case of any Guarantor, only for so long as that Guarantor has not been released from its Guarantee under the Guarantee and Security Agreement in accordance with its terms).

“Loans” means the loans made by the Lenders to the Borrower pursuant to this Agreement.

“Main Shipbuilding Subsidiary” means Northrop Grumman Shipbuilding, Inc., a Virginia corporation.

“Margin Stock” has the meaning assigned to such term in Regulation U issued by the Board.

“Material Adverse Effect” means a material adverse effect on (a) the business, assets, liabilities, results of operations or financial position of (i) the Borrower and its Subsidiaries, taken as a whole or (ii) the Acquired Business, in each case other than as a result of the Internal Reorganization (including the Contribution), (b) the ability of the Loan Parties to perform their obligations under this Agreement and the other Loan Documents or (c) the rights and remedies of the Lenders, the Administrative Agent or the Collateral Agent under this Agreement and the other Loan Documents.

“Material Indebtedness” means Indebtedness (other than the Loans and Letters of Credit), or obligations in respect of one or more Swap Contracts, of any one or more of the Borrower and its Restricted Subsidiaries in an aggregate principal amount exceeding $40,000,000. For purposes of determining Material Indebtedness, the “principal amount” of the obligations of the Borrower or any Restricted Subsidiary in respect of any Swap Contract at any time shall be the Agreement Value thereof.

“Material Real Property” means a fee interest in (i) any real property owned by the Borrower or any Wholly Owned Domestic Restricted Subsidiary on the Effective Date or the Funding Date that is listed on Schedule 1.01B and (ii) any after-acquired real property owned by a Loan Party having gross purchase price exceeding $10,000,000 at the time of acquisition; provided that for purposes of this definition, individual parcels of land in the same general geographic area acquired as part of a single acquisition will be considered as a single property.

“MBFC” has the meaning assigned to such term in Section 4.02(i).

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

“Mortgaged Properties” means, (i) initially, the properties specified on Schedule 1.01B, and (ii) any other Material Real Properties owned by any Loan Party with respect to which a Mortgage is granted pursuant to Section 5.11.
“Mortgages” shall mean the mortgages, deeds of trust, deeds to secure debt, assignments of leases and rents, modifications and other Collateral Documents delivered pursuant to Section 5.14 or Section 5.11 (each substantially in the form being attached hereto as Exhibit F).

“Multiemployer Plan” means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“Net Cash Proceeds” means (a) with respect to any Asset Sale, the cash proceeds (including (i) cash proceeds subsequently received (as and when received) in respect of noncash consideration initially received and (ii) casualty insurance settlements and condemnation awards, but only as and when received), net of (i) selling expenses (including reasonable broker’s fees or commissions, legal fees, transfer and similar taxes, title and survey expenses if customarily paid by a seller in the jurisdiction where the asset is located and the Borrower’s good faith estimate of income taxes paid or payable in connection with such sale), (ii) amounts provided as a reserve, in accordance with GAAP, or amounts placed in escrow, against any liabilities under any indemnification obligations or purchase price adjustment associated with such Asset Sale (provided that, to the extent and at the time any such amounts are released from such reserve or such escrow, such amounts shall constitute Net Cash Proceeds), (iii) the principal amount, premium or penalty, if any, interest and other amounts on any Indebtedness for borrowed money which is secured by the asset sold in such Asset Sale and which is required to be repaid with such proceeds (other than any such Indebtedness assumed by the purchaser of such asset and the Obligations) and (iv) refunds contractually or legally due to customers that are Governmental Authorities, or contractors or sub-contractors of Governmental Authorities, in respect of such cash proceeds; provided, however, that, if (A) the Borrower shall deliver a certificate of a Financial Officer to the Administrative Agent at the time of receipt thereof setting forth the Borrower’s intent to reinvest such proceeds in productive assets of a kind then used or usable in the business of the Borrower and the Restricted Subsidiaries (or, in the case of proceeds from the disposition of any Investment in a joint venture or Unrestricted Subsidiary, to reinvest such proceeds in any Investment permitted by Section 6.04), and (B) no Default or Event of Default shall have occurred and shall be continuing at the time of such certificate or at the proposed time of the application of such proceeds, such proceeds shall not constitute Net Cash Proceeds except to the extent not so used (1) within 365 days following the receipt of such proceeds, at which time such remaining proceeds shall be deemed to be Net Cash Proceeds or (2) if the Borrower or the relevant Subsidiary enters into a legally binding commitment to reinvest such Net Cash Proceeds within 365 days following the receipt thereof, within 180 days following the date of such legally binding commitment; and (b) with respect to any issuance or incurrence of Indebtedness or any Equity Issuance, the cash proceeds thereof, net of all taxes and customary fees, commissions, costs and other expenses incurred in connection therewith.

“New NGC” means New P, Inc., a Delaware corporation, to be renamed as Northrop Grumman Corporation after the consummation of the Holding Company Merger.

“NFIP” has the meaning assigned to such term in Section 5.14.

“Non-Consenting Lender” has the meaning assigned to such term in Section 9.02(c).
“Northrop Grumman” means, collectively, the Current NGC Parent, New NGC and their respective subsidiaries.

“Northrop Grumman Retained Subsidiaries” means LLC Holdco, LP Holdco, any direct or indirect subsidiary of LLC Holdco or LP Holdco from time to time (so long as it is a subsidiary of LLC Holdco and/or LP Holdco), and each other Northrop Grumman entity that is not engaged in the shipbuilding business of Northrop Grumman, is not part of the Acquired Business and is not intended to be a Subsidiary of the Borrower following the Spin-off. For the avoidance of doubt, Northrop Grumman Systems Corporation, a Delaware corporation, and its subsidiaries after giving effect to the Internal Reorganization shall be Northrop Grumman Retained Subsidiaries.

“Obligations” means (i) the principal of and premium, if any, and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on the Loans, (ii) each payment required to be made by the Borrower under this Agreement in respect of any Letter of Credit, including payments in respect of reimbursement of disbursements, interest thereon and obligations to provide cash collateral and (iii) all other monetary obligations, including fees, costs, expenses and indemnities, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding), of the Loan Parties under this Agreement and the other Loan Documents.

“Other Taxes” means any and all present or future recording, filing, stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement.

“Participant” has the meaning assigned to such term in Section 9.04(c).

“Participant Register” has the meaning assigned to such term in Section 9.04(c).

“PBGC” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

“Perfection Certificate” has the meaning assigned to such term in the Guarantee and Security Agreement.

“Permitted Acquisition” has the meaning assigned to such term in Section 6.04(g).

“Permitted Business” means (a) any business conducted by the Borrower and the Restricted Subsidiaries on the Effective Date, (b) any defense-related business with the Navy, the Coast Guard or other governmental agency that is substantially related, ancillary or complementary to the businesses described in clause (a) above and (c) any other business substantially related, ancillary or complementary to the businesses described in clause (a) above
“Permitted Investments” means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of issuance thereof;

(b) investments in commercial paper maturing within 270 days from the date of issuance thereof and having, at such date of acquisition, the highest credit rating obtainable from S&P or from Moody’s;

(c) investments in certificates of deposit, banker’s acceptances and time deposits maturing within 180 days from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, the Administrative Agent or any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof that has a combined capital and surplus and undivided profits of not less than $500,000,000;

(d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria of clause (c) above; and

(e) money market funds that (i) comply with the criteria set forth in Rule 2a-7 of the Investment Company Act of 1940, as amended, (ii) are rated AAA by S&P and Aaa by Moody’s and (iii) have portfolio assets of at least $5,000,000,000.

“Permitted Refinancing” means, with respect to any Person, any modification, refinancing, refunding, renewal or extension (collectively, “Refinancing”) of any Indebtedness of such Person; provided that (a) the principal amount (or accreted value, if applicable) thereof does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness so modified, refinanced, refunded, renewed or extended (collectively, “Refinanced”) except by an amount equal to unpaid accrued interest and premium thereon, (b) such Refinancing has a final maturity date equal to or later than the final maturity date of, and has a weighted average life to maturity equal to or greater than the weighted average life to maturity of, the Indebtedness being Refinanced, (c) if the Indebtedness being Refinanced is subordinate in right of payment to the Obligations, such Refinancing is subordinate in right of payment to the Obligations on terms at least as favorable to the Lenders as those contained in the documentation governing the Indebtedness being Refinanced, taken as a whole, (d) the terms and conditions (including, if applicable, as to collateral) of any such Refinanced Indebtedness are not materially less favorable to the Loan Parties or the Lenders than the terms and conditions of the Indebtedness being Refinanced, taken as a whole, (e) such Refinancing is incurred by the Person who is the obligor on the Indebtedness being Refinanced, (f) at the time thereof, no Default or Event of Default shall have occurred and be continuing and (g) the Borrower and its Restricted Subsidiaries shall
be in compliance, on a pro forma basis after giving effect to such Refinancing, with the financial covenants set forth in Sections 6.11 and 6.12.

“Permitted Senior Indebtedness” means unsecured senior Indebtedness issued or incurred by the Borrower, (a) the terms of which (i) do not provide for any scheduled repayment, mandatory redemption (except in exchange for common stock of the Borrower) or sinking fund obligation prior to the date that is six months after the Term Loan Maturity Date, (ii) have mandatory prepayment, repurchase or redemption provisions no more onerous or expansive in scope, taken as a whole, than those contained in this Agreement and (iii) provide for covenants and events of default customary for Indebtedness of a similar nature as such Permitted Senior Indebtedness and (b) in respect of which no Restricted Subsidiary that is not an obligor under the Loan Documents is an obligor; provided that immediately prior to and after giving effect on a pro forma basis to any incurrence of Permitted Senior Indebtedness, no Default or Event of Default shall have occurred and be continuing or would result therefrom.

“Permitted Subordinated Indebtedness” means unsecured subordinated Indebtedness issued or incurred by the Borrower, (a) the terms of which (i) do not provide for any scheduled repayment, mandatory redemption (except in exchange for common stock of the Borrower) or sinking fund obligation prior to the date that is six months after the Term Loan Maturity Date, (ii) have mandatory prepayment, repurchase or redemption provisions no more onerous or expansive in scope, taken as a whole, than those contained in this Agreement, (iii) provide for covenants and events of default customary for Indebtedness of a similar nature as such Permitted Subordinated Indebtedness and (iv) provide for subordination of payments in respect of such Indebtedness to the Obligations and guarantees thereof under the Loan Documents customary for high yield securities and (b) in respect of which no Restricted Subsidiary that is not an obligor under the Loan Documents is an obligor; provided that immediately prior to and after giving effect on a pro forma basis to any incurrence of Permitted Subordinated Indebtedness, no Default or Event of Default shall have occurred and be continuing or would result therefrom.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Plan” means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an “employer” as defined in Section 3(5) of ERISA.

“Pre- Contribution Internal Reorganization” has the meaning assigned to such term in Schedule 1.01A.

“Prime Rate” means the rate of interest per annum publicly announced from time to time by JPMCB as its prime rate in effect at its office located at 270 Park Avenue, New York, New York; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

“Proposed Change” has the meaning assigned to such term in Section 9.02(c).
“Qualified Capital Stock” of any Person means any Equity Interest of such Person that is not Disqualified Stock.

“Register” has the meaning assigned to such term in Section 9.04(b).

“Related Parties” means, with respect to any specified Person, such Person’s Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person’s Affiliates.

“Required Lenders” means, at any time, Lenders having Term Loans (or prior to the Funding Date, Term Loan Commitments), Revolving Credit Exposures and unused Revolving Credit Commitments representing more than 50% of the sum of total Term Loans (or prior to the Funding Date, Term Loan Commitments), Revolving Credit Exposures and unused Revolving Credit Commitments at such time; provided that the Revolving Credit Exposure and unused Revolving Credit Commitments of any Defaulting Lender shall be disregarded in the determination of the Required Lenders at any time.

“Required Revolving Credit Lenders” means, at any time, Revolving Credit Lenders having Revolving Credit Exposures and unused Revolving Credit Commitments representing more than 50% of the sum of total Revolving Credit Exposures and unused Revolving Credit Commitments at such time; provided that the Revolving Credit Exposure and unused Revolving Credit Commitments of any Defaulting Lender shall be disregarded in the determination of the Required Revolving Credit Lenders at any time.

“Responsible Officer” means any Financial Officer, chief executive officer, general counsel, chief compliance officer or chief administrative officer of the Borrower.

“Restricted Companies” means the Borrower and the Restricted Subsidiaries.

“Restricted Payment” means any dividend or other distribution (whether in cash, securities or other property) with respect to any Equity Interests in the Borrower or any Restricted Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any Equity Interests in the Borrower or any Restricted Subsidiary.

“Restricted Prepayment” has the meaning assigned to such term in Section 6.09(b).

“Restricted Subsidiary” means any Subsidiary of the Borrower other than any Unrestricted Subsidiary; provided that prior to the Spin-off, the Northrop Grumman Retained Subsidiaries shall be deemed not to be Restricted Subsidiaries of the Borrower. Between the period starting with the Effective Date and ending on the Funding Date, each entity that is scheduled to be a Restricted Subsidiary as of the Funding Date pursuant to the Internal Reorganization shall be deemed to be a Restricted Subsidiary for purposes of this Agreement during such period, provided that, notwithstanding the foregoing, for purposes of Article 5 (except for Sections 5.01 and 5.02) no entity will be deemed a Restricted Subsidiary for purposes of this Agreement unless it is at such time a subsidiary of the Borrower.
“Revaluation Date” means, with respect to any Letter of Credit denominated in a Designated Foreign Currency, each of the following: (a) each date of issuance of a Letter of Credit denominated in a Designated Foreign Currency, (b) each date of an amendment of any such Letter of Credit having the effect of increasing the amount thereof (solely with respect to the increased amount), (c) each date of any payment by an Issuing Bank under any Letter of Credit denominated in a Designated Foreign Currency and (d) such additional dates as the Administrative Agent or the applicable Issuing Bank shall determine or the Required Lenders shall require.

“Revolving Borrowing” means a Borrowing comprised of Revolving Loans.

“Revolving Credit Commitment” means, with respect to each Revolving Credit Lender, the commitment of such Revolving Credit Lender to make Revolving Loans pursuant to Section 2.01, expressed as a US Dollar amount representing the maximum aggregate permitted amount of such Revolving Credit Lender’s Revolving Credit Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.08 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender under Section 9.04. The initial amount of each Revolving Credit Lender’s Revolving Credit Commitment is set forth on Schedule 2.01, or in the Assignment and Assumption pursuant to which such Revolving Credit Lender shall have assumed its Revolving Credit Commitment, as applicable. The aggregate amount of the Revolving Credit Commitments on the date hereof is $650,000,000.

“Revolving Credit Exposure” means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender’s Revolving Loans and its LC Exposure and Swingline Exposure at such time.

“Revolving Credit Facility” means the Revolving Credit Commitments and the extensions of credit made hereunder by the Revolving Credit Lenders.

“Revolving Credit Lender” means a Lender with a Revolving Credit Commitment or an outstanding Revolving Credit Exposure.

“Revolving Credit Maturity Date” means the date (or if such date is not a Business Day, the next succeeding Business Day, unless such Business Day is in the next calendar month, in which case the next preceding Business Day) that is the fifth anniversary of the Funding Date.

“Revolving Credit Party” means the Administrative Agent, any Issuing Bank, any Swingline Lender or any other Revolving Credit Lender.

“Revolving Loan” means a Loan made pursuant to Section 2.01.

“S&P” means Standard & Poor’s Ratings System.

“Secured Obligations” has the meaning assigned to such term in the Guarantee and Security Agreement.

“Secured Parties” has the meaning assigned to such term in the Guarantee and Security Agreement.

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“Senior Credit Facilities” means the revolving credit, swingline, letters of credit and the term loan facility provided for by this Agreement.

“Senior Note Documents” means the indenture under which the Senior Notes are issued and all other instruments, agreements and other documents evidencing or governing the Senior Notes or providing for any Guarantee or other right in respect thereof.

“Senior Notes” means, collectively, (i) the Borrower’s 6.875% Senior Notes due 2018 in an initial aggregate principal amount of $600,000,000 and (ii) the Borrower’s 7.125% Senior Notes due 2021 in an initial aggregate principal amount of $600,000,000.

“Senior Notes Escrow” has the meaning assigned to such term in Schedule 1.01A.

“Significant Subsidiary” means (i) each Restricted Subsidiary other than Restricted Subsidiaries that, in the aggregate, as of the last day of the most recent fiscal quarter of the Borrower for which financial statements have been delivered pursuant to Section 5.01, constitute “minor” subsidiaries as defined in Rule 3-10 of Regulation S-X and (ii) for purposes of Section 5.01(k) only, “Significant Subsidiary” shall include each Unrestricted Subsidiary other than Unrestricted Subsidiaries that, in the aggregate, as of the last day of the most recent fiscal quarter of the Borrower for which financial statements have been delivered pursuant to Section 5.01, constitute “minor” subsidiaries as defined in Rule 3-10 of Regulation S-X.

“Specified Permitted CapEx Amount” has the meaning assigned to such term in Section 6.10.

“Spin-off” means the distribution by New NGC of all of the issued and outstanding shares of the Borrower’s common stock on a pro rata basis to holders of New NGC common stock (after giving effect to the Internal Reorganization) in accordance with the Distribution Agreement, as more fully described in Schedule 1.01A.

“Statutory Reserve Rate” means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject with respect to the Adjusted LIBO Rate, for eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“subsidiary” means, with respect to any Person (the “parent”) at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent’s consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other
entity of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case
of a partnership, more than 50% of the general partnership interests are, as of such date, directly or indirectly, owned, controlled or held by the parent or one
or more of the other subsidiaries of the parent or by the parent and one or more of the other subsidiaries of the parent.

“Subsidiary” means any subsidiary of the Borrower; provided that prior to the Spin-off, the Northrop Grumman Retained Subsidiaries shall be deemed not to be Subsidiaries of the Borrower.

“Swap Contract” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, equity or equity index swaps or options, bond or bond index swaps or options, interest rate options, foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc. or any other master agreement or related schedules, including any such obligations or liabilities arising therefrom.

“Swingline Exposure” means, at any time, the aggregate principal amount of all Swingline Loans outstanding at such time. The Swingline Exposure of any Revolving Credit Lender at any time shall be its Applicable Revolving Percentage of the total Swingline Exposure at such time.

“Swingline Lender” means each of JPMorgan Chase Bank, N.A. and Credit Suisse AG, in each such Lender’s capacity as a lender of Swingline Loans hereunder.

“Swingline Loan” means a Loan made pursuant to Section 2.04.

“Syndication Agent” means Credit Suisse Securities (USA) LLC in its capacity as syndication agent.

“Taxes” means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Term Borrowing” means a Borrowing comprised of Term Loans.

“Term Lender” means a Lender with a Term Loan Commitment or an outstanding Term Loan.

“Term Loan Commitment” means with respect to each Term Lender, the amount set forth on Schedule 2.01 under the heading “Term Loan Commitment”. The aggregate amount of the Term Loan Commitments on the Effective Date is $575,000,000.

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“Term Loans” means the term loans made by the Lenders to the Borrower on the Funding Date pursuant to Section 2.01(a).

“Term Maturity Date” means the date (or if such date is not a Business Day, the next succeeding Business Day, unless such Business Day is in the next calendar month, in which case the next preceding Business Day) that is the fifth anniversary of the Funding Date.

“Titan II” means (i) prior to the consummation of the Spin-off, the Current NGC Parent after (A) it becomes a Wholly Owned Subsidiary of the Borrower and (B) the Main Shipbuilding Subsidiary becomes a Wholly Owned Subsidiary of the Borrower and (ii) after the consummation of the Spin-off, Titan II Inc., a Delaware corporation and a Wholly Owned Subsidiary of the Borrower.

“Titan II Guarantees” means (i) (A) the performance guaranty dated as of April 11, 2002, by Current NGC Parent, as guarantor, to the United States of America, Naval Sea Systems Command (the “Navy”), as beneficiary, (B) the performance guaranty dated as of May 30, 2006, by Current NGC Parent, as guarantor, to the Navy, as beneficiary, (C) the performance guaranty dated as of April 24, 2007, by Current NGC Parent, as guarantor, to the Navy, as beneficiary, and (D) any other similar guarantee pursuant to which Current NGC Parent has guaranteed the performance of the Main Shipbuilding Subsidiary, or any affiliate of the Main Shipbuilding Subsidiary, under shipbuilding construction contracts with the Navy or a command or other division thereof and (ii) the guaranty agreement dated as of December 1, 2006, between Current NGC Parent, as guarantor, and The Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York Trust Company, N.A.), as trustee, pursuant to which Current NGC Parent has guaranteed the payment of the GO Zone Bonds.

“Total Debt” means, at any time, the total Indebtedness of the Borrower and the Restricted Subsidiaries on a consolidated basis at such time (excluding Indebtedness of the type described in clause (i), clause (j) and clause (k) of the definition of such term, except, in the case of such clauses (j) and (k), to the extent of any unreimbursed drawings thereunder).

“Transaction Documents” means, collectively, (i) the Distribution Agreement, the Ancillary Agreements (as defined in the Distribution Agreement) and any other contribution and separation agreements and other documents relating to the Internal Reorganization (including the Contribution) and the Spin-off (including as to the allocation of liabilities), (ii) the documentation relating to the establishment of the Borrower, (iii) the Senior Note Documents and (iv) all other documents, instruments and documents relating to the Transactions (other than the Loan Documents).

“Transaction Expenses” means all legal fees, auditors fees and other fees or expenses incurred by the Borrower and the Restricted Subsidiaries in connection with the Transactions (including without limitation, financing fees, financial and other advisory fees, accounting and consulting fees and legal fees and related costs and expenses).

“Transactions” means, collectively, (a) the Internal Reorganization (including the Contribution), the establishment of the Borrower, and other transactions expressly contemplated by the Transaction Documents specified in clause (i) of the definition thereof, (b) the Spin-off,
(c) the execution, delivery and performance by each Loan Party of the Loan Documents to which it is to be a party, the borrowing or issuance of Loans, the use of any proceeds thereof and the issuance of Letters of Credit hereunder, (e) the execution, delivery and performance of each Loan Party of the Senior Note Documents to which it is to be a party and the issuance of the Senior Notes and (e) the payment of the Transaction Expenses.

“Type”, when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

“UCP” means, with respect to any Letter of Credit, the Uniform Customs and Practice for Documentary Credits, as published by the International Chamber of Commerce in 2007 (the “UCP600”).

“Unrestricted Subsidiary” means any Subsidiary of the Borrower designated by the board of directors of the Borrower (or, in the case of Titan II and Ascension designated by operation of the last sentence of Section 5.12) as an Unrestricted Subsidiary pursuant to Section 5.12 (and continuing until such time that such designation may be thereafter revoked by the Borrower).

“Unused Withheld Amount” has the meaning assigned to such term in the definition of Excess Cash Withheld Amount.

“US Dollar Equivalent” means, on any date of determination, (a) with respect to any amount in US Dollars, such amount, and (b) with respect to any amount in any currency other than US Dollars, the equivalent in US Dollars of such amount, determined by the Administrative Agent using the LC Exchange Rate with respect to such currency in effect for such amount on such date. The US Dollar Equivalent at any time of the amount of any Letter of Credit or LC Disbursement denominated in any currency other than US Dollars shall be the amount most recently determined as provided in Section 1.05.

“US Dollars” or “$” means the lawful money of the United States of America.

“U.S. Person” means a “United States person” within the meaning of Section 7701(a)(30) of the Code.

“U.S. Tax Certificate” has the meaning assigned to such term in Section 2.18(f)(ii)(D).

“Wholly Owned Domestic Restricted Subsidiary” means a Wholly Owned Restricted Subsidiary that is a Domestic Subsidiary.

“Wholly Owned Restricted Subsidiary” means a Wholly Owned Subsidiary that is a Restricted Subsidiary.

“Wholly Owned Subsidiary” of any Person means a subsidiary of such Person of which securities (except for directors’ qualifying shares) or other ownership interests representing 100% of the Equity Interests are, at the time any determination is being made, owned, Controlled
or held by such Person or one or more wholly owned Subsidiaries of such Person or by such Person and one or more wholly owned Subsidiaries of such Person.

“Withdrawal Liability” means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02 Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a “Revolving Loan”) or by Type (e.g., a “Eurodollar Loan”) or by Class and Type (e.g., a “Eurodollar Revolving Loan”). Borrowings also may be classified and referred to by Class (e.g., a “Revolving Borrowing”) or by Type (e.g., a “Eurodollar Borrowing”) or by Class and Type (e.g., a “Eurodollar Revolving Borrowing”).

SECTION 1.03 Terms Generally. The definitions of terms herein shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (c) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.04 Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or the rules promulgated with respect thereto or in the application thereof on the operation of such provision or on the method of calculation of financial covenants, standards or terms of this Agreement (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.
SECTION 1.05. Currency Translation. The Administrative Agent shall determine the US Dollar Equivalent of any Letter of Credit denominated in a Designated Foreign Currency as of any Revaluation Date, in each case using the LC Exchange Rate for the applicable currency in effect on the date of determination, and each such amount shall be the US Dollar Equivalent of such Letter of Credit until the next Revaluation Date. The Administrative Agent shall in addition determine the US Dollar Equivalent of any Letter of Credit denominated in any Designated Foreign Currency as provided in Section 2.05. The Administrative Agent shall notify the Borrower and the applicable Issuing Bank of each calculation of the US Dollar Equivalent of each Letter of Credit and LC Disbursement.

 SECTION 1.06. Pro Forma Calculations. All pro forma calculations permitted or required to be made by the Borrower or any Restricted Subsidiary pursuant to this Agreement shall include only those adjustments that would be (a) permitted or required by Regulation S-X under the Securities Act of 1933, as amended, together with those adjustments that (i) have been certified by a Financial Officer of the Borrower as having been prepared in good faith based upon reasonable assumptions and (ii) are based on reasonably detailed written assumptions and (b) required by the definition of Consolidated EBITDA.

ARTICLE 2
The Credits

SECTION 2.01. Commitments. (a) Subject to the terms and conditions set forth herein, each Term Lender severally agrees to make Term Loans to the Borrower on the Funding Date in US Dollars in an aggregate principal amount that will not result in the aggregate amount of such Lender’s Term Loans exceeding such Lender’s Term Loan Commitment. Amounts repaid or prepaid in respect of Term Loans may not be reborrowed.

(b) Subject to the terms and conditions set forth herein, each Revolving Credit Lender severally agrees to make Revolving Loans to the Borrower from time to time during the Availability Period in US Dollars in an aggregate principal amount that will not result in such Lender’s Revolving Credit Exposure exceeding such Lender’s Revolving Credit Commitment; it being understood and agreed for the avoidance of doubt that no Revolving Loans shall be made on the Funding Date. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, repay and reborrow Revolving Loans.

SECTION 2.02. Loans and Borrowings. (a) Each Loan of any Class (other than Swingline Loans) shall be made as part of a Borrowing consisting of Loans made by the Lenders ratably in accordance with their applicable Commitments of such Class. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender’s failure to make Loans as required.

(b) Subject to Section 2.15, each Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrower may request in accordance herewith. Each Swingline Loan shall be an ABR Loan. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any
exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) At the commencement of each Interest Period for any Eurodollar Revolving Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of $500,000 and not less than $2,000,000. At the time that each ABR Revolving Borrowing is made, such Borrowing shall be in an aggregate amount that is an integral multiple of $500,000 and not less than $2,000,000; provided that an ABR Revolving Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Commitments or that is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.05(e). Each Swingline Loan shall be in an amount that is an integral multiple of $100,000 and not less than $500,000. Borrowings of more than one Type and Class may be outstanding at the same time; provided that there shall not at any time be more than a total of 10 Eurodollar Borrowings outstanding.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Eurodollar Borrowing if the Interest Period requested with respect thereto would end after the Revolving Credit Maturity Date or the Term Maturity Date, as applicable.

SECTION 2.03. Requests for Borrowings. To request a Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurodollar Borrowing, not later than 12:00 noon, New York City time, three Business Days before the date of the proposed Borrowing or (b) in the case of an ABR Borrowing, not later than 12:00 noon, New York City time, one Business Day before the proposed Borrowing; provided that any such notice of an ABR Revolving Borrowing to finance the reimbursement of an LC Disbursement as contemplated by Section 2.05(e) may be given not later than 10:00 a.m., New York City time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

(i) the aggregate amount of the requested Borrowing;
(ii) the date of such Borrowing, which shall be a Business Day;
(iii) whether such Borrowing is to be a Term Borrowing or a Revolving Borrowing, and whether such Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and
(iv) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term “Interest Period”.

If no election as to the Type of Borrowing is specified, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any requested Eurodollar

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Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month’s duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the applicable Class of the details thereof and of the amount of such Lender’s Loan to be made as part of the requested Borrowing.

SECTION 2.04. Swingline Loans. (a) Subject to the terms and conditions set forth herein, the Swingline Lenders agree to make Swingline Loans to the Borrower from time to time during the Availability Period in US Dollars in amounts that will not result in (i) the aggregate principal amount of outstanding Swingline Loans exceeding $100,000,000 or (ii) the total Revolving Credit Exposures exceeding the total Revolving Credit Commitments; provided that no Swingline Lender shall be required to make a Swingline Loan to refinance an outstanding Swingline Loan. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, repay and reborrow Swingline Loans. Unless otherwise agreed between the Swingline Lenders, each Swingline Lender shall make 50% of each Swingline Loan.

(b) To request a Swingline Loan, the Borrower shall notify the Administrative Agent of such request by telephone (confirmed by telecopy), not later than 1:00 p.m., New York City time, on the day of a proposed Swingline Loan. Each such notice shall be irrevocable and shall specify the requested date (which shall be a Business Day) and amount of the requested Swingline Loan. The Administrative Agent will promptly advise the Swingline Lenders of any such notice received from the Borrower. The Swingline Lenders shall make each Swingline Loan available to the Borrower by means of a credit (or remittance) to the general deposit account of the Borrower with the Administrative Agent (or, in the case of a Swingline Loan made to finance the reimbursement of an LC Disbursement as provided in Section 2.05(e), by remittance to the applicable Issuing Bank) by 4:00 p.m., New York City time, on the requested date of such Swingline Loan.

(c) The Swingline Lenders (acting together) may by written notice given to the Administrative Agent not later than 10:00 a.m., New York City time, on any Business Day require the Revolving Credit Lenders to acquire participations on such Business Day in all or a portion of the outstanding Swingline Loans. Such notice shall specify the aggregate amount of Swingline Loans in which the Revolving Credit Lenders will participate. Promptly upon receipt of such notice, the Administrative Agent will give notice thereof to each Revolving Credit Lender, specifying in such notice such Lender’s Applicable Revolving Percentage of such Swingline Loans or Loans. Each Revolving Credit Lender hereby absolutely and unconditionally agrees, upon receipt of notice as provided above, to pay to the Administrative Agent, for the account of the Swingline Lenders, such Lender’s Applicable Revolving Percentage of such Swingline Loan or Loans. Each Revolving Credit Lender acknowledges and agrees that its obligation to acquire participations in Swingline Loans pursuant to this paragraph is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each Revolving Credit Lender shall comply with its obligation under this paragraph by wire transfer of immediately available funds, in the same manner as provided in Section 2.06 with respect to Loans made by such Lender (and Section 2.06 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the
Swingline Lenders their pro rata share of the amounts so received by it from the Revolving Credit Lenders. The Administrative Agent shall notify the Borrower of any participations in any Swingline Loan acquired pursuant to this paragraph, and thereafter payments in respect of such Swingline Loan shall be made to the Administrative Agent and not to the Swingline Lenders. Any amounts received by the Swingline Lenders from the Borrower (or other party on behalf of the Borrower) in respect of a Swingline Loan after receipt by the Swingline Lenders of the proceeds of a sale of participations therein shall be promptly remitted to the Administrative Agent; any such amounts received by the Administrative Agent shall be promptly remitted by the Administrative Agent to the Revolving Credit Lenders that shall have made their payments pursuant to this paragraph and to the Swingline Lenders, as their interests may appear, provided that any such payment so remitted shall be repaid to the Swingline Lenders or to the Administrative Agent, as applicable, if and to the extent such payment is required to be refunded to the Borrower for any reason. The purchase of participations in a Swingline Loan pursuant to this paragraph shall not relieve the Borrower of any default in the payment thereof.

SECTION 2.05. Letters of Credit. (a) General. (i) Subject to the terms and conditions set forth herein, the Borrower may request the issuance of commercial and standby Letters of Credit denominated in US Dollars or any Designated Foreign Currency approved by the applicable Issuing Bank (and in the case of any such Designated Foreign Currency, (A) subject to any cap imposed by such applicable Issuing Bank in respect of such Designated Foreign Currency and (B) provided that the LC Exposure of Letters of Credit denominated in Designated Foreign Currencies shall not exceed $70,000,000 at any time), (x) for its own account or (y) for its own account and, jointly, for the account of any of its Restricted Subsidiaries (and in each case under this clause (y), the Borrower shall be considered the sole obligor under such Letter of Credit for purposes of this Agreement notwithstanding any listing of any Restricted Subsidiary as an account party or applicant with respect to such Letter of Credit), pursuant to an agreement (x) if JPMCB is the Issuing Bank, substantially in the form of Exhibit C (the “LC Continuing Agreement Form”) and (y) in the case of any other Issuing Bank, substantially in the form of the LC Continuing Agreement Form with such changes as shall be agreed to by the Borrower, the applicable Issuing Bank and the Administrative Agent, at any time and from time to time during the Availability Period (including, for the avoidance of doubt, on the Funding Date). Except as to matters covered by agreements contained herein or otherwise expressly agreed by the relevant Issuing Bank and the Borrower when a Letter of Credit is issued, the rules of the ISP shall apply to each standby Letter of Credit, and the rules of the UCP shall apply to each commercial Letter of Credit. JPMCB and each other Lender which has been designated as an Issuing Bank hereunder, agrees, subject to the terms and conditions set forth herein (including, without limitation, Section 4.03), that it shall issue Letters of Credit complying with the terms of this Agreement upon the request of the Borrower in the manner contemplated by this Section. It is understood and agreed that the Borrower shall be deemed to be a primary account party under, and obligated in respect of, each Letter of Credit issued at the request of the Borrower hereunder, notwithstanding the fact that a Restricted Subsidiary may be listed as the account party in the Letter of Credit. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, an Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control. The Borrower unconditionally and irrevocably agrees that, in connection with any Letter of Credit.
referred to in clause (ii) of the first sentence of this paragraph, it will be fully responsible for the reimbursement of LC Disbursements, the payment of interest thereon and the payment of participation fees and other fees due hereunder to the same extent as if it were the sole account party in respect of such Letter of Credit (the Borrower hereby irrevocably waiving any defenses that might otherwise be available to it as a guarantor of the obligations of any Restricted Subsidiary that shall be a joint account party in respect of any such Letter of Credit).

(ii) The parties hereto acknowledge and agree that, as of the Funding Date, the Existing JPM Letters of Credit shall constitute Letters of Credit hereunder for all purposes as fully as if such Existing JPM Letters of Credit had been issued as Letters of Credit hereunder.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy to the applicable Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the currency and amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. In connection with any request for a Letter of Credit and if requested by the applicable Issuing Bank, the Borrower also shall submit (i) in the case of such request from JPMCB, a letter of credit application substantially in the form attached as an annex to the LC Continuing Agreement Form or (ii) in the case of such request from any other Issuing Bank, a letter of credit application substantially in the form attached as an annex to the LC Continuing Agreement with such changes as shall be agreed between the Borrower and such Issuing Bank. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension, (i) the total Revolving Credit Exposures shall not exceed the total Revolving Credit Commitments, (ii) the total LC Exposure shall not exceed $350,000,000, (iii) the portion of the LC Exposure attributable to Letters of Credit issued by the applicable Issuing Bank will not exceed the LC Commitment of such Issuing Bank and (iv) if such Letter of Credit is denominated in a Designated Foreign Currency, the US Dollar Equivalent of the portion of the LC Exposure attributable to Letters of Credit denominated in such Designated Foreign Currency and issued by the applicable Issuing Bank shall not exceed the cap (if any) imposed by such Applicable Bank with respect to such Designated Foreign Currency.

(c) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date one year after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (ii) the date that is five Business Days prior to the Revolving Credit Maturity Date; provided that any Letter of Credit with a one-year tenor may provide for renewal thereof under procedures reasonably satisfactory to the applicable Issuing Bank for additional one-year periods (which shall in no event extend beyond the date referred to in clause (ii) above).
(d) **Participations.** By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the applicable Issuing Bank or the Revolving Credit Lenders, such Issuing Bank hereby grants to each Revolving Credit Lender, and each such Revolving Credit Lender hereby acquires from such Issuing Bank, a participation in such Letter of Credit equal to such Lender’s Applicable Revolving Percentage of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Revolving Credit Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the applicable Issuing Bank, such Lender’s Applicable Revolving Percentage (determined as of the time or times at which the Revolving Credit Lenders are required to make payments in respect of unreimbursed LC Disbursements under such Letter of Credit pursuant to paragraph (e) below) of each LC Disbursement made by such Issuing Bank and not reimbursed by the Borrower on the date due as provided in paragraph (e) of this Section, or of any reimbursement payment required to be refunded to the Borrower for any reason (or, if the currency of the applicable LC Disbursement or reimbursement payment shall be a Designated Foreign Currency, an amount equal to the US Dollar Equivalent thereof using the LC Exchange Rate in effect on the applicable LC Participation Calculation Date). Each Revolving Credit Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments or any fluctuation in currency values, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) **Reimbursement.** If the applicable Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 12:00 noon, New York City time, on the date that such LC Disbursement is made, if the Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m., New York City time, on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 12:00 noon, New York City time, on the Business Day immediately following the day that the Borrower receives such notice; provided that the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Sections 2.03 or 2.04 that such payment be financed with an ABR Revolving Borrowing or Swingline Loan in an equivalent amount and, to the extent so financed, the Borrower’s obligation to make such payment shall be discharged and replaced by the resulting ABR Revolving Borrowing or Swingline Loan. If the Borrower fails to reimburse any LC Disbursement when due, (i) if such payment relates to a Letter of Credit denominated in a Designated Foreign Currency, automatically and with no further action required, the obligation of the Borrower to reimburse the applicable LC Disbursement shall be permanently converted into an obligation to reimburse the US Dollar Equivalent, calculated using the LC Exchange Rate on the applicable LC Participation Calculation Date, of such LC Disbursement and (ii) in the case of each LC Disbursement, the Administrative Agent shall notify each Revolving Credit Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender’s Applicable Revolving Percentage thereof. Promptly following receipt of such notice, each Revolving Credit Lender shall pay to the Administrative Agent its Applicable Revolving Percentage of the payment then due from the
Borrower, in the same manner as provided in Section 2.06 with respect to Revolving Loans made by such Lender (and Section 2.06 shall apply, mutatis
mutandis, to the payment obligations of the Revolving Credit Lenders), and the Administrative Agent shall promptly pay to the applicable Issuing Bank the
amounts so received by it from the Revolving Credit Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower
pursuant to this paragraph, the Administrative Agent shall distribute such payment to such Issuing Bank or, to the extent that Revolving Credit Lenders or a
Swingline Lender have made payments pursuant to this paragraph to reimburse such Issuing Bank, then to such Lenders and such Issuing Bank as their
interests may appear. Any payment made by a Lender pursuant to this paragraph to reimburse an Issuing Bank for any LC Disbursement (other than the
funding of ABR Revolving Loans or a Swingline Loan as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation
to reimburse such LC Disbursement. If the Borrower’s reimbursement of, or obligation to reimburse, any amounts in respect of any Letter of Credit
denominated in a currency other than US Dollars would subject the Administrative Agent, the applicable Issuing Bank or any Lender to any stamp duty, ad
valorem charge or other tax, expense or loss (including any loss resulting from changes in currency exchange rates between the date of any LC Disbursement
and the date of any reimbursement payment in respect thereof), the Borrower shall pay the amount of any such tax, expense or loss requested by the
Administrative Agent or the relevant Issuing Bank or Lender, as applicable.

(f) Obligations Absolute. The Borrower’s obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section shall be absolute,
unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever
and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other
document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in
any respect, (iii) payment by the applicable Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with
the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the
provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower’s obligations hereunder. Neither the
Administrative Agent, the Revolving Credit Lenders nor any Issuing Bank, nor any of their Related Parties, shall have any liability or responsibility by
reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any
of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or
other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of
technical terms or any consequence arising from causes beyond the control of the applicable Issuing Bank; provided that the foregoing shall not be construed
to excuse an Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of
which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by such Issuing Bank’s failure
to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto
expressly agree that, in the absence of gross negligence or willful misconduct on the part of an Issuing Bank (as

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finally determined by a court of competent jurisdiction), such Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, an Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(g) Disbursement Procedures. The applicable Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. Such Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by telecopy) of such demand for payment and whether such Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse such Issuing Bank and the Revolving Credit Lenders with respect to any such LC Disbursement.

(h) Interim Interest. If an Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made but excluding the date that the Borrower reimburses such LC Disbursement, (i) in the case of any LC Disbursement denominated in US Dollars and at all times following the conversion to US Dollars of an LC Disbursement made in a Designated Foreign Currency pursuant to paragraph (e) of this Section, at the rate per annum then applicable to ABR Revolving Loans, and (ii) if such LC Disbursement is made in a Designated Foreign Currency, at all times prior to its conversion to US Dollars pursuant to paragraph (e) of this Section, at a rate per annum reasonably determined by the applicable Issuing Bank to represent the cost to such Issuing Bank of funding such LC Disbursement plus the Applicable Margin applicable to Eurodollar Revolving Loans at such time; provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (e) of this Section, then Section 2.14(c) shall apply. Interest accrued pursuant to this paragraph shall be for the account of the applicable Issuing Bank, except that interest accrued on and after the date of payment by any Lender pursuant to paragraph (e) of this Section to reimburse such Issuing Bank shall be for the account of such Lender to the extent of such payment.

(i) Designation of Additional Issuing Banks. From time to time, the Borrower may by notice to the Administrative Agent and the Revolving Credit Lenders designate as additional Issuing Banks one or more Revolving Credit Lenders that agree to serve in such capacity as provided below. The acceptance by a Revolving Credit Lender of any appointment as an Issuing Bank hereunder shall be evidenced by an agreement (an “Issuing Bank Agreement”), which shall be in a form reasonably satisfactory to the Borrower and the Administrative Agent, shall set forth the LC Commitment of such Revolving Credit Lender and shall be executed by such Revolving Credit Lender, the Borrower and the Administrative Agent and, from and after the effective date of such agreement, (i) such Revolving Credit Lender shall have all the rights and obligations of an Issuing Bank under this Agreement and (ii) references herein to the term “Issuing Bank” shall be deemed to include such Revolving Credit Lender in its capacity as an Issuing Bank.
(j) **Replacement of an Issuing Bank.** An Issuing Bank may be replaced at any time by written agreement among the Borrower, the Administrative Agent (whose consent will not be unreasonably withheld or delayed) and the successor Issuing Bank. Any Issuing Bank so replaced shall continue to have the benefit of this Agreement in respect of any Letters of Credit of that Issuing Bank which remain outstanding. The Administrative Agent shall notify the Lenders of any such replacement of an Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to Section 2.13(b).

(k) **Cash Collateralization.** If any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Revolving Credit Loans has been accelerated, the Required Revolving Credit Lenders or any Issuing Bank with any outstanding Letter of Credit) demanding the deposit of cash collateral pursuant to this paragraph, the Borrower shall deposit in an account with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Revolving Credit Lenders, an amount in cash equal to 102% of the LC Exposure with respect to the applicable Letters of Credit as of such date plus any accrued and unpaid interest thereon; provided that (i) any amounts payable in respect of any Letter of Credit or LC Disbursement shall be payable in the currency of such Letter of Credit or LC Disbursement and (ii) the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in clause (h) or (i) of Article 7. Such deposit shall be held by the Administrative Agent as collateral for the payment and performance of the obligations of the Borrower under this Agreement. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made in Permitted Investments at the option and sole discretion of the Administrative Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Administrative Agent to reimburse each Issuing Bank for LC Disbursements for which such Issuing Bank has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC Exposure at such time or, if the maturity of the Revolving Credit Loans has been accelerated (but subject to the consent of the Required Revolving Credit Lenders and each Issuing Bank with any outstanding Letter of Credit), be applied to satisfy other obligations of the Borrower under this Agreement. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived.

(l) **Issuing Bank Reports.** Unless otherwise agreed by the Administrative Agent, each Issuing Bank shall report in writing to the Administrative Agent (who shall promptly provide notice to the Revolving Credit Lenders of the contents thereof) (i) on or prior to each Business Day on which such Issuing Bank issues, amends, renews or extends any Letter of Credit, the date of such issuance, amendment, renewal or extension, and the currency and aggregate face amount of the Letters of Credit issued, amended, renewed or extended by it and outstanding after giving...
SECTION 2.06. Funding of Borrowings. (a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 12:00 noon, New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders; provided that Swingline Loans shall be made as provided in Section 2.04. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to the Designated Payment Account; provided that ABR Revolving Loans made to finance the reimbursement of an LC Disbursement as provided in Section 2.05(e) shall be remitted by the Administrative Agent to the applicable Issuing Bank.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrower, the interest rate applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

SECTION 2.07. Interest Elections. (a) Each Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurodollar Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such
portion shall be considered a separate Borrowing. This Section shall not apply to Swingline Loans, which may not be converted or continued.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term “Interest Period”.

If any such Interest Election Request requests a Eurodollar Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month’s duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender’s portion of each resulting Borrowing.

(e) If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurodollar Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to an ABR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) unless repaid, each Eurodollar Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.
SECTION 2.08. Termination and Reduction of Commitments. (a) If the Funding Date does not occur on or prior to June 30, 2011, the Commitment of each Lender shall terminate at the close of business on June 30, 2011. Unless previously terminated, the Revolving Credit Commitment of each Revolving Credit Lender shall terminate on the Revolving Credit Maturity Date. Unless previously terminated, the Term Loan Commitment of each Term Lender shall automatically terminate upon the funding of Term Loans to be made by it on the Funding Date.

(b) The Borrower may at any time terminate, or from time to time reduce, the Commitments; provided that (i) each reduction of the Commitments shall be in an amount that is an integral multiple of $1,000,000 and not less than $1,000,000 and (ii) the Borrower shall not terminate or reduce the Revolving Credit Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Sections 2.11 and 2.12, the total Revolving Credit Exposures would exceed the total Revolving Credit Commitments.

(c) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Commitments of any Class under paragraph (b) of this Section at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the applicable Class of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable; provided that a notice of termination of the Revolving Credit Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities or other debt or equity issuances, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Commitments shall be permanent. Each reduction of the Commitments of any Class shall be made ratably among the Lenders of such Class in accordance with their respective Commitments of such Class. The Borrower shall pay to the Administrative Agent for the account of the Lenders of the applicable Class, on the date of each termination or reduction under paragraph (b) of this Section, any applicable commitment fees on the amount of the Commitments of such Class so terminated or reduced accrued to but excluding the date of such termination or reduction.

SECTION 2.09. Repayment of Loans; Evidence of Debt. (a) The Borrower hereby unconditionally promises to pay (i) to the Administrative Agent for the account of each Revolving Credit Lender the then unpaid principal amount of each Revolving Loan on the Revolving Credit Maturity Date, (ii) to the Administrative Agent for the account of each Term Lender the then unpaid principal amount of each Term Loan on the Term Loan Maturity Date and (iii) to the Swingline Lenders the then unpaid principal amount of each Swingline Loan on the earlier of (A) the Revolving Credit Maturity Date and (B) the first date after such Swingline Loan is made that is five Business Days after such Swingline Loan is made; provided that on each date that a Revolving Borrowing is made, the Borrower shall repay all Swingline Loans then outstanding.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.
(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Class and Type thereof and the Interest Period (if any) applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender’s share thereof.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form reasonably approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.10. Amortization of Term Loans. (a) Subject to adjustment pursuant to Sections 2.11(b) and 2.12(g), the Borrower shall repay to the Administrative Agent for the account of the Term Lenders, on the dates set forth below, or if any such date is not a Business Day, on the immediately succeeding Business Day a principal amount of the Term Loans in an amount equal to the amount set forth below for such date, together in each case with accrued and unpaid interest on the principal amount to be paid to but excluding the date of such payment:

<table>
<thead>
<tr>
<th>Repayment Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>June __, 2011</td>
<td>$ 7,500,000</td>
</tr>
<tr>
<td>September __, 2011</td>
<td>$ 7,500,000</td>
</tr>
<tr>
<td>December __, 2011</td>
<td>$ 7,500,000</td>
</tr>
<tr>
<td>March __, 2012</td>
<td>$ 7,500,000</td>
</tr>
<tr>
<td>June __, 2012</td>
<td>$ 7,500,000</td>
</tr>
<tr>
<td>September __, 2012</td>
<td>$ 7,500,000</td>
</tr>
<tr>
<td>December __, 2012</td>
<td>$ 7,500,000</td>
</tr>
<tr>
<td>March __, 2013</td>
<td>$ 7,500,000</td>
</tr>
<tr>
<td>June __, 2013</td>
<td>$15,000,000</td>
</tr>
<tr>
<td>September __, 2013</td>
<td>$15,000,000</td>
</tr>
<tr>
<td>December __, 2013</td>
<td>$15,000,000</td>
</tr>
<tr>
<td>March __, 2014</td>
<td>$15,000,000</td>
</tr>
<tr>
<td>June __, 2014</td>
<td>$22,500,000</td>
</tr>
</tbody>
</table>

1 Repayment Dates (which shall be in 3-month intervals from the Funding Date) to be filled in by Administrative Agent and Borrower on Funding Date.
<table>
<thead>
<tr>
<th>Repayment Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>September __, 2014</td>
<td>$22,500,000</td>
</tr>
<tr>
<td>December __, 2014</td>
<td>$22,500,000</td>
</tr>
<tr>
<td>March __, 2015</td>
<td>$22,500,000</td>
</tr>
<tr>
<td>June __, 2015</td>
<td>$30,000,000</td>
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<tr>
<td>September __, 2015</td>
<td>$30,000,000</td>
</tr>
<tr>
<td>December __, 2015</td>
<td>$30,000,000</td>
</tr>
<tr>
<td>Term Maturity Date</td>
<td>Remaining outstanding principal amount</td>
</tr>
</tbody>
</table>

(b) To the extent not previously paid, all Term Loans shall be due and payable on the Term Maturity Date.

SECTION 2.11. Voluntary Prepayments. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing of any Class in whole or in part, subject to prior notice in accordance with paragraph (b) of this Section; provided, however, that each partial prepayment shall be in an aggregate principal amount that is an integral multiple of $500,000 and not less than $1,000,000 or, if less, the amount outstanding.

(b) The Borrower shall notify the Administrative Agent (and, in the case of prepayment of a Swingline Loan, the Swingline Lenders) by telephone (confirmed by telecopy) of any prepayment hereunder (i) in the case of prepayment of a Eurodollar Borrowing, not later than 12:00 noon, New York City time, three Business Days before the date of prepayment, (ii) in the case of prepayment of an ABR Borrowing, not later than 12:00 noon, New York City time, one Business Day before the date of prepayment or (iii) in the case of prepayment of a Swingline Loan, not later than 12:00 noon, New York City time, on the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of each Borrowing or portion thereof to be prepaid; provided that a notice of prepayment delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities or other debt or equity issuances, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied; provided further that, if a notice of prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.08(c), then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.08(c). Promptly following receipt of any such notice relating to a Borrowing of any Class, the Administrative Agent shall advise the Lenders of such Class of the contents thereof. Each prepayment of a Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Voluntary prepayments of outstanding Term Loans under this Section 2.11 shall be applied to future scheduled amortization payments pursuant to Section 2.10(a) as directed by the Borrower. Prepayments under this Section 2.11 shall be accompanied by accrued interest to the extent required by Section 2.14 and shall be subject to Section 2.17, but otherwise without premium or penalty.

SECTION 2.12. Mandatory Prepayments. (a) In the event of any termination of all the Revolving Credit Commitments, the Borrower shall, on the date of such termination, repay or prepay all its outstanding Revolving Loans and all outstanding Swingline Loans and replace or cause to be canceled (or make other arrangements satisfactory to the Administrative Agent and
each applicable Issuing Bank with respect to) all outstanding Letters of Credit. If, after giving effect to any partial reduction of the Revolving Credit Commitments or at any other time, the total Revolving Credit Exposures would exceed the total Revolving Credit Commitments, then the Borrower shall, on the date of such reduction or at such other time, repay or prepay Revolving Loans or Swingline Loans (or a combination thereof) and, after the Revolving Loans and Swingline Loans shall have been repaid or prepaid in full, replace or cause to be canceled (or make other arrangements satisfactory to the Administrative Agent and each applicable Issuing Bank with respect to) Letters of Credit in an amount sufficient to eliminate such excess.

(b) Not later than the fifth Business Day following the receipt of Net Cash Proceeds in respect of any Asset Sale, the Borrower shall apply 100% of the Net Cash Proceeds received with respect thereto to prepay outstanding Term Loans in accordance with Section 2.12(g).

(c) No later than 90 days after the end of each fiscal year of the Borrower, commencing with the fiscal year ending on December 31, 2011, the Borrower shall prepay outstanding Term Loans in accordance with Section 2.12(g) in an aggregate principal amount equal to (x) the Applicable ECF Percentage of Excess Cash Flow minus (y) voluntary prepayments of Term Loans under Section 2.11 during such fiscal year but only to the extent that such prepayments do not occur in connection with a refinancing of all or any portion of Term Loans; provided, that the amount of Term Loans required to be repaid on any date pursuant to this Section 2.12(c) shall be reduced, to the extent thereof, by an amount equal to the Excess Cash Adjustment Amount as of such date (before giving effect to the reduction in the succeeding clause of this sentence), and the Gross ECF Overpayment Amount shall in such case also be reduced on a dollar-for-dollar basis on such date.

(d) If any Excess Cash Withheld Amount has been determined (as of the end of the preceding fiscal year) in respect of a fiscal year, and certified in accordance with the definition of “Excess Cash Withheld Amount”, then at any time and from time to time during such fiscal year the Borrower may by written notice to the Administrative Agent reduce such Excess Cash Withheld Amount (to the extent thereof), and if such notice is given then (x) the Borrower shall promptly prepay outstanding Term Loans in accordance with Section 2.12(g) in an aggregate amount equal to the Applicable ECF Percentage (calculated as of the end of the prior fiscal year) of the amount by which such Excess Cash Withheld Amount is to be reduced, as specified in such notice, and (y) the Excess Cash Withheld Amount in respect of such fiscal year shall be deemed reduced by the amount of such reduction as so specified, and any calculation of Unused Withheld Amount and Excess Cash Flow Overpayment Amount with respect to such fiscal year shall refer to the amount of Excess Cash Withheld Amount as so reduced.

(e) Not later than 45 days after the end of each fiscal year, commencing with the fiscal year ending on December 31, 2012, the Borrower shall prepay outstanding Term Loans in accordance with Section 2.12(g) in an aggregate amount equal to the Applicable ECF Percentage (calculated as of the end of the prior fiscal year) of the Unused Withheld Amount, if any (after giving effect to Section 2.12(d)), from the prior fiscal year.

(f) In the event that the Borrower or any Restricted Subsidiary shall receive Net Cash Proceeds from the issuance or incurrence of Indebtedness (other than the issuance or incurrence of Indebtedness permitted pursuant to Section 6.01), the Borrower shall, substantially
simultaneously with (and in any event not later than the third Business Day next following) the receipt of such Net Cash Proceeds by the Borrower or such Restricted Subsidiary, apply an amount equal to 100% of such Net Cash Proceeds to prepay outstanding Term Loans in accordance with Section 2.12(g).

(g) Mandatory prepayments of outstanding Term Loans under this Section 2.12 shall be applied to reduce scheduled amortization payments pursuant to Section 2.10(a) (i) in forward order of maturity to payments coming due within 12 months of the date of such prepayment and (ii) to the extent of any excess, ratably by amount to the remaining scheduled payments.

(h) The Borrower shall deliver to the Administrative Agent, at the time of each prepayment required under this Section 2.12, (i) a certificate signed by a Financial Officer of the Borrower setting forth in reasonable detail the calculation of the amount of such prepayment and (ii) at least three Business Days’ prior written notice of such prepayment. Each notice of prepayment shall specify the prepayment date, the Class and Type of each Loan being prepaid and the principal amount of each Loan (or portion thereof) to be prepaid. All prepayments of Borrowings under this Section 2.12 shall be subject to Section 2.17, but shall otherwise be without premium or penalty, and shall be accompanied by accrued and unpaid interest on the principal amount to be prepaid to but excluding the date of payment.

SECTION 2.13. Fees. (a) The Borrower agrees to pay to the Administrative Agent for the account of each Revolving Credit Lender a commitment fee equal to the Applicable Margin of the average daily unutilized amount of the Revolving Credit Commitments during the period from and including the Funding Date to but excluding the date on which the Revolving Credit Commitments terminate. For purposes of calculation of the commitment fee, Swingline Loans shall not, but LC Exposure shall, be deemed to be a utilization of the Revolving Credit Commitments. Accrued commitment fees shall be payable in arrears on the last day of March, June, September and December of each year and on the date on which the Revolving Credit Commitments terminate, commencing on the first such date to occur after the Funding Date. All commitment fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(b) The Borrower agrees to pay (i) to the Administrative Agent for the account of each Revolving Credit Lender a participation fee with respect to such Lender’s participations in Letters of Credit, which shall accrue on each day at a rate per annum equal to the Applicable Margin for Eurodollar Revolving Loans on the average daily amount of such Lender’s LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Funding Date to but excluding the later of the date on which such Lender’s Revolving Credit Commitment terminates and the date on which such Lender ceases to have any LC Exposure, (ii) to each Issuing Bank, for its own account, a fronting fee, which shall accrue at a rate of 25 basis points per annum on the average daily amount of the LC Exposure attributable to Letters of Credit issued by such Issuing Bank (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Funding Date to but excluding the later of the date of termination of the Revolving Credit Commitments and the date on which there ceases to be any LC Exposure, and (iii) to each Issuing Bank, for its own account, such Issuing Bank’s standard fees (or such other fees as may be agreed to by such Issuing Bank and the Borrower from time to time) with respect to the
amendment, renewal or extension of any Letter of Credit issued by it or processing of drawings thereunder. Participation fees and fronting fees accrued through and including the last day of March, June, September and December of each year shall be payable on the third Business Day following such last day, commencing on the first such date to occur after the Funding Date; provided that all such fees shall be payable on the date on which the Revolving Credit Commitments terminate and any such fees accruing after the date on which the Revolving Credit Commitments terminate shall be payable on demand. Any other fees payable to an Issuing Bank pursuant to this paragraph shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) If the Effective Date occurs but the Funding Date does not occur on or prior to March 31, 2011, a ticking fee shall accrue on the Commitments starting from April 1, 2011 until the Funding Date as follows: (i) in the case of the Revolving Credit Commitments, at the rate of 0.50% per annum of the Revolving Credit Commitments during the period from and including April 1, 2011 to but excluding the Funding Date and (ii) in the case of the Term Loan Commitments, at the rate of 2.50% per annum of the Lenders’ Term Loan Commitments during the period from and including April 1, 2011 to but excluding the Funding Date. Such ticking fee shall be payable by the Borrower to the Administrative Agent for the account of each Lender on the Funding Date (if, but only if, the Funding Date occurs).

(d) The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

(e) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to the applicable Issuing Bank, in the case of fees payable to it) for distribution, in the case of commitment fees, participation fees and ticking fees, to the applicable Lenders. Fees paid shall not be refundable under any circumstances.

SECTION 2.14. Interest. (a) The Loans comprising each ABR Borrowing (including each Swingline Loan) shall bear interest at the Alternate Base Rate plus the Applicable Margin.

(b) The Loans comprising each Eurodollar Borrowing shall bear interest at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Margin.

(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% per annum plus the rate otherwise applicable to such Loan as provided in the preceding paragraphs of this Section or (ii) in the case of any other amount, 2% per annum plus the rate applicable to ABR Loans as provided in paragraph (a) of this Section.

(d) Accrued interest on each Loan shall be payable in arrears (i) on each Interest Payment Date for such Loan, (ii) in the case of Revolving Loans, upon termination of the
Revolving Credit Commitments and (iii) in the case of Term Loans on the Term Maturity Date; provided that (A) interest accrued pursuant to paragraph (c) of this Section shall be payable on demand, (B) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Revolving Loan prior to the end of the Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment and (C) in the event of any conversion of any Eurodollar Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion.

(e) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate, Adjusted LIBO Rate or LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.15. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurodollar Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period will not adequately and fairly reflect the cost to such Lenders (or Lender) of making or maintaining their Loans (or its Loan) included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing shall be ineffective and (ii) if any Borrowing Request requests a Eurodollar Borrowing, such Borrowing shall be made as an ABR Borrowing; provided that if the circumstances giving rise to such notice affect only one Type of Borrowings, then the other Type of Borrowings shall be permitted.

SECTION 2.16. Increased Costs. (a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate) or any Issuing Bank;
(ii) impose on any Lender or any Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender or any Letter of Credit or participation therein; or

(iii) subject any Lender, the Issuing Bank or the Administrative Agent to any Taxes (other than Indemnified Taxes) on its loans, loan principal, letters of credit, commitments or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan (or of maintaining its obligation to make any such Loan) or to increase the cost to such Lender or such Issuing Bank of participating in, issuing or maintaining any Letter of Credit or to reduce the amount of any sum received or receivable by such Lender or such Issuing Bank hereunder (whether of principal, interest or otherwise), in each case by an amount deemed by that Lender or Issuing Bank in good faith to be material, then the Borrower will pay to such Lender or such Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender or any Issuing Bank determines that any Change in Law regarding tax, capital requirements or other requirements of law has or would have the effect of reducing the rate of return on such Lender’s or such Issuing Bank’s capital or on the capital of such Lender’s or such Issuing Bank’s holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by such Issuing Bank, to a level below that which such Lender or such Issuing Bank or such Lender’s or such Issuing Bank’s holding company could have achieved but for such Change in Law (taking into consideration such Lender’s or such Issuing Bank’s policies and the policies of such Lender’s or such Issuing Bank’s holding company including those with respect to capital adequacy), in each case by an amount deemed by that Lender in good faith to be material, then from time to time the Borrower will, without duplication of payments required to be made by the Borrower pursuant to Section 2.18 hereof, pay to such Lender or such Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Bank or such Lender’s or such Issuing Bank’s holding company for any such reduction suffered.

(c) A certificate of a Lender or an Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or such Issuing Bank or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section and setting forth the basis for the determination thereof, together with supporting calculations, shall be delivered to the Borrower and shall be conclusive absent manifest error. In determining such amount or amounts, such Lender or such Issuing Bank shall act reasonably and in good faith, and may use any reasonable averaging and attribution methods. The Borrower shall pay such Lender or such Issuing Bank, as the case may be, the amount shown as due on any such certificate within 10 Business Days after receipt thereof.

(d) Failure or delay on the part of any Lender or any Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender’s or such
Issuing Bank’s right to demand such compensation; *provided* that the Borrower shall not be required to compensate a Lender or an Issuing Bank pursuant to this Section for any increased costs or reductions incurred more than 180 days prior to the date that such Lender or such Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender’s or such Issuing Bank’s intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 180-day period referred to above shall be extended to include the period of retroactive effect thereof.

**SECTION 2.17. Break Funding Payments.** In the event of (a) the payment of any principal of any Eurodollar Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow, convert, continue or prepay any Eurodollar Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.11(b) and is revoked in accordance therewith) or (d) the assignment of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.20 then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event (which loss, cost or expense shall not include lost profits). In the case of a Eurodollar Loan, such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest which would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest which would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the commencement of such period, for dollar deposits of a comparable amount and period from other banks in the eurodollar market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section and setting forth the basis for the determination thereof, together with supporting calculations, shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

**SECTION 2.18. Taxes.** (a) Any and all payments by or on account of any obligation of any Loan Party under any Loan Document shall to the extent permitted by applicable law be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; *provided* that if a Loan Party shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, a Lender or an Issuing Bank (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Loan Party shall make such deductions and (iii) such Loan Party shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.
(b) In addition, each Loan Party shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Each Loan Party shall indemnify the Administrative Agent, each Lender and each Issuing Bank, within 10 Business Days after written demand therefor (together with a reasonable basis for the determination thereof), for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent, such Lender or such Issuing Bank, as the case may be, on or with respect to any payment by or on account of any obligation of such Loan Party under any Loan Document (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower and setting forth the basis for the determination thereof, delivered to a Loan Party by a Lender or an Issuing Bank, or by the Administrative Agent on its own behalf or on behalf of a Lender or an Issuing Bank, shall be conclusive absent manifest error.

(d) Each Lender shall severally indemnify the Administrative Agent for any Taxes (but, in the case of any Indemnified Taxes, only to the extent that a Loan Party has not already indemnified the Administrative Agent for such Indemnified Taxes and without limiting the obligation of the Loan Parties to do so) attributable to each Lender that are paid or payable by the Administrative Agent in connection with any Loan Document and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. The indemnity under this Section 2.18(d) shall be paid within ten (10) days after the Administrative Agent delivers to the applicable Lender a certificate stating the amount of Taxes so paid or payable by the Administrative Agent. The certificate shall be conclusive as between each Lender and the Administrative Agent of the amount so paid or payable absent manifest error.

(e) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by a Loan Party to a Governmental Authority, such Loan Party shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of that portion of the tax return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(f) (i) Any Lender that is entitled to an exemption from or reduction of any applicable withholding tax with respect to payments under any Loan Document shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times as prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if requested by the Borrower or the Administrative Agent, shall deliver such other documentation prescribed by law or reasonably requested by the Borrower or the Administrative Agent as will enable the Borrower or the Administrative Agent to determine whether or not the Lender is subject to any withholding (including backup withholding) or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion,
execution and submission of such documentation (other than such documentation set forth in Section 2.18(f)(ii)(A) through (F) below) shall not be required if in the Lender’s judgment such completion, execution or submission would subject the Lender to any material unreimbursed cost or expense (or, in the case of a Change in Law, any incremental material unreimbursed cost or expense) or would, unless indemnified by the Borrower to the reasonable satisfaction of the Lender, materially prejudice the legal position or commercial operations of the Lender. Upon the reasonable request of the Borrower or the Administrative Agent, any Lender shall update any form or certification previously delivered pursuant to this Section 2.18(f). If any form or certification previously delivered pursuant to this Section expires or becomes obsolete or inaccurate in any respect with respect to a Lender, the Lender shall promptly (and in any event within ten (10) days after such expiration, obsolescence or inaccuracy) notify the Borrower and the Administrative Agent in writing of such expiration, obsolescence or inaccuracy and update the form or certification if it is legally eligible to do so.

(ii) Without limiting the generality of the foregoing, any Lender with respect to the Borrower shall, if it is legally eligible to do so, deliver to the Borrower and the Administrative Agent (in such number of copies reasonably requested by the Borrower and the Administrative Agent) on or prior to the date on which the Lender becomes a party hereto, duly completed and executed copies of whichever of the following is applicable:

(A) in the case of a Lender that is a U.S. Person, IRS Form W-9 certifying that the Lender is exempt from U.S. federal backup withholding;

(B) in the case of a Foreign Lender claiming the benefits of an income tax treaty to which the United States is a party (1) with respect to payments of interest under any Loan Document, IRS Form W-8BEN establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the “interest” article of such tax treaty and (2) with respect to any other applicable payments under this Agreement, IRS Form W-8BEN establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to another article of such tax treaty including, without limitation, the “business profits” or “other income” article of such tax treaty;

(C) in the case of a Foreign Lender for whom payments under this Agreement constitute income that is effectively connected with the Lender’s conduct of a trade or business in the United States, IRS Form W-8ECI;

(D) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Code, both (1) IRS Form W-8BEN and (2) a certificate substantially in the form of Exhibit I (a “U.S. Tax Certificate”) to the effect that the Lender is not (w) a “bank” within the meaning of Section 881(c)(3)(A) of the Code, (x) a “10 percent shareholder” of the Borrower within the meaning of Section 881(c)(3)(B) of the Code, (y) a “controlled foreign corporation” described in Section 881(c)(3)(C) of the Code or (z) conducting a trade or business in the United States with which the relevant interest payments are effectively connected;
(E) in the case of a Foreign Lender that is not the beneficial owner of payments made under this Agreement (including a partnership or a participating Lender) (1) an IRS Form W-8IMY on behalf of itself and (2) the relevant forms prescribed in clauses (A), (B), (C), (D) and (F) of this paragraph (f)(ii) that would be required of each beneficial owner (or partner or Participant) if the beneficial owner (or partner or Participant) were a Lender; provided, however, that if the Lender is a partnership and one or more of its partners are claiming the exemption for portfolio interest under Section 881(c) of the Code, the Lender may provide a “U.S. Tax Certificate” on behalf of the partners; or

(F) any other form prescribed by law as a basis for claiming exemption from, or a reduction of, U.S. federal withholding Tax together with the supplementary documentation necessary to enable the Borrower or the Administrative Agent to determine the amount of Tax (if any) required by law to be withheld.

(iii) If a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if the Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), the Lender shall deliver to the Administrative Agent and the Borrower, at the time or times prescribed by law and at such other time or times reasonably requested by the Administrative Agent or the Borrower, the documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and the additional documentation reasonably requested by the Administrative Agent or the Borrower as may be necessary for the Administrative Agent or the relevant Borrower to comply with its obligations under FATCA, to determine that the Lender has or has not complied with the Lender’s obligations under FATCA, or to determine the amount to deduct and withhold from the payment. Solely for purposes of this Section 2.18(f)(iii), “FATCA” shall include any amendments made to FATCA after the date of this Agreement.

(g) If the Administrative Agent, a Lender or an Issuing Bank determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by a Loan Party or with respect to which a Loan Party has paid additional amounts pursuant to this Section 2.18, it shall pay over such refund to such Loan Party (but only to the extent of indemnity payments made, or additional amounts paid, by such Loan Party under this Section 2.18 with respect to the Taxes or Other Taxes giving rise to such refund) net of all reasonable out-of-pocket expenses of the Administrative Agent, such Lender or such Issuing Bank, within thirty days after receipt of such refund; provided, that such Loan Party, upon the request of the Administrative Agent, such Lender or such Issuing Bank, agrees to repay the amount paid over to such Loan Party (plus any penalties, interest or other charges imposed by the relevant Governmental Authority and the reasonable fees and expenses of the Administrative Agent and the reasonable fees and expenses of the Administrative Agent, such Lender or such Issuing Bank) to the Administrative Agent, such Lender or such Issuing Bank in the event the Administrative Agent, such Lender or such Issuing Bank is required to repay such refund to such Governmental Authority. This Section shall not be construed to require the Administrative Agent, any Lender or any Issuing Bank to
make available its tax returns (or any other information relating to its taxes which it deems confidential) to the Loan Parties or any other Person.

SECTION 2.19 Payments Generally; Pro Rata Treatment; Sharing of Set Offs. (a) The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of LC Disbursements, or of amounts payable under Section 2.16, 2.17 or 2.18, or otherwise) prior to 1:00 p.m., New York City time, on the date when due, in immediately available funds, without set off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at 270 Park Avenue, New York, New York, except payments to be made directly to an Issuing Bank or the Swingline Lenders as expressly provided herein and except that payments pursuant to Section 2.16, 2.17 or 2.18 and 9.03 shall be made directly to the Persons entitled thereto; in the case of each payment, Borrower may make such payment in accordance with the wire transfer instructions from time to time provided by the Administrative Agent to the Borrower in writing, executed in original counterpart on the Administrative Agent’s letterhead. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments hereunder shall be made in US Dollars except as expressly provided herein.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, towards payment of principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) If any Lender shall, by exercising any right of set off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans or participations in LC Disbursements or Swingline Loans resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loans and participations in LC Disbursements and Swingline Loans and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans and participations in LC Disbursements and Swingline Loans of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and participations in LC Disbursements and Swingline Loans; provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the
express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the applicable Issuing Bank hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or such Issuing Bank, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the applicable Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or such Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Lender shall fail to make any payment required to be made by it pursuant to Sections 2.04(c), 2.05(d), 2.05(e), 2.06(b), 2.19(d) or 9.03(c), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender’s obligations under such Sections until all such unsatisfied obligations are fully paid.

SECTION 2.20. Mitigation Obligations; Replacement of Lenders.

(a) If any Lender requests compensation under Section 2.16, or if any Loan Party is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.18, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.16 or Section 2.18, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.16, or if any Loan Party is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.18, or if any Lender of any Class becomes a Defaulting Lender, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its
interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender of such Class, if a Lender accepts such assignment); provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent (and if a Revolving Credit Commitment is being assigned, the Issuing Bank), which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements and Swingline Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.16 or payments required to be made pursuant to Section 2.18, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

SECTION 2.21. Defaulting Lenders. Notwithstanding any provision of this Agreement to the contrary, if any Revolving Credit Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(a) fees shall cease to accrue on the unfunded portion of the Revolving Credit Commitment of such Defaulting Lender pursuant to Section 2.13(a);

(b) the Revolving Credit Commitment and Revolving Credit Exposure of such Defaulting Lender shall not be included in determining whether the Required Lenders have taken or may take any action hereunder (including any consent to any amendment, waiver or other modification pursuant to Section 9.02); provided, that this clause (b) shall not apply to the vote of a Defaulting Lender in the case of an amendment, waiver or other modification requiring the consent of all Lenders or each Lender affected thereby;

(c) if any Swingline Exposure or LC Exposure exists at the time such Lender becomes a Defaulting Lender then:

(i) so long as no Event of Default shall have occurred and be continuing, all or any part of the Swingline Exposure and LC Exposure of such Defaulting Lender shall be reallocated among the non-Defaulting Lenders that are Revolving Credit Lenders in accordance with their respective Applicable Revolving Percentages but only to the extent (x) the sum of all non-Defaulting Lenders’ Revolving Credit Exposures plus such Defaulting Lender’s Swingline Exposure and LC Exposure does not exceed the total of all non-Defaulting Lenders’ Revolving Credit Commitments and (y) the sum of any non-Defaulting Lender’s Revolving Credit Exposure plus its Applicable Revolving Percentage of such Defaulting Lenders’ Swingline Exposure and LC Exposure does not exceed such non-Defaulting Lender’s Revolving Credit Commitment;

(ii) if the reallocation described in clause (i) above cannot, or can only partially, be effected, the Borrower shall within one Business Day following notice by the Administrative Agent (x) first, prepay such Swingline Exposure and (y) second, cash 58
collateralize for the benefit of the Issuing Banks only the Borrower’s obligations corresponding to such Defaulting Lender’s LC Exposure (after giving effect to any partial reallocation pursuant to clause (i) above) in accordance with the procedures set forth in Section 2.05(k) for so long as such LC Exposure is outstanding;

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender’s LC Exposure pursuant to clause (ii) above, the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.13(b) with respect to such Defaulting Lender’s LC Exposure during the period such Defaulting Lender’s LC Exposure is cash collateralized;

(iv) if the LC Exposure of the non-Defaulting Lenders is reallocated pursuant to clause (i) above, then the fees payable to the Lenders pursuant to Section 2.13(a) and (b) shall be adjusted in accordance with such non-Defaulting Lenders’ Applicable Revolving Percentages; and

(v) if all or any portion of such Defaulting Lender’s LC Exposure is neither reallocated nor cash collateralized pursuant to clause (i) or (ii) above, then, without prejudice to any rights or remedies of the Issuing Banks or any other Revolving Credit Lender hereunder, all fees payable under Section 2.13(b) with respect to such Defaulting Lender’s LC Exposure shall be payable to the applicable Issuing Bank until and to the extent that such LC Exposure is reallocated and/or cash collateralized; and

(d) so long as such Lender is a Defaulting Lender, the Swingline Lender shall not be required to fund any Swingline Loan and the Issuing Bank shall not be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure and the Defaulting Lender’s then outstanding LC Exposure will be 100% covered by the Revolving Credit Commitments of the non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with Section 2.21(c), and participating interests in any newly made Swingline Loan or any newly issued or increased Letter of Credit shall be allocated among non-Defaulting Lenders that are Revolving Credit Lenders in a manner consistent with Section 2.21(c)(i) (and such Defaulting Lender shall not participate therein).

If (i) a Bankruptcy Event with respect to a Lender Parent of any Revolving Credit Lender shall occur following the date hereof and for so long as such event shall continue or (ii) the Swingline Lenders or the applicable Issuing Bank has a good faith belief that any Revolving Credit Lender has defaulted in fulfilling its obligations under one or more other agreements in which such Lender commits to extend credit, the Swingline Lenders shall not be required to fund any Swingline Loan and such Issuing Bank shall not be required to issue, amend or increase any Letter of Credit, unless the Swingline Lenders or such Issuing Bank, as the case may be, shall have entered into arrangements with the Borrower or such Lender, satisfactory to the Swingline Lenders or such Issuing Bank, as the case may be, to defease any risk to it in respect of such Lender hereunder.

In the event that the Administrative Agent, the Borrower, the Swingline Lenders and the Issuing Banks each agrees that a Defaulting Lender has adequately remedied all matters that caused such Revolving Credit Lender to be a Defaulting Lender, then the Swingline Exposure
and LC Exposure of the Revolving Credit Lenders shall be readjusted to reflect the inclusion of such Lender’s Revolving Credit Commitment and on such date such Lender shall purchase at par such of the Revolving Loans of the other Revolving Credit Lenders as the Administrative Agent shall determine may be necessary in order for such Lender to hold such Revolving Loans in accordance with its Applicable Revolving Percentage.

ARTICLE 3
Representations and Warranties

The Borrower represents and warrants to the Lenders that:

SECTION 3.01. Organization; Powers. Each of the Borrower and its Restricted Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, and, except in each case where the failure to do so, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect, (i) has all requisite power and authority to carry on its business as now conducted and (ii) is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

SECTION 3.02. Authorization; Enforceability. The Transactions to be entered into by each Loan Party are within such Loan Party’s corporate powers. The Loan Documents have been duly authorized by the Borrower, and will have been duly authorized by each other Loan Party on or prior to the Funding Date. The other Transactions will have been duly authorized by each Loan Party on or prior to the Funding Date. This Agreement has been duly executed and delivered by each Loan Party party hereto and constitutes, and each other Loan Document when executed and delivered by each Loan Party party thereto will constitute, a legal, valid and binding obligation of each such Loan Party, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors’ rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 3.03. Governmental Approvals; No Conflicts. The execution and delivery of this Agreement by each Loan Party party hereto, and performance by each such Loan Party of its obligations hereunder, in each case from and after the date such Loan Party becomes a party hereto, (a) do not require any consent or approval of, registration or filing with or any other action by any Governmental Authority, except for (i) the filing of Uniform Commercial Code financing statements and filings with the United States Patent and Trademark Office and the United States Copyright Office, (ii) recordation of the Mortgages and (iii) such as have been obtained or made and are in full force and effect, (b) will not violate any applicable law, statute, rule or regulation or the certificate or articles of incorporation, by-laws or other organizational documents of the Borrower or any of the Restricted Subsidiaries or any order of any Governmental Authority, (c) will not be in conflict with, violate or result in a default or give rise to any right to accelerate or to require the prepayment, repurchase or redemption of any obligation under any indenture, agreement or other instrument binding upon the Borrower or any of the Restricted Subsidiaries or its property or assets, or give rise to a right thereunder to require any payment to be made by the Borrower or any of its Restricted Subsidiaries (except pursuant to

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the Fee Letter or the Loan Documents) and (d) will not result in the creation or imposition of any Lien, other than Liens permitted under Section 6.02, on any property or any asset now owned or hereafter acquired by the Borrower or any of its Restricted Subsidiaries (other than any Lien created hereunder or under the Collateral Documents), where any such conflict, violation, breach or default referred to in clause (b) or (c) of this Section 3.03, would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

SECTION 3.04. Financial Condition; No Material Adverse Change. (a) The Borrower has heretofore furnished to the Lenders the Main Shipbuilding Subsidiary’s consolidated balance sheet and statements of income, stockholders equity and cash flows as of and for the fiscal years ended December 31, 2008, December 31, 2009 and December 31, 2010, audited by and accompanied by the opinion of Deloitte & Touche LLP, independent public accountants. Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of the Main Shipbuilding Subsidiary and its consolidated Subsidiaries as of such dates and for such periods in accordance with GAAP. Such balance sheets and the notes thereto disclose all material liabilities, direct or contingent, of the Main Shipbuilding Subsidiary and its consolidated Subsidiaries as of the dates thereof.

(b) The Borrower has heretofore delivered to the Lenders its unaudited pro forma consolidated balance sheet and related pro forma statements of income, stockholder’s equity and cash flows as of December 31, 2010, prepared giving effect to the Transactions as if they had occurred, with respect to such balance sheet, on such date and, with respect to such other financial statements, on the first day of the 12-month period ending on such date. Such pro forma financial statements have been prepared in good faith by the Borrower, based on the assumptions used to prepare the pro forma financial information contained in the Confidential Information Memorandum (which assumptions are believed by the Borrower on the date hereof to be reasonable), accurately reflect all material adjustments required to be made to give effect to the Transactions and present fairly on a pro forma basis the estimated consolidated financial position of the Borrower and its consolidated Subsidiaries as of such date and for such period, assuming that the Transactions had actually occurred at such date or at the beginning of such period, as the case may be.

(c) There has not occurred since December 31, 2010, any event, occurrence, change, state of circumstances or condition which, individually or in the aggregate has had or would reasonably be expected to have a Material Adverse Effect.

SECTION 3.05. Properties. (a) From and after the Funding Date, each of the Borrower and the Restricted Subsidiaries has good title to, or valid leasehold interests in, or easements or other limited property interests in, or is licensed to use, all its real and personal property material to its business (including all Mortgaged Properties), except for defects in the foregoing that do not materially interfere with its ability to conduct its business as currently conducted or to utilize such properties for their intended purposes and except where the failure to have such title or other ownership rights would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect. From and after the Funding Date, all such material properties and assets are free and clear of Liens, other than Liens expressly permitted by Section 6.02.

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(b) Each of the Borrower and the Restricted Subsidiaries has complied with all obligations under all leases to which it is a party, except where the failure to comply would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, and all such leases are in full force and effect, except leases in respect of which the failure to be in full force and effect would not reasonably be expected to have a Material Adverse Effect. Each of the Borrower and the Restricted Subsidiaries enjoys peaceful and undisturbed possession under all such leases, other than leases in respect of which the failure to enjoy peaceful and undisturbed possession would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

c) As of the Effective Date, neither the Borrower nor any of the Restricted Subsidiaries has received any written notice of, nor has any knowledge of, any pending or contemplated condemnation proceeding for any material portion of the Mortgaged Properties or any sale or disposition thereof in lieu of condemnation.

d) As of the Effective Date, neither the Borrower nor any of the Restricted Subsidiaries is obligated under any right of first refusal, option or other contractual right to sell, assign or otherwise dispose of any Mortgaged Property or any interest therein.

e) Each of the Borrower and the Restricted Subsidiaries owns, or is licensed or otherwise has the right to use, or could obtain ownership or possession of, all trademarks, tradenames, copyrights, patents and other intellectual property material to its business, except for those the failure to own, possess, license or have the right to use which would not reasonably be expected to result in a Material Adverse Effect, and the use thereof by the Borrower and the Restricted Subsidiaries does not, to the knowledge of any Responsible Officer of the Borrower, infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect.

(f) Schedule 3.05(f) lists completely and correctly as of the Effective Date all real property owned in fee by the Borrower or the Restricted Subsidiaries (and the addresses thereof) that are material to their business.

(g) Schedule 3.05(g) lists completely and correctly as of the Effective Date all real property leased by the Borrower or the Restricted Subsidiaries (and the addresses thereof) that are material to their business.

SECTION 3.06. Litigation and Environmental Matters.

(a) Except for the Disclosed Matters, there are no actions, suits or proceedings at law or in equity by or before any arbitrator or Governmental Authority pending against or, to the knowledge of a Responsible Officer of the Borrower, threatened against or affecting the Borrower or any of the Restricted Subsidiaries or any business, property or rights of any such Person (i) as to which there is a reasonable likelihood of an adverse determination and that, if adversely determined, would reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect or (ii) that challenge the enforceability of any Loan Document.

(b) Except for the Disclosed Matters and except with respect to any other matters that, individually or in the aggregate, would not reasonably be expected to result in a Material
Adverse Effect, neither the Borrower nor any of the Restricted Subsidiaries (i) has failed, or is failing, to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability.

(c) Since the date of this Agreement, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

SECTION 3.07. Compliance with Laws and Agreements. (a) Each of the Borrower and the Restricted Subsidiaries is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property and all indentures or other agreements or instruments evidencing Indebtedness, or any other material agreement or instrument to which it is a party or by which it or any of its properties or assets are or may be bound, except where the failure to do so, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect. No Default has occurred and is continuing.

(b) None of the Borrower or any of the Restricted Subsidiaries is in default under any agreement or instrument or in violation of any corporate restriction that, in each case, has resulted or would reasonably be expected to result in a Material Adverse Effect.

(c) Neither the Borrower or any of the Restricted Subsidiaries or any of their respective material properties or assets is in violation of, nor will the continued operation of their material properties and assets as currently conducted violate, any law, rule or regulation (including any zoning, building, ordinance, code or approval or any building permits) or any restrictions of record or agreements affecting the Mortgaged Property, or is in default with respect to any judgment, writ, injunction, decree or order of any Governmental Authority, where such violation or default would reasonably be expected to result in a Material Adverse Effect.

(d) Certificates of occupancy and permits are in effect for each Mortgaged Property as currently constructed, and true and complete copies of such certificates of occupancy have been delivered to the Collateral Agent as mortgagee with respect to each Mortgaged Property.

SECTION 3.08. Investment Company Status. Neither the Borrower nor any of the Restricted Subsidiaries is required to be registered as an “investment company” under the Investment Company Act of 1940.

SECTION 3.09. Taxes. Each of the Borrower and the Restricted Subsidiaries has timely filed or caused to be filed all Tax returns and reports required to have been filed, subject to any applicable extensions without penalty, and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which the Borrower or such Restricted Subsidiary, as applicable, has set aside on its books adequate reserves or (b) to the extent that the failure to do so would not reasonably be expected to result in a Material Adverse Effect.
SECTION 3.10. ERISA. Except as would not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect, each of the Borrower and its ERISA Affiliates is in compliance with the applicable provisions of ERISA and the Code and the regulations and published interpretations thereunder. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, would reasonably be expected to result in a Material Adverse Effect.

SECTION 3.11. Disclosure. Neither the Confidential Information Memorandum nor any of the other reports, financial statements, certificates or other written information furnished by or on behalf of the Borrower to the Administrative Agent or any Lender in connection with the negotiation of any Loan Document or delivered pursuant thereto (as modified or supplemented by other information so furnished, and taken as a whole) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to any projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

SECTION 3.12. Use of Proceeds. The Borrower will use (i) the proceeds of Term Loans solely to finance a portion of the Contribution and related Transactions and for other general corporate purposes, and (ii) the proceeds of the Revolving Loans and Swingline Loans and the Letters of Credit solely for working capital needs and other general corporate purposes.

SECTION 3.13. Margin Regulations. None of the Borrower nor any of the Restricted Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of buying or carrying Margin Stock. Neither the proceeds of any Loan nor any Letter of Credit will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, for any purpose that entails a violation of, or that is inconsistent with the provisions of the regulations of the Board, including Regulation U or Regulation X.

SECTION 3.14. Subsidiaries. Schedule 3.14 sets forth as of the Effective Date a list of all Restricted Subsidiaries of the Borrower and the two entities that are to be designated as Unrestricted Subsidiaries on or prior to the Funding Date, and the percentage ownership interest of the Borrower therein (it being understood and agreed that prior to the Spin-off, the Northrop Grumman Retained Subsidiaries shall be deemed not to be Subsidiaries or Restricted Subsidiaries of the Borrower). As of the Funding Date, the shares of capital stock or other ownership interests in Restricted Subsidiaries so indicated on Schedule 3.14 are, or will be, fully paid and non-assessable and are, or will be, owned by the Borrower, directly or indirectly, free and clear of all Liens (other than Liens created under the Collateral Documents, and statutory or other non-consensual Liens permitted under Section 6.02).

SECTION 3.15. Collateral Documents. From and after the Funding Date (and subject, if applicable, to Section 5.14), all filings and other actions necessary to perfect and protect the Liens in the Collateral created under, and in the manner and to the extent contemplated by, the Collateral Documents will have been duly made or taken or otherwise provided for in the manner reasonably requested by the Administrative Agent and will be in full force and effect, and the
Collateral Documents will, upon execution and delivery thereof, create in favor of the Collateral Agent for the benefit of the Secured Parties a valid and, together with such filings and other actions, perfected first priority Lien in the Collateral (to the extent contemplated by the Collateral Documents), securing the payment of the Secured Obligations, subject to Liens permitted by Section 6.02.

SECTION 3.16. Labor Matters. As of the Effective Date, there are no strikes, lockouts or slowdowns against the Borrower or any Restricted Subsidiary pending or, to the knowledge of a Responsible Officer of the Borrower, threatened that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect. The hours worked by and payments made to employees of the Borrower and the Restricted Subsidiaries have not been in violation of the Fair Labor Standards Act or any other applicable Federal, state, local or foreign law dealing with such matters that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect. All material payments due from the Borrower or any Restricted Subsidiary, or for which any claim may be made against the Borrower or any Restricted Subsidiary, on account of wages and employee health and welfare insurance and other benefits, have been paid or accrued as a liability on the books of the Borrower or such Restricted Subsidiary. The consummation of the Transactions will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which the Borrower or any Restricted Subsidiary is bound.

SECTION 3.17. Solvency. Immediately after giving effect to the consummation of the Transactions (including the Spin-off), (a) the fair value of the assets of the Borrower and the Restricted Subsidiaries on a consolidated basis, at a fair valuation, will exceed the debts and liabilities, subordinated, contingent or otherwise of the Borrower and the Restricted Subsidiaries on a consolidated basis; (b) the present fair saleable value of the property of the Borrower and the Restricted Subsidiaries on a consolidated basis will be greater than the amount that will be required to pay the probable liability of the debts and other liabilities, subordinated, contingent or otherwise of the Borrower and the Restricted Subsidiaries on a consolidated basis, as such debts and other liabilities become absolute and matured; (c) the Borrower and the Restricted Subsidiaries on a consolidated basis will be able to pay the debts and liabilities, subordinated, contingent or otherwise of the Borrower and the Restricted Subsidiaries on a consolidated basis, as such debts and liabilities become absolute and matured; and (d) the Borrower and the Restricted Subsidiaries on a consolidated basis will not have unreasonably small capital with which to conduct the businesses in which they are engaged as such businesses are now conducted and are proposed to be conducted following the Funding Date.

SECTION 3.18. Transaction Documents. As of the Effective Date, the Borrower has delivered to the Administrative Agent a complete and correct copy of the Transaction Documents that are in effect as of such date (including all schedules, exhibits, amendments, supplements and modifications thereto). Neither the Borrower nor any Loan Party or, to the knowledge of the Borrower or each Loan Party, any other Person party thereto is in default in the performance or compliance with any material provisions thereof.

SECTION 3.19. Insurance. The Borrower and the Restricted Subsidiaries have insurance in such amounts and covering such risks and liabilities as are in accordance with normal industry practice.
SECTION 3.20. OFAC. Neither the Borrower nor any Restricted Subsidiary (i) is a person whose property or interest in property is blocked or subject to blocking pursuant to Section 1 of Executive Order 13224 of September 23, 2001 Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49079 (2001)), (ii) engages in any dealings or transactions prohibited by section 2 of such executive order, or is otherwise associated with any such person in any manner violative of such section 2, or (iii) is a person on the list of “Specially Designated Nationals” and “Blocked Persons” or subject to the limitations or prohibitions under any other U.S. Department of Treasury’s Office of Foreign Assets Control regulation or executive order.

SECTION 3.21. Patriot Act. The Borrower and each Restricted Subsidiary is in compliance, in all material respects, with (i) the Trading with the Enemy Act, as amended, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any other enabling legislation or executive order relating thereto, and (ii) the Uniting And Strengthening America By Providing Appropriate Tools Required To Intercept And Obstruct Terrorism (USA Patriot Act of 2001). No part of the proceeds of the Loans will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

ARTICLE 4
Conditions

SECTION 4.01. Effective Date. This Agreement shall become effective as of the date hereof upon the satisfaction of the conditions precedent set forth in this Section 4.01 (the date upon which all such conditions precedent under this Section 4.01 shall be satisfied referred to as the Effective Date):

(a) The Administrative Agent (or its counsel) shall have received from each party hereto either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement.

(b) The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent, the Issuing Banks and the Lenders and dated the Effective Date) of Gibson Dunn & Crutcher LLP, counsel for the Borrower, and covering such other matters relating to the Borrower or the Loan Documents as the Administrative Agent shall reasonably request. The Borrower hereby requests such counsel to deliver such opinion.

(c) The Administrative Agent shall have received (i) a copy of the certificate or articles of incorporation, including all amendments thereto, of the Borrower, certified as of a recent date by the Secretary of State of the state of its organization, and a certificate as to the good standing of the Borrower as of a recent date, from such Secretary of State; (ii) a certificate of the
Secretary or Assistant Secretary of the Borrower dated the Effective Date and certifying (A) that attached thereto is a true and complete copy of the by-laws of the Borrower as in effect on the Effective Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party and the borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate or articles of incorporation of the Borrower have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each officer executing any Loan Document or any other document delivered in connection herewith on behalf of the Borrower; (iii) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to clause (ii) above; and (iv) such other documents as the Lenders, the Issuing Banks or the Administrative Agent may reasonably request.

(d) The Administrative Agent shall have received a certificate, dated the Effective Date and signed by the President, a Vice President or a Financial Officer of the Borrower, confirming compliance with the conditions set forth in paragraphs (a) and (b) of Section 4.03.

(e) The Lenders shall have received (i) the financial statements referred to in Sections 3.04(a) and 3.04(b) and (ii) forecasts of consolidated balance sheets, income statements and cash flow statements of the Borrower and its Subsidiaries on an annual basis for 2010 through 2015.

(f) The Administrative Agent shall have received, at least 5 days prior to the Effective Date, all documentation and other information required by regulatory authorities under applicable “know your customer” and anti-money laundering rules and regulations, including the PATRIOT Act, that have been requested by the Administrative Agent and the Lenders no later than 10 days prior to the Effective Date.

(g) The Borrower shall have received (i) a corporate credit rating from Moody’s, a corporate family rating from S&P and an issuer default rating from Fitch, and (ii) a rating of the Senior Credit Facilities by Moody’s, S&P and Fitch.

(h) The Collateral Agent shall have received a Perfection Certificate with respect to the Borrower and each Wholly Owned Domestic Restricted Subsidiary dated the Effective Date and duly executed by a Responsible Officer of the Borrower, and shall have received the results of a search of the Uniform Commercial Code filings (or equivalent filings) made with respect to the Borrower and each Wholly Owned Domestic Restricted Subsidiary in the states (or other jurisdictions) of formation of such Persons, in which the chief executive office of each such Person is located and in the other jurisdictions in which such Persons maintain property, in each case as indicated on such Perfection Certificate, together with copies of the financing statements (or similar documents) disclosed by such search, and accompanied by evidence satisfactory to the Collateral Agent that the Liens indicated in any such financing statement (or similar document) would be permitted under Section 6.02 or have been or will be contemporaneously released or terminated.
(i) All material governmental and third party approvals necessary in connection with the Senior Credit Facilities and the Loan Documents shall have been obtained and be in full force and effect.

The Administrative Agent shall notify the Borrower and the Lenders of the Effective Date.

SECTION 4.02. Funding Date. The obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective unless each of the following conditions is satisfied (or waived pursuant to Section 9.02) on or prior to June 30, 2011 (the date upon which all such conditions precedent under this Section 4.02 shall be satisfied or waived referred to as the Funding Date, and, in the event such conditions are not so satisfied or waived by June 30, 2011, the Commitments shall terminate on such date):

(a) The Effective Date shall have occurred.

(b) The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent, the Issuing Banks and the Lenders and dated the Funding Date) of Gibson Dunn & Crutcher LLP, counsel for the Borrower, Brownstein Hyatt Farber Schreck, LLP, Nevada counsel for the Borrower and George M. Simmerman, Vice President and Sector Counsel of Northrop Grumman Shipbuilding, Inc., and covering such other matters relating to the Loan Parties, the Collateral Documents or the Transactions as the Administrative Agent shall reasonably request. The Borrower hereby requests such counsel to deliver such opinion.

(c) The Administrative Agent shall have received (i) a copy of the certificate or articles of incorporation, including all amendments thereto, of each Guarantor, certified as of a recent date by the Secretary of State of the state of its organization, and a certificate as to the good standing of such Guarantor as of a recent date, from such Secretary of State; (ii) a certificate of the Secretary or Assistant Secretary of each Guarantor dated the Funding Date and certifying (A) that attached thereto is a true and complete copy of the by-laws of such Guarantor as in effect on the Funding Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of such Guarantor authorizing the execution, delivery and performance of the Loan Documents to which such Person is a party, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate or articles of incorporation of such Guarantor have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each officer executing any Loan Document or any other document delivered in connection herewith on behalf of such Guarantor; (iii) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to clause (ii) above; and (iv) such other documents as the Lenders, the Issuing Banks or the Administrative Agent may reasonably request.

(d) The Collateral Documents shall have been duly executed by each Loan Party that is to be a party thereto and shall be in full force and effect on the Funding Date. The Collateral Agent shall be reasonably satisfied that all actions necessary to establish that the Collateral
Agent will have a security interest on behalf of the Secured Parties in the Collateral of the type and priority described in each Collateral Document shall have been taken. Nothing contained in the foregoing sentence shall be construed to require the satisfaction of the post-Funding Date obligations set forth in Section 5.14 prior to the Funding Date.

(e) The Administrative Agent shall have received a copy of, or a certificate as to coverage under, the insurance policies required by Section 5.05 and the applicable provisions of the Collateral Documents, each of which shall be endorsed or otherwise amended to include a customary lender’s loss payable endorsement and to name the Collateral Agent as additional insured, in form and substance satisfactory to the Administrative Agent. In addition, the Administrative Agent shall have received a schedule setting forth a true, complete and correct description of all material insurance maintained by or on behalf of the Borrower or the Restricted Subsidiaries as of the Funding Date. As of such date, such insurance shall be in full force and effect and all premiums shall have been duly paid.

(f) The Collateral Agent shall have received a Perfection Certificate with respect to the Loan Parties dated the Funding Date and duly executed by a Responsible Officer of the Borrower.

(g) The Administrative Agent shall have received a certificate from the chief financial officer of the Borrower certifying that the Borrower and the Restricted Subsidiaries, on a consolidated basis after giving effect to the Transactions and the other transactions contemplated hereby, are solvent within the meaning of the term “solvency” as set forth in Section 3.17.

(h) The final terms and conditions of each aspect of the Transactions, including without limitation, all tax aspects thereof, shall be consistent in all material respects with the terms set forth in the Distribution Agreement and the information set forth in the Form 10. The Lead Arrangers shall be reasonably satisfied with the terms and conditions of the Distribution Agreement and the other Transaction Documents, it being understood and agreed that the Lead Arrangers are reasonably satisfied with the terms and conditions set forth in the forms of the Transaction Documents delivered to the Lead Arrangers prior to the Effective Date. Since the Effective Date, the Transaction Documents shall not have been altered, amended or otherwise changed or supplemented or any condition therein waived, in each case in a manner that is materially adverse to the interests of the Lenders, without the prior written consent of the Lead Arrangers. The Pre-Contribution Internal Reorganization shall have been consummated. The Lead Arrangers shall be reasonably satisfied that (x) the Contribution will be consummated substantially contemporaneously with the initial funding of the Senior Credit Facilities pursuant to this Section 4.02 and (y) all regulatory approvals necessary to consummate the Spin-off (after the Funding Date) shall have been (or substantially contemporaneously with the initial funding of the Senior Credit Facilities hereunder shall be) obtained and all other conditions necessary to consummate the Spin-off after the Funding Date (other than those which, pursuant to the Transaction Documents, are to be satisfied after the initial funding of the Senior Credit Facilities hereunder) shall have been (or substantially contemporaneously with the initial funding of the Senior Credit Facilities hereunder shall be) satisfied, in each case in accordance with the applicable Transaction Documents and applicable law. The proceeds of the issuance of the Senior Notes shall have been (or substantially contemporaneously with the initial funding of the Senior Credit Facilities hereunder shall be) released to the Borrower from the Senior Notes

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Escrow in an aggregate principal amount that together with the aggregate principal amount of the Term Loans funded pursuant to this Section 4.02 shall be up to $1,775,000,000.

(i) On the Funding Date, after giving effect to the Transactions, neither the Borrower nor any of its Restricted Subsidiaries shall have any material Indebtedness for borrowed money, other than (i) the Senior Credit Facilities, (ii) the Senior Notes, (iii) up to $83,700,000 of indebtedness under a loan agreement with the Mississippi Business Finance Corporation (“MBFC”) in connection with MBFC’s issuance of 7.81% Economic Development Revenue Bonds (Ingalls Shipbuilding, Inc. Project) Taxable Series 1999A due 2024 and (iv) up to $22,000,000 of indebtedness under a loan agreement with the MBFC in connection with the MBFC’s issuance of 4.55% Gulf Opportunity Zone Industrial Revenue Bonds (Northrop Grumman Ship Systems, Inc. Project) Series 2006 due 2028 (the “GO Zone Bonds”).

(j) There shall not have occurred since December 31, 2010 any event, occurrence, change, state of circumstances or condition which, individually or in the aggregate has had or would reasonably be expected to have a Material Adverse Effect.

(k) The Lenders, the Administrative Agent and the Lead Arrangers shall have received all fees and other amounts due and payable on or prior to the Funding Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder.

(l) The Administrative Agent shall have received a certificate, dated the Funding Date and signed by the President, a Vice President or a Financial Officer of the Borrower, confirming compliance with the conditions set forth in paragraphs (a) and (b) of Section 4.02.

SECTION 4.03. Each Credit Event. The obligation of each Lender to make a Loan on the occasion of any Borrowing, and of each Issuing Bank to issue, amend, renew or extend any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) The representations and warranties made by or on behalf of the Borrower and the Restricted Subsidiaries set forth in this Agreement and in the Collateral Documents shall be true and correct in all material respects on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable (except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date).

(b) At the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default or Event of Default shall have occurred and be continuing.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section.
ARTICLE 5
Affirmative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that the Borrower will, and will (from and after the Funding Date in the case of Sections 5.05(a) and (c), 5.08, 5.11 and 5.14) cause each of the Restricted Subsidiaries to:

SECTION 5.01. Financial Statements; Ratings Change and Other Information. In the case of the Borrower, furnish to the Administrative Agent for distribution to each Lender:

(a) within 90 days after the end of each fiscal year of the Borrower, its audited consolidated balance sheet and related statements of operations, stockholders’ equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by Deloitte & Touche LLP or other independent public accountants of recognized national standing (without a “going concern” or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, together with a customary “management discussion and analysis” provision;

(b) within 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, its consolidated balance sheet and related statements of operations, stockholders’ equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes, together with a customary “management discussion and analysis” provision;

(c) concurrently with any delivery of financial statements under clause (a) or (b) above, a duly completed Compliance Certificate signed by a Financial Officer of the Borrower (i) certifying that no Default or Event of Default has occurred or, if such a Default or Event of Default has occurred, specifying the nature and extent thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations demonstrating compliance with Sections 6.10, 6.11 and 6.12 and (iii) stating whether any change in GAAP or in the application thereof has occurred since the date of the audited financial statements referred to in Section 3.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(d) concurrently with any delivery of financial statements under clause (a) above, a certificate of the accounting firm that reported on such financial statements stating whether they
obtained knowledge during the course of their examination of such financial statements of any Default or Event of Default under Section 6.11 or 6.12 (which certificate may be limited to the extent required by accounting rules or guidelines);

(e) within 90 days after the beginning of each fiscal year of the Borrower, a detailed consolidated budget for such fiscal year (including a projected consolidated balance sheet and related statements of projected operations and cash flows as of the end of and for such fiscal year and setting forth the assumptions used for purposes of preparing such budget) and, promptly when available, any significant revisions of such budget.

(f) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by the Borrower or any Restricted Subsidiary with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or distributed by the Borrower to its shareholders generally, as the case may be;

(g) promptly after Moody’s, S&P or Fitch shall have announced a change in the rating established or deemed to have been established for the Borrower or the Senior Credit Facilities, written notice of such rating change;

(h) promptly after the receipt thereof by the Borrower or any Restricted Subsidiary, a copy of any “management letter” received by any such Person from its certified public accountants and the management’s response thereto;

(i) promptly after the request by any Lender, all documentation and other information that such Lender reasonably requests in order to comply with its ongoing obligations under applicable “know your customer” and anti-money laundering rules and regulations, including the USA PATRIOT Act;

(j) promptly following any request therefor, subject to compliance with applicable law and any restrictions imposed by a Governmental Authority, such other information regarding the operations, business affairs and financial condition of the Borrower or any Restricted Subsidiary, or compliance with the terms of this Agreement, as the Administrative Agent or any Lender may reasonably request (for itself or on behalf of any Lender); and.

(k) if there are any Unrestricted Subsidiaries as of the last day of any fiscal quarter, simultaneously with the delivery of each set of consolidated financial statements referred to in Sections 5.01(a) or 5.01(b) above, the related consolidating financial statements reflecting the adjustments necessary to eliminate the accounts of any Unrestricted Subsidiaries that constitute Significant Subsidiaries from such consolidated financial statements.

Information required to be delivered pursuant to paragraphs (a), (b) or (f) of this Section shall be deemed to have been delivered if such information, or one or more annual or quarterly reports containing such information, shall have been delivered to the Administrative Agent in a format which is suitable for posting by the Administrative Agent on an IntraLinks or similar site to which the Lenders have been granted access or shall be available on the website of the Securities and Exchange Commission at http://www.sec.gov (and the Borrower shall endeavor to
deliver or cause to be delivered to the Administrative Agent a confirming electronic correspondence providing notice of such availability, provided that the failure to deliver such confirming electronic correspondence shall not constitute a default hereunder; provided that the Borrower shall deliver paper copies of such information to any Lender that requests such delivery. Information required to be delivered pursuant to this Section may also be delivered by electronic communications pursuant to procedures approved by the Administrative Agent.

SECTION 5.02 Notices of Material Events. Furnish to the Administrative Agent (for distribution to each Lender) promptly, upon a Responsible Officer of the Borrower obtaining actual knowledge thereof, written notice of the following:

(a) the occurrence of any Default;
(b) the filing or commencement of, or any written threat or written notice of intention of any Person to file or commence, any action, suit or proceeding whether at law or in equity by or before any arbitrator or Governmental Authority against or affecting the Borrower or any Affiliate thereof that would reasonably be expected to result in a Material Adverse Effect;
(c) the occurrence or reasonably expected occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, would reasonably be expected to result in liability of the Borrower and its Subsidiaries in an aggregate amount exceeding $25,000,000; and
(d) any other development that has resulted in, or would reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 5.03 Existence; Conduct of Business. Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business, except as would not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect; provided that the foregoing shall not prohibit the Transactions or any merger, consolidation, liquidation or dissolution permitted under Section 6.05.

SECTION 5.04 Payment of Obligations. Pay and discharge all material Taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits, or upon any property belonging to it, prior to the date on which penalties attach thereto, and all lawful material claims which, if unpaid, might become a Lien upon the property of the Borrower or such Restricted Subsidiary; provided that neither the Borrower nor any such Restricted Subsidiary shall be required to pay any such Tax, assessment, charge, levy or claims (i) the payment of which is being contested in good faith and by proper proceedings, (ii) not yet delinquent or (iii) the non-payment of which, if taken in the aggregate, would not reasonably be expected to result in a Material Adverse Effect.
SECTION 5.05. Maintenance of Properties; Insurance.

(a) Keep and maintain all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted and except where failure to do so would not reasonably be expected to result in a Material Adverse Effect.

(b) Maintain, with financially sound and reputable insurance companies, insurance in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations.

(c) Cause all such policies covering any Collateral to be endorsed or otherwise amended to include a customary lender’s loss payable endorsement, in form and substance satisfactory to the Administrative Agent and the Collateral Agent, which endorsement shall provide that, from and after the Funding Date, if the insurance carrier shall have received written notice from the Administrative Agent or the Collateral Agent of the occurrence of an Event of Default, the insurance carrier shall pay all proceeds otherwise payable to the Borrower or the Loan Parties under such policies directly to the Collateral Agent; cause all such policies to provide that neither the Borrower, the Administrative Agent, the Collateral Agent nor any other party shall be a coinsurer thereunder and to contain a “Replacement Cost Endorsement”, without any deduction for depreciation, and such other provisions as the Administrative Agent or the Collateral Agent may reasonably require from time to time to protect their interests; cause each such policy to provide that it shall not be canceled, modified or not renewed (i) by reason of nonpayment of premium upon not less than 10 days’ prior written notice thereof by the insurer to the Administrative Agent and the Collateral Agent (giving the Administrative Agent and the Collateral Agent the right to cure defaults in the payment of premiums) or (ii) for any other reason upon not less than 30 days’ prior written notice thereof by the insurer to the Administrative Agent and the Collateral Agent; deliver original or certified copies of all such policies to the Collateral Agent; cause each such policy to provide that it shall not be canceled, modified or not renewed (i) by reason of nonpayment of premium upon not less than 10 days’ prior written notice thereof by the insurer to the Administrative Agent and the Collateral Agent (giving the Administrative Agent and the Collateral Agent the right to cure defaults in the payment of premiums) or (ii) for any other reason upon not less than 30 days’ prior written notice thereof by the insurer to the Administrative Agent and the Collateral Agent; deliver to the Administrative Agent and the Collateral Agent, prior to the cancellation, modification or nonrenewal of any such policy of insurance, a copy of a renewal or replacement policy (or other evidence of renewal of a policy previously delivered to the Administrative Agent and the Collateral Agent) together with evidence satisfactory to the Administrative Agent and the Collateral Agent of payment of the premium therefor.

(d) If at any time the area in which the Property (as specifically defined in a Mortgage) is located is designated (i) a “flood hazard area” in any Flood Insurance Rate Map published by the Federal Emergency Management Agency (or any successor agency), and if available in the community in which the Property is located, obtain flood insurance in such total amount as the Administrative Agent, the Collateral Agent or the Required Lenders may from time to time require, and otherwise comply with the National Flood Insurance Program as set forth in the Flood Disaster Protection Act of 1973, as it may be amended from time to time, or (ii) a “Zone 1” area, obtain earthquake insurance in such total amount as the Administrative Agent, the Collateral Agent or the Required Lenders may from time to time require.

(e) With respect to any Mortgaged Property, carry and maintain comprehensive general liability insurance including the “broad form CGL endorsement” and coverage on an occurrence basis against claims made for personal injury (including bodily injury, death and
property damage) and umbrella liability insurance against any and all claims, in no event for a combined single limit of less than that which is customary for companies in the same or similar businesses operating in the same or similar locations, naming the Collateral Agent as an additional insured, on forms satisfactory to the Collateral Agent.

(f) Notify the Administrative Agent and the Collateral Agent promptly whenever any separate insurance concurrent in form or contributing in the event of loss with that required to be maintained under this Section 5.05 is taken out by any Loan Party; and promptly deliver to the Administrative Agent and the Collateral Agent a duplicate original copy of such policy or policies.

SECTION 5.06. Books and Records; Inspection Rights; Maintenance of Ratings. (a) Keep proper books of record and account in accordance with GAAP.

(b) Permit any representatives designated by the Administrative Agent (or, if any Event of Default has occurred and is continuing, any Lender), upon reasonable prior notice and subject to reasonable requirements of confidentiality, including the requirements imposed by any Governmental Authority or by contract, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times during normal business hours and as often as reasonably requested, provided that the exercise of rights under this Section shall not unreasonably interfere with the business of the Borrower and its Subsidiaries and the Administrative Agent and the Lenders shall give the Borrower a reasonable opportunity to participate in any discussions with the Borrower’s accountants.

(c) Use commercially reasonable efforts to (i) cause the Senior Credit Facilities to be continuously rated by S&P and Moody’s and, at the Borrower’s election, Fitch, and (ii) maintain a corporate rating from S&P, a corporate family rating from Moody’s, and, at the Borrower’s election, an issuer default rating from Fitch, in each case in respect of the Borrower.

SECTION 5.07. Compliance with Laws. Comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its property, except where the failure to do so, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.08. Use of Proceeds and Letters of Credit. Use the proceeds of the Loans and the issuance of Letters of Credit solely for the purposes described in Section 3.12.

SECTION 5.09. Employee Benefits. Comply with the applicable provisions of ERISA and the Code, except where the failure to do so, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.10. Compliance with Environmental Laws. Comply, and cause all lessees and other Persons occupying its properties to comply, in all material respects with all Environmental Laws applicable to its operations and properties; obtain and renew all material environmental permits necessary for its operations and properties; and conduct any remedial action required by Environmental Laws or by a Governmental Authority; provided, however, that
none of the Borrower or any Restricted Subsidiary shall be required to undertake any remedial action or incur any compliance cost required by Environmental Laws or by a Governmental Authority to the extent that its obligation to do so is being contested in good faith and by proper proceedings and, if applicable, appropriate reserves are being maintained with respect to such circumstances in accordance with GAAP.

SECTION 5.11. Further Assurances. Execute any and all further documents, financing statements, agreements and instruments, and take all further action (including filing Uniform Commercial Code and other financing statements, mortgages and deeds of trust) that may be required under applicable law, or that the Required Lenders, the Administrative Agent or the Collateral Agent may reasonably request, in order to effectuate the transactions contemplated by the Loan Documents and in order to grant, preserve, protect and perfect the validity and priority of the security interests created or intended to be created by the Collateral Documents. The Borrower will cause any subsequently acquired or organized Wholly Owned Subsidiary that is a Domestic Restricted Subsidiary to become a Loan Party by executing the Guarantee and Security Agreement and each applicable Collateral Document in favor of the Collateral Agent. In addition, from time to time (other than during a Collateral Suspension Period), the Borrower will, at its cost and expense, promptly secure the Secured Obligations by pledging or creating, or causing to be pledged or created, perfected security interests with respect to such of its assets and properties as the Administrative Agent or the Required Lenders shall designate (it being understood that it is the intent of the parties that the Secured Obligations shall be secured (other than during a Collateral Suspension Period) by substantially all the assets of the Borrower and its Restricted Subsidiaries (but, as to real property, shall be secured only by Material Real Property owned as of, or acquired subsequent to, the Effective Date)). Such security interests and Liens will be created under the Collateral Documents and other security agreements, mortgages, deeds of trust and other instruments and documents in form and substance satisfactory to the Collateral Agent, and the Borrower shall deliver or cause to be delivered to the Lenders all such instruments and documents (consistent with the items required under Section 5.14) as the Collateral Agent shall reasonably request to evidence compliance with this Section. The Borrower agrees to provide such evidence as the Collateral Agent shall reasonably request as to the perfection and priority status of each such security interest and Lien. In furtherance of the foregoing, the Borrower will give prompt notice to the Administrative Agent of the acquisition by it or any of the Subsidiaries of any Material Real Property.

SECTION 5.12. Designation of Subsidiaries. In the case of the Borrower, at any time and from time to time in its sole discretion, designate any Restricted Subsidiary as an Unrestricted Subsidiary or any Unrestricted Subsidiary as a Restricted Subsidiary; provided that (a) immediately before and after such designation, no Default or Event of Default shall have occurred and be continuing, (b) immediately after giving effect to such designation, the Borrower shall be in compliance, on a pro forma basis, with the covenants set forth in Sections 6.11 and 6.12 (and, as a condition precedent to the effectiveness of any such designation, the Borrower shall deliver to the Administrative Agent a certificate setting forth in reasonable detail the calculations demonstrating such compliance), (c) no Subsidiary that owns any Equity Interests of any Restricted Subsidiary, shall be an Unrestricted Subsidiary, (d) (i) the designation of any Subsidiary as an Unrestricted Subsidiary shall constitute an Investment by the Borrower or the applicable Restricted Subsidiary therein at the date of designation in an amount equal to
the net book value (or, in the case of any guarantee or similar Investment, the fair market value thereof) of such Investments of the Borrower or such Restricted Subsidiary and (ii) no such designation shall be effective if, immediately after such designation, the sum of (x) the amount of all such Investments and (y) the amount of all Investments in majority-owned joint ventures, in each case net of cash returned to the Borrower or a Restricted Subsidiary in respect of such Investments, exceeds $150,000,000 in the aggregate, (e) no Subsidiary may be designated as an Unrestricted Subsidiary if it is a “Restricted Subsidiary” for the purpose of the Senior Notes, any other Permitted Senior Indebtedness or any Permitted Subordinated Indebtedness (unless it is concurrently designated as an Unrestricted Subsidiary for the purpose of such other Indebtedness) and (f) there shall be no Unrestricted Subsidiary (other than Titan II and Ascension) on the Effective Date or the Funding Date. If any Person becomes a Restricted Subsidiary on any date after the Funding Date (including by redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary), the Indebtedness of such Person outstanding on such date will be deemed to have been incurred by such Person on such date for purposes of Section 6.01, but will not be considered the sale or issuance of Equity Interests for purposes of Section 6.05. Titan II and Ascension will be deemed designated an Unrestricted Subsidiary immediately upon its becoming a Subsidiary of the Borrower, provided that the conditions in clauses (a) through (e) above are satisfied at such time.

SECTION 5.13. Maintenance of Separate Existence. So long as Titan II shall exist, do all things necessary to cause Titan II to maintain a separate existence from the Borrower and each other Restricted Subsidiary, including, without limitation, causing Titan II to (i) maintain proper corporate records and books of account separate from those of the Borrower and each other Restricted Subsidiary; (ii) hold appropriate meetings of its board of directors, keep minutes of such meetings and of meetings of its members and observe all other necessary organizational formalities (and any successor shall observe similar procedures in accordance with its governing documents and applicable law); (iii) at all times hold itself out to the public under its own name as a legal entity separate and distinct from the Borrower and each other Restricted Subsidiary; and (iv) refrain from (A) having any assets other than as contemplated by the Transaction Documents, (B) guaranteeing, becoming obligated for or holding itself or its credit out to be responsible for or available to satisfy, the debts or obligations of any other Person, or otherwise having any liabilities except for the guarantees and related liabilities pursuant to the Titan II Guarantees or liabilities for which Titan II is indemnified under the Transaction Documents, (C) acting with the intent to hinder, delay or defraud any of its creditors in violation of applicable law, (D) acquiring any securities or debt instruments of its Affiliates or any other Person, and (E) making loans or advances, or transferring its assets, to any Person, except (in the case of clauses (A), (B) and (E) above) for liabilities permitted under Section 6.08(b) and de minimis assets, liabilities, advances, loans and transfers related to the maintenance of Titan II’s existence or to the conduct of the activities of Titan II permitted under Section 6.08(b).

SECTION 5.14. Post-Funding Date Collateral Matters. Within 90 days after the Funding Date (or such later date as agreed to by the Administrative Agent), (i) execute and deliver to the Collateral Agent or cause to be executed and delivered to the Collateral Agent each of the Collateral Documents, in form and substance satisfactory to the Collateral Agent, relating to each of the Mortgaged Properties, (ii) cause each of such Collateral Documents to be filed and recorded in the recording office as specified on Schedule 7(A) to the Perfection Certificate and,
in connection therewith, provide to the Collateral Agent evidence satisfactory to it of each such filing and recordation (or a lender’s title insurance policy, in form and substance consistent with clause (iv) below and covering the “gap” of time between the delivery of the applicable Collateral Document and the recordation of such Collateral Document), (iii) cause the Collateral Agent to receive, in order to comply with the Flood Laws, the following documents relating to Mortgaged Properties: (A) a completed standard flood hazard determination form; (B) if any improvement(s) comprising part of the Mortgaged Properties are located in a special flood hazard area, a notification to the Borrower (“Borrower Notice”) and (if applicable) notification to the Borrower that flood insurance coverage under the National Flood Insurance Program (“NFIP”) is not available because the community does not participate in the NFIP; and (C) documentation evidencing the Borrower’s receipt of the Borrower Notice; and (D) if the Borrower Notice is required to be given and flood insurance is available in the community in which the applicable property is located, a copy of one of the following: the flood insurance policy, the Borrower’s application for a flood insurance policy plus proof of premium payment, a declaration page confirming that flood insurance has been issued, or such other evidence of flood insurance satisfactory to the Collateral Agent; and (iv) cause to be delivered to the Collateral Agent such other documents, including a policy or policies of title insurance issued by a nationally recognized title insurance company selected by the Borrower and reasonably acceptable to the Collateral Agent, insuring such Collateral Document as a first lien on such Mortgaged Property, subject to no Liens other than the Liens permitted by Section 6.02, together with such endorsements, coinsurance and reinsurance as may be available in the applicable jurisdiction and reasonably requested by the Collateral Agent and the Lenders, with insurance amounts of not more than 105% of the actual value (as reasonably estimated by the Borrower based on real estate tax assessment information) of the applicable Mortgaged Property at the time such Collateral Document is recorded, together with such surveys, abstracts, appraisals and reasonable and customary legal opinions reasonably requested by the Collateral Agent.

ARTICLE 6
Negative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all Letters of Credit have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that the Borrower will not, nor will it (from and after the Funding Date) cause or permit any of the Restricted Subsidiaries to:

SECTION 6.01. Indebtedness. Incur, create, assume or permit to exist any Indebtedness, except:

(a) Indebtedness existing on the date hereof or expected to be existing on the Funding Date and, in each case, set forth in Schedule 6.01, and any Permitted Refinancing thereof;

(b) (i) Indebtedness created hereunder and under the other Loan Documents and (ii) Indebtedness in respect of the Senior Notes and any Permitted Refinancing thereof;

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(c) intercompany Indebtedness of the Borrower and the Restricted Subsidiaries to the extent permitted by Section 6.04; provided that Indebtedness of any Loan Party owing to any Restricted Subsidiary that is not a Loan Party shall be subordinated to the Secured Obligations (as defined in the Guarantee and Security Agreement) pursuant to a Global Intercompany Note;

(d) Indebtedness of the Borrower or any Restricted Subsidiary incurred to finance the acquisition, construction or improvement of any fixed or capital assets (including by way of a Permitted Acquisition), and any Permitted Refinancing thereof; provided that (i) such Indebtedness is incurred prior to or within 120 days after such acquisition or the completion of such construction or improvement and (ii) the aggregate principal amount of Indebtedness permitted by this Section 6.01(d), when combined with the aggregate principal amount of all Capital Lease Obligations incurred pursuant to Section 6.01(e) at any time outstanding shall not exceed the greater of (A) $50,000,000 and (B) 1.5% of Consolidated Net Tangible Assets;

(e) Capital Lease Obligations and any Permitted Refinancing thereof, in an aggregate principal amount that, when combined with the aggregate principal amount of all Indebtedness incurred pursuant to Section 6.01(d), shall not exceed the greater of (i) $50,000,000 and (ii) 1.5% of Consolidated Net Tangible Assets;

(f) Indebtedness under or with respect to self-insurance obligations, performance bonds, bid bonds, completion guarantees, appeal bonds, customs bonds, surety bonds, return of money bonds, bankers’ acceptances and similar obligations and trade-related letters of credit, in each case provided in the ordinary course of business and not in connection with Indebtedness for borrowed money, including those incurred to secure health, safety and environmental obligations (including with respect to workers’ compensation claims or other types of social security benefits, environmental financial responsibility requirements and environmental remediation programs or to secure the performance of statutory obligations and other obligations of a like nature arising from legal or regulatory requirements), in each case in the ordinary course of business;

(g) Indebtedness owed to any Person providing worker’s compensation, health, disability or other employee benefits or property, casualty or liability insurance to the Borrower or any Restricted Subsidiary, pursuant to reimbursement or indemnification obligations to such Person; provided that upon the occurrence of Indebtedness with respect to reimbursement obligations regarding worker’s compensation claims, such obligations are reimbursed in the ordinary course of business consistent with past practice;

(h) Indebtedness in respect of the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; provided that such Indebtedness is extinguished within five Business Days of its incurrence;

(i) Indebtedness incurred in the ordinary course of business to finance insurance policy premiums;
(j) Indebtedness in respect of agreements providing for indemnification, adjustment of purchase price, earn-outs or similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or a Subsidiary of the Borrower;

(k) Indebtedness of any Person that becomes a Restricted Subsidiary after the date hereof and any Permitted Refinancing thereof, provided that (i) such Indebtedness exists at the time such Persons becomes a Restricted Subsidiary and is not created in contemplation of or in connection with such Person becoming a Restricted Subsidiary, (ii) immediately before and after such Person becomes a Restricted Subsidiary, no Default or Event of Default shall have occurred and be continuing and (iii) the aggregate principal amount of Indebtedness permitted by this Section 6.01(k) shall not exceed $50,000,000 at any time outstanding;

(l) Indebtedness in respect of those Swap Contracts incurred in the ordinary course of business and not for speculative purposes and consistent with prudent business practice;

(m) any Permitted Senior Indebtedness and any Permitted Subordinated Indebtedness; provided that in each case the Borrower and the Restricted Subsidiaries shall be in pro forma compliance with the financial covenants set forth in Sections 6.11 and 6.12 after giving effect to such Indebtedness;

(n) endorsements for collection or deposit in the ordinary course of business;

(o) Indebtedness in respect of (i) customer advances received and held in the ordinary course of business or (ii) take-or-pay obligations contained in supply arrangements incurred in the ordinary course of business;

(p) Indebtedness incurred on behalf of or representing Guarantees of Indebtedness of Unrestricted Subsidiaries or joint ventures in an amount not to exceed the amount of investments permitted under Section 6.04(p);

(q) Guarantees of Indebtedness of the Borrower and its Restricted Subsidiaries that is permitted under clause (d), (e) or (n) of this Section 6.01; and

(r) other Indebtedness of the Borrower or the Restricted Subsidiaries in an aggregate principal amount at any time outstanding not exceeding $200,000,000.

SECTION 6.02. Liens. Create, incur, assume or permit to exist any Lien on any property or assets (including Equity Interests or other securities of any Person, including any Subsidiary) now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof, except:

(a) Liens on property or assets of the Borrower and its Restricted Subsidiaries existing on the date hereof or expected to be existing on the Funding Date and, in each case, set forth in Schedule 6.02; provided that such Liens shall secure only those obligations which they secure on the date hereof and refinancings, extensions, renewals and replacements thereof permitted hereunder;

(b) any Lien created under the Loan Documents;
(c) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower or any Restricted Subsidiary or existing on any property or assets of any Person that becomes a Restricted Subsidiary after the date hereof prior to the time such Person becomes a Restricted Subsidiary, as the case may be; **provided** that (i) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Restricted Subsidiary, (ii) such Lien secures only those obligations which it secures on the date of such acquisition or the date such Person becomes a Restricted Subsidiary, as the case may be, and any Permitted Refinancing thereof, and (iii) such Lien does not apply to any other property or assets of the Borrower or any Restricted Subsidiary;

(d) Liens for Taxes not yet due or which are being contested in compliance with Section 5.04;

(e) carriers’, warehousemen’s, mechanics’, repairmen’s landlords’ or other like Liens arising in the ordinary course of business and securing obligations that are not overdue by more than 60 days and payable or which are being contested in compliance with Section 5.04;

(f) pledges and deposits made in the ordinary course of business in compliance with workmen’s compensation, unemployment insurance and other social security laws or regulations;

(g) pledges (in the ordinary course of business and consistent with past practice) and deposits to secure the performance of bids, trade contracts (other than for Indebtedness), leases (other than Capital Lease Obligations), statutory obligations, other obligations of a like nature incurred in the ordinary course of business, and other obligations permitted by Section 6.01(f), (g) or (h);

(h) (i) encumbrances on real property that would be shown on a current and accurate survey and zoning restrictions, easements, rights-of-way, covenants, restrictions, agreements, reservations, riparian rights, mineral and air rights and similar encumbrances on real property imposed by law, recorded in the applicable land records, or arising in the ordinary course of business that do not materially detract from the value of the affected property or materially interfere with the ordinary conduct of the business of the Borrower or any of its Restricted Subsidiaries and (ii) all matters shown on or referred to in loan title policies issued to the Collateral Agent and the Lenders;

(i) purchase money security interests in real property, improvements thereto or assets hereafter acquired (or, in the case of improvements, constructed) by the Borrower or any Restricted Subsidiary; **provided** that (i) such security interests secure Indebtedness permitted by Section 6.01, (ii) such security interests are incurred, and the Indebtedness secured thereby is created, within 120 days after such acquisition (or construction), (iii) the Indebtedness secured thereby does not exceed the lesser of the cost or the fair market value of such real property, improvements or equipment at the time of such acquisition (or construction) and (iv) such security interests do not apply to any other property or assets of the Borrower or any Restricted Subsidiary;
(j) judgment Liens securing judgments not constituting an Event of Default under Article 7 or securing appeal or other surety bonds related to such judgments;

(k) Liens created in favor of the United States of America or any department or agency thereof or any other contracting party or customer in connection with advance or progress payments or similar forms of vendor financing or incentive arrangements;

(l) Liens arising solely by virtue of any statutory or common law provision relating to banker’s liens, rights of set-off or similar rights, or existing solely with respect to cash and Permitted Investments on deposit in one or more accounts maintained by any Loan Party or any Restricted Subsidiary of the Borrower, in each case granted in the ordinary course of business in favor of the bank or banks which such accounts are maintained;

(m) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business, and Liens on assets on loan, consignment or lease to the Borrower or a Restricted Subsidiary in the ordinary course of business, including UCC financing statements related to such assets;

(n) Liens solely on any cash earnest money deposits made by the Borrower or any of itsRestricted Subsidiaries in connection with any letter of intent of a Permitted Acquisition or other Investment otherwise permitted hereunder;

(o) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods in the ordinary course of business;

(p) Liens securing Capital Lease Obligations permitted under Section 6.01(e);

(q) Liens on (i) insurance policies and the proceeds thereof (whether accrued or not) and rights or claims against an insurer, in each case securing insurance premium financings permitted under Section 6.01(i) and (ii) deposits made in the ordinary course of business to secure liabilities for premiums to insurance carriers;

(r) (i) Liens in the form of licenses, leases or subleases granted or created by the Borrower or any of its Restricted Subsidiaries in the ordinary course of business, which licenses, leases or subleases do not interfere, individually or in the aggregate, in any material respect with the business of the Borrower and its Restricted Subsidiaries, taken as a whole and (ii) rights of Persons in possession under recorded or unrecorded leases, licenses, occupancy or concession agreements and easements entered into with the Borrower or any Restricted Subsidiary in the ordinary course of business;

(s) Liens attaching to decommissioning trust funds as may be required pursuant to any requirement of law; and

(t) other Liens in an aggregate amount not to exceed $50,000,000 at any time outstanding.
SECTION 6.03. Sale and Lease-Back Transactions. Enter into any arrangement, directly or indirectly, with any Person whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred unless (a) the sale or transfer of such property is permitted by Section 6.05 and (b) any Capital Lease Obligations or Liens arising in connection therewith are permitted by Sections 6.01 and 6.02, as the case may be.

SECTION 6.04. Investments, Loans and Advances. Purchase, hold or acquire any Equity Interests, evidences of indebtedness or other securities of, make or permit to exist any loans or advances to, or make or permit to exist any investment in, any Person, except:

(a) (i) investments by the Borrower and the Restricted Subsidiaries existing on the Funding Date in the Equity Interests of their respective Restricted Subsidiaries and joint ventures and (ii) additional investments by the Borrower and the Restricted Subsidiaries in the Equity Interests of the Restricted Subsidiaries; provided that (A) any such Equity Interests held by a Loan Party shall be pledged pursuant to the Guarantee and Security Agreement (subject to the limitations applicable to voting stock of a Foreign Subsidiary referred to therein) and (B) the aggregate amount of investments made pursuant to this clause (a) after the Funding Date by Loan Parties in, and loans and advances made pursuant to clause (c) below after the Funding Date by Loan Parties to, Restricted Subsidiaries that are not Loan Parties (determined without regard to any write-downs or write-offs of such investments, loans and advances) shall not exceed $10,000,000 at any time outstanding;

(b) Permitted Investments;

(c) loans or advances made by the Borrower to any Restricted Subsidiary and made by any Restricted Subsidiary to the Borrower or any other Restricted Subsidiary; provided that (i) any such loans and advances made by a Loan Party shall be evidenced by a global intercompany note pledged to the Collateral Agent for the ratably benefit of the Secured Parties pursuant to the Guarantee and Security Agreement, (ii) such loans and advances shall be unsecured, (iii) if owed by a Loan Party to a Restricted Subsidiary that is not a Loan Party, such loans and advances shall be subordinated to the Secured Obligations (as defined in the Guarantee and Security Agreement) pursuant to a Global Intercompany Note and (iv) the amount of such loans and advances made by Loan Parties to Subsidiaries that are not Loan Parties pursuant to this clause (c) shall be subject to the limitation set forth in clause (a) above;

(d) investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;

(e) the Borrower and the Restricted Subsidiaries may make loans and advances in the ordinary course of business to their respective employees so long as the aggregate principal amount thereof during any fiscal year (determined without regard to any write-downs or write-offs of such loans and advances) shall not exceed $10,000,000;
(f) investments in prepaid expenses, negotiable instruments held for collection and lease, utility and workers compensation, performance and similar deposits entered into as a result of the operations of the business in the ordinary course of business;

(g) the Borrower or any Restricted Subsidiary may acquire all or substantially all the assets of a Person or division or line of business of such Person, or not less than 100% of the Equity Interests (other than directors’ qualifying shares) of a Person (referred to herein as the “Acquired Entity”); provided that (i) such acquisition was not preceded by an unsolicited tender offer for such Equity Interests by, or proxy contest initiated by, the Borrower or any Restricted Subsidiary; (ii) the Acquired Entity shall be in a Permitted Business; and (iii) at the time of such transaction (A) both before and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing; (B) the Borrower would be in compliance with the covenants set forth in Sections 6.11 and 6.12 as of the most recently completed period of four consecutive fiscal quarters ending prior to such transaction for which the financial statements and certificates required by Section 5.01(a) or Section 5.01(b), as the case may be, and Section 5.01(c) have been delivered or for which comparable financial statements have been filed with the Securities and Exchange Commission, after giving pro forma effect to such transaction and to any other event occurring after such period as to which pro forma recalculation is appropriate (including any other transaction described in this Section 6.04(g) occurring after such period) as if such transaction had occurred as of the first day of such period; (C) if the total consideration of such acquisition exceeds $25,000,000, the Borrower shall have delivered a certificate of a Financial Officer, certifying as to the foregoing and containing reasonably detailed calculations in support thereof, in form and substance satisfactory to the Administrative Agent and (D) the Borrower shall comply, and shall cause the Acquired Entity to comply, with the applicable provisions of Section 5.11 and the Security Documents (any acquisition of an Acquired Entity meeting all the criteria of this Section 6.04(g) being referred to herein as a “Permitted Acquisition”);

(h) Investments received as the non-cash portion of consideration received in connection with transactions permitted pursuant to Section 6.05(b);

(i) Investments by the Borrower or any Restricted Subsidiary constituting receivables owing to it, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;

(j) Investments in connection with the Transactions;

(k) Investments resulting from the disposition of interests in the shipyard in Avondale, Louisiana or the facilities in Waggaman, Louisiana, or Tallulah, Louisiana;

(l) Guarantees constituting Indebtedness permitted by Section 6.01(b);

(m) Investments by the Borrower in Swap Contracts permitted under Section 6.01(l);

(n) so long as no Default or Event of Default shall have occurred and be continuing or would result therefrom, investments in an aggregate amount, in each case net of cash returned to the Borrower or a Restricted Subsidiary in respect of such Investments, not to exceed the portion, if any, of the Available Retained Basket Amount on the date of such election that the Borrower
elects to apply to this Section 6.04(n), such election to be specified in a written notice of a Financial Officer of the Borrower calculating in reasonable detail the amount of the Available Retained Basket Amount immediately prior to such election and the amount thereof elected to be so applied (which amount shall, upon such application, increase the Available Retained Basket Usage Amount);

(o) Investments constituting the guarantee of performance under a contract (other than Indebtedness) in the ordinary course of business;

(p) investments, loans and advances by the Borrower and the Restricted Subsidiaries in Unrestricted Subsidiaries or majority-owned joint ventures so long as the aggregate amount invested, loaned or advanced pursuant to this Section 6.04(p) (determined without regard to any write-downs or write-offs of such investments, loans and advances), in each case net of cash returned to the Borrower or a Restricted Subsidiary in respect of such Investments, does not exceed $150,000,000 in the aggregate; and

(q) in addition to investments permitted by paragraphs (a) through (o) above, additional investments, loans and advances by the Borrower and the Restricted Subsidiaries so long as the aggregate amount invested, loaned or advanced pursuant to this Section 6.04(q) (determined without regard to any write-downs or write-offs of such investments, loans and advances), in each case net of cash returned to the Borrower or a Restricted Subsidiary in respect of such Investments, does not exceed $150,000,000 in the aggregate.

SECTION 6.05. Mergers, Consolidations, Sales of Assets and Acquisitions. (a) Merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) all or substantially all the assets (whether now owned or hereafter acquired) of the Borrower or less than all the Equity Interests of any Restricted Subsidiary, or purchase or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other Person or division or line of business of such Person, except that (i) the Borrower and any Restricted Subsidiary may purchase and sell inventory in the ordinary course of business and (ii) if at the time thereof and immediately after giving effect thereto no Event of Default or Default shall have occurred and be continuing (1) any Wholly Owned Restricted Subsidiary may merge into the Borrower in a transaction in which the Borrower is the surviving corporation, (2) any Wholly Owned Restricted Subsidiary may merge into or consolidate with any other Wholly Owned Restricted Subsidiary in a transaction in which the surviving entity is a Wholly Owned Restricted Subsidiary (provided that if any party to any such transaction is a Loan Party, the surviving entity of such transaction shall be a Loan Party), (3) any Restricted Subsidiary may dispose of any or all of its assets (upon voluntary liquidation or otherwise) to the Borrower or any other Restricted Subsidiary (which such recipient Restricted Subsidiary shall be a Loan Party if the disposing Restricted Subsidiary is a Loan Party), (4) any Restricted Subsidiary may liquidate (other than in connection with a merger or a consolidation which shall be governed by the other clauses of this Section 6.05(a)) and distribute its assets ratably to its shareholders if the Borrower determines in good faith that such liquidation or dissolution is in the best interests of the Borrower and is not materially disadvantageous to the Lenders, and (5) the Borrower and the Restricted Subsidiaries may make Permitted Acquisitions, including by means of mergers or consolidations.
(b) Make any Asset Sale otherwise permitted under paragraph (a) above unless (i) such Asset Sale is for consideration at least 75% of which consists of cash, (ii) such consideration is at least equal to the fair market value of the assets being sold, transferred, leased or disposed of and (iii) the fair market value of all assets sold, transferred, leased or disposed of pursuant to this paragraph (b) shall not exceed the greater of (i) $100,000,000 and (ii) 3.0% of the Consolidated Net Tangible Assets in any fiscal year.

SECTION 6.06. Restricted Payments; Restrictive Agreements. (a) Declare or make, or agree to declare or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so; provided, however, that:

(i) any Restricted Subsidiary may declare and pay dividends or make other distributions ratably to its equity holders;

(ii) the purchase, redemption or other acquisition or retirement for value of Equity Interests of the Borrower in connection with issuances of Equity Interests pursuant to employee benefit plans or otherwise in compensation to officers, directors or employees, which purchase, redemption or other acquisition or retirement for value is in order to minimize dilution; provided, however, that the aggregate cash consideration paid for such purchase, redemption, acquisition or retirement for value does not exceed $10,000,000 in any fiscal year; provided, further, that any unused amounts in any fiscal year may be carried forward to one or more future periods subject to a maximum aggregate amount of repurchases made pursuant to this clause (ii) not to exceed $20,000,000 in any fiscal year;

(iii) the Borrower may make Restricted Payments so long as (A) no Default or Event of Default shall have occurred and be continuing or would result therefrom and (B) the Borrower shall have a minimum of $300,000,000 of cash, Permitted Investments and/or availability under the Revolving Credit Facility and (C) each such Restricted Payment pursuant to this clause (iii) does not exceed the portion of the Available Retained Basket Amount on the date of such Restricted Payment that the Borrower elects to apply to such Restricted Payment pursuant to this Section 6.06(a)(iii), such election to be specified in a written notice of a Financial Officer of the Borrower calculating in reasonable detail the amount of the Available Retained Basket Amount immediately prior to such election and the amount thereof elected to be so applied (which amount shall, upon such application, increase the Available Retained Basket Usage Amount);

(iv) the Borrower and each Subsidiary of the Borrower may declare and make dividend payments or other distributions payable solely in the common stock or other common Equity Interests of such Person;

(v) the Borrower and each Subsidiary of the Borrower may make Restricted Payments for the cashless exercise of options and warrants in respect of Equity Interests that represent a portion of the exercise price of such options;

(vi) so long as no Default or Event of Default shall have occurred or be continuing or result therefrom, the Borrower and each Subsidiary of the Borrower may
declare and make regular dividend payments or other distributions, or other Restricted Payments, in an amount not to exceed $30,000,000 in any fiscal year; provided that the amount of payments pursuant to this clause (vi) in respect of any fiscal year commencing with the fiscal year ending on December 31, 2012 shall be increased by an amount equal to unused amount of payments permitted pursuant to this clause (vi) in any preceding fiscal year (the “Restricted Payment Rollover Amount”); provided that any portion of the Restricted Payment Rollover Amount allocated to increase the amount of payments permitted pursuant to this clause (vi) for one fiscal year shall not be allocated to increase the amount of such permitted payments for any other fiscal year;

(vii) the Borrower may make Restricted Payments so long as (A) no Default or Event of Default shall have occurred and be continuing or would result therefrom, (B) the Borrower shall have a minimum of $300,000,000 of cash, Permitted Investments and/or availability under the Revolving Credit Facility, (C) after giving effect thereto, the Leverage Ratio is below 2.75:1 and (D) the sum of (1) the aggregate amount of such Restricted Payments pursuant to this clause (vii) plus (2) the aggregate amount of Restricted Prepayments made pursuant to Section 6.09(b)(iii), does not exceed $100,000,000 in the aggregate; provided that (x) any Restricted Payments made pursuant to this clause (vii) shall be applied to increase dollar-for-dollar the Available Retained Basket Usage Amount and (y) such application shall be specified in a written notice of a Financial Officer of the Borrower calculating in reasonable detail the amount of the Available Retained Basket Amount immediately prior to such application and the amount thereof to be so applied; and

(viii) the Borrower may consummate the Spin-off in accordance with the Distribution Agreement, and the Borrower and its Restricted Subsidiaries may make other Restricted Payments pursuant to the Transaction Documents.

(b) Enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon (i) the ability of Borrower or any Restricted Subsidiary to create, incur or permit to exist any Lien upon any of its property or assets, or (ii) the ability of any Restricted Subsidiary to pay dividends or other distributions with respect to any of its Equity Interests or to make or repay loans or advances to the Borrower or any other Restricted Subsidiary or to Guarantee Indebtedness of the Borrower or any other Restricted Subsidiary; provided that (A) the foregoing shall not apply to restrictions and conditions imposed by law or by any Loan Document or Transaction Document, (B) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Restricted Subsidiary pending such sale, provided such restrictions and conditions apply only to the Restricted Subsidiary that is to be sold and such sale is permitted hereunder, (C) the foregoing shall not apply to (x) any agreement in effect on the date hereof or on the Funding Date and set forth on Schedule 6.06 (including (1) in the case of any such agreement evidencing Indebtedness, any Permitted Refinancing and (2) in the case of any other such agreement, any amendment or renewal thereof that is not prohibited by any Loan Documents so long as such agreement, as so amended or renewed is no more restrictive with respect to such limitation than such agreement prior to giving effect to such amendment or renewal thereof) or (y) at the time any Person first becomes a Subsidiary of the Borrower, so long as such agreement was not entered into solely in contemplation of such Person becoming a Subsidiary of the Borrower, (D) clause (i) of the
foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness, (E) clause (i) of the foregoing shall not apply to (x) customary provisions in leases and other contracts restricting the assignment thereof and (y) encumbrances or restrictions that are customary provisions in asset sale agreements, stock sale agreements, sale leaseback agreements or other similar arrangements with respect to the disposition or distribution of assets or property subject to such agreements, and (F) the foregoing shall not apply to customary provisions in joint venture agreements, in each case applicable solely to such joint venture entered into in the ordinary course of business.

SECTION 6.07. Transactions with Affiliates. Except for transactions between or among the Restricted Companies, sell or transfer any property or assets to, or purchase or acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, other than:

(i) transactions at prices and on terms and conditions not materially less favorable to the Borrower or such Restricted Subsidiary than could be obtained on an arm's-length basis from unrelated third parties,

(ii) any indemnification agreement or any similar arrangement entered into with directors, officers, consultants and employees of the Borrower and the Restricted Subsidiaries in the ordinary course of business and the payment of fees and indemnities to directors, officers, consultants and employees of the Borrower and the Restricted Subsidiaries in the ordinary course of business,

(iii) transactions pursuant to permitted agreements in existence on the Effective Date or expected to be existing on the Funding Date and, in each case, set forth on Schedule 6.07 or any amendment thereto to the extent such amendment is not adverse to the Lenders in any material respect,

(iv) any employment agreement or employee benefit plan entered into by the Borrower or any of the Restricted Subsidiaries in the ordinary course of business or consistent with past practice and payments pursuant thereto,

(v) transactions otherwise permitted under Section 6.04 and Section 6.06,

(vi) the existence of, or the performance by the Borrower or any of the Restricted Subsidiaries of its obligations under the terms of, the Distribution Agreement, or any agreement contemplated thereunder to which it is a party as of the Effective Date, provided, however, that the existence of, or the performance by the Borrower or any Subsidiary of obligations under any future amendment to any such existing agreement or under any similar agreement entered into after the Effective Date shall only be permitted by this clause (vi) to the extent that the terms of any such amendment or new agreement are not otherwise disadvantageous to the Lenders in any material respect,

(vii) any transaction or series of related transactions with an aggregate value or payment (and, if applicable, annual value or payment) of less than $1,000,000;
(viii) transactions with any Affiliate for the purchase or sale of goods, products, parts and services entered into in the ordinary course of business, and
(ix) the Transactions.

SECTION 6.08. Business of Borrower and Restricted Subsidiaries and Titan II. (a) Engage at any time in any business other than the Permitted Business.

(b) Permit or cause Titan II, after (but not including) the Funding Date, to engage at any time in any business or have any assets or liabilities, other than
(i) its liabilities as a guarantor under the Titan II Guarantees or liabilities for which Titan II is indemnified under the Transaction Documents, (ii) liabilities reasonably incurred in connection with the maintenance of Titan II’s corporate existence or arising from the Transaction Documents, and (iii) indemnities from the Borrower in support of the foregoing. For the avoidance of doubt, it is understood and agreed that in no event shall Titan II be merged into or consolidated with the Borrower or any other Subsidiary, other than an Unrestricted Subsidiary formed solely for the purpose of such merger that does not have any assets or operations (other than assets or operations incidental to its formation); provided that after such merger such surviving Unrestricted Subsidiary shall be deemed to be “Titan II” thereafter for purposes of this Agreement (including without limitation, Section 5.13).

SECTION 6.09. Certain Other Indebtedness. (a) Permit any waiver, supplement, modification, amendment, termination or release of any indenture, instrument or agreement pursuant to which any Senior Notes, any other Permitted Senior Indebtedness or any Permitted Subordinated Indebtedness is outstanding if the effect of such waiver, supplement, modification, amendment, termination or release would materially impair the value of the interest or rights of any Loan Party thereunder or would materially impair the rights or interests of the Agent or any Lender, other than any termination thereof in connection with the payment in full of all obligations thereunder in accordance with the terms of this Agreement (including, without limitation, Section 6.09(b) hereof).

(b) Prepay, redeem, purchase, defease or otherwise satisfy prior to the scheduled maturity thereof in any manner (it being understood that payments of regularly scheduled interest shall be permitted) any Senior Notes, any other Permitted Senior Indebtedness or any Permitted Subordinated Indebtedness or make any payment in violation of any subordination terms of any Permitted Subordinated Indebtedness (collectively, “Restricted Prepayments”), except:

(i) the refinancing thereof with net cash proceeds of (A) in the case of Permitted Subordinated Indebtedness, any issuance of Qualified Capital Stock or other Permitted Subordinated Indebtedness, and (B) in the case of the Senior Notes or any other Permitted Senior Indebtedness, any issuance of Qualified Capital Stock, Permitted Subordinated Indebtedness or other Permitted Senior Indebtedness;

(ii) the conversion of any Permitted Subordinated Indebtedness, any Senior Notes or any other Permitted Senior Indebtedness to Qualified Capital Stock;
(iii) so long as (A) no Default or Event of Default shall have occurred and be continuing or would result therefrom and (B) no Revolving Loans are outstanding at such time, Restricted Prepayments in an amount, in the case of each such Restricted Prepayment, up to the portion, if any, of the Available Retained Basket Amount on the date of such Restricted Prepayment that the Borrower elects to apply to this Section 6.09(b)(iii), such election to be specified in a written notice of a Financial Officer of the Borrower calculating in reasonable detail the amount of the Available Retained Basket Amount immediately prior to such election and the amount thereof elected to be so applied (which amount shall, upon such application, increase the Available Retained Basket Usage Amount);

(iv) so long as (A) no Default or Event of Default shall have occurred and be continuing or would result therefrom, (B) the Borrower has at such time a minimum of $300,000,000 of cash, Permitted Investments and/or availability under the Revolving Credit Facility, (C) after giving effect thereto, the Leverage Ratio is below 2.75:1 and (D) the sum of (1) the aggregate amount of such Restricted Prepayments pursuant to this clause (iv) plus (2) the aggregate amount of Restricted Payments made pursuant to Section 6.06(a)(vii) does not exceed $100,000,000 in the aggregate; provided that (x) any Restricted Prepayments made pursuant to this clause (iv) shall be applied to increase dollar-for-dollar the Available Retained Basket Usage Amount and (y) such application shall be specified in a written notice of a Financial Officer of the Borrower calculating in reasonable detail the amount of the Available Retained Basket Amount immediately prior to such application and the amount thereof to be so applied; and

(v) in addition to Restricted Prepayments permitted by paragraphs (i) through (iii) above, additional Restricted Prepayments in an aggregate amount not to exceed $100,000,000 during the term of this Agreement; provided that at the time of any such prepayment, (A) no Default or Event of Default shall have occurred and be continuing or would result therefrom and (B) the Borrower has at such time a minimum of $300,000,000 of cash, Permitted Investments and/or availability under the Revolving Credit Facility.

SECTION 6.10. Capital Expenditures. Permit the aggregate amount of Capital Expenditures made by the Borrower and the Restricted Subsidiaries in any period set forth below to exceed (i) the amount of such Capital Expenditures made with the portion, if any, of the Available Retained Basket Amount on the date of any election that the Borrower elects to apply to this Section 6.10(i), such election to be specified in a written notice of a Financial Officer of the Borrower calculating in reasonable detail the amount of the Available Retained Basket Amount immediately prior to such election and the amount thereof elected to be so applied (which amount shall, upon such Capital Expenditure, increase the Available Retained Basket Usage Amount), plus (ii) the amount set forth below for such period:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$350,000,000</td>
</tr>
<tr>
<td>2012</td>
<td>$200,000,000</td>
</tr>
<tr>
<td>2013</td>
<td>$200,000,000</td>
</tr>
<tr>
<td>2014</td>
<td>$200,000,000</td>
</tr>
<tr>
<td>2015 and thereafter</td>
<td>$200,000,000</td>
</tr>
</tbody>
</table>
The amount of permitted Capital Expenditures set forth in the table above in respect of any fiscal year commencing with the fiscal year ending on December 31, 2012 (the “Specified Permitted CapEx Amount”) shall be increased (but not decreased) by the amount of the unused Specified Permitted CapEx Amount for the immediately preceding fiscal year (the “CapEx Rollover Amount”); provided that any CapEx Rollover Amount shall be available to be used in such fiscal year only after the Specified Permitted CapEx Amount for such fiscal year has been fully used in such fiscal year. In addition, the amount of permitted Capital Expenditures that would otherwise be permitted in any fiscal year pursuant to this Section 6.10 (including as a result of the preceding sentence) may be increased by an amount not to exceed 50% of the Specified Permitted CapEx Amount for the immediately succeeding fiscal year (the “CapEx Pull Forward Amount”); provided that before any Capital Expenditures are made in a fiscal year pursuant to the CapEx Pull Forward Amount, Capital Expenditures shall have been made in such fiscal year in an amount equal to the Capital Expenditures otherwise permitted in such fiscal year (including as a result of the application of the preceding sentence). The actual CapEx Pull Forward Amount that is used in respect of any such fiscal year shall reduce, on a dollar-for-dollar basis, the Specified Permitted CapEx Amount for the immediately succeeding fiscal year. Notwithstanding anything to the contrary in this paragraph, the amount of Capital Expenditures permitted to be made pursuant to clause (ii) of this Section 6.10 (including as a result of the application of the preceding sentences) in any fiscal year shall not exceed 200% of the Specified Permitted CapEx Amount for such fiscal year.

SECTION 6.11. Interest Coverage Ratio. Permit the Interest Coverage Ratio for any period of four consecutive fiscal quarters, in each case taken as one accounting period, ending on a date or during any period set forth below to be less than the ratio set forth opposite such date or period below:

<table>
<thead>
<tr>
<th>Date or Period</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter ending March 31, 2011</td>
<td>3.50:1</td>
</tr>
<tr>
<td>Quarter ending June 30, 2011</td>
<td>3.50:1</td>
</tr>
<tr>
<td>Quarter ending September 30, 2011</td>
<td>3.50:1</td>
</tr>
<tr>
<td>Quarter ending December 31, 2011</td>
<td>3.50:1</td>
</tr>
<tr>
<td>Quarter ending March 31, 2012</td>
<td>3.50:1</td>
</tr>
<tr>
<td>Quarter ending June 30, 2012</td>
<td>3.50:1</td>
</tr>
<tr>
<td>Quarter ending September 30, 2012</td>
<td>3.75:1</td>
</tr>
<tr>
<td>Quarter ending December 31, 2012</td>
<td>3.75:1</td>
</tr>
<tr>
<td>Quarter ending March 31, 2013</td>
<td>3.75:1</td>
</tr>
<tr>
<td>Quarter ending June 30, 2013</td>
<td>3.75:1</td>
</tr>
<tr>
<td>Quarter ending September 30, 2013</td>
<td>4.00:1</td>
</tr>
<tr>
<td>Quarter ending December 31, 2013</td>
<td>4.00:1</td>
</tr>
<tr>
<td>Quarter ending March 31, 2014</td>
<td>4.25:1</td>
</tr>
<tr>
<td>Quarter ending June 30, 2014</td>
<td>4.25:1</td>
</tr>
<tr>
<td>Quarter ending September 30, 2014</td>
<td>4.25:1</td>
</tr>
<tr>
<td>Quarter ending December 31, 2014</td>
<td>4.25:1</td>
</tr>
<tr>
<td>Quarter ending March 31, 2015 and thereafter</td>
<td>4.50:1</td>
</tr>
</tbody>
</table>
SECTION 6.12. Maximum Leverage Ratio. Permit the Leverage Ratio as of the last day of any period set forth below to be greater than the ratio set forth opposite such period below:

<table>
<thead>
<tr>
<th>Period</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter ending March 31, 2011</td>
<td>4.50:1</td>
</tr>
<tr>
<td>Quarter ending June 30, 2011</td>
<td>4.50:1</td>
</tr>
<tr>
<td>Quarter ending September 30, 2011</td>
<td>4.50:1</td>
</tr>
<tr>
<td>Quarter ending December 31, 2011</td>
<td>4.25:1</td>
</tr>
<tr>
<td>Quarter ending March 31, 2012</td>
<td>4.25:1</td>
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<td>Quarter ending June 30, 2012</td>
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<td>Quarter ending September 30, 2012</td>
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<td>Quarter ending December 31, 2012</td>
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<td>Quarter ending March 31, 2013</td>
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<td>Quarter ending June 30, 2013</td>
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<td>Quarter ending September 30, 2013</td>
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<td>Quarter ending December 31, 2013</td>
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<td>Quarter ending March 31, 2014</td>
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<td>Quarter ending December 31, 2014</td>
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<tr>
<td>Quarter ending March 31, 2015 and thereafter</td>
<td>2.75:1</td>
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</tbody>
</table>

SECTION 6.13. Fiscal Year. With respect to the Borrower, change its fiscal year-end to a date other than December 31.

SECTION 6.14. Transactions. For the avoidance of doubt, notwithstanding anything else to the contrary in this Agreement, the Borrower and the Restricted Subsidiaries shall be permitted to consummate the Transactions.

ARTICLE 7
Events of Default

If any of the following events ("Events of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan or LC Disbursement or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement or any other Loan Document when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five days;
(c) any representation or warranty made or deemed made by or on behalf of the Borrower or any Restricted Subsidiary in or in connection with this Agreement, any other Loan Document, the borrowings or issuances of Letters of Credit hereunder or any amendment or modification hereof or thereof or waiver hereunder or thereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with this Agreement or any amendment or modification hereof or waiver hereunder, shall prove to have been incorrect in any material respect when made, deemed made or furnished;

(d) the Borrower or any Restricted Subsidiary shall fail to observe or perform any covenant, condition or agreement contained in Sections 2.05(k)(ii), 5.02(a), 5.03 (with respect to the Borrower’s existence), 5.08, 5.12 or in Article 6;

(e) the Borrower or any Restricted Subsidiary shall fail to observe or perform any covenant, condition or agreement contained in this Agreement or in any Loan Document (other than those specified in clause (a), (b) or (d) of this Article), and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender);

(f) the Borrower or any Restricted Subsidiary shall fail to pay any principal or interest, regardless of amount, in respect of any Material Indebtedness, when and as the same shall become due and payable;

(g) any other event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity (and the lapse of any applicable grace periods in respect thereof); provided that this clause (g) shall not apply to secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness;

(h) an involuntary case or other proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any Significant Subsidiary or its debts, or of a substantial part of its property or assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or seeking (ii) the appointment of a receiver, trustee, custodian, sequestator, conservator or similar official for the Borrower or any Significant Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) the Borrower or any Significant Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestator, conservator or similar official for the

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Borrower or any Significant Subsidiary or for a substantial part of its assets, (iv) become unable, admit in writing its inability or fail generally to pay its debts as they become due, (v) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (vi) make a general assignment for the benefit of creditors or (vii) take any action for the purpose of effecting any of the foregoing;

(j) one or more judgments for (x) the payment of money in an aggregate amount in excess of $40,000,000 (to the extent not covered by independent third-party insurance as to which the insurer is rated at least “A” by A.M. Best Company and does not dispute coverage) or (y) injunctive relief which would reasonably be expected to result in a Material Adverse Effect shall be rendered against the Borrower, any Restricted Subsidiary or any combination thereof and the same shall, in each case, remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, by reason of a pending appeal or otherwise, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower or any Restricted Subsidiary to enforce any such judgment;

(k) an ERISA Event shall have occurred that, in the reasonable opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, would be expected to result in liability of the Borrower and its Restricted Subsidiaries in an aggregate amount exceeding $40,000,000;

(l) any Guarantee under the Guarantee and Security Agreement for any reason shall cease to be in full force and effect (other than in accordance with its terms), or any Guarantor shall deny in writing that it has any further liability under the Guarantee and Security Agreement (other than as a result of the discharge of such Guarantor in accordance with the terms of the Loan Documents);

(m) any security interest purported to be created by any Collateral Document in any material portion of the Collateral shall cease to be, or shall be asserted by the Borrower or any other Loan Party not to be, a valid, perfected, first priority (except as otherwise expressly provided in this Agreement or such Collateral Document) security interest in the securities, assets or properties covered thereby;

(n) any Permitted Subordinated Indebtedness of the Borrower and its Restricted Subsidiaries constituting Material Indebtedness shall cease (or any Loan Party or an Affiliate of any Loan Party shall so assert), for any reason, to be validly subordinated to the Obligations as provided in the agreements evidencing such Indebtedness;

(o) a Change in Control shall occur; or

(p) the Spin-off shall not have occurred as soon as practicable and within 5 Business Days of the Funding Date;

then, and in every such event (other than an event with respect to the Borrower described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders (or in the case of terminating the Revolving Credit Commitments pursuant to clause (i) below, the Required
Revolving Credit Lenders), shall, by notice to the Borrower, take any or all of the following actions, as applicable, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and (iii) exercise on behalf of itself and the Lenders all rights and remedies available to it and the Lenders under the Loan Documents or applicable law; provided that in case of any event with respect to the Borrower described in clause (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower. Nothing in this Agreement shall constitute a waiver of any rights or remedies the Lenders may otherwise have, including setoff rights.

ARTICLE 8
The Administrative Agent and the Collateral Agent

Each of the Lenders and the Issuing Bank hereby irrevocably appoints the Administrative Agent and the Collateral Agent (for purposes of this Article 8, the Administrative Agent and the Collateral Agent are referred to collectively as the “Agents”) as its agent and authorizes the Agents to take such actions on its behalf and to exercise such powers as are delegated to such Agent by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto. Without limiting the generality of the foregoing, the Agents are hereby expressly authorized to (i) execute any and all documents (including releases) with respect to the Collateral and the rights of the Secured Parties with respect thereto, as contemplated by and in accordance with the provisions of this Agreement and the Collateral Documents and (ii) negotiate, enforce or the settle any claim, action or proceeding affecting the Lenders in their capacity as such, at the direction of the Required Lenders, which negotiation, enforcement or settlement will be binding upon each Lender.

Neither Agent shall have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (a) neither Agent shall be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) neither Agent shall have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby that such Agent is required to exercise in writing as directed by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), and (c) except as expressly set forth in the Loan Documents, neither Agent shall not have any duty to disclose, and nor shall it be liable for the failure to disclose, any information relating to the Borrower or any of its Subsidiaries that is communicated to or obtained by the bank serving as the Administrative Agent and/or Collateral Agent or any of its
Affiliates in any capacity. Neither Agent shall be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02) or in the absence of its own gross negligence or willful misconduct. Neither Agent shall be deemed to have knowledge of any Default unless and until written notice thereof is given to such Agent by the Borrower or a Lender, and neither Agent shall be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document, (iv) the validity, enforceability, effectiveness or genuineness of this Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article 4 or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to such Agent and to confirm the occurrence of the Effective Date in accordance with Section 4.02.

The bank serving as the Administrative Agent and/or the Collateral Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not an Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not an Agent hereunder.

Each Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. Each Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. Each Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

Each Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by it. Each Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of each Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the Senior Credit Facilities as well as activities as Agent.

Subject to the appointment and acceptance of a successor Agent as provided below, each Agent may resign at any time by notifying the Lenders, the Issuing Banks and the Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor (such successor to be approved by the Borrower, such approval not to be unreasonably withheld or delayed; provided, however, if an Event of Default shall exist at such time, no approval of the Borrower shall be required). If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Agent gives notice of its resignation, then the retiring Agent may, on behalf of the Lenders and the Issuing
Bank, appoint a successor Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. If no successor Agent has been appointed pursuant to the immediately preceding sentence by the 30th day after the date such notice of resignation was given by such Agent, such Agent’s resignation shall become effective and the Required Lenders shall thereafter perform all the duties of such Agent hereunder and/or under any other Loan Document until such time, if any, as the Required Lenders appoint a successor Administrative Agent and/or Collateral Agent, as the case may be. Any such resignation by such Agent hereunder shall also constitute, to the extent applicable, its resignation as an Issuing Bank and the Swingline Lender, in which case such resigning Agent (x) shall not be required to issue any further Letters of Credit or make any additional Swingline Loans hereunder and (y) shall maintain all of its rights, duties and obligations as Issuing Bank or Swingline Lender, as the case may be, with respect to any Letters of Credit issued by it, or Swingline Loans made by it, prior to the date of such resignation. Upon the acceptance of its appointment as Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent and, if applicable, as an Issuing Bank (and shall issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or make other arrangements satisfactory to the retiring Issuing Bank to effectively assume the obligations of the retiring Issuing Bank with respect to such Letters of Credit) and a Swingline Lender, and the retiring Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Agent’s resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while acting as Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Agents or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agents or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement or any other Loan Document, any related agreement or any document furnished hereunder or thereunder.

It is agreed that the Syndication Agent, Documentation Agents, Lead Arrangers and Joint Bookrunners shall, in their capacities as such, have no duties or responsibilities under this Agreement or liability in connection with this Agreement. None of the Syndication Agent, Documentation Agents, Lead Arrangers and Joint Bookrunners, in their capacities as such, has or is deemed to have any fiduciary relationship with any Lender.
ARTICLE 9
Miscellaneous

SECTION 9.01. Notices. (a) Except in the case of notices and other communications expressly permitted to be given by telephone (and subject to paragraph (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(i) if to the Borrower, to it at Huntington Ingalls Industries, Inc., 4101 Washington Avenue, Newport News, Virginia 23607, Attention of D.R. Wyatt (Telecopy No. (757) 688-6449);

(ii) if to the Administrative Agent to JPMorgan Chase Bank, N.A., Loan and Agency Services Group, 1111 Fannin, 8th Floor, Houston, Texas 77002, Attention of Omar Jones (Telecopy No. (713) 750-2938), with a copy to JPMorgan Chase Bank, N.A., 383 Madison Avenue, New York, New York 10179, Attention of Matthew Massie (Telecopy No. (212) 270-5100, E-mail: Matthew.Massie@jpmorgan.com);

(iii) if to the Swingline Lenders, to them at (A) JPMorgan Chase Bank, N.A., Loan and Agency Services Group, 1111 Fannin, 8th Floor, Houston, Texas 77002, Attention of Omar Jones (Telecopy No. (713) 750-2938), with a copy to JPMorgan Chase Bank, N.A., 383 Madison Avenue, New York, New York 10179, Attention of Matthew Massie (Telecopy No. (212) 270-5100, E-mail: Matthew.Massie@jpmorgan.com); and

(iv) if to any other Lender or Issuing Bank, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

(b) Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communications pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices pursuant to Article 2 unless otherwise agreed by the Administrative Agent and the applicable Lender. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

(c) Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

(d) Each Lender is responsible for providing prompt notice to the Administrative Agent of any changes to the information set forth in its Administrative Questionnaire.

SECTION 9.02. Waivers; Amendments. (a) No failure or delay by the Administrative Agent, any Issuing Bank or any Lender in exercising any right or power hereunder or under any Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or
power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, each Issuing Bank and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or any other Loan Document or consent to any departure by the Borrower or any other Loan Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or the Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any other Loan Document (other than any LC Continuing Agreement) nor any provision hereof or thereof may be waived, amended or modified except (i) in the case of this Agreement, pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders or by the Borrower and the Administrative Agent with the consent of the Required Lenders and (ii) in the case of any other Loan Document, pursuant to an agreement or agreements in writing entered into by each party thereto and the Administrative Agent with the consent of the Required Lenders; provided that no such agreement shall (i) increase the Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan or any LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby, (iii) postpone the scheduled date of payment of the principal amount of any Loan or any LC Disbursement, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby, (iv) change Section 2.19(b), 2.19(c) or any other provision of the Loan Documents in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each affected Lender, (v) change any of the provisions of this Section or the definition of “Required Lenders”, “Required Revolving Credit Lenders”, or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender, (vi) release any Guarantor (other than in connection with the sale of such Guarantor in a transaction permitted by Section 6.05) without the written consent of each Lender, (vii) release all or substantially all of the Collateral without the written consent of each Lender, (viii) change any of the provisions in Section 9.04(b) in such a way that imposes greater restrictions on a Lender’s ability to assign all or a portion of its rights and obligations under this Agreement without the written consent of each Lender adversely affected thereby, (ix) change any of the provisions of Section 15 (Application of Proceeds) of the Guarantee and Security Agreement without the consent of each Lender and (x) amend, modify, supplement or waive any condition precedent to any Revolving Loan set forth in Section 4.03 without the written consent of the Required Revolving Credit Lenders; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent, any Issuing Bank or any Swingline Lender hereunder without the prior written consent of the Administrative Agent, such Issuing Bank or such Swingline Lender, as the case may be.

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Notwithstanding anything to the contrary contained in this Section 9.02(b), on the Funding Date the Administrative Agent and the Borrower shall be permitted, without the consent of any other Lender, to complete the column under “Repayment Dates” in the table set forth in Section 2.10(a) to reflect repayment dates that are in successive 3-month intervals from the Funding Date.

(c) In connection with any proposed amendment, modification, waiver or termination (a “Proposed Change”) requiring the consent of all the Lenders, if the consent of Lenders representing the Required Lenders to such Proposed Change is obtained, but the consent of any other Lender is not obtained (any such Lender whose consent is not obtained as described in this Section 9.02(c) being referred to as a “Non-Consenting Lender”), then, at the Borrower’s request, any assignee identified by the Borrower (with the consent of such assignee) that is a Lender, an Affiliate of a Lender, an Approved Fund or otherwise reasonably acceptable to the Administrative Agent (and that is not a Non-Consenting Lender) shall have the right, after consultation of the Borrower with the Administrative Agent (and with the consent of the Administrative Agent to the extent such assignment would require its consent under Section 9.04(b)(i)), to purchase from such Non-Consenting Lender, and such Non-Consenting Lender agrees that it shall, upon the Borrower’s request, sell and assign to such assignee, at no expense to such Non-Consenting Lender (including with respect to any processing and recordation fees that may be applicable pursuant to Section 9.04(b)(ii)), all of its interests, rights and obligations with respect to the Class of Loans or Commitments that is the subject of such Proposed Change, for an amount equal to the principal balance of all Loans (and funded participations in Swingline Loans and unreimbursed LC Disbursements) held by such Non-Consenting Lender and all accrued interest, accrued fees and other amounts with respect thereto through the date of sale (including amounts under Sections 2.16, 2.17 and 2.18), such purchase and sale to be consummated pursuant to an executed Assignment and Assumption in accordance with Section 9.04(b) (which Assignment and Assumption need not be signed by such Non-Consenting Lender).

SECTION 9.03 Expenses; Indemnity; Damage Waiver. (a) The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates and the Lead Arrangers, the Collateral Agent, each Issuing Bank and Swingline Lender, including the reasonable fees, charges and disbursements of Davis Polk & Wardwell LLP and any other special or local counsel for the Administrative Agent as may have been retained by the Administrative Agent after consultation with the Borrower, in connection with the arrangement and syndication of the credit facilities provided for herein, the preparation, execution, delivery and administration of this Agreement (including expenses incurred in connection with due diligence and initial and ongoing Collateral examination and the reasonable fees, disbursements and the charges for no more than one counsel in each jurisdiction where Collateral is located) or any amendments, modifications or waivers of the provisions hereof (in each case whether or not the Transactions are consummated), (ii) all reasonable out-of-pocket expenses incurred by any Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all reasonable out-of-pocket expenses incurred by the Administrative Agent, the Collateral Agent, any Issuing Bank or any Lender, including the fees, charges and disbursements of any counsel for the Administrative Agent, the Collateral Agent, any Issuing Bank or any Lender, in connection with the enforcement or
protection of its rights under or in connection with this Agreement and the other Loan Documents, including its rights under this Section, or in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) The Borrower shall indemnify the Administrative Agent, the Collateral Agent, the Lead Arrangers each Issuing Bank and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an “Indemnitee”) against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the arrangement and the syndication of the credit facilities provided for herein, the execution or delivery of this Agreement or any other Loan Document or any agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or release or threatened release of Hazardous Materials at, under, on or from any property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto and regardless of whether such matter is initiated by a third party or by the Borrower or any Affiliate thereof; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or its Affiliates, officers, directors, employees, advisors or agents. This Section 9.03(b) shall not apply with respect to Taxes other than any Taxes that represent losses or damages from any non-Tax claim.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent, the Issuing Bank or the Swingline Lender under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent, the Issuing Bank or the Swingline Lender, as the case may be, such Lender’s pro rata share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent, the Issuing Bank or the Swingline Lender in its capacity as such. For purposes hereof, a Lender’s “pro rata share” shall be determined based upon its share of the sum of the aggregate Revolving Credit Exposure, outstanding Term Loans and unused Commitments at the time (in each case, determined as if no Lender were a Defaulting Lender).

(d) To the extent permitted by applicable law, neither the Borrower nor any Indemnitee shall have liability for any special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with or as a result of this Agreement or
any agreement or instrument contemplated hereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof (other than in respect of such damages incurred or paid by an Indemnitee to a third party).

(e) All amounts due under this Section shall be payable promptly/not later than 10 days after written demand therefor, together with reasonable detail and supporting documentation.

(f) The provisions of this Section 9.03 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the expiration of the Commitments, the expiration of any Letter of Credit, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Administrative Agent, the Collateral Agent, any Lender or any Issuing Bank.

SECTION 9.04. Successors and Assigns. (a) This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of any Issuing Bank that issues any Letter of Credit), except that (i) the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of any Issuing Bank that issues any Letter of Credit), Participants (but only to the extent expressly provided for in paragraph (c) of this Section) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Banks and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Subject to the conditions set forth in paragraph (b)(ii) below, any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld) of:

(A) the Borrower, provided that no consent of the Borrower shall be required for an assignment to a Lender, an Affiliate of a Lender, an Approved Fund or, if an Event of Default has occurred and is continuing, any other assignee;

(B) the Administrative Agent, and in the case of a Revolving Credit Commitment, each of the Swingline Lenders; provided that no consent of the Administrative Agent or the Swingline Lenders shall be required for an assignment of all or any portion of a Term Loan to a Lender, an Affiliate of a Lender or an Approved Fund; and
(C) any Issuing Bank with LC Exposure; provided that no consent of the Issuing Bank shall be required for an assignment of all or any portion of a Term Loan.

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment or Loans of any Class, the amount of the Commitment or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than $5,000,000 or, in the case of a Term Loan, $1,000,000 unless each of the Borrower and the Administrative Agent otherwise consent, provided that no such consent of the Borrower shall be required if an Event of Default has occurred and is continuing;

(B) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender’s rights and obligations under this Agreement; provided that this clause shall not be construed to prohibit the assignment of a proportionate part of all the assigning Lender’s rights and obligations in respect of one Class of Commitments or Loans;

(C) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of $3,500;

(D) the assignee, if it shall not already be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire in which the assignee designates one or more credit contacts to whom all syndicate-level information (which may contain material non-public information about the Borrower, the Loan Parties and their related parties or their respective securities) will be made available and who may receive such information in accordance with the assignee’s compliance procedures and applicable laws, including Federal and state securities laws; and

(E) no assignment shall be permitted to (x) the Borrower or any of its Subsidiaries or Affiliates without the approval of the Required Lenders or (y) a natural person.

(iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(iv) of this Section, from and after the effective date specified in each Assignment and Assumption the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender’s rights and obligations under this Agreement, such
Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.16, 2.17, 2.18 and 9.03. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 9.04 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (c) of this Section.

(iv) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recording of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the “Register”). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent, each Issuing Bank and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, any Issuing Bank and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(v) Upon its receipt of, and consent to, a duly completed Assignment and Assumption executed by an assigning Lender and an assignee, the assignee’s completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent and, if required, the Borrower shall accept such Assignment and Assumption and record the information contained therein in the Register; provided that if either the assigning Lender or the assignee shall have failed to make any payment required to be made by it pursuant to Section 2.04(c), 2.05(d), 2.05(e), 2.06(b), 2.19(d) or 9.03(c), the Administrative Agent shall have no obligation to accept such Assignment and Assumption and record the information therein in the Register unless and until such payment shall have been made in full, together with all accrued interest thereon. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(c) (i) Any Lender may, without the consent of the Borrower, the Administrative Agent, any Issuing Bank or any Swingline Lender, sell participations to one or more banks or other entities (a “Participant”) in all or a portion of such Lender’s rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans and the LC Disbursements owing to it); provided that (A) such Lender’s obligations under this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (C) the participating banks or other Persons shall be entitled to the benefit of the cost protection provisions contained in Sections 2.16, 2.17 and 2.18 to the same extent as if they were Lenders (but, with respect to any particular participant, to no greater extent than the Lender that sold the participation to such participant) and (D) the Borrower, the Administrative Agent, the Issuing Banks and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender’s rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement.
and the other Loan Documents and to approve any amendment, modification or waiver of any provision of this Agreement and the other Loan Documents; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 9.02(b) that affects such Participant. Subject to paragraph (c)(ii) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.16, 2.17 and 2.18 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.19(c) as though it were a Lender.

(ii) A Participant shall not be entitled to receive any greater payment under Section 2.16 or 2.18 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower’s prior written consent. A Participant shall not be entitled to the benefits of Section 2.18 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.18(f) as though it were a Lender.

(iii) Each Lender that sells a participation shall, acting solely for this purpose as an agent of the Borrower, maintain a register in the United States on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant’s interest in the Loans or other obligations under the Loan Documents (the “Participant Register”); provided that no Lender shall have any obligation to disclose all or any portion of the Participant register to any Person (including the identity of any Participant or any information relating to a Participant’s interest in any commitments, loans, letters of credit or other obligations under any Loan Document) except to the extent that such disclosure is necessary to establish that such commitment, loan, letter of credit or other obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive, absent manifest error, and such Lender shall treat each person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including without limitation any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

SECTION 9.05. Survival. Nothing herein shall prejudice the right of the Administrative Agent or any Lender to give any notice or other communication pursuant to any Loan Document in any other manner specified in such Loan Document. All covenants, agreements, representations and warranties made by the Borrower and the Loan Parties herein, in the other Loan Documents and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied
upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the Loan Documents and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf notwithstanding that the Administrative Agent, any Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or LC Disbursement or any fee or any other amount payable under this Agreement or any Loan Document is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.16, 2.17, 2.18 and 9.03 and Article 8 shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Administrative Agent, the Collateral Agent, any Lender or any Issuing Bank, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

SECTION 9.06. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and the Borrower and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy, PDF or other electronic format shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 9.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower, any other Loan Party or any other Domestic Subsidiary that is a Restricted Subsidiary against any of and all the obligations of the Loan Parties now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement or such other Loan Document and although such obligations may be unmatured.
The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 9.09. Governing Law; Jurisdiction; Consent to Service of Process. (a) This Agreement and the Loan Documents (except, as to any other Loan Document, as expressly set forth therein) shall be construed in accordance with and governed by the law of the State of New York.

(b) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the non-exclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent, any Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement against the Borrower or its properties in the courts of any jurisdiction.

(c) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the other Loan Documents in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER DOCUMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.
SECTION 9.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 9.12. Confidentiality. (a) Each of the Administrative Agent, each Issuing Bank and the Lenders (each, a “Recipient”) acknowledges that the Borrower considers the Information (as defined below) to include confidential, sensitive or proprietary information and agrees to maintain the confidentiality of the Information, except that Information may be disclosed (i) to such Recipient’s and its Affiliates’ directors, officers, employees and agents, including accountants, legal counsel and other advisors (collectively, such Recipient’s “Representatives”) (provided that such Representatives shall be informed by such Recipient of the confidential nature of such information prior to the disclosure and shall be directed to treat such information in accordance with the terms hereof, and each Recipient hereby agrees to be, and shall be, responsible for any breach of the confidentiality provisions of this Section 9.12 by its Representatives), (ii) to the extent requested in any legal, judicial, administrative proceeding or other compulsory process (including for purposes of establishing a “due diligence” defense in connection with such proceeding or process) or as required by applicable law or regulations, or upon the request or demand of any regulatory authority having jurisdiction over such Recipient or its affiliates (provided that, to the extent not prohibited by law or legal process, the disclosing Recipient will notify the Borrower as soon as practical in the event of any such disclosure pursuant to this clause (ii) (other than any disclosure made in the course of any examination conducted by a bank regulatory authority)), (iii) to any other party to this Agreement, (iv) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder, (v) subject to a Confidentiality Agreement executed (including in the form of a binding electronic “click-through” agreement) in favor of the Borrower, to (A) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (B) any actual or prospective counterparty (or its advisors) designated by the Loan Parties to any swap or derivative transaction relating to the Borrower and its obligations, (vi) with the written consent of the Borrower acting through a Financial Officer or (vii) to the extent such Information (A) becomes publicly available other than as a result of a breach of this Section or (B) becomes available to the Administrative Agent, any Issuing Bank or any Lender on a nonconfidential basis from a source other than the Borrower. For the purposes of this Section, “Information” means all information received from the Borrower relating to the Borrower, its Subsidiaries or its business, other than any such information that is available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis prior to disclosure by the Borrower.

(b) EACH LENDER ACKNOWLEDGES THAT INFORMATION (AS DEFINED IN SECTION 9.12(a)) FURNISHED TO IT PURSUANT TO THIS AGREEMENT MAY INCLUDE MATERIAL NON-PUBLIC INFORMATION CONCERNING THE BORROWER AND ITS RELATED PARTIES OR THEIR RESPECTIVE SECURITIES, AND CONFIRMS THAT IT HAS DEVELOPED COMPLIANCE PROCEDURES REGARDING THE USE OF MATERIAL NON-PUBLIC INFORMATION AND THAT IT WILL HANDLE SUCH MATERIAL NON-PUBLIC INFORMATION IN ACCORDANCE WITH THOSE PROCEDURES AND APPLICABLE LAW, INCLUDING FEDERAL AND STATE
SECURITIES LAWS (AND IN ACCORDANCE WITH THE PROVISIONS OF CLAUSE (A) ABOVE).

(c) ALL INFORMATION, INCLUDING REQUESTS FOR WAIVERS AND AMENDMENTS, FURNISHED BY THE BORROWER OR THE ADMINISTRATIVE AGENT PURSUANT TO, OR IN THE COURSE OF ADMINISTERING, THIS AGREEMENT WILL BE SYNDICATE-LEVEL INFORMATION, WHICH MAY CONTAIN MATERIAL NON-PUBLIC INFORMATION ABOUT THE BORROWER, THE LOAN PARTIES AND THEIR RELATED PARTIES OR THEIR RESPECTIVE SECURITIES. ACCORDINGLY, EACH LENDER REPRESENTS TO THE BORROWER AND THE ADMINISTRATIVE AGENT THAT IT HAS IDENTIFIED IN ITS ADMINISTRATIVE QUESTIONNAIRE A CREDIT CONTACT WHO MAY RECEIVE INFORMATION THAT MAY CONTAIN MATERIAL NON-PUBLIC INFORMATION IN ACCORDANCE WITH ITS COMPLIANCE PROCEDURES AND APPLICABLE LAW (AND IN ACCORDANCE WITH THE PROVISIONS OF CLAUSE (A) ABOVE).

(d) The Administrative Agent shall, upon the written request of the Borrower (and in any case no more frequently than once every thirty days) provide to the Borrower a list of financial institutions or other entities that have accessed private-side Information on the IntraLinks site established in connection with the Senior Credit Facilities (it being understood and agreed that each such Person shall have executed (including by “click-through”) a Confidentiality Agreement).

SECTION 9.13 Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the “Charges”), shall exceed the maximum lawful rate (the “Maximum Rate”) which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

SECTION 9.14 Conversion of Currencies. (a) If, for the purpose of obtaining judgment in any court, it is necessary to convert a sum owing hereunder in one currency into another currency, each party hereto agrees, to the fullest extent that it may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures in the relevant jurisdiction the first currency could be purchased with such other currency on the Business Day immediately preceding the day on which final judgment is given.

(b) The obligations of the Borrower in respect of any sum due to any party hereto or any holder of the obligations owing hereunder (the “Applicable Creditor”) shall, notwithstanding any judgment in a currency (the “Judgment Currency”) other than the
currency in which such sum is stated to be due hereunder (the “Agreement Currency”), be discharged only to the extent that, on the Business Day following receipt by the Applicable Creditor of any sum adjudged to be so due in the Judgment Currency, the Applicable Creditor may in accordance with normal banking procedures in the relevant jurisdiction purchase the Agreement Currency with the Judgment Currency; if the amount of the Agreement Currency so purchased is less than the sum originally due to the Applicable Creditor in the Agreement Currency, the Borrower agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Applicable Creditor against such loss. The obligations of the Borrower contained in this Section 9.14 shall survive the termination of this Agreement and the payment of all other amounts owing hereunder.

SECTION 9.15. USA PATRIOT Act. Each Lender that is subject to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”) hereby notifies the Borrower that pursuant to the requirements of the Act, it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with the Act.

SECTION 9.16. Collateral Release and Recapture. (a) At such time as the Borrower has achieved the Collateral Suspension Ratings Level and so long as no Event of Default shall have occurred and be continuing, the Borrower shall have the right by written notice to the Administrative Agent to require that the Collateral be released from any security interest created by the Loan Documents. On any such date (the “Collateral Suspension Date”), all rights to the Collateral shall transfer and revert to the relevant Loan Parties and all Liens and security interests created by the Loan Documents shall automatically terminate. On any such Collateral Suspension Date, the Borrower and each other Loan Party shall be authorized and the Collateral Agent hereby authorizes the Borrower and each other Loan Party, to prepare and record UCC termination statements, PTO termination of assignment filings, or other analogous documents and filings with respect to any financing statements or collateral assignments recorded by the Collateral Agent under the Collateral Documents. At the request and sole expense of the Borrower following the Collateral Suspension Date, the Collateral Agent shall deliver to the Borrower any Collateral (including certificates representing the Pledged Stock (as defined in the Guarantee and Security Agreement)) held by the Collateral Agent pursuant to the Collateral Documents, and execute and deliver to the Borrower such documents as the Borrower shall reasonably request to evidence such termination, including without limitation, original executed releases of the Mortgages in recordable form.

(b) If on any subsequent date the Borrower fails to satisfy the Collateral Suspension Ratings Level (such subsequent date, the “Collateral Reversion Date”), any Collateral that was released from Liens securing the Secured Obligations, as well as any Collateral acquired since the Collateral Suspension Date, will be restored and pledged to secure the Secured Obligations in accordance with the Collateral Documents and Section 5.11. The period of time between the Collateral Suspension Date and the Collateral Reversion Date is referred to herein as the “Collateral Suspension Period.”

SECTION 9.17. Collateral and Guaranty Release. Each Lender irrevocably authorizes the Agents:

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(a) to release any Lien on any property granted to or held by the Administrative Agent or the Collateral Agent under any Loan Document (i) upon termination of the Commitments and payment in full of all Obligations (other than contingent indemnification obligations not yet due and payable) and the expiration or termination of all Letters of Credit, (ii) that is disposed of or to be disposed of to a Person other than a Loan Party as part of or in connection with any sale or other transfer permitted hereunder or under any other Loan Document, or (iii) subject to Section 9.02, if approved, authorized or ratified in writing by the Required Lenders;

(b) to release any Guarantor from its obligations under the Guarantee and Security Agreement if such Person ceases to be a Wholly Own Domestic Restricted Subsidiary as a result of a transaction permitted hereunder; and

(c) to subordinate any Lien on any property granted to or held by the Administrative Agent or the Collateral Agent under any Loan Document to the holder of any Lien on such property that is permitted by Section 6.02(i) and (p).

In each case as specified in this Section 9.17, the Administrative Agent and Collateral Agent will, at the Borrower’s expense, execute and deliver to the applicable Loan Party such documents as such Loan Party may reasonably request to evidence the release of such item of Collateral from the assignment and security interest granted under the Collateral Documents or to subordinate its interest in such item, or to release such Guarantor from its obligations under the Guarantee and Security Agreement, in each case in accordance with the terms of the Loan Documents and this Section 9.17. In each case as specified in this Section 9.17, the Administrative Agent and Collateral Agent will, at the Borrower’s expense, execute and deliver to the applicable Loan Party such documents as such Loan Party may reasonably request to evidence the release of such item of Collateral from the assignment, security interest and Lien granted under the Collateral Documents, and, if applicable, return any possessory collateral or to release such Guarantor from its obligations under the Guaranty, in each case in accordance with the terms of the Loan Documents and this Section 9.17. In each case as specified in this Section 9.17, the Administrative Agent and Collateral Agent hereby authorize the applicable Loan Parties to prepare and record UCC termination statements, PTO termination of assignment filings, or other analogous documents and filings with respect to any financing statements or collateral assignments recorded by the Collateral Agent under the Collateral Documents.

SECTION 9.18. Security Clearance. The Lenders, the Agents and the Issuing Banks acknowledge that the Loan Parties and their Subsidiaries perform classified contracts funded by or for the benefit of the United States Federal government and, accordingly, neither the Loan Parties nor their Subsidiaries will release, disclose or otherwise make available to any Lender, any Agent or any Issuing Bank any classified information or nuclear material in violation of any requirement of law, including laws restricting release of such information or material to any parties not in possession of a valid security clearance and authorized by the appropriate agency of the United States Federal government to receive such information or material. The Lenders, the Agents and the Issuing Banks acknowledge that in connection with any exercise of a right or remedy the United States Federal government may remove classified information or government-issued property prior to any remedial action which would give the Lenders, the Agents or the Issuing Banks access to or control over such classified information or government-issued property. The Lenders, the Agents and the Issuing Banks acknowledge that any exercise
of rights or remedies under the Loan Documents or applicable laws may be subject to the federal National Industrial Security Program Operating Manual ("NISPOM"), including, without limitation, the rules governing Foreign Ownership Control or Influence (as defined therein). Notwithstanding any notice requirements or other obligations of the Loan Parties under this Agreement, none of the Loan Parties or their Subsidiaries shall be required to furnish any classified or other confidential information to the extent that furnishing such information would not be permitted under applicable requirements of law (including, without limitation, the National Industrial Security Program established by Executive Order 12829 for the protection of information classified under, inter alia, the Atomic Energy Act of 1954 and the procedures set forth in NISPOM and the Department of Energy security regulations, including, without limitation, the foreign ownership, control or influence regulations under 48 CFR 904.70003, et seq.). Nothing in this Section 9.18 shall relieve the Loan Parties and their Subsidiaries of the obligation pursuant to Section 5.02 to furnish to the Administrative Agent written notice of any actual knowledge of the Borrower of any development in connection with any classified contract that may have a material adverse effect on the value of such contract to a Loan Party or Subsidiary, including but not limited to notice of cancellation received by the Loan Parties or their Subsidiaries or allegation of default with respect to such contract to the extent compliance with such specific notice obligations is not prohibited by applicable law or regulation.

SECTION 9.19. No Fiduciary Relationship. Each of the Loan Parties hereby acknowledges that none of the Administrative Agent, the Lenders, the Issuing Banks or their Affiliates has any fiduciary relationship with or duty to any Loan Party arising out of or in connection with this Agreement, and the relationship between the Administrative Agent, the Lead Arrangers, the Lenders, and the Issuing Banks or any of their Affiliates, on the one hand, and the Loan Parties, on the other hand, in connection herewith is solely that of debtor and creditor.
IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

HUNTINGTON INGALLS INDUSTRIES, INC.

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

JPMORGAN CHASE BANK, individually and as Administrative Agent

By: /s/ Matthew H. Massie
    Name: Matthew H. Massie
    Title: Managing Director

By: /s/ Matthew H. Massie
    Name: Matthew H. Massie
    Title: Managing Director

CREDIT SUISSE A.G., CAYMAN ISLANDS BRANCH

By: /s/ John D. Toronto
    Name: John D. Toronto
    Title: Managing Director

By: /s/ Vipul Dhadda
    Name: Vipul Dhadda
    Title: Associate

THE ROYAL BANK OF SCOTLAND PLC

By: /s/ L. Peter Yetman
    Name: L. Peter Yetman
    Title: Director

WELLS FARGO BANK, N.A.

By: /s/ Scott Santa Cruz
    Name: Scott Santa Cruz
    Title: Director

BNP PARIBAS

By: /s/ Rick Pace
    Name: Rick Pace
    Title: Managing Director

By: /s/ Berangere Allen
    Name: Berangere Allen
    Title: Director

SUMITOMO MITSUI BANKING CORPORATION

By: /s/ William Ginn
    Name: William Ginn
    Title: Executive Officer

SUNTRUST BANK

By: /s/ Keith Cox
    Name: Keith Cox
    Title: Managing Director

BANK OF AMERICA, N.A.

By: /s/ Kenneth Beck
    Name: Kenneth Beck
    Title: Managing Director
THE BANK OF NOVA SCOTIA

By: /s/ John Matthews
Name: John Matthews
Title: Director

TD BANK, N.A.

By: /s/ Marla Willner
Name: Marla Willner
Title: Senior Vice President

U.S. BANK NATIONAL ASSOCIATION

By: /s/ Blake Malia
Name: Blake Malia
Title: Vice President

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.

By: /s/ Victor Pierzchalski
Name: Victor Pierzchalski
Title: Authorized Signatory

MORGAN STANLEY BANK, N.A.

By: /s/ Sheresse Clarke
Name: Sheresse Clarke
Title: Authorized Signatory

BRANCH BANKING AND TRUST COMPANY

By: /s/ Daniel T. Laurenzi
Name: Daniel T. Laurenzi
Title: Vice President

CAPITAL ONE LEVERAGE FINANCE CORP.

By: /s/ Paul Dellova
Name: Paul Dellova
Title: Senior Vice President

COMERICA BANK

By: /s/ Blake Amett
Name: Blake Amett
Title: Vice President

THE NORTHERN TRUST COMPANY

By: /s/ Michael J. Kingsley
Name: Michael J. Kingsley
Title: Senior Vice President

STATE STREET BANK AND TRUST COMPANY

By: /s/ Juan G. Sierra
Name: Juan G. Sierra
Title: Vice President

TAIWAN BUSINESS BRANCH, L.A. BRANCH

By: /s/ Alex Wang
Name: Alex Wang
Title: S.V.P. & General Manager

TAIWAN COOPERATIVE BANK SEATTLE BRANCH

By: /s/ Ming-Chih Chen
Name: Ming-Chih Chen
Title: VP & General Manager
Dear Northrop Grumman Stockholder:

I am pleased to inform you that on March 14, 2011, the board of directors of Northrop Grumman Corporation approved the spin-off of Huntington Ingalls Industries, Inc., a wholly owned subsidiary of Northrop Grumman. Upon completion of the spin-off, Northrop Grumman stockholders will own 100% of the outstanding shares of common stock of HII. At the time of the spin-off, HII will own and operate our shipbuilding business, which has been designing, building, overhauling and repairing a wide variety of ships primarily for the U.S. Navy and the U.S. Coast Guard for over a century. We believe that this separation of HII to form a new, independent, publicly owned company is in the best interests of both Northrop Grumman and HII.

The spin-off will be completed by way of a pro rata distribution of HII common stock to our stockholders of record as of 5:00 p.m., Eastern time, on March 30, 2011, the spin-off record date. Each Northrop Grumman stockholder will receive one share of HII common stock for every six shares of Northrop Grumman common stock held by such stockholder on the record date. The distribution of these shares will be made in book-entry form, which means that no physical share certificates will be issued. Following the spin-off, stockholders may request that their shares of HII common stock be transferred to a brokerage or other account at any time. No fractional shares of HII common stock will be issued. If you would otherwise have been entitled to a fractional common share in the distribution, you will receive the net cash proceeds of such fractional share instead.

The spin-off is subject to certain customary conditions. Stockholder approval of the distribution is not required, nor are you required to take any action to receive your shares of HII common stock.

Immediately following the spin-off, you will own common stock in Northrop Grumman and HII. Northrop Grumman’s common stock will continue to trade on the New York Stock Exchange under the symbol “NOC.” HII intends to have its common stock listed on the New York Stock Exchange under the symbol “HII.”

We expect the spin-off to be tax-free to the stockholders of Northrop Grumman, except with respect to any cash received in lieu of fractional shares. The 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 owned company, we believe we can more effectively focus on our objectives and satisfy the capital needs of our company, and thus bring more value to you as a stockholder than we could as an operating segment of Northrop Grumman Corporation.

We expect to have HII common stock listed on the New York Stock Exchange under the symbol “HII” in connection with the distribution of HII common stock by Northrop Grumman.

We invite you to learn more about HII and our subsidiaries by reviewing the enclosed information statement. We look forward to our future as an independent, publicly owned company and to your support as a holder of HII common stock.

Very truly yours,

C. Michael Petters
President and Chief Executive Officer
Huntington Ingalls Industries, Inc.
This information statement is being sent to you in connection with the separation of Huntington Ingalls Industries, Inc. (“HII”) from Northrop Grumman Corporation (“Northrop Grumman”), following which HII will be an independent, publicly owned company. As part of the separation, Northrop Grumman will undergo an internal reorganization, after which it will complete the separation by distributing all of the shares of HII common stock on a pro rata basis to the holders of Northrop Grumman common stock. We refer to this pro rata distribution as the “distribution” and we refer to the separation, including the internal reorganization and distribution, as the “spin-off.” We expect that the spin-off will be tax-free to Northrop Grumman stockholders for U.S. Federal income tax purposes, except to the extent of cash received in lieu of fractional shares. Every six shares of Northrop Grumman common stock outstanding as of 5:00 pm, Eastern time, on March 30, 2011, the record date for the distribution, will entitle the holder thereof to receive one share of HII common stock. The distribution of shares will be made in book-entry form. Northrop Grumman will not distribute any fractional shares of HII common stock. Instead, the distribution agent will aggregate fractional shares into whole shares, sell the whole shares in the open market at prevailing market prices and distribute the aggregate net cash proceeds from the sales pro rata to each holder who would otherwise have been entitled to receive a fractional share in the spin-off. The distribution will be effective as of 12:01 a.m., Eastern time, on March 31, 2011. Immediately after the distribution becomes effective, we will be an independent, publicly owned company.

No vote or further action of Northrop Grumman stockholders is required in connection with the spin-off. We are not asking you for a proxy. Northrop Grumman stockholders will not be required to pay any consideration for the shares of HII common stock they receive in the spin-off, and they will not be required to surrender or exchange shares of their Northrop Grumman common stock or take any other action in connection with the spin-off.

All of the outstanding shares of HII common stock are currently owned by Northrop Grumman. Accordingly, there is no current trading market for HII common stock. We expect, however, that a limited trading market for HII common stock, commonly known as a “when-issued” trading market, will develop at least two trading days prior to the record date for the distribution, and we expect “regular-way” trading of HII common stock will begin the first trading day after the distribution date. We intend to list HII common stock on the New York Stock Exchange under the ticker symbol “HII.”

In reviewing this information statement, you should carefully consider the matters described in “Risk Factors” beginning on page 19 of this information statement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this information statement is truthful or complete. Any representation to the contrary is a criminal offense.

This information statement is not an offer to sell, or a solicitation of an offer to buy, any securities.

The date of this information statement is , 2011.

This Information Statement was first mailed to Northrop Grumman stockholders on or about , 2011.
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SUMMARY

This summary highlights information contained in this information statement and provides an overview of our company, our separation from Northrop Grumman and the distribution of HII common stock by Northrop Grumman to its stockholders. For a more complete understanding of our business and the spin-off, you should read the entire information statement carefully, particularly the discussion set forth under “Risk Factors” beginning on page 19 of this information statement, and our audited and unaudited historical consolidated financial statements, our unaudited pro forma condensed consolidated financial statements and the respective notes to those statements appearing elsewhere in this information statement.

Except as otherwise indicated or unless the context otherwise requires, “HII,” “we,” “us” and “our” refer to Huntington Ingalls Industries, Inc. and the entities that will be its consolidated subsidiaries following the internal reorganization. HII was formed in anticipation of the spin-off as a holding company for our business, which has been conducted by Northrop Grumman Shipbuilding, Inc. (“NGSB”). NGSB will be a wholly owned subsidiary of HII following the internal reorganization. In connection with the spin-off, NGSB intends to change its name to “Huntington Ingalls Industries Company.” Except as otherwise indicated or unless the context otherwise requires, the information included in this information statement assumes the completion of the internal reorganization preceding the distribution, as described herein.

For convenience, brief descriptions of certain programs discussed in this information statement are included in the “Glossary of Programs” beginning on page 15.

Unless otherwise indicated, references in this information statement to fiscal years are to HII’s fiscal years ended December 31.

Our Company

For more than a century, we have been designing, building, overhauling and repairing ships primarily for the U.S. Navy and the U.S. Coast Guard. We are the nation’s sole industrial designer, builder and refueler of nuclear-powered aircraft carriers, the sole supplier and builder of amphibious assault and expeditionary warfare ships to the U.S. Navy, the sole builder of National Security Cutters for the U.S. Coast Guard, one of only two companies currently designing and building nuclear-powered submarines for the U.S. Navy and one of only two companies that builds the U.S. Navy’s current fleet of DDG-51 Arleigh Burke-class destroyers. We build more ships, in more ship types and classes, than any other U.S. naval shipbuilder. We are the exclusive provider of RCOH (Refueling and Complex Overhaul) services for nuclear-powered aircraft carriers, a full-service systems provider for the design, engineering, construction and life cycle support of major programs for surface ships and a provider of fleet support and maintenance services for the U.S. Navy. With our product capabilities, heavy industrial facilities and a workforce of approximately 39,000 shipbuilders, we believe we are poised to continue to support the long-term objectives of the U.S. Navy to adapt and respond to a complex, uncertain and rapidly changing national security environment.

Our primary areas of business include the design, construction, repair and maintenance of nuclear-powered ships, such as aircraft carriers and submarines, and non-nuclear ships, such as surface combatants, expeditionary warfare/amphibious assault and coastal defense surface ships, as well as the overhaul and refueling of nuclear-powered ships. We manage our business in two segments: Newport News, which includes all of our nuclear ship design, construction, overhaul and refueling businesses; and Gulf Coast, which includes our non-nuclear ship design, construction, repair and maintenance businesses.

Our three major shipyards are currently located in Newport News, Virginia, Pascagoula, Mississippi and Avondale, Louisiana. We currently intend to wind down our construction activities at our Avondale shipyard in 2013 and consolidate Gulf Coast construction into our Mississippi facilities. We believe that consolidation in Pascagoula would allow us to realize the benefits of serial production, reduce program costs on existing contracts and make future vessels more affordable, thereby reducing overhead rates and realizing cost savings for the U.S. Navy and the U.S. Coast Guard. We are also exploring the potential for alternative uses of the Avondale facility by new owners, including alternative opportunities for the workforce there. We expect that process to take some time. We anticipate that we will incur substantial restructuring-related costs and asset write-downs currently estimated at $310 million related to the wind down of our construction activities at Avondale, substantially all of which we believe is recoverable. For a more detailed discussion of these expected costs, see “Risk Factors” beginning on page 19.

Competitive Strengths

We believe that we have the following key competitive strengths:

- We are one of the two largest publicly owned shipbuilders in the United States. We and our primary competitor are the builders of 232 of the U.S. Navy’s current 286 ships, and the exclusive builders of 16 of the U.S. Navy’s 29 classes of ships (seven classes for which we are the exclusive builder, and four classes for which we are co-builders with our primary competitor). We build more ships, in more types and classes, than

...
any other U.S. naval shipbuilder and we are the exclusive builder of 33 of the U.S. Navy’s 286 ships, representing seven of the U.S. Navy’s 29 classes of ships. We are the sole builder and refueler of nuclear-powered aircraft carriers, the sole supplier of amphibious assault and expeditionary warfare ships for the U.S. Navy, and the sole provider of the National Security Cutter to the U.S. Coast Guard. We are also teamed with Electric Boat as the sole builders of nuclear-powered submarines for the U.S. Navy. Additionally, we are a full-service systems provider for the design, engineering, construction and life cycle support of major programs for surface ships and a provider of fleet support and maintenance services for the U.S. Navy.

- **We have long-term contracts with visible revenue streams and highly probable backlog based on the U.S. Navy’s 30-Year Plan.** Most of our contracts are long-term in nature with visible revenue streams. Total backlog at December 31, 2010 was approximately $17 billion. At the end of 2010, total orders from the U.S. Government comprised substantially all of the total backlog. In connection with ships that we have constructed, we expect to continue our regular service and support, including RCOH of aircraft carriers and inactivation of aging nuclear aircraft carriers.

- **We generate a significant amount of our revenue from contracts for classes of ships for which we are the exclusive provider.** We are the exclusive provider of seven of the U.S. Navy’s 29 classes of ships, and a significant amount of our revenue is from contracts for these classes of ships. Collectively, contracts for ship classes for which we are the exclusive provider accounted for 64% and 68% of our revenues in 2009 and 2010, respectively.

- **We are capable of manufacturing multiple classes of ships at our heavy industrial facilities.** Our Newport News and Pascagoula shipyards possess heavy industrial assets and are capable of manufacturing multiple ship types and classes. The Newport News shipyard, which is able to simultaneously construct in staggered phases two nuclear aircraft carriers and five nuclear submarines, provide refueling and overhaul services for up to two additional aircraft carriers, and provide maintenance and repair services for additional ships, has an 18-acre all weather onsite steel fabrication workshop, a modular outfitting facility for assembly of a ship’s basic structural modules indoors and on land, machine shops totaling approximately 300,000 square feet, a 1,050-ton gantry crane capable of servicing two aircraft carriers at one time, and a 2,170 foot long drydock. Our Pascagoula shipyard, which is able to simultaneously build several classes of ships for both the U.S. Navy and the U.S. Coast Guard, includes a 30,000-ton floating dry dock, 660-ton gantry crane, a steel fabrication shop with capacity to process 150 tons of steel per day, covered outfitting and stacking halls capable of handling three-deck height grand blocks, and a propulsion assembly building that can hold up to fifteen 30,000 horsepower engines simultaneously.

- **We have an experienced management team.** Our senior management team has experience in the management of defense and shipbuilding companies and is competent in the areas of project management, supply chain management and technology management.

- **We have a workforce of approximately 39,000 shipbuilders.** Our workforce includes individuals specializing in 19 crafts and trades, including more than 7,500 engineers and designers and more than 1,000 employees with advanced degrees. Additionally, our workforce is composed of many third-, fourth- and fifth- generation shipbuilding employees. At December 31, 2010, we had 771 Master Shipbuilders, employees who have been with us or our predecessors for over 40 years. We provide ongoing training for all of our employees, providing over 60,000 individual training seats in 2009 and 64,000 in 2010 across our Newport News and Gulf Coast operations.

**Our Strategy**

Our objectives are to maintain our leadership position in the U.S. naval shipbuilding industry and to deliver long-term value to our stockholders. To achieve these objectives, we utilize the following strategies:

**Strengthen and protect market position.**

- **Align our business to support the U.S. Navy’s 30-Year Plan.** We intend to continue to support the U.S. Navy in the design and construction of new ships, including the construction of an aircraft carrier and an amphibious assault ship approximately every five years, the restart of construction of DDG-51s and the increase in production rates of VCS to two submarines per year. Through investments in our workforce, processes and facilities, and through the streamlining of our operations, we intend to support continued construction of these core U.S. Navy programs, ensure quality construction and make ships more affordable.

- **Ensure capabilities that support new U.S. Navy requirements.** Through alignment with the U.S. Navy’s requirements in the 30-Year Plan, we intend to position ourselves as the provider of choice for new platforms and services related to our current core markets. We intend to complete construction of a new facility at our Newport News shipyard designed specifically for aircraft carrier inactivations, to better position ourselves to be the U.S. Navy’s choice for future aircraft carrier inactivations. We have also deployed our design and
engineering talents and capabilities to support work as a subcontractor on the design of the SSBN (X) replacement for the aging Ohio-class ballistic missile submarines, and we also intend to position ourselves as the builder of choice for the LSD(X), the next class of amphibious assault ship expected to be built as a follow-on to the LPD-17 and LHA-6 classes of ships, for which we are currently the exclusive supplier.

- **Streamline our operations and footprint to deliver more affordable ships.** We intend to monitor our operations to determine where strategic investments or consolidation may be necessary to allow us to provide the U.S. Navy with the highest quality, most technologically advanced ships possible, on a cost-effective basis. For example, we expect to wind down our construction activities at the Avondale shipyard in 2013 and intend to consolidate our Gulf Coast operations and footprint to shift all future Gulf Coast ship construction work to our Pascagoula and Gulfport facilities in Mississippi. With this consolidation, we believe that we are ensuring the long-term viability of our Gulf Coast operations by making them more cost competitive through increased throughput, continuity of production, single learning curves and workload efficiency gains. We also expect that this consolidation may reduce program costs on some existing contracts and make future vessels more affordable for the U.S. Navy and the U.S. Coast Guard.

**Execute well on all contracts.**

- **Improve performance in our Gulf Coast operations.** Our Gulf Coast operations have recently implemented a new management approach that is geared toward planning and managing our work in discrete phases to drive performance, accountability and predictability (the “Gulf Coast Operating System”). Through the Gulf Coast Operating System, we believe program managers will be better able to confirm that a ship is adhering to our newly developed standardized performance metrics, and to assure that we are providing a quality product in a safe, timely and cost-effective manner. We intend to continue to utilize the Gulf Coast Operating System across the spectrum of our ships to improve both quality and efficiency of our building processes in all aspects of our design and construction activities, bringing together our shipbuilders. See “Business—Our Business—Gulf Coast.”

- **Capture the benefits of serial production.** We intend to seek opportunities to maximize the quality and affordability of our ships through serial production, while ensuring that we undertake “first-in-class” (first ships to be built in their class) construction where such construction is expected to lead to additional serial production.

- **Deliver quality products on contract targets.** We are focused on delivering quality products on contract schedule and cost targets for all current contracts, which we believe will protect our position in our industry and enhance our efforts to secure future contracts. We believe we must adhere to schedule and cost commitments and quality expectations on our current U.S. Navy contracts. Specifically, we must execute on our human capital strategy, create and sustain a first-time quality culture and capitalize on our supply chain management initiatives.

**Other Information**

Huntington Ingalls Industries, Inc. was incorporated in Delaware on August 4, 2010. Our principal executive offices are located at 4101 Washington Avenue, Newport News, Virginia 23607. Our telephone number is (757) 380-2000. Our website address is www. [HII website]. Information contained on, or connected to, our website or Northrop Grumman’s website does not and will not constitute part of this information statement or the registration statement on Form 10 of which this information statement is part.

**The Spin-Off**

**Overview**

On March 14, 2011, Northrop Grumman approved the spin-off of HII from Northrop Grumman, following which HII will be an independent, publicly owned company.

Before our spin-off from Northrop Grumman, we will enter into a Separation and Distribution Agreement and several other agreements with Northrop Grumman related to the spin-off. These agreements will govern the relationship between us and Northrop Grumman after completion of the spin-off and provide for the allocation between us and Northrop Grumman of various assets, liabilities and obligations (including employee benefits, intellectual property, information technology, insurance and tax-related assets and liabilities). See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off.” Additionally, we have (i) incurred debt in an amount of $1,200 million from third parties (the “HII Debt”) and (ii) entered into a credit facility with third-party lenders in an amount of $1,225 million, (the “HII Credit Facility”), which includes a $575 million secured term loan expected to be funded in connection with the internal reorganization, and a $650 million secured revolving credit facility, of which approximately $137 million of letters of credit are expected to be outstanding at the time of the spin-off, and the remainder will be undrawn. See “Description of Material Indebtedness.” The proceeds of the HII Debt and the HII Credit Facility are to be

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used to fund a cash transfer in an amount of $1,429 million (the “Contribution”) to Northrop Grumman Systems Corporation (“NGSC”), the primary operating subsidiary of Northrop Grumman after completion of the spin-off, and for general corporate purposes in an amount of $300 million.

The distribution of HII common stock as described in this information statement is subject to the satisfaction or waiver of certain conditions. In addition, Northrop Grumman has the right not to complete the spin-off if, at any time prior to the distribution, the board of directors of Northrop Grumman determines, in its sole discretion, that the spin-off is not in the best interests of Northrop Grumman or its stockholders, that a sale or other alternative is in the best interests of Northrop Grumman or its stockholders or that it is not advisable for HII to separate from Northrop Grumman. See “The Spin-Off—Conditions to the Spin-Off.”

Questions and Answers About the Spin-Off

The following provides only a summary of the terms of the spin-off. For a more detailed description of the matters described below, see “The Spin-Off.”

Q: What is the spin-off?
A: The spin-off is the series of transactions by which HII will separate from Northrop Grumman. To complete the spin-off, Northrop Grumman will distribute to its stockholders all of the shares of HII common stock. We refer to this as the distribution. Following the spin-off, HII will be a separate company from Northrop Grumman, and Northrop Grumman will not retain any ownership interest in HII. The number of shares of Northrop Grumman common stock you own will not change as a result of the spin-off.

Q: What will I receive in the spin-off?
A: As a holder of Northrop Grumman stock, you will retain your Northrop Grumman shares and will receive one share of HII common stock for every six shares of Northrop Grumman common stock you own as of the record date. Your proportionate interest in Northrop Grumman will not change as a result of the spin-off. For a more detailed description, see “The Spin-Off.”

Q: What is HII?
A: HII is currently an indirect, wholly owned subsidiary of Northrop Grumman whose shares will be distributed to Northrop Grumman stockholders if the spin-off is completed. After the spin-off is completed, HII will be a public company and will own all of the shipbuilding business of Northrop Grumman. That business is referred to as the “shipbuilding business” throughout this information statement.

Q: What are the reasons for and benefits of separating HII from Northrop Grumman?
A: Northrop Grumman believes that a spin-off will provide various benefits including: (i) greater strategic focus of investment resources and management efforts, (ii) tailored customer focus, (iii) direct and differentiated access to capital markets and (iv) enhanced investor choices. Northrop Grumman believes that separating HII from Northrop Grumman will benefit both Northrop Grumman and the shipbuilding business by better aligning management’s attention and investment resources to pursue opportunities in their respective markets and more actively manage their cost structures.

Northrop Grumman believes its portfolio of C4ISR systems and electronics, manned and unmanned air and space platforms, cyber-security and related system-level applications and logistics is strategically aligned with its customers’ emerging security priorities. Operational and investment synergies exist within and between these areas of its portfolio, which comprise its aerospace, electronics, information systems and technical services sectors. Northrop Grumman management sees little future synergy between these businesses and its shipbuilding business.

Additionally, the shipbuilding business is a mature business that is more capital-intensive than most of Northrop Grumman’s other businesses, with longer periods of performance. Northrop Grumman’s management believes that its shipbuilding business, on one hand, and its other businesses, on the other hand, require inherently different strategies in order to maximize their long-term value. Northrop Grumman believes that a separation will allow each entity to pursue appropriate strategies that will increase investor choice between the businesses, allow for differentiated access to capital and allow for the creation of long-term value for shareholders. For a more detailed discussion of the reasons for the spin-off see “The Spin-Off—Reasons for the Spin-Off.”

Q: Why is the separation of HII structured as a spin-off as opposed to a sale?
A: Northrop Grumman believes a spin-off is the most efficient way to accomplish a separation of shipbuilding for reasons including: (i) a spin-off would be a tax-free distribution of HII common stock to shareholders; (ii) a spin-off offers a higher degree of certainty of completion in a timely manner, lessening disruption to current shipbuilding operations; and (iii) a spin-off provides greater assurance that decisions regarding HII’s capital structure support future financial stability. After consideration of strategic alternatives, including a sale, Northrop Grumman believes that a tax-free
Approximately 48.8 million shares of HII common stock will be distributed in the spin-off, based on the number of shares of Northrop Grumman common stock expected to be outstanding as of the record date. The actual number of shares of HII common stock to be distributed will be calculated on March 30, 2011, the record date. The shares of HII common stock to be distributed by Northrop Grumman will constitute all of the issued and outstanding shares of HII common stock immediately prior to the distribution. For more information on the shares being distributed in the spin-off, see “Description of Our Capital Stock—Common Stock.”

**Q:** How will fractional shares be treated in the spin-off?

**A:** Fractional shares will not be created in the spin-off. Northrop Grumman will pay cash for fractional shares in the amount required to ensure that stockholders receive the number of HII shares to which they are otherwise entitled. You will not be required to surrender any shares of Northrop Grumman common stock to participate in the spin-off.

**Q:** How will options and stock held by HII employees be affected as a result of the spin-off?

**A:** At the time of the distribution, the exercise price of and number of shares subject to any outstanding option to purchase Northrop Grumman stock, as well as the number of shares subject to any restricted stock right or other Northrop Grumman equity award, held by HII’s current and former employees on the distribution date will be adjusted to reflect the value of the distribution such that the intrinsic value of such awards at the time of separation is held constant. In addition, existing performance criteria applicable to HII awards will be modified appropriately to reflect the spin-off.

Additionally, HII’s current and former employees who hold shares of Northrop Grumman common stock in their applicable 401(k) Plan account as of the record date for the distribution will, like all stockholders, receive shares of HII common stock in the distribution. On the distribution date, one share of HII common stock, based on the distribution ratio for every six shares of Northrop Grumman common stock held in such employee’s Northrop Grumman stock fund account, will be included in a HII stock fund account under the HII 401(k) Plan. However, in conformity with the fiduciary responsibility requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”), remaining shares of the Northrop Grumman common stock held in HII’s employees’ Northrop Grumman stock fund accounts following the distribution will be disposed of and allocated to another investment alternative available under the HII 401(k) Plan as directed by participants until such date as shall be determined by the Investment Committee, after which date the Investment Committee shall dispose of all remaining shares and invest the proceeds in another investment alternative to be determined by the Investment Committee (but this will not prohibit diversified, collectively managed investment alternatives available under the HII 401(k) Plan from holding Northrop Grumman common stock or prohibit employees who use self-directed accounts in the HII 401(k) Plan from investing their accounts in Northrop Grumman common stock). In addition, current and former Northrop Grumman employees who hold Northrop Grumman stock under the Northrop Grumman stock fund in their Northrop Grumman 401(k) Plan account as of the record date for the distribution will, like all stockholders, receive one share of HII common stock in the distribution, based on the distribution ratio, for every six shares of Northrop Grumman common stock held in the employee’s Northrop Grumman stock fund account. HII shares will be included in a new, temporary HII stock fund under the Northrop Grumman 401(k) Plan. In conformity with the fiduciary responsibility requirements of ERISA, remaining shares of HII common stock held in the temporary HII stock fund following the distribution will be disposed of and allocated to another investment alternative available under the Northrop Grumman 401(k) Plan as directed by participants until such date as shall be determined by the Investment Committee, after which date the Investment Committee shall dispose of all remaining shares and invest the proceeds in another investment alternative to be determined by the Investment Committee (but this will not prohibit diversified, collectively managed investment alternatives available under the Northrop Grumman 401(k) Plan from holding 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 March 30, 2011.

**Q:** When will the distribution occur?

**A:** The distribution date of the spin-off is March 31, 2011. HII expects that it will take the distribution agent, acting on behalf of Northrop Grumman, up to two weeks after the distribution date to fully distribute the shares of HII common stock to Northrop Grumman stockholders. The ability to trade HII shares will not be affected during that time.

**Q:** What do I have to do to participate in the spin-off?

**A:** You are not required to take any action, although you are urged to read this entire document carefully. No stockholder approval of the distribution is required or sought. You are not being asked for a proxy. No action is required on your part to receive your shares of HII common stock. You will neither be required to pay anything for the new shares nor to surrender any shares of Northrop Grumman common stock to participate in the spin-off.

**Q:** How will fractional shares be treated in the spin-off?

**A:** Fractional shares will not be created in the spin-off. Northrop Grumman will pay cash for fractional shares in the amount required to ensure that stockholders receive the number of HII shares to which they are otherwise entitled. You will not be required to surrender any shares of Northrop Grumman common stock to participate in the spin-off.
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 an initial and any supplemental ruling (collectively, the “IRS Ruling”) from the Internal Revenue Service (“IRS”), which Northrop Grumman has received, and an opinion from its tax counsel that, for U.S. Federal income tax purposes, the distribution will be tax-free to Northrop Grumman, Northrop Grumman’s stockholders and HII under Section 355 and related provisions of the Internal Revenue Code of 1986 (the “Code”), except for cash payments made to stockholders in lieu of fractional shares such stockholders would otherwise receive in the distribution. The tax consequences of the distribution are described in more detail under “The Spin-Off—U.S. Federal Income Tax Consequences of the Spin-Off.”

Q: Will the HII common stock be listed on a stock exchange?
A: Yes. Although there is not currently a public market for HII common stock, before completion of the spin-off, HII intends to apply to list its common stock on the NYSE under the symbol “HII.” It is anticipated that trading of HII common stock will commence on a “when-issued” basis at least two trading days prior to the record date. When-issued trading refers to a sale or purchase made conditionally because the security has been authorized but not yet issued. When-issued trades generally settle within four trading days after the distribution date. On the first trading day following the distribution date, any when-issued trading with respect to HII common stock will end and “regular-way” trading will begin. “Regular-way” trading refers to trading after a security has been issued and typically involves a transaction that settles on the third full trading day following the date of the transaction. See “Trading Market.”

Q: Will my shares of Northrop Grumman common stock continue to trade?
A: Yes. Northrop Grumman common stock will continue to be listed and trade on the NYSE under the symbol “NOC.”

Q: If I sell, on or before the distribution date, shares of Northrop Grumman common stock that I held on the record date, am I still entitled to receive shares of HII common stock distributable with respect to the shares of Northrop Grumman common stock I sold?
A: Beginning on or shortly before the record date and continuing through the distribution date for the spin-off, Northrop Grumman’s common stock will begin to trade in two markets on the NYSE: a “regular-way” market and an “ex-distribution” market. If you are a holder of record of shares of Northrop Grumman common stock as of the record date for the distribution and choose to sell those shares in the regular-way market after the record date for the distribution and before the distribution date, you also will be selling the right to receive the shares of HII common stock in connection with the spin-off. However, if you are a holder of record of shares of Northrop Grumman common stock as of the record date for the distribution and choose to sell those shares in the ex-distribution market after the record date for the distribution and before the distribution date, you will still receive the shares of HII common stock in the spin-off.

Q: Will the spin-off affect the trading price of my Northrop Grumman stock?
A: Yes, the trading price of shares of Northrop Grumman common stock immediately following the distribution is expected to be lower than immediately prior to the distribution because its trading price will no longer reflect the value of the shipbuilding business. However, we cannot provide you with any assurance as to the price at which the Northrop Grumman shares will trade following the spin-off.

Q: What is the Contribution?
A: As part of the internal reorganization, we will transfer $1,429 million of the proceeds of the HII Debt and the HII Credit Facility to NGSC in order to eliminate intercompany notes between Northrop Grumman entities and NGSB (including one such note that was recently established in connection with the funds that we borrowed from NGSC to finance the tender offer for the 4.55% Gulf Opportunity Zone Industrial Revenue Bonds (Northrop Grumman Ship Systems, Inc. Project) Series 2006 due 2028 (the “GO Zone IRBs”)) and to provide Northrop Grumman with additional funds to partially offset the loss of future cash flows that it would likely have realized if not for the spin-off transaction.
Q: What indebtedness will HII have following the spin-off?
A: HII has (i) incurred the HII Debt in an amount of $1,200 million and (ii) entered into the HII Credit Facility in an amount of $1,225 million ($575 million of which is a secured term loan expected to be funded in connection with the internal reorganization, and $650 million of which is a secured revolving credit facility, of which approximately $137 million of letters of credit are expected to be outstanding at the time of the spin-off, and the remainder will be undrawn). The proceeds of the HII Debt and the HII Credit Facility are to be used to fund the $1,429 million Contribution and for general corporate purposes in the amount of $300 million. Following the spin-off, we will also continue to have $83.7 million of indebtedness under a loan agreement with the Mississippi Business Finance Corporation (the “MBFC”) in connection with the MBFC’s issuance of $83.7 million of 7.81% Economic Development Revenue Bonds (Ingalls Shipbuilding, Inc. Project) Taxable Series 1999A due 2024 (the “Revenue Bonds”). While NGSC will continue to guarantee the Revenue Bonds, we intend to indemnify NGSC for any losses related to the guaranty. Additionally, following the spin-off we will continue to have $21.6 million of indebtedness under a loan agreement with the MBFC in connection with the MBFC’s issuance of $200 million of the GO Zone IRBs, which will continue to be guaranteed by Current NGC, the holding company currently named Northrop Grumman Corporation that, after the spin-off, will be our wholly owned subsidiary (“Current NGC”). In connection with the potential spin-off, NGSB on November 1, 2010, launched a tender offer to purchase any and all GO Zone IRBs at par. As a result, NGSB purchased $178.4 million in principal amount of the GO Zone IRBs and $21.6 million remain outstanding. Outstanding Northrop Grumman debt will remain with New P, Inc., which (a) is currently a subsidiary of Northrop Grumman, and (b) after the internal reorganization, will be renamed “Northrop Grumman Corporation” and will be the holding company that distributes the shares of HII to complete the spin-off (“New NGC”).

Q: What will the relationship be between Northrop Grumman and HII after the spin-off?
A: Following the spin-off, HII will be an independent, publicly owned company and Northrop Grumman will have no continuing stock ownership interest in HII. HII will have entered into a Separation and Distribution Agreement and several other agreements with Northrop Grumman for the purpose of allocating between HII and Northrop Grumman various assets, liabilities and obligations (including employee benefits, intellectual property, insurance and tax-related assets and liabilities). These agreements will also govern HII’s relationship with Northrop Grumman following the spin-off and will provide arrangements for employee matters, tax matters, intellectual property matters, insurance matters and some other liabilities and obligations attributable to periods before and, in some cases, after the spin-off. These agreements will also include arrangements with respect to transitional services. The Separation and Distribution Agreement will provide that HII will indemnify Northrop Grumman against any and all liabilities arising out of HII’s business, and that Northrop Grumman will indemnify HII against any and all liabilities arising out of Northrop Grumman’s non-shipbuilding business.

Q: What will HII’s dividend policy be after the spin-off?
A: HII does not currently intend to pay a dividend. Going forward, HII’s dividend policy will be established by the HII board of directors based on HII’s financial condition, results of operations and capital requirements, as well as applicable law, regulatory constraints, industry practice and other business considerations that HII’s board of directors considers relevant. In addition, the terms of the agreements governing HII’s new debt or debt that we may incur in the future may limit or prohibit the payments of dividends. For more information, see “Dividend Policy.”

Q: What are the anti-takeover effects of the spin-off?
A: Some provisions of the Restated Certificate of Incorporation of HII (the “Restated Certificate of Incorporation”) and the Restated Bylaws of HII (the “Restated Bylaws”), Delaware law and possibly the agreements governing HII’s new debt, as each will be in effect immediately following the spin-off, may have the effect of making more difficult an acquisition of control of HII in a transaction not approved by HII’s board of directors. In addition, under tax sharing arrangements, HII will agree not to enter into any transaction involving an acquisition (including issuance) of HII common stock or any other transaction (or, to the extent HII has the right to prohibit it, to permit any such transaction) that could reasonably be expected to cause the distribution or any of the internal reorganization transactions to be taxable to Northrop Grumman. HII will also agree to indemnify Northrop Grumman for any tax liabilities resulting from any such transactions. The amount of any such indemnification could be substantial. Generally, Northrop Grumman will recognize taxable gain on the distribution if there are one or more acquisitions (including issuances) of HII capital stock representing 50% or more of HII’s then-outstanding stock, measured by vote or value, and the acquisitions are deemed to be part of a plan or series of related transactions that include the distribution. Any such acquisition of HII common stock within two years before or after the distribution (with exceptions, including public trading by less-than-5% stockholders and certain compensatory stock issuances) generally will be presumed to be part of such a plan unless we can rebut that presumption.

Under the Separation and Distribution Agreement, in the event that, prior to the fifth anniversary of the distribution, we experience a change of control and our corporate rating is downgraded to B or B2 or below, as applicable, during
the period beginning upon the announcement of such change of control and ending 60 days after the announcement of the consummation of such change of control, we will be required to provide credit support for our indemnity obligations under the Separation and Distribution Agreement in the form of one or more standby letters of credit in an amount equal to $250 million. See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Separation and Distribution Agreement.”

Additionally, we intend to enter into a Guaranty Performance, Indemnity and Termination Agreement with NGSC (the “Guaranty Performance Agreement”), pursuant to which, among other things, we will agree to cause NGSC’s guarantee obligations under the $83.7 million Revenue Bonds, which were issued for our benefit, to terminate or cause credit support to be provided in the event we experience a change of control. For any period of time between a change of control and the termination of NGSC’s guarantee obligations, we will be required to cause credit support to be provided for NGSC’s guarantee obligations in the form of one or more letters of credit in an amount reasonably satisfactory to NGSC to support the payment of all principal, interest and any premiums under the Revenue Bonds. For a description of the Guaranty Performance Agreement, see “Certain Relationships and Related Party Transactions—Other Agreements.”

As a result, HII’s obligations may discourage, delay or prevent a change of control of HII.

Q: What are the risks associated with the spin-off?
A: There are a number of risks associated with the spin-off and ownership of HII common stock. These risks are discussed under “Risk Factors” beginning on page 19.

Q: How will the spin-off affect HII’s relationship with its customers?
A: We believe we have well-established relationships with our principal customers. We believe the spin-off will enable us better to focus on those customers and to align our resources with their priorities. As we seek to enter into new contracts with our customers, we expect to continue to provide information to enable them to have ongoing confidence in our management, our workforce and our ability to perform, including our financial stability.

Under federal acquisition regulations, the government commonly makes affirmative responsibility determinations before entering into new contracts with a contractor. In so doing, the government considers various factors, including financial resources, performance record, technical skills and facilities. Our customers and prospective customers will consider whether our responsibility on a stand-alone basis satisfies their requirements for entering into new contracts with us. At present there are several contracts in the negotiation phase that may not be finalized and awarded until after the spin-off is concluded and the U.S. Navy makes a responsibility determination. This could cause the contracts to be delayed or not awarded. We believe we continue to be a responsible contractor. Nonetheless, if our customers or prospective customers are not satisfied with our responsibility, including our financial resources, it could likely affect our ability to bid for and obtain or retain projects, which, if unresolved, could have a material adverse effect on our financial position, results of operations or cash flows. See “Risk Factors—Risks Relating to the Spin-Off—Our customers and prospective customers will consider whether our responsibility on a stand-alone basis satisfies their requirements for entering into new contracts with us.”

Q: Where can I get more information?
A: If you have any questions relating to the mechanics of the distribution, you should contact the distribution agent at:

Computershare Trust Company, N.A.

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
4101 Washington Avenue
Newport News, Virginia 23607
Phone:
Email:
www. .com
The diagram below shows the current structure of Northrop Grumman:

The diagram below shows the structure of Northrop Grumman after completion of the internal reorganization:

The diagram below shows the structure of Northrop Grumman and HII immediately after completion of the spin-off:

- Except as otherwise indicated or unless the context otherwise requires, “HII,” “we,” “us” and “our” refers to Huntington Ingalls Industries, Inc. and its consolidated subsidiaries, after giving effect to the internal reorganization.
- “NGSB” refers to Northrop Grumman Shipbuilding, Inc., which currently operates Northrop Grumman’s shipbuilding business. In connection with the spin-off, NGSB intends to change its name to “Huntington Ingalls Industries Company”
- “NGSC” refers to Northrop Grumman Systems Corporation, which operates Northrop Grumman’s non-shipbuilding businesses.
- “Current NGC” refers to (a) the current holding company, named Northrop Grumman Corporation, and its consolidated subsidiaries prior to the spin-off and (b) 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

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Distributing Company</strong></td>
<td>Northrop Grumman Corporation, a Delaware corporation. After the distribution, Northrop Grumman will not own any shares of HII common stock.</td>
</tr>
<tr>
<td><strong>Distributed Company</strong></td>
<td>Huntington Ingalls Industries, Inc., a Delaware corporation and a wholly owned subsidiary of Northrop Grumman. After the spin-off, HII will be an independent, publicly owned company.</td>
</tr>
<tr>
<td><strong>Distributed Securities</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Record Date</strong></td>
<td>The record date for the distribution is the close of business on March 30, 2011.</td>
</tr>
<tr>
<td><strong>Distribution Date</strong></td>
<td>The distribution date is March 31, 2011.</td>
</tr>
</tbody>
</table>
| **Internal Reorganization**| As part of the spin-off, Northrop Grumman will undergo an internal reorganization, which we refer to as the “internal reorganization,” that will, among other things, result in:  
   - New NGC replacing Current NGC as the publicly owned holding company that directly and indirectly owns all of the capital stock of Current NGC and its subsidiaries, including HII.  
   - New NGC changing its name to “Northrop Grumman Corporation.”  
   - HII becoming the parent company of the Northrop Grumman subsidiaries that currently operate the shipbuilding business.  
   - Current NGC becoming a direct, wholly owned subsidiary of HII and being renamed “Titan II Inc.”  
   After completion of the spin-off:  
   - New NGC will own and operate the aerospace systems, electronic systems, information systems and technical services businesses.  
   - HII will be an independent, publicly owned company, will own and operate the shipbuilding business and will own all of the stock of Current NGC. |
| **Incurrence of Debt**    | To fund the Contribution and for general corporate purposes, HII has (i) incurred the HII Debt and (ii) entered into the HII Credit Facility.                                                                    |
| **Distribution Ratio**    | Each holder of Northrop Grumman common stock will receive one share of HII common stock for every six shares of Northrop Grumman common stock held on March 30, 2011.                                                |
| **The Distribution**      | On the distribution date, Northrop Grumman will release the shares of HII common stock to the distribution agent to distribute to Northrop Grumman stockholders. The distribution of shares will be made in book-entry form, which means that no physical share certificates will be issued. It is expected that it will take the distribution agent up to two weeks to electronically issue shares of HII common stock to you or to your bank or brokerage firm on your behalf by way of direct registration in book-entry form. Trading of our shares will not be affected during that time. Following the spin-off, stockholders whose shares are held in book-entry form may request that their shares of HII common stock be transferred to a brokerage or other account at any time. You will not be required to make any payment, surrender or exchange your shares of Northrop Grumman common stock or take any other action to receive your shares of HII common stock. |
Fractional Shares

The distribution agent will not distribute any fractional shares of HII common stock to Northrop Grumman stockholders. Fractional shares of HII common stock to which Northrop Grumman stockholders of record would otherwise be entitled will be aggregated and sold in the public market by the distribution agent. The aggregate net cash proceeds of the sales will be distributed ratably to those stockholders who would otherwise have received fractional shares of HII common stock. Proceeds from these sales will generally result in a taxable gain or loss to those stockholders. Each stockholder entitled to receive cash proceeds from these shares should consult his, her or its own tax advisor as to such stockholder’s particular circumstances. The tax consequences of the distribution are described in more detail under “The Spin-Off—U.S. Federal Income Tax Consequences of the Spin-Off.”

Conditions to the Spin-Off

Completion of the spin-off is subject to the satisfaction or waiver by Northrop Grumman of the following conditions:

- the board of directors of Northrop Grumman, in its sole and absolute discretion, shall have authorized and approved the spin-off and not withdrawn such authorization and approval, and the New NGC board shall have declared the dividend of the common stock of HII to Northrop Grumman stockholders;
- the Separation and Distribution Agreement and each ancillary agreement contemplated by the Separation and Distribution Agreement shall have been executed by each party thereto;
- the Securities and Exchange Commission (the “SEC”) shall have declared effective HII’s registration statement on Form 10, of which this information statement is a part, under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), no stop order suspending the effectiveness of the registration statement shall be in effect, and no proceedings for such purpose shall be pending before or threatened by the SEC;
- HII common stock shall have been accepted for listing on the NYSE or another national securities exchange approved by Northrop Grumman, subject to official notice of issuance;
- the internal reorganization (as described in “The Spin-Off—Background”) shall have been completed;
- Northrop Grumman shall have received the IRS Ruling and an opinion of its tax counsel, each of which shall remain in full force and effect, that the spin-off (including the internal reorganization) will not result in recognition, for U.S. Federal income tax purposes, of income, gain or loss to Northrop Grumman, or of income, gain or loss to its stockholders, except to the extent of cash received in lieu of fractional shares;
- HII shall have (i) entered into the HII Credit Facility, (ii) received the net proceeds from the HII Debt and (iii) made the Contribution;
- no order, injunction or decree that would prevent the consummation of the distribution shall be threatened, pending or issued (and still in effect) by any governmental authority of competent jurisdiction, other legal restraint or prohibition preventing consummation of the distribution shall be pending, threatened, issued or in effect and no other event outside the control of Northrop Grumman shall have occurred or failed to occur that prevents the consummation of the distribution;
- no other events or developments shall have occurred prior to the distribution that, in the judgment of the board of directors of Northrop Grumman, would result in the spin-off having a significant adverse effect on Northrop Grumman or its stockholders;
- prior to the distribution, this information statement shall have been mailed to the holders of Northrop Grumman common stock as of the record date;
- HII’s current directors shall have duly elected the individuals listed as
members of its post-distribution board of directors in this information statement, and such individuals shall become the members of HII’s board of directors immediately prior to the distribution;

• prior to the distribution, Northrop Grumman shall have delivered to HII resignations from those HII positions, effective as of immediately prior to the distribution, of each individual who will be an employee of Northrop Grumman after the distribution and who is an officer or director of HII immediately prior to the distribution; and

• immediately prior to the distribution, the Restated Certificate of Incorporation and the Restated Bylaws, each in substantially the form filed as an exhibit to the registration statement on Form 10 of which this information statement is part, shall be in effect.

The fulfillment of the foregoing conditions will not create any obligation on Northrop Grumman’s part to effect the spin-off. We are not aware of any material federal or state regulatory requirements that must be complied with or any material approvals that must be obtained, other than compliance with SEC rules and regulations and the declaration of effectiveness of the Registration Statement by the SEC, in connection with the distribution. Northrop Grumman has the right not to complete the spin-off if, at any time prior to the distribution, the board of directors of Northrop Grumman determines, in its sole discretion, that the spin-off is not in the best interests of Northrop Grumman or its stockholders, that a sale or other alternative is in the best interests of Northrop Grumman or its stockholders or that it is not advisable for HII to separate from Northrop Grumman. For more information, see “The Spin-Off—Conditions to the Spin-Off.”

Trading Market and Symbol

We have filed an application to list HII common stock on the NYSE under the ticker symbol “HII.” We anticipate that, at least two trading days prior to the record date, trading of shares of HII common stock will begin on a “when-issued” basis and will continue up to and including the distribution date, and we expect “regular-way” trading of HII common stock will begin the first trading day after the distribution date. We also anticipate that, at least two trading days prior to the record date, there will be two markets in Northrop Grumman common stock: a regular-way market on which shares of Northrop Grumman common stock will trade with an entitlement to shares of HII common stock to be distributed pursuant to the distribution, and an “ex-distribution” market on which shares of Northrop Grumman common stock will trade without an entitlement to shares of HII common stock. For more information, see “Trading Market.”

Tax Consequences

Northrop Grumman has received the IRS Ruling and will receive an opinion of counsel stating that Northrop Grumman, Northrop Grumman’s stockholders and HII will not recognize any taxable income, gain or loss for U.S. Federal income tax purposes as a result of the spin-off, including the internal reorganization, except with respect to any cash received by Northrop Grumman’s stockholders in lieu of fractional shares. For a more detailed description of the U.S. Federal income tax consequences of the spin-off, see “The Spin-Off—U.S. Federal Income Tax Consequences of the Spin-Off.”

Each stockholder is urged to consult his, her or its tax advisor as to the specific tax consequences of the spin-off to such stockholder, including the effect of any state, local or non-U.S. tax laws and of changes in applicable tax laws.
<table>
<thead>
<tr>
<th>Relationship with Northrop Grumman after the Spin-Off</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.”</td>
</tr>
</tbody>
</table>

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<td>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.”</td>
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<td>Computershare Trust Company, N.A.</td>
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<th>Risk Factors</th>
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<tbody>
<tr>
<td>We face both general and specific risks and uncertainties relating to our business, our relationship with Northrop Grumman and our being an independent, publicly owned company. We also are subject to risks relating to the spin-off. You should carefully read “Risk Factors” beginning on page 19 of this information statement.</td>
</tr>
</tbody>
</table>
Summary Historical and Unaudited Pro Forma Condensed Consolidated Financial Data

The following table presents the summary historical condensed consolidated financial data for NGSB and HII's unaudited pro forma condensed consolidated financial data. The consolidated financial data set forth below for the years ended December 31, 2010, 2009 and 2008 are derived from NGSB’s audited consolidated financial statements included elsewhere in this information statement.

The summary unaudited pro forma condensed consolidated financial data for the year ended December 31, 2010 have been prepared to reflect the spin-off, including: (i) the distribution of 48,492,792 shares of HII common stock by Northrop Grumman to its stockholders; (ii) the incurrence of $1,775 million of the HII Debt and the HII Credit Facility by HII and the making of the $1,429 million Contribution; (iii) adjustments for certain federal contract matters in accordance with the Separation and Distribution Agreement; (iv) adjustments for certain federal and state tax positions in accordance with the Tax Matters Agreement; (v) the cost of special long-term incentive stock grants, which are contingent upon completion of the spin-off, in the form of restricted stock rights for our Named Executive Officers, including our President, and other key employees; and (vi) the cost of modifying certain terms of existing long-term incentive stock plans to allow continued vesting for our participants. The unaudited pro forma condensed consolidated statement of operations data presented for the year ended December 31, 2010 assumes the spin-off occurred on January 1, 2010, the first day of fiscal year 2010. The unaudited pro forma condensed consolidated statement of financial position data assumes the spin-off occurred on December 31, 2010. The assumptions used and pro forma adjustments derived from such assumptions are based on currently available information and we believe such assumptions are reasonable under the circumstances.

The unaudited pro forma condensed consolidated financial statements are not necessarily indicative of our results of operations or financial condition had the distribution and our anticipated post-spin-off capital structure been completed on the dates assumed. Also, they may not reflect the results of operations or financial condition which would have resulted had we been operating as an independent, publicly owned company during such periods. In addition, they are not necessarily indicative of our future results of operations or financial condition.

You should read this summary financial data together with “Unaudited Pro Forma Condensed Consolidated Financial Statements,” “Capitalization,” “Selected Historical Consolidated Financial and Other Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and NGSB’s consolidated financial statements and accompanying notes included in this information statement.

<table>
<thead>
<tr>
<th>(Year ended) December 31</th>
<th>HII Pro Forma</th>
<th>HII 2010</th>
<th>NGSB 2009</th>
<th>NGSB 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in millions)</td>
<td>2010</td>
<td>2009</td>
<td>2008</td>
<td>2008</td>
</tr>
<tr>
<td>Sales and service revenues</td>
<td>$6,723</td>
<td>$6,723</td>
<td>$6,292</td>
<td>$6,189</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>2,490</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>255</td>
<td>248</td>
<td>211</td>
<td>(2,354)</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>79</td>
<td>135</td>
<td>124</td>
<td>(2,420)</td>
</tr>
<tr>
<td>Total assets</td>
<td>5,560</td>
<td>5,203</td>
<td>5,036</td>
<td>4,760</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>1,851</td>
<td>105</td>
<td>283</td>
<td>283</td>
</tr>
<tr>
<td>Total long-term obligations</td>
<td>3,294</td>
<td>1,559</td>
<td>1,645</td>
<td>1,761</td>
</tr>
<tr>
<td>Free cash flow(1)</td>
<td>98</td>
<td>168</td>
<td>(269)</td>
<td>121</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, plans to construct a production facility adjacent to the Newport News shipyard for the manufacture of heavy commercial nuclear power plant components.</td>
</tr>
<tr>
<td>CVN-65 USS Enterprise</td>
<td>Maintain and support the world’s first nuclear-powered aircraft carrier, the inactivation of which is expected to start in 2013.</td>
</tr>
<tr>
<td>CVN-68 Nimitz-class aircraft carriers</td>
<td>Refuel, maintain and repair the CVN-68 Nimitz-class aircraft carriers, which are the largest warships in the world. Each Nimitz-class carrier is designed for an approximately 50-year service life, with one mid-life refueling. Aircraft carriers are the centerpiece of America’s Naval forces. On any given day, aircraft carriers exercise the U.S. Navy core capabilities of power projection, forward presence, humanitarian assistance, deterrence, sea control and maritime security. The 10th and final Nimitz-class carrier constructed, CVN-77 USS George H.W. Bush, was commissioned in 2009.</td>
</tr>
<tr>
<td>CVN-78 Gerald R. Ford-class aircraft carriers</td>
<td>Design and construction for the CVN-21 program, which is the future aircraft carrier replacement program for CVN-65 USS Enterprise and CVN-68 Nimitz-class aircraft carriers. CVN-78 Gerald R. Ford (the first ship of the CVN-21 program) is currently under construction and is scheduled to be delivered in 2015. CVN-79 (unnamed) is under contract for engineering, advance construction and purchase of long-lead time components and material. CVN-78 Gerald R. Ford-class carriers are expected to be awarded every five years across the U.S. Navy’s 30-Year Plan. They will be the premier forward asset for crisis response and early decisive striking power in a major combat operation. The class brings improved warfighting capability, quality of life improvements for sailors and reduced acquisition and life cycle costs.</td>
</tr>
<tr>
<td>DDG-51 Arleigh Burke-class destroyers</td>
<td>Build guided missile destroyers designed for conducting anti-air, anti-submarine, anti-surface and strike operations. The Aegis-equipped DDG-51 Arleigh Burke-class destroyers are the U.S. Navy’s primary surface combatant, and have been constructed in variants, allowing technological advances during construction. The U.S. Navy has committed to restarting the DDG-51 program, and truncating construction of the DDG-1000 class of ships. The plan is for a total of 62 ships.</td>
</tr>
<tr>
<td>DDG-1000 Zumwalt-class destroyers</td>
<td>Design and build next-generation multi-mission surface combatants in conjunction with General Dynamics Bath Iron Works and construct the ships’ integrated composite deckhouses, as well as portions of the ships’ aft peripheral vertical launch systems. Developed under the DD(X) destroyer program, the DDG-1000 Zumwalt-class destroyer is the lead ship of a class tailored for land attack and littoral dominance with capabilities that defeat current and projected threats and improve battle force defense. In July 2008, the U.S. Navy announced its decision to truncate the DDG-1000 program at three ships and restart the construction of BMD-capable DDG-51s. We are constructing the composite superstructure of DDG-1000 Zumwalt and DDG-1001 Michael Monsoor and have submitted a proposal to construct the DDG-1002 Michael Monsoor.</td>
</tr>
</tbody>
</table>
Program Name | Program Description
--- | ---
1002 (unnamed) composite superstructure. | 
DoE | 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.

Inactivation | 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.

LHA-6 *America*-class amphibious assault ships | 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.

LHD-1 *Wasp*-class amphibious assault ships | 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.

LPD-17 *San Antonio*-class | 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 and LPD-27. A long lead time material contract is a contract that provides the contractor with the ability to begin ordering materials for a subsequent construction contract. These types of contracts are often used with major ship acquisitions due to the length of time between...
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<th>Program Name</th>
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<tr>
<td><strong>NSC-1 Legend-class National Security Cutter</strong></td>
<td>Design and build the U.S. Coast Guard’s National Security Cutters, the largest and most technically advanced class of cutter in the Coast Guard. The first three NSCs were procured through a limited liability company owned by us and Lockheed Martin. NSC-4 and future NSCs are expected to be ordered directly from us. The NSC is equipped to carry out maritime homeland security, maritime safety, protection of natural resources, maritime mobility and national defense missions. The plan is for a total of eight ships of which the first two ships, NSC-1 USCGC Bertholf and NSC-2 USCGC Waesche, have been delivered and NSC-3 Stratton is under construction. The construction contract for NSC-4 Hamilton was awarded in November 2010, and long-lead procurement is underway for NSC-5 (unnamed).</td>
</tr>
<tr>
<td><strong>Refueling and Complex Overhaul (RCOH)</strong></td>
<td>Perform refueling and complex overhaul (RCOH) of nuclear-powered aircraft carriers, which is required at the midpoint of their 50-year life cycle. CVN-71 USS 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, and have been awarded a planning contract for the RCOH of CVN-72 USS Abraham Lincoln.</td>
</tr>
<tr>
<td><strong>SSBN(X) Ohio-class Submarine Replacement Program</strong></td>
<td>Act, through an agreement with Electric Boat, as design subcontractor for the Ohio-class replacement boats. The U.S. Navy has committed to designing a replacement class for the aging Ohio-class nuclear ballistic submarines, which were first introduced into service in 1981. The SSBN(X) Ohio-class Submarine Replacement Program represents a new program opportunity for us. Electric Boat is expected to lead the program. Although the contract is not yet negotiated, we expect to share in the design effort and our experience and well-qualified workforce position us for a potential role in the construction effort. The Ohio-class includes 14 ballistic missile submarines (SSBN) and four cruise missile submarines (SSGN). The Ohio-class Submarine Replacement Program currently calls for 12 new ballistic missile submarines over a 15-year period for approximately $4 to $7 billion each. The first Ohio-class ballistic submarine is expected to be retired in 2029, meaning that the first replacement platform should be in commission by that time. The U.S. Navy has initiated the design process for this class of submarine, and we have begun design work as a subcontractor to Electric Boat. We cannot guarantee that we will continue to work on the SSBN(X) design with Electric Boat, and we can give no assurance regarding the final design concept chosen by the U.S. Navy or the amount of funding made available by Congress for the SSBN(X) Ohio-class Submarine Replacement Program. Construction is expected to begin in 2019 with the procurement of long-lead time materials in 2015.</td>
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| **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
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<th>Program Name</th>
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<td></td>
<td>provides for approximate equality of work allocated between the parties, we provide SSN-774 Virginia-class nuclear fast attack submarines. Under the teaming agreement, Electric Boat is the prime contractor to whom construction contracts have been awarded in blocks, and we are principal subcontractor. Block I was awarded in 1998 and consisted of four submarines, Block II was awarded in 2003 and consisted of six submarines, and Block III was awarded in 2008 and consisted of eight submarines. We and Electric Boat have delivered the first seven submarines of the class (all four submarines from Block I and three submarines from Block II), have another five submarines under construction (the remaining three submarines of Block II and the first two submarines of Block III) and have been contracted to deliver an additional six submarines (the remaining six submarines of Block III). Based on expected build rates, the last Block III SSN-774 Virginia-class submarine is scheduled for delivery in 2018. We are also investing in our facilities to support the increase in production rate from one to two SSN-774 Virginia-class submarines per year beginning in 2011.</td>
</tr>
</tbody>
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RISK FACTORS

You should carefully consider each of the following risks, which we believe are the principal risks that we face and of which we are currently aware, and all of the other information in this information statement. Some of the risks described below relate to our business, while others relate to the spin-off. Other risks relate principally to the securities markets and ownership of our common stock.

Should any of the following risks and uncertainties develop into actual events, our business, financial condition or results of operations could be materially and adversely affected, the trading price of our common stock could decline and you could lose all or part of your investment.

Risks Relating to Our Business

We face the following risks in connection with the general conditions and trends of the industry in which we operate:

We depend heavily on a single customer, the U.S. Government, for substantially all of our business, and changes affecting this customer's ability to do business with us could have a material adverse effect on our financial position, results of operations or cash flows.

Our business is primarily dependent upon the design, construction, repair, maintenance, fleet support and life cycle services of nuclear-powered ships, such as aircraft carriers and submarines, and non-nuclear ships, such as surface combatants and expeditionary warfare/amphibious assault ships for the U.S. Navy and coastal defense surface ships for the U.S. Coast Guard, as well as the overhaul and refueling of nuclear-powered ships for the U.S. Navy. Substantially all of our revenue during 2010 was derived from products and services ultimately sold to the U.S. Government. In addition, substantially all of our backlog was U.S. Government-related as of December 31, 2010. We are a supplier, either directly or as a subcontractor or team member, to the U.S. Government and its agencies. These contracts are subject to our customers’ political and budgetary constraints and processes, changes in customers’ short-range and long-range strategic plans, the timing of contract awards, significant changes in contract scheduling, intense contract and funding competition, difficulty in forecasting costs and schedules when bidding on developmental and highly sophisticated technical work, and delays in the timing of contract approval, as well as other risks such as contractor suspension or debarment in the event of certain violations of legal or regulatory requirements.

Contracts with the U.S. Government are subject to uncertain levels of funding, modification due to changes in customer priorities and potential termination.

We are directly dependent upon allocation of defense monies to the U.S. Navy and the U.S. Coast Guard. The funding of U.S. Government programs is subject to congressional budget authorization and appropriation processes. For certain programs, Congress appropriates funds on a fiscal year basis even though a program may be performed over several fiscal years. Consequently, programs may be partially funded initially and additional funds are committed only as Congress makes further appropriations. We cannot predict the extent to which total funding and/or funding for individual programs will be included, increased or reduced as part of the 2011 and subsequent budgets ultimately approved by Congress or will be included in the scope of separate supplemental appropriations. For example, the proposed 2011 defense budget includes funding to increase construction from one to two Virginia-class submarines. Currently the U.S. Government is operating under a continuing resolution that maintains defense funding at 2010 appropriation levels. If the proposed 2011 defense budget is not approved and funding continues at last year’s level, funding of the second Virginia-class submarine construction contract in 2011 could be delayed or eliminated. The impact, severity and duration of the current U.S. economic situation, the sweeping economic plans adopted by the U.S. Government, and pressures on the federal budget could also adversely affect the total funding and/or funding for individual programs. In the event that appropriations for any of our programs becomes unavailable, or is reduced or delayed, our contract or subcontract under such program may be terminated or adjusted by the U.S. Government, which could have a material adverse effect on our future sales under such program, and on our financial position, results of operations or cash flows.

We also cannot predict the impact of potential changes in priorities due to military transformation and planning and/or the nature of war-related activity on existing, follow-on or replacement programs. A shift of government priorities to programs in which we do not participate and/or reductions in funding for or the termination of programs in which we do participate, could have a material adverse effect on our financial position, results of operations or cash flows.

In addition, the U.S. Government generally has the ability to terminate contracts, in whole or in part, with little to no prior notice, for convenience or for default based on performance. In the event of termination for the U.S. Government’s convenience, contractors are normally protected by provisions covering reimbursement for costs incurred on the contracts and profit related to those costs but not the anticipated profit that would have been earned had the contract been completed. However, such a termination could result in the cancelation of future work on that program. Termination resulting from our
default can expose us to liability and have a material adverse effect on our financial condition and our ability to compete for contracts.

Contract cost growth on fixed price and other contracts that cannot be justified as an increase in contract value due from customers exposes us to reduced profitability and the potential loss of future business.

Our operating income is adversely affected when we incur certain contract costs or certain increases in contract costs that cannot be billed to customers. This cost growth can occur if estimates to complete increase due to technical challenges, manufacturing difficulties or delays, or workforce-related issues, or if initial estimates used for calculating the contract cost were inaccurate. The cost estimation process requires significant judgment and expertise. Reasons for cost growth may include unavailability or reduced productivity of labor, the nature and complexity of the work to be performed, the timelines and availability of materials, major subcontractor performance and quality of their products, the effect of any delays in performance, availability and timing of funding from the customer, natural disasters and the inability to recover any claims included in the estimates to complete. For example, lack of progress in LHD-8 on-board testing preparatory to sea trials prompted us to undertake a comprehensive review of the program, including a detailed physical audit of the ship, resulting in a pre-tax charge of $272 million in the first quarter of 2008 for anticipated cost growth related to the identified need for substantial re-work on the ship. In addition to the LHD-8 charge, an additional $54 million of charges was recognized in the first quarter of 2008, primarily for schedule impacts on other ships and impairment of purchased intangibles at the Gulf Coast shipyards. Subsequent to recognizing the LHD-8 charge, we completed our contracts under the contract at costs that were lower than the amounts previously anticipated primarily due to efficiencies from improved operating practices, risk retirement and increased escalation recovery. As a result, $63 million of the loss provision was reversed in 2008, and an additional $54 million was reversed in 2009 upon delivery of the ship. In addition, shortly after Hurricane Katrina, we entered into a fixed price incentive contract for LPD-22 through LPD-25, which, in hindsight, reflected aggressive cost targets resulting in estimated costs today that are greater than were included in our bid. Therefore, construction under the LPD-22 through LPD-25 contract has been adversely impacted by operating performance factors, resulting in unfavorable cost growth that led to pre-tax charges totaling $171 million in 2009. A significant change in cost estimates on one or more programs could have a material adverse effect on our financial position, results of operations or cash flows.

Our principal U.S. Government business is currently being performed under firm fixed price (“FFP”), fixed price incentive (“FPI”), cost plus incentive fee (“CPIF”), cost plus fixed fee (“CPFF”) and cost plus award fee (“CPAF”) contracts. The risk to us of not being reimbursed for some of our costs varies with the type of contract. Under FFP contracts, we retain all costs savings on completed contracts but are liable for the full amount of all expenditures in excess of the contract price. CPIF 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 CPIF contracts, if long-term, generally provide for the U.S. Government to pay escalation based on published indices relating to the shipbuilding industry. Under CPFF, CPIF and CPAF contracts, we are generally only required to perform the contract to the extent the U.S. Government makes funds available, and we recover all allowable costs incurred in the performance of the contract. Under CPFF contracts, our profit is determined by a contractually specified formula that essentially compares allowable incurred costs to the contract target cost. In some instances, the contract fee may be affected by a maximum or minimum fee percentage set for the contract. Under CPFF contracts, the fee is the same without regard to the amount of cost incurred. Under CPAF contracts, the fee is determined in accordance with the award fee provisions in the contract. In 2010, approximately 42% of Newport News’ revenues were CPIF, which primarily included aircraft carrier construction and RCOH. Twenty-six percent of Newport News’ 2010 revenues were FPI contracts, mainly consisting of submarine construction, 29% of revenues were CPFF contracts, 2% were CPAF and 1% were FFP. Approximately 74% of Gulf Coast’s revenues were FPI, 13% were CPAF, 6% were CPFF, 5% were CPIF and 2% were FFP.

Our earnings and margins depend, in part, on our ability to perform under contracts and on subcontractor performance as well as raw material and component availability and pricing.

When agreeing to contractual terms, we make assumptions and projections about future conditions and events, many of which extend over long periods. These projections assess the productivity and availability of labor, the complexity of the work to be performed, the cost and availability of materials, the impact of delayed performance and the timing of product deliveries. We cannot guarantee that there will not be significant variances from our assumptions, delays in our performance and the timing of our product deliveries. If there is a significant change in one or more of these circumstances or estimates, or if we face unanticipated contract costs, the profitability of one or more of these contracts may be adversely affected.

20
We also rely on other companies to provide raw materials and major components for our products and rely on subcontractors to produce hardware elements and sub-assemblies and perform some of the services that we provide to our customers. Disruptions or performance problems caused by our subcontractors and vendors could have an adverse effect on our ability to meet our commitments to customers. Our ability to perform our obligations as a prime contractor could be adversely affected if one or more of the vendors or subcontractors are unable to provide the agreed-upon products or materials or perform the agreed-upon services in a timely and cost-effective manner.

All major materials, parts, and components for our products are currently available in adequate supply from domestic and/or foreign sources. Through the cost escalation provisions contained in some of our U.S. Government contracts, we may be protected from increases in material costs to the extent that the increases in our costs are in line with industry indices. However, the difference in basis between our actual material costs and these indices may expose us to cost uncertainty even with these provisions. The most significant raw material we require is steel. A significant delay in supply deliveries of our key raw materials required in our production processes could have a material adverse effect on our financial position, results of operations or cash flows.

In connection with our government contracts, we are required to procure certain materials and component parts from supply sources approved by the U.S. Government. Due largely to the consolidation of the defense industry, there are currently several components for which there is only one supplier. The inability of a sole source supplier to meet our needs could have a material adverse effect on our financial position, results of operations or cash flows.

**Our results of operations depend on the award of new contracts.**

The prospects of U.S. shipyards, including ours, can be materially affected by their success in securing significant U.S. Navy contract awards. In February 2010, the Department of Defense (the “DoD”) issued its Report of the Quadrennial Defense Review (the “QDR”), a legislatively mandated review of military strategy and priorities that shapes defense funding over the ensuing four years. The QDR emphasized the related challenge of rebuilding readiness at a time when the DoD is also pursuing growth, modernization and transformation of its forces and capabilities, reiterated the need for preparedness across the range of military operations, and prioritized continued investment in warfighting capabilities. The U.S. Navy relies on the force requirements set forth in the QDR to design its 30-Year Plan. The QDR report describes some of the tradeoffs that the DoD's leaders have identified to enable the rebalancing of U.S. military capabilities. The President’s 2011 budget request proposes reductions to certain lower-priority programs, including some in which we participate or for which we expect to compete, so that more pressing needs can be addressed, both within that budget and those of subsequent years. The U.S. Navy has decided to delay procurement of CVN-79 (unnamed) from fiscal year 2012 to 2013, cancel the new-design CG(X) procurement program and truncate the DDG-1000 Zumwalt-class destroyers program to three ships. We believe that our shipbuilding programs are a high priority for national defense, but under budgetary pressures, one or more of our programs may be reduced, extended or terminated by our U.S. Government customers. Specific actions already taken that could negatively affect us include the deferral of production of new maritime prepositioning ships, the reduction in the number of planned large surface combatants and the increase of the procurement interval for aircraft carriers to five years.

In February 2010, the U.S. Navy released its 30-Year Plan, in which the U.S. Navy used the goals and strategies set forth in the QDR to identify the naval capabilities projected to meet the defense challenges faced by the nation in the next three decades. The 30-Year Plan uses, as a baseline, a 313-ship force that was first proposed by the U.S. Navy to Congress in 2006 to design a battle inventory to provide global reach; persistent presence; and strategic, operational and tactical effects expected of naval forces within reasonable levels of funding. Any significant reduction from the 30-Year Plan could have a material adverse effect on our financial position, results of operations or cash flows.

Although we believe that, as the only company currently capable of building the U.S. Navy’s nuclear-powered aircraft carriers, we are in a strong competitive position to be awarded any contracts for building new nuclear-powered aircraft carriers, we cannot give any assurances that we will receive any award, that aircraft carrier construction projects will not be delayed or that aircraft carrier construction projects will be funded by Congress. Furthermore, in response to the need for cheaper alternatives and the proliferation of “smart weapons,” it is possible that future strategy reassessments by the DoD may result in a decreased need for aircraft carriers. We are currently performing design engineering and advanced construction and procuring long lead time materials for the next generation of aircraft carriers. For the year ended December 31, 2010, aircraft carrier construction and design engineering accounted for approximately 21% of our consolidated revenue. Aircraft carrier programs and other government projects can be delayed, and such delays typically cause loss of income during the period of delay and retraining costs when work resumes. Any significant reduction in the level of government appropriations for aircraft carrier or other shipbuilding programs, or a significant delay of such appropriations, would have a material adverse effect on our financial position, results of operations or cash flows.

Through a teaming agreement with Electric Boat that provides for approximate equality of work allocated between the parties, we provide SSN-774 Virginia-class nuclear fast attack submarines. Under the teaming agreement, Electric Boat
is the prime contractor to whom construction contracts have been awarded in blocks, and we are principal subcontractor. Block I was awarded in 1998 and consisted of four submarines, Block II was awarded in 2003 and consisted of six submarines, and Block III was awarded in 2008 and consisted of eight submarines. We and Electric Boat have delivered the first seven submarines of the class (all four submarines from Block I and three submarines from Block II), have another five submarines under construction (the remaining three submarines of Block II and the first two submarines of Block III) and have been contracted to deliver an additional six submarines (the remaining six submarines of Block III). Based on expected build rates, the last Block III SSN-774 Virginia-class submarine is scheduled for delivery in 2018. We are also investing in our facilities to support the increase in production rate from one to two SSN-774 Virginia-class submarines per year beginning in 2011. The team has a current backlog of 11 SSN-774 Virginia-class submarines, but there can be no assurance that the SSN-774 Virginia-class submarine program will continue to be funded or proceed on schedule. Additionally, the U.S. Navy has initiated the design process for the aging Ohio-class nuclear ballistic submarines, which were first introduced into service in 1981. The SSBN(X) Ohio-class Submarine Replacement Program represents a new program opportunity for us. Electric Boat is expected to lead the program. Although the contract is not yet negotiated, we expect to share in the design effort and our experience and well-qualified workforce position us for a potential role in the construction effort. The Ohio-class includes 14 ballistic missile submarines (SSBN) and four cruise missile submarines (SSGN). The Ohio-class Submarine Replacement Program currently calls for 12 new ballistic missile submarines over a 15-year period for approximately $4 to $7 billion each. The first Ohio-class ballistic submarine is expected to be retired in 2029, meaning that the first replacement platform should be in commission by that time. We have begun design work as a subcontractor to Electric Boat. We cannot guarantee that we will continue to work on the SSBN(X) design with Electric Boat, and we can give no assurance regarding the final design concept chosen by the U.S. Navy or the amount of funding made available by Congress for the SSBN(X) Ohio-class Submarine Replacement Program. Construction is expected to begin in 2019 with the procurement of long-lead time materials in 2015.

With respect to the federal nuclear market, we are a minority member of a joint venture that manages and operates the Savannah River Site for the DoE in South Carolina. We are also a minority member of a joint venture that was recently awarded the contract to manage and operate DoE’s Advanced Mixed Waste Project in Idaho, which was subsequently protested and is under re-evaluation by the DoE. We are also preparing to bid (also with others in an alliance) on several other DoE site management contracts. Competition for these types of contracts and projects is intense and there can be no assurance that we will continue to receive contracts or be successful with our initiatives in these areas.

Additionally, the U.S. Navy has stated that it currently expects that LPD-17 San Antonio-class amphibious assault transport dock ships will be a mainstay of the U.S. Navy over the next decade, replacing a number of vessels nearing the end of their useful lives. Our U.S. Gulf Coast shipyards are the sole builders of amphibious assault ships (LHA, LHD and LPD). Despite Congress’s recent authorization for the funding of the 10th ship in the class, we cannot guarantee that the DoD and Congress will fund the 10 or 11 planned LPD-17 San Antonio-class vessels. In the second quarter of 2009, we became aware of quality issues relating to certain pipe welds on our LPD-17 class of ships under production in the Gulf Coast as well as those that had previously been delivered. In light of these recent quality issues, we may incur additional costs to maintain our position as the exclusive provider for these ships. See “—Many of our contracts contain performance obligations that require innovative design capabilities, are technologically complex, require manufacturing expertise or are dependent upon factors not wholly within our control and failure to meet these obligations could adversely affect our profitability and future prospects.” Any failure to fund such vessels, or, even if funded, to award the construction of such vessels to us, could have a material adverse effect on our financial position, results of operations or cash flows.

The Department of Defense has announced plans for significant changes to its business practices that could have a material effect on its overall procurement process and adversely impact our current programs and potential new awards.

Last year, the DoD announced certain initiatives designed to gain efficiencies, refocus priorities and enhance business practices used by the DoD, including those used to procure goods and services from defense contractors. These initiatives are organized in five major areas: Affordability and Cost Growth; Productivity and Innovation; Competition; Services Acquisition; and Processes and Bureaucracy. Our understanding is that these initiatives are intended to drive down costs and enhance efficiencies and productivity. As described by a senior DoD official, they are intended to enable the DoD to do more with less.

These initiatives are expected to impact the contracting environment in which we do business with our DoD customers as well as others in the industry. We are taking steps internally to assess how we can respond to and support these changes, including how we can further reduce costs and increase productivity, modify how we respond to proposals and revise our areas of focus. Depending on how these initiatives are implemented, they could have an impact on current programs as well as new business opportunities. Changes to the DoD acquisition system and contracting models could affect whether and, if so, how we pursue certain opportunities and the terms under which we are able to do so. These initiatives are still fairly new; we expect to understand better the specific impacts to our business as the DoD implements them further.

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Our future success depends, in part, on our ability to deliver our products and services at an affordable life cycle cost, requiring us to have and maintain technologies, facilities, equipment and a qualified workforce to meet the needs of current and future customers.

Shipbuilding is a long cycle business and our success depends on quality, cost and schedule performance on our contracts. We must have and sustain the people, technologies, facilities, equipment and financial capacity needed to deliver our products and services at an affordable life cycle cost. If we fail to maintain our competitive position, we could lose a significant amount of future business to our competitors, which would have a material adverse effect on our financial position, results of operations or cash flows, or our ability to maintain market share.

Operating results are heavily dependent upon our ability to attract and retain a sufficient number of engineers and skilled workers, at competitive costs, with requisite skills and/or security clearances. Additionally, it is important that we have stable future revenues and costs in order to maintain a qualified workforce. The necessary nuclear expertise required and the challenges of hiring and training a qualified workforce can be a limitation on our business. If qualified personnel become scarce, we could experience higher labor, recruiting or training costs in order to attract and retain such employees or could experience difficulty in performing under our contracts or pursuing new business if the needs for such employees are unmet.

**Competition within our markets and an increase in bid protests may reduce our revenues and market share.**

We believe the programs and number of ship constructions, refuelings and overhauls and inactivations currently planned by the U.S. Navy over the next several years will remain relatively steady; however, projected U.S. defense spending levels for periods beyond the near term are uncertain and difficult to predict. While the U.S. Navy’s current 30-Year Plan is based on an optimized 313-ship fleet, the plan itself anticipates procurement for only 276 ships during the 30-year period. Changes in U.S. defense spending may limit certain future market opportunities. If we are unable to continue to compete successfully against our current or future competitors, we may experience declines in revenues and market share which could negatively impact our results of operations and financial condition.

For example, in the event the U.S. Navy determines it is in its best interest to compete the DDG-51 class of ships and we are unable to win at least one out of three awarded ships, we would experience not only a loss of revenues but such an event could have a material impact on ships in production as well as on our ability to compete and construct affordable ships in the future. Such an event could also have a material adverse effect on our financial position, results of operations or cash flows.

The reduced level of shipbuilding activity by the U.S. Navy, as demonstrated by the reduction in fleet size from 566 ships in 1989 to 286 ships as of January 25, 2011, has resulted in workforce reductions in the industry, but little infrastructure consolidation. The general result has been fewer contracts awarded to the same fixed number of shipyards. There are principally six major private U.S. shipyards, three of which are our shipyards, plus numerous other smaller private shipyards that compete for contracts to construct, overhaul, repair or convert naval vessels. Northrop Grumman recently announced its intention to initiate a wind down and eventual discontinuance of its construction activities at Avondale, our Louisiana shipyard, in 2013 and two Louisiana components facilities by 2013 and consolidate all Gulf Coast construction into our Mississippi facilities. We are also exploring the potential for alternative uses of the Avondale facility by new owners, including alternative opportunities for the workforce there. We expect that process to take some time. After this wind down, we will have two primary shipyards. Competition for future programs is expected to be intense. Additionally, our products, such as aircraft carriers, submarines and other ships, compete with each other, as well as with other defense products and services, for defense monies. We cannot guarantee that there will not be some rationalization of shipyard capacity in the United States and that we will not be subject to shipyard consolidation or closures as a result of the reduced level of U.S. Navy spending on the construction of its naval fleet. Any further reduction could have a significant effect on our business, financial condition or results of operations.

Although we are the only company currently capable of refueling nuclear-powered carriers, we also believe that two existing government-owned shipyards, one in the U.S. Pacific Northwest and the other in the U.S. Mid-Atlantic, could refuel nuclear-powered carriers if substantial investments in facilities, personnel and training were made. U.S. Government-owned shipyards are presently involved in refueling, overhaul and inactivation of SSN-688 Los Angeles-class submarines and are capable of repairing and overhauling non-nuclear ships.

We also compete in the engineering, planning and design market with other companies that provide engineering support services. There can be no assurance that we will be the successful bidder on future U.S. Navy engineering work, including aircraft carrier research and development, submarine design and future surface combatant and amphibious assault programs.

The competitive environment is also affected by bid protests from unsuccessful bidders on new program awards. Bid protests could result in the award decision being overturned, requiring a re-bid of the contract. Even where a bid protest
does not result in a re-bid, the resolution typically extends the time until the contract activity can begin, which may reduce our earnings in the period in which the contract would otherwise have commenced.

As a U.S. Government contractor, we are subject to a number of regulations and could be adversely affected by changes in regulations or any negative findings from a U.S. Government audit or investigation.

U.S. Government contractors must comply with many significant regulations, including procurement, nuclear and other requirements. These regulations and requirements, although customary in government contracts, increase our performance and compliance costs. Our nuclear operations are subject to an enhanced regulatory environment, which mandates increased performance and compliance efforts and costs. If any such regulations or requirements change, our costs of complying with them could increase and reduce our margins.

We operate in a highly regulated environment and are routinely audited and reviewed by the U.S. Government and its various agencies such as the U.S. Navy’s Supervisor of Shipbuilding, the Defense Contract Audit Agency (“DCAA”) and the Defense Contract Management Agency. These agencies review our performance under our contracts, our cost structure and our compliance with applicable laws, regulations, and standards, as well as the adequacy of, and our compliance with, our internal control systems and policies. Systems that are subject to review include, but are not limited to, our accounting systems, purchasing systems, billing systems, property management and control systems, cost estimating systems, compensation systems and management information systems. Any costs found to be unallowable or improperly allocated to a specific contract will not be reimbursed or must be refunded if previously reimbursed. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspension, or prohibition from doing business with the U.S. Government. Whether or not illegal activities are alleged, the U.S. Government also has the ability to decrease or withhold certain payments when it deems systems subject to its review to be inadequate. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us.

As with other government contractors, the U.S. Government has, from time to time, recommended that certain of our contract prices be reduced, or that costs allocated to our contracts be disallowed. Some of these recommendations involve substantial amounts. In the past, as a result of such audits and other investigations and inquiries, we have on occasion made minor adjustments to our contract prices and the costs allocated to our government contracts. We cannot guarantee that such audits, investigations and inquiries will not result in reductions of our contract prices in the future.

We are also, from time to time, subject to U.S. Government investigations relating to our operations, and we are subject to or are expected to perform in compliance with a vast array of federal laws, including but not limited to the Truth in Negotiations Act, the False Claims Act, Procurement Integrity Act, Cost Accounting Standards, the International Traffic in Arms Regulations promulgated under the Arms Export Control Act, the Close the Contractor Fraud Loophole Act and the Foreign Corrupt Practices Act. If we are convicted or otherwise found to have violated the law, or are found not to have acted responsibly as defined by the law, we may be subject to reductions of the value of contracts, contract modifications or termination and the assessment of penalties and fines, compensatory or treble damages, which could have a material adverse effect on our financial position, results of operations or cash flows. Such findings or convictions could also result in suspension or debarment from government contracting. Given our dependence on government contracting, suspension or debarment could have a material adverse effect on our financial position, results of operations or cash flows.

Many of our contracts contain performance obligations that require innovative design capabilities, are technologically complex, require manufacturing expertise or are dependent upon factors not wholly within our control and failure to meet these obligations could adversely affect our profitability and future prospects.

We design, develop and manufacture products and services applied by our customers in a variety of environments. Problems and delays in development or delivery of subcontractor components or services as a result of issues with respect to design, technology, licensing and patent rights, labor, learning curve assumptions or materials and components could prevent us from achieving contractual requirements.

First-in-class ships, also known as lead ships, usually have new technology that is either supplied by the U.S. Navy, us or other contractors. Problems in developing these new technologies or design changes later in the construction process could lead to delays in maintaining the design schedule needed for construction. The risk associated with new technology or mid-construction design changes could both increase the cost of a ship and delay delivery. For example, the new CVN-78 Gerald R. Ford-class has many new technologies with several of them still in development. Those technologies include but are not limited to EMALS (the electromagnetic aircraft launch system), AAG (the advanced arresting gear) and DBR (the dual band radar). All three of these are being developed concurrently with the ship under construction. Late delivery of information could drive inefficiencies in the construction process, increase cost and put the delivery schedule at risk, and could adversely affect our profitability and future prospects.
In addition, our products cannot be tested and proven in all situations and are otherwise subject to unforeseen problems. Examples of unforeseen problems that could negatively affect revenue and profitability include premature failure of products that cannot be accessed for repair or replacement, problems with quality or workmanship and unplanned degradation of product performance. These failures could result, either directly or indirectly, in loss of life or property. Among the factors that may affect revenue and profits could be unforeseen costs and expenses not covered by insurance or indemnification from the customer, diversion of management focus in responding to unforeseen problems, loss of follow-on work and, in the case of certain contracts, repayment to the government customer of contract cost and fee payments we previously received.

In 2009, we received notice of an investigation regarding work performed by our Gulf Coast shipyards on the LPD-17 San Antonio-class ships. While the investigation did not result in any fraud or willful misconduct being alleged, in response to the concerns regarding the quality of our products, in 2009, our Gulf Coast shipyards began implementation of a new management approach focused on better organizing and managing the construction of the ships we build. There can be no assurance that this approach will deliver high quality products in a safe, timely and cost-effective manner as intended, and there may be difficulties related to its implementation. We have also encountered various quality issues on our aircraft carrier construction and overhaul programs and our SSN-774 Virginia-class submarine construction program at our Newport News location. These include matters related to filler metal used in pipe welds identified in 2007, and in 2009, issues associated with non-nuclear weld inspection and the installation of weapons handling equipment on certain submarines. We may discover additional quality issues related to our products requiring analysis and corrective action in the future.

In addition, we have experienced several quality issues in the Gulf Coast related to our LPD-17 class of ships. In the second quarter of 2009, as a result of a review of the design, engineering and production processes undertaken as a result of leaks discovered in the LPD-17 USS San Antonio’s lube oil system, we became aware of quality issues relating to certain pipe welds on ships under production in the Gulf Coast as well as those that had previously been delivered. Since that discovery, we have been working with the customer to determine the nature and extent of the pipe weld issue and its possible impact on related shipboard systems. This effort has resulted in the preparation of a technical analysis of the problem, additional inspections on the ships, a rework plan for ships previously delivered and in various stages of production, and modifications to the work plans for ships in production. Although not fully resolved with the U.S. Navy, we believe that the incremental costs associated with the anticipated resolution of these matters have been appropriately reflected in our financial statements. In the fourth quarter of 2009, certain bearing wear and debris were found in the lubrication system of the main propulsion diesel engines ("MPDE") installed on LPD-21. We are participating with the U.S. Navy and other industry participants involved with the MPDEs in a review panel to examine the MPDE lubrication system’s design, construction, operation and maintenance for the LPD-17 class of ships. To date, the review has identified several potential system improvements for increasing the system reliability and certain changes are being implemented on ships under construction at this time. We continue to work in partnership to investigate and identify any additional corrective actions to address quality issues and will implement appropriate corrective actions consistent with our contractual and legal obligations. The U.S. Navy has requested that a special MPDE flush procedure be used on LPDs 22 through 25 under construction at our Gulf Coast facilities. We have informed the U.S. Navy of our position that should they direct us to use this new flush procedure, we believe such direction would be a change to the contracts for all LPDs under construction, and that such a change would entitle us to an equitable adjustment to cover the cost and schedule impacts. However, we cannot give assurance that the U.S. Navy will agree that any such direction would constitute a contract change.

We cannot make assurances that potential undiscovered issues would not have a material adverse effect on our financial position, results of operations or cash flows in the future. See “—Our results of operations depend on the award of new contracts.”

**We may not realize the anticipated benefits related to the wind down of our construction activities at Avondale, our Louisiana shipyard, and two Louisiana components facilities and the consolidation of all Gulf Coast construction into our Mississippi facilities.**

In July 2010, Northrop Grumman announced its intention to wind down our construction activities at Avondale, our Louisiana shipyard, in 2013 and two Louisiana components facilities by 2013, after completing LPD-17 San Antonio-class ships currently under construction, and consolidate all Gulf Coast construction into our Mississippi facilities. Future LPD-class ships will be built in a single production line at our Pascagoula, Mississippi facility. The consolidation is intended to reduce costs, increase efficiency and address shipbuilding overcapacity. We are also exploring the potential for alternative uses of the Avondale facility by new owners, including alternative opportunities for the workforce there. We expect that process to take some time. We cannot provide any assurances that consolidation of shipbuilding activities in our Pascagoula and Gulfport facilities will result in our realization of benefits from serial production at those facilities. In connection with the increased utilization of our employees and facilities in our Pascagoula shipyard, we may encounter difficulties in
adhering to back-to-back production schedules. An inability to adhere to production schedules could have an adverse effect on our ability to timely perform under our contracts and to obtain new contracts in the future. Furthermore, because our workforce will be located primarily in two locations, we may not be able to attract and retain a sufficient number of skilled and trained employees to perform the increased workload in Pascagoula and Gulfport. Any failure to attract and retain the necessary workforce, or to effectively manage and control third-party contractors, could adversely affect our ability to perform under our contracts and could have a material adverse effect on our financial position, results of operations or cash flows. Additionally, due to the consolidation, we expect higher costs to complete ships currently under construction in Avondale due to anticipated reductions in productivity, and have increased the estimates to complete for LPDs 23 and 25 by approximately $210 million, which caused us to recognize a $113 million pre-tax charge to second quarter 2010 operating income.

In addition, we anticipate that we will incur substantial restructuring-related costs and asset write-downs currently estimated at $310 million related to the wind down of our operations at Avondale. We have assumed that substantially all of the restructuring expenses associated with the wind down of those operations will be recoverable and amortized as future allowable costs over five years based upon applicable government regulations governing internal restructuring activities and/or based upon other Federal Acquisition Regulation (“FAR”) allowable contract cost provisions. In a preliminary assessment of our proposed treatment of the wind down costs, the U.S. Navy noted that it has initial concerns regarding the allowability of selected elements of our restructuring proposal. The DCAA, a DoD agency, prepared an initial audit report on our cost proposal for the restructuring and shutdown related costs, in which it stated that, in general, the proposal was not adequately supported in order for it to reach a conclusion. The DCAA also questioned about $25 million (approximately 8%) of the costs submitted. The DCAA stated that it could not reach a final conclusion on the cost submission due to the potential spin-off transaction. Accordingly, the DCAA did not accept the cost proposal as submitted, and we intend to resubmit our proposal to address the concerns express by DCAA. Should these costs be further challenged by the U.S. Navy, it could create uncertainty as to the timing, allocation and eventual allowability of the restructuring costs related to the wind down of the Avondale facility. We do not have an agreement with our customer in place regarding the government contract accounting and pricing treatment of these costs. The actual restructuring expenses related to the wind down may be greater than our current estimate and any inability to recover such costs could result in a material adverse effect on our financial position, results of operations or cash flows.

We use estimates when accounting for contracts. Changes in estimates could affect our profitability and our overall financial position.

Contract accounting requires judgment relative to assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenues and costs at completion is complicated and subject to many variables. For new programs, we estimate, negotiate and contract for construction on ships that are not completely designed. Therefore, assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues for these ships is subject to the variability of the final ship design and evolving scope of work. For all ships, assumptions have to be made regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials. Similarly, assumptions have to be made regarding the future impact of our efficiency initiatives and cost reduction efforts. Incentives, awards or penalties related to performance on contracts are considered in estimating revenue and profit rates, and are recorded when there is sufficient information to assess anticipated performance.

Because of the significance of the judgment and estimation processes described above, it is possible that materially different amounts could be obtained if different assumptions were used or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may have a material adverse effect upon future period financial reporting and performance. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies.”

Our business is subject to disruption caused by natural disasters, environmental disasters and other factors that could have a material adverse effect on our financial position, results of operations or cash flows.

We have significant operations located in regions of the United States that have been and may be exposed to damaging storms, such as hurricanes, and environmental disasters, such as oil spills. Although preventative measures may help to mitigate damage, the damage and disruption resulting from natural and environmental disasters may be significant. Should insurance or other risk transfer mechanisms be unavailable or insufficient to recover all costs, we could experience a material adverse effect on our financial position, results of operations or cash flows. See “—Our insurance coverage may be inadequate to cover all of our significant risks or our insurers may deny coverage of material losses we incur, which could adversely affect our profitability and overall financial position.”

Our suppliers and subcontractors are also subject to natural and environmental disasters that could affect their ability to deliver or perform under a contract. Performance failures by our subcontractors due to natural or environmental disasters
may adversely affect our ability to perform our obligations on the prime contract, which could reduce our profitability due to damages or other costs that may not be fully recoverable from the subcontractor or from the customer or our insurers and could result in a termination of the prime contract and have an adverse effect on our ability to compete for future contracts.

Natural disasters can also disrupt our workforce, electrical and other power distribution networks, including computer and internet operation and accessibility, and the critical industrial infrastructure needed for normal business operations. These disruptions could cause adverse effects on our profitability and performance. Environmental disasters, particularly oil spills in waterways and bodies of water used for the transport and testing of our ships, can disrupt the timing of our performance under our contracts with the U.S. Navy and the U.S. Coast Guard.

Our insurance coverage may be inadequate to cover all of our significant risks or our insurers may deny coverage of material losses we incur, which could adversely affect our profitability and overall financial position.

We endeavor to identify and obtain, in established markets, insurance agreements to cover significant risks and liabilities (including, among others, natural disasters, product liability and business interruption). Not every risk or liability can be protected by insurance, and, for insurable risks, the limits of coverage reasonably obtainable in the market may not be sufficient to cover all actual losses or liabilities incurred, including, for example, a catastrophic hurricane claim. In some, but not all, circumstances, we may receive indemnification from the U.S. Government. Because of the limitations in overall available coverage referred to above, we may have to bear substantial costs for uninsured losses that could have a material adverse effect on our financial position, results of operations or cash flows. Additionally, disputes with insurance carriers over coverage may affect the timing of cash flows and, if litigation with the carrier becomes necessary, an outcome unfavorable to us may have a material adverse effect on our financial position, results of operations or cash flows.

We are pursuing legal action against an insurance provider, Factory Mutual Insurance Company ("FM Global"), arising out of a disagreement concerning the coverage of certain losses related to Hurricane Katrina (see "Notes to Consolidated Financial Statements—Note 15"). Legal action was commenced against FM Global on November 4, 2005, which is now pending in the U.S. District Court for the Central District of California, Western Division. In August 2007, the District Court issued an order finding that the excess insurance policy provided coverage for Katrina-related losses. FM Global appealed the District Court’s order and on August 14, 2008, the U.S. Court of Appeals for the Ninth Circuit reversed the earlier summary judgment order in favor of Northrop Grumman’s interest, holding that the FM Global excess policy unambiguously excludes damage from the storm surge caused by Hurricane Katrina under its "Flood" exclusion. The Ninth Circuit remanded the case to the District Court to determine whether the California efficient proximate cause doctrine affords coverage sought by the company under the policy even if the Flood exclusion of the policy is unambiguous. On April 2, 2009, the Ninth Circuit denied Northrop Grumman’s Petition for Rehearing and remanded the case to the District Court. On June 10, 2009, Northrop Grumman filed a motion seeking leave of court to file a complaint adding Aon Risk Services, Inc. of Southern California ("Aon") as a defendant. On July 1, 2009, FM Global filed a motion for partial summary judgment seeking a determination that the California efficient proximate cause doctrine is not applicable or that it affords no coverage under the policy. On August 26, 2010, the District Court denied Northrop Grumman’s motion to add Aon as a defendant to the case pending in federal court, finding that Northrop Grumman has a viable option to bring suit against Aon in state court. Also on August 26, the District Court granted FM Global’s motion for summary judgment based upon California’s doctrine of efficient proximate cause, and denied FM Global’s motion for summary judgment based upon breach of contract, finding that triable issues of fact remained as to whether and to what extent we sustained wind damage apart from the storm surge that inundated our Pascagoula facility. The District Court has scheduled trial on the merits for April 3, 2012. On January 27, 2011, Northrop Grumman filed an action against Aon Insurance Services West, Inc., formerly known as Aon Risk Services, Inc. of Southern California, in Superior Court in California alleging breach of contract, professional negligence, and negligent misrepresentation. Based on the current status of the litigation, no assurances can be made as to the ultimate outcome of these matters.

During 2008, notification from Munich-American Risk Partners ("Munich Re"), the only remaining insurer within the primary layer of insurance coverage with which a resolution has not been reached, was received noting that it will pursue arbitration proceedings against Northrop Grumman related to approximately $19 million owed by Munich Re to Northrop Grumman Risk Management Inc. ("NGRMI"), a wholly owned subsidiary of Northrop Grumman, for certain losses related to Hurricane Katrina. An arbitration was later invoked by Munich Re in the United Kingdom under the reinsurance contract. Northrop Grumman was also notified that Munich Re is seeking reimbursement of approximately $44 million of funds previously advanced to NGRMI for payment of claim losses of which Munich Re provided reinsurance protection to NGRMI pursuant to an executed reinsurance contract, and $6 million of adjustment expenses. The arbitral panel has set a hearing for November 14, 2011. We believe that NGRMI is entitled to full reimbursement of its covered losses under the reinsurance contract and has substantive defenses to the claim of Munich Re for return of the funds paid to date, but can make no assurances as to the outcome of this matter. Payments to be made to NGRMI in connection with this matter would be for the benefit of our accounts, and reimbursements to be made to Munich Re would be made by us, if any.
Our business could suffer if we are unsuccessful in negotiating new collective bargaining agreements.

Approximately 50% of our approximately 39,000 employees are covered by a total of 10 collective bargaining agreements. We expect to re-negotiate renewals of each of our collective bargaining agreements between 2012 and 2014 as they approach expiration. Collective bargaining agreements generally expire after three to five years and are subject to renegotiation at that time. While we believe we maintain good relationships with our represented workers, and it is not expected that the results of these negotiations will have a material adverse effect on our financial position, results of operations or cash flows, it is possible that we may experience difficulties with renewals and renegotiations of existing collective bargaining agreements. If we experience such difficulties, we could incur additional expenses and work stoppages. Any such expenses or delays could adversely affect programs served by employees who are covered by collective bargaining agreements. In the recent past, we have experienced some work stoppages, strikes and other labor disruptions associated with the collective bargaining of new labor agreements.

Pension and medical expenses associated with our retirement benefit plans may fluctuate significantly depending upon changes in actuarial assumptions, future market performance of plan assets, future trends in health care costs and legislative or other regulatory actions.

A substantial portion of our current and retired employee population is covered by pension plans, the costs of which are dependent upon various assumptions, including estimates of rates of return on benefit-related assets, discount rates for future payment obligations, rates of future cost growth and trends for future costs. Variance from these estimates could have a material adverse effect on our financial position, results of operations or cash flows. See “Notes to Consolidated Financial Statements—Note 16.” In addition, funding requirements for benefit obligations of our pension plans are subject to legislative and other government regulatory actions. For example, due to government regulations, pension plan cost recoveries under our government contracts may occur in different periods from when those pension costs are accrued for financial statement purposes or when pension funding is made. Timing differences between pension costs accrued for financial statement purposes or when pension funding occurs compared to when such costs are recoverable as allowable costs under our government contracts could have a material adverse effect on our cash flow from operations.

In addition, on May 10, 2010, the U.S. Cost Accounting Standards ("CAS") Board published a Notice of Proposed Rulemaking ("NPRM") that, if adopted, would provide a framework to partially harmonize the CAS rules with the Pension Protection Act of 2006 ("PPA") funding requirements. As with the Advance Notice of Proposed Rulemaking ("ANPRM") that was issued on September 2, 2008, the NPRM would “harmonize” by partially mitigating the mismatch between CAS costs and PPA-amended ERISA minimum funding requirements. Compared to the ANPRM, the NPRM simplifies the rules and the transition process, and results in an acceleration of allowable CAS pension costs over the next five years as compared with our current CAS pension costs. Until the final rule is published, and to the extent that the final rule does not completely eliminate mismatches between ERISA funding requirements and CAS pension costs, government contractors maintaining defined benefit pension plans will continue to experience a timing mismatch between required contributions and pension expenses recoverable under CAS. Although the CAS Board may issue its final rule in 2010, we do not expect the rule to be issued until 2011. The final rule is expected to apply to contracts starting the year following the award of the first CAS covered contract after the effective date of the new rule. This would mean the rule would most likely apply to our contracts in 2011 or 2012. We anticipate that contractors will be entitled to an equitable adjustment for any additional CAS contract costs resulting from the final rule.

Unforeseen environmental costs could have a material adverse effect on our financial position, results of operations or cash flows.

Our operations are subject to and affected by a variety of federal, state and local environmental protection laws and regulations. In addition, we could be affected by future laws or regulations, including those imposed in response to climate change concerns or other actions commonly referred to as “green initiatives.” To comply with current and future environmental laws and regulations and to meet this goal, we expect to incur capital and operating costs.

The nature of shipbuilding operations requires the use of hazardous materials. Our shipyards also generate significant quantities of wastewater, which we treat before discharging pursuant to various permits. In order to handle these materials, our shipyards have an extensive network of above-ground and underground storage tanks, some of which have leaked and required remediation in the past. In addition, the extensive handling of these materials sometimes results in spills in the shipyards and occasionally in the adjacent rivers and waterways where we operate. The shipyards also have extensive waste handling programs that we maintain and periodically modify consistent with changes in applicable regulations. See “Business—Environmental, Health and Safety.”

Various federal, state and local environmental laws and regulations impose limitations on the discharge of pollutants into the environment and establish standards for the transportation, storage and disposal of toxic and hazardous wastes. Stringent fines and penalties may be imposed for noncompliance and certain environmental laws impose joint and several

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“strict liability” for remediation of spills and releases of oil and hazardous substances rendering a person liable for environmental clean-up and remediation costs and damage, without regard to negligence or fault on the part of such person. Such laws and regulations may expose us to liability for the conduct of or conditions caused by Northrop Grumman and others.

Environmental laws and regulations can also impose substantial fines and criminal sanctions for violations, and may require the installation of costly pollution control equipment or operational changes to limit pollution emissions or discharges and/or decrease the likelihood of accidental hazardous substance releases. We also incur, and expect to continue to incur, costs to comply with current federal and state environmental laws and regulations related to the cleanup of pollutants previously released into the environment. In addition, if we are found to be in violation of the Federal Clean Air Act or the Clean Water Act, the facility or facilities involved in the violation could be placed by the U.S. Environmental Protection Agency (the “EPA”) on the “Excluded Parties List” maintained by the General Services Administration. The listing would continue until the EPA concludes that the cause of the violation had been cured. Listed facilities cannot be used in performing any U.S. Government contract while they are listed by the EPA.

The adoption of new laws and regulations, stricter enforcement of existing laws and regulations, imposition of new cleanup requirements, discovery of previously unknown or more extensive contamination, litigation involving environmental impacts, our ability to recover such costs under previously priced contracts or financial insolvency of other responsible parties could cause us to incur costs in the future that could have a material adverse effect on our financial position, results of operations or cash flows.

On June 4, 2010, the EPA proposed new regulations at 40 CFR Part 63 Subpart DDDDD entitled “National Emission Standards for Hazardous Air Pollutants for Major Sources: Industrial, Commercial, and Institutional Boilers and Process Heaters.” NGSB owns and operates five residual oil-fired industrial boilers for supplying process and building steam along with supplying high pressure steam to ships under construction. We believe that these boilers will be significantly adversely affected by these regulations, if adopted as proposed. The capital cost to replace these could be significant. However, on December 2, 2010, the EPA official responsible for these regulations stated publicly that the proposed emissions limits in the regulation were unachievable. On December 7, 2010, the EPA filed papers in court to secure an extension of up to 15 months on the current judicial deadline governing these regulations in order to repurpose a revised set of regulations. As of this time, the court has not ruled on the EPA’s extension request.

Northrop Grumman recently announced its intention to wind down our construction activities at Avondale, our Louisiana shipyard, in 2013 and two Louisiana components facilities by 2013 and consolidate all Gulf Coast construction into our Mississippi facilities. The transition plan, covering a period of more than two years, provides the opportunity to work with federal, state and local officials and others to explore other uses for the Avondale facility, allowing time for an orderly adjustment of the Avondale workforce. It is possible that the winding down of operations at Avondale may result in environmental costs. However, these costs are not known and cannot be reasonably estimated at this time.

Market volatility and adverse capital or credit market conditions may affect our ability to access cost-effective sources of funding and expose us to risks associated with the financial viability of suppliers and the ability of counterparties to perform on financial instruments.

The financial and credit markets recently experienced high levels of volatility and disruption, reducing the availability of credit for certain issuers. We expect to access these markets to support certain business activities, including acquisitions, capital expansion projects, obtaining credit support for our self-insurance for workers’ compensation, refinancing existing debt and issuing letters of credit. In the future, we may not be able to obtain capital market financing or bank financing on favorable terms, or at all, which could have a material adverse effect on our financial position, results of operations or cash flows.

A tightening of credit could also adversely affect our suppliers’ ability to obtain financing. Delays in suppliers’ ability to obtain financing, or the unavailability of financing, could cause us to be unable to meet our contract obligations and could adversely affect our results of operations. The inability of our suppliers to obtain financing could also result in the need for us to transition to alternate suppliers, which could result in significant incremental cost and delay.

We may execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutional parties. These transactions expose us to potential credit risk in the event of default of a counterparty. In addition, our credit risk may be increased when collateral held by us cannot be realized upon a sale or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to it.

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Our reputation and our ability to do business may be impacted by the improper conduct of employees, agents or business partners.

We have implemented extensive compliance controls, policies and procedures to prevent and detect reckless or criminal acts committed by employees, agents or business partners that would violate the laws of the jurisdictions in which we operate, including laws governing payments to government officials, security clearance breaches, cost accounting and billing, competition and data privacy. However, we cannot ensure that we will prevent all such reckless or criminal acts committed by our employees, agents or business partners. Any improper actions could subject us to civil or criminal investigations and monetary and non-monetary penalties, and could have a material adverse effect on our reputation, financial position, results of operations or cash flows.

Our business could be negatively impacted by security threats and other disruptions.

As a defense contractor, we face certain security threats, including threats to our information technology infrastructure and unlawful attempts to gain access to our proprietary or classified information. Our information technology networks and related systems are critical to the smooth operation of our business and essential to our ability to perform day-to-day operations. Loss of security within this critical operational infrastructure could disrupt our operations, require significant management attention and resources and could have a material adverse effect on our financial position, results of operations or cash flows.

Our nuclear operations subject us to various environmental, regulatory, financial and other risks.

The development and operation of nuclear-powered aircraft carriers, nuclear-powered submarines, nuclear facilities and other nuclear operations subject us to various risks, including:

- potential liabilities relating to harmful effects on the environment and human health resulting from nuclear operations and the storage, handling and disposal of radioactive materials;
- unplanned expenditures relating to maintenance, operation, security and repair, including repairs required by the Nuclear Regulatory Commission;
- reputational harm;
- potential liabilities arising out of a nuclear incident whether or not it is within our control; and
- regulatory non-compliance and loss of authorizations or indemnification necessary for operations.

The U.S. Government provides indemnity protection against specified risks under our contracts pursuant to Public Law 85-804 and the Price-Anderson Nuclear Industries Indemnity Act for certain of our nuclear operations risks. Our nuclear operations are subject to various safety-related requirements imposed by the U.S. Navy, DoE and Nuclear Regulatory Commission. In the event of noncompliance, these agencies may increase regulatory oversight, impose fines or shut down our operations, depending upon the assessment of the severity of the situation. Our activities, especially our nuclear shipbuilding operations, are considered vitally important to the U.S. Navy. As such, in the event of a potential change in control, we believe the U.S. Navy would want to be comfortable with the buyer and ensure that the buyer would continue to conduct our operations in a satisfactory manner. More specifically, in the event of a change in control, we believe the U.S. Navy and other regulatory agencies would want to assure themselves that our nuclear operations would continue to be conducted in a manner consistent with regulatory and contract requirements and that they should continue to provide the authorizations and indemnification necessary to conduct our nuclear operations. Depending on the circumstances, they could withdraw authorizations or decline to extend indemnification to new contracts, which could have a material adverse effect on our financial position, results of operations or cash flows. We have recently begun discussions with the U.S. Navy regarding whether to incorporate into our contracts more explicit terms regarding the requirements for U.S. Navy approval before transferring authorizations in the event of changes in control; we understand these discussions are part of a U.S. Navy initiative across our shipbuilding industry. In addition, revised security and safety requirements promulgated by the U.S. Navy, DoE and Nuclear Regulatory Commission could necessitate substantial capital and other expenditures. Additionally, while we maintain insurance for certain risks related to transportation of low level nuclear materials and waste, such as contaminated clothing, and for regulatory changes in the health, safety and fire protection areas, there can be no assurances that such insurance will be sufficient to cover our costs in the event of an accident or business interruption relating to our nuclear operations, which could have a material adverse effect on our financial position, results of operations or cash flows.
Changes in future business conditions could cause business investments and/or recorded goodwill to become impaired, resulting in substantial losses and write-downs that would reduce our operating income.

As part of our overall strategy, we may, from time to time, acquire a minority or majority interest in a business. These investments are made upon careful analysis and due diligence procedures designed to achieve a desired return or strategic objective. These procedures often involve certain assumptions and judgment in determining acquisition price. Even after careful integration efforts, actual operating results may vary significantly from initial estimates.

Goodwill accounts for approximately a quarter of our recorded total assets. In the past, we have evaluated goodwill amounts for impairment annually on November 30, or when evidence of potential impairment exists. The impairment test is based on several factors requiring judgment. Principally, a significant decrease in expected cash flows or changes in market conditions may indicate potential impairment of recorded goodwill. Adverse equity market conditions that result in a decline in market multiples and our stock price could result in an impairment of goodwill and/or other intangible assets.

For example, we recorded a non-cash charge totaling $2,490 million in the fourth quarter of 2008 for the impairment of goodwill. The impairment was primarily driven by adverse equity market conditions that caused a decrease in market multiples and the parent’s stock price as of November 30, 2008. The charge reduced goodwill recorded in connection with Northrop Grumman’s 2001 acquisition of Newport News Shipbuilding, Inc. and Litton Industries, Inc. (“Litton”).

If we are required in the future to recognize any additional impairments to goodwill, it could have a material adverse effect on our financial position, results of operations or cash flows.

Unanticipated changes in our tax provisions or exposure to additional income tax liabilities could affect our profitability and cash flow.

We are subject to income taxes in the United States. Significant judgment is required in determining our provision for income taxes. In the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. In addition, timing differences in the recognition of income from contracts for financial statement purposes and for income tax regulations can cause uncertainty with respect to the timing of income tax payments which can have a significant impact on cash flow in a particular period. Furthermore, changes in applicable income tax laws and regulations, or their interpretation, could result in higher or lower income tax rates assessed or changes in the taxability of certain sales or the deductibility of certain expenses, thereby affecting our income tax expense and profitability. The final determination of any tax audits or related litigation could be materially different from our historical income tax provisions and accruals. Additionally, changes in our tax rate as a result of changes in our overall profitability, changes in tax legislation, changes in the valuation of deferred tax assets and liabilities, changes in differences between financial reporting income and taxable income, the results of audits and the examination of previously filed tax returns by taxing authorities and continuing assessments of our tax exposures could impact our tax liabilities and affect our income tax expense, profitability and cash flow.

As of December 31, 2010, the estimated value of our uncertain tax positions was a potential liability of $17 million, which includes accrued interest of $3 million. If our positions are sustained by the taxing authority in our favor, the reversal of the entire balance would reduce our income tax provision. However, we cannot guarantee that such positions will be sustained in our favor.

We conduct a portion of our operations through joint ventures and strategic alliances. We may have limited control over decisions and controls of joint venture projects and have returns that are not proportional to the risks and resources we contribute.

We conduct a portion of our operations through joint ventures, where control may be shared with unaffiliated third parties. For more information, see “Business—Our Business.”

In any joint venture arrangement, differences in views among the joint venture participants may result in delayed decisions or in failures to agree on major issues, and we cannot guarantee that we and our joint venture partners will always reach agreement on a timely basis, or at all. We also cannot control the actions of our joint venture partners, including any nonperformance, default or bankruptcy of our joint venture partners, and we typically share liability or have joint and/or several liability along with our joint venture partners under these joint venture arrangements. These factors could potentially have a material adverse effect on our joint ventures.

Operating through joint ventures in which we are the minority holder results in limited control over many decisions made with respect to projects and internal controls relating to projects. These joint ventures may not be subject to the same requirements regarding internal controls and internal control reporting that we follow. As a result, internal control issues may arise which could have a material adverse effect on the joint venture. When entering into joint ventures, in order to establish or preserve relationships with our joint venture partners, we may agree to risks and contributions of resources that are proportionately greater than the returns we could receive, which could reduce our income and returns on these
investments compared to what we would have received if the risks and resources we contributed were always proportionate to our returns.

Accordingly, our financial results could be adversely affected from unanticipated performance issues, transaction-related charges and partner performance.

**We are subject to various claims and litigation that could ultimately be resolved against us, requiring material future cash payments and/or future material charges against our operating income, materially impairing our financial position.**

The size, type and complexity of our business make it highly susceptible to claims and litigation. We are and may become subject to various environmental claims and other litigation which, if not resolved within established reserves, could have a material adverse effect on our financial position, results of operations or cash flows. Any claims and litigation, even if fully indemnified or insured, could negatively impact our reputation among our customers and the public, and make it more difficult for us to compete effectively or obtain adequate insurance in the future. These claims and litigation relating to our shipbuilding business are intended to be allocated to us under the terms of the Separation and Distribution Agreement. See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Separation and Distribution Agreement.”

In the second quarter of 2007, the U.S. Coast Guard issued a revocation of acceptance under the Deepwater Modernization Program for eight converted 123-foot patrol boats (the “vessels”) based on alleged “hull buckling and shaft alignment problems” and alleged “nonconforming topside equipment” on the vessels. We submitted a written response that argued that the revocation of acceptance was improper. The U.S. Coast Guard advised Integrated Coast Guard Systems (“ICGS”), which was formed by us and Lockheed Martin to perform the Deepwater Modernization Program, that it was seeking $96.1 million from ICGS as a result of the revocation of acceptance. The majority of the costs associated with the 123-foot conversion effort are associated with the alleged structural deficiencies of the vessels, which were converted under contracts with us and one of our subcontractors. In 2008, the U.S. Coast Guard advised ICGS that the U.S. Coast Guard would support an investigation by the U.S. Department of Justice of ICGS and its subcontractors instead of pursuing its $96.1 million claim independently. The Department of Justice conducted an investigation of ICGS under a sealed False Claims Act complaint filed in the U.S. District Court for the Northern District of Texas and decided in early 2009 not to intervene at that time. On February 12, 2009, the District Court unsealed the complaint filed by Michael J. DeKort, a former Lockheed Martin employee, against us, ICGS, Lockheed Martin Corporation relating to the 123-foot conversion effort. Damages under the False Claims Act are subject to trebling. On October 15, 2009, the three defendants moved to dismiss the Fifth Amended complaint. On April 5, 2010, the District Court ruled on the defendants’ motions to dismiss, granting them in part and denying them in part. As to us, the District Court dismissed conspiracy claims and those pertaining to the C4ISR systems. On October 27, 2010, the District Court entered summary judgment for us on DeKort’s hull, mechanical and electrical (“HM&E”) claims brought against us. On November 10, 2010, DeKort acknowledged that with the dismissal of the HM&E claims, no issues remained against us for trial and the District Court subsequently vacated the December 1, 2010 trial. On November 12, 2010, DeKort filed a motion for reconsideration regarding the District Court’s order granting summary judgment on the HM&E claims. Based upon the information available to us to date, we believe that we have substantive defenses to any potential claims but can give no assurance that we will prevail in this litigation.

We and our predecessors in interest are defendants in several hundred cases filed in numerous jurisdictions around the country wherein former and current employees and various third parties allege exposure to asbestos-containing materials on or associated with our premises or while working on vessels constructed or repaired by us. Some cases allege exposure to asbestos-containing materials through contact with our employees and third persons who were on the premises. The cases allege various injuries including those associated with pleural plaque disease, asbestosis, cancer, mesothelioma and other alleged asbestos-related conditions. In some cases, in addition to us, several of our former executive officers are also named defendants. In some instances, partial or full insurance coverage is available to us for our potential liability and that of our former executive officers. We can give no assurance that we will prevail on all claims in each of these cases. Based on information available, we believe that the resolution of any existing claims or legal proceedings would not have a material adverse effect on our financial position, results of operations or cash flows.

On January 31, 2011, the U.S. Department of Justice first informed Northrop Grumman and us of a False Claims Act complaint that we believe was filed under seal by a relator (the plaintiff) in mid-2010 in the U.S. District Court for the District of Columbia. The redacted copy of the complaint that we received (the “Complaint”) alleges that through largely unspecified fraudulent means, Northrop Grumman and we obtained federal funds that were restricted by law for the consequences of Hurricane Katrina, and used those funds to cover costs under certain shipbuilding contracts that were unrelated to Hurricane Katrina and for which Northrop Grumman and we were not entitled to recovery under the contracts.
The Complaint seeks monetary damages of at least $835 million, plus penalties, attorney's fees and other costs of suit. Damages under the False Claims Act may be trebled upon a finding of liability.

For several years, Northrop Grumman has pursued recovery under its insurance policies for Hurricane Katrina-related property damage and business interruption losses. One of the insurers involved in those actions has made allegations that overlap significantly with certain of the issues raised in the Complaint, including allegations that Northrop Grumman and we used certain Hurricane Katrina-related funds for losses under the contracts unrelated to the hurricane. Northrop Grumman and we believe that the insurer's defenses, including those related to the use of Hurricane Katrina funding, are without merit.

We have agreed to cooperate with the government investigation relating to the False Claims Act Complaint. We have been advised that the Department of Justice has not made a decision whether to intervene. Based upon our review to date of the information available to us, we believe we have substantive defenses to the allegations in the Complaint. We believe that the claims as set forth in the Complaint evidence a fundamental lack of understanding of the terms and conditions in our shipbuilding contracts, including the post-Katrina modifications to those contracts, and the manner in which the parties performed in connection with the contracts. Based upon our review to date of the information available to us, we believe that the claims as set forth in the Complaint lack merit and are not likely to result in a material adverse effect on our consolidated financial position. We intend vigorously to defend the matter, but we cannot predict what new or revised claims might be asserted or what information might come to light so can give no assurances regarding the ultimate outcome.

We may be unable to adequately protect our intellectual property rights, which could affect our ability to compete.

We own or have the right to use certain patents, trademarks, copyrights and other forms of intellectual property. The U.S. Government has rights to use certain intellectual property we develop in performance of government 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 have incurred new indebtedness in connection with the spin-off and the degree to which we will be leveraged following completion of the spin-off may have a material adverse effect on our financial position, results of operations or cash flows.

We have historically relied upon Northrop Grumman for working capital requirements on a short-term basis and for other financial support functions. After the spin-off, we will not be able to rely on the earnings, assets or cash flow of Northrop Grumman, and we will be responsible for servicing our own debt, obtaining and maintaining sufficient working capital and paying dividends. In connection with the spin-off, we will receive $1,200 million of HII Debt and $575 million from the HII Credit Facility. $1,429 million of the proceeds of the HII Debt and the HII Credit Facility will be transferred to NGSC, a wholly owned subsidiary of Northrop Grumman, in the Contribution prior to the spin-off. Given the smaller relative size of the company as compared to Northrop Grumman after the spin-off, we expect to incur higher debt servicing.
costs on the new indebtedness than we would have otherwise incurred previously as a subsidiary of Northrop Grumman. Our debt upon completion of the spin-off will include (i) a Loan Agreement between Ingalls Shipbuilding, Inc. (“Ingalls”), which is now part of NGSB, and the MBFC, under which we borrowed the proceeds of the MBFC’s 1999 issuance of $83.7 million of Economic Development Revenue Bonds, (ii) a Loan Agreement between Northrop Grumman Ship Systems, Inc. (“NGSS”), which is now part of NGSS, and the MBFC, under which we borrowed the proceeds of the MBFC’s issuance of $200 million of Gulf Opportunity Zone Industrial Revenue Bonds, and under which we owe $21.6 million, (iii) $1,200 million of the HII Debt and (iv) the $1,225 million HII Credit Facility (comprising a $575 million term loan and a $650 million revolving credit facility, of which approximately $137 million of letters of credit are expected to be outstanding at the time of the spin-off, and the remainder will be undrawn). The net proceeds of the HII Debt and the term loan under the HII Credit Facility are expected to be used to fund the Contribution and for general corporate purposes.

Our ability to make payments on and to refinance our indebtedness, including the debt retained or incurred pursuant to the spin-off as well as any future debt that we may incur, will depend on our ability to generate cash in the future from operations, financings or asset sales. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are not able to repay or refinance our debt as it becomes due, we may be forced to sell assets or take other disadvantageous actions, including (i) reducing financing in the future for working capital, capital expenditures and general corporate purposes or (ii) dedicating an unsustainable level of our cash flow from operations to the payment of principal and interest on our indebtedness. In addition, our ability to withstand competitive pressures and to react to changes in the shipbuilding and defense industries could be impaired. The lenders who hold such debt could also accelerate amounts due, which could potentially trigger a default or acceleration of our other debt.

The shipbuilding business is more capital-intensive than most other Northrop Grumman businesses, and our ability to meet our capital needs may be altered by the loss of financial support from Northrop Grumman.

The shipbuilding business is a mature business that is more capital-intensive than most of Northrop Grumman’s other businesses, with longer periods of performance. Northrop Grumman is currently available to provide certain capital that may be needed in excess of the amounts generated by our operating activities. After completion of the spin-off, we will be an independent, publicly owned company and we expect to obtain any such funds needed from third parties through the capital markets or bank financing, and not from Northrop Grumman. However, there is no guarantee that we will be able to obtain capital market financing or credit availability on favorable terms, or at all, in the future. See “—Market volatility and adverse capital or credit market conditions may affect our ability to access cost-effective sources of funding and expose us to risks associated with the financial viability of suppliers and the ability of counterparties to perform on financial instruments.” While our business plan fully supports the capital expenditures we anticipate, we can give no assurance that our ability to meet our capital needs will not be altered by the loss of financial support from Northrop Grumman.

We may be unable to achieve some or all of the benefits that we expect to achieve from the spin-off. As an independent, publicly owned company, we believe that our business will benefit from, among other things, (i) greater strategic focus of financial resources and management’s efforts, (ii) tailored customer focus, (iii) direct and differentiated access to capital markets and (iv) enhanced investor choices by offering investment opportunities in a separate entity from Northrop Grumman. However, by separating from Northrop Grumman, we may be more susceptible to market fluctuations and other adverse events than we would have been were we still a part of Northrop Grumman. In addition, we may not be able to achieve some or all of the benefits that we expect to achieve as an independent company in the time we expect, if at all.

We may increase our debt or raise additional capital in the future, which could affect our financial health, and may decrease our profitability.

We may increase our debt or raise additional capital in the future, subject to restrictions in our debt agreements. If our cash flow from operations is less than we anticipate, or if our cash requirements are more than we expect, we may require more financing. However, debt or equity financing may not be available to us on terms acceptable to us, if at all. If we incur additional debt or raise equity through the issuance of our preferred stock, the terms of the debt or our preferred stock issued may give the holders rights, preferences and privileges senior to those of holders of our common stock, particularly in the event of liquidation. The terms of the debt may also impose additional and more stringent restrictions on our operations than we currently have. If we raise funds through the issuance of additional equity, our 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 our investment in us. Also, regardless of the terms of our debt or equity financing, the amount of our stock that we can issue may be limited because the issuance of our stock may cause the distribution to be a taxable event for Northrop Grumman under Section 355(e) of the Code and under the Tax Matters Agreement we could be required to indemnify Northrop Grumman for that tax. See “—We may be responsible for U.S. Federal income tax liabilities that relate to the distribution.”
We may be responsible for U.S. Federal income tax liabilities that relate to the distribution.

We have received the IRS Ruling and expect to receive an opinion of counsel stating that Northrop Grumman, Northrop Grumman’s stockholders and HII will not recognize any taxable income, gain or loss for U.S. Federal income tax purposes as a result of the spin-off, including the internal reorganization, except with respect to cash received by Northrop Grumman’s stockholders in lieu of fractional shares. Receipt of the IRS Ruling and opinion of counsel will satisfy a condition to completion of the spin-off. See “The Spin-Off—U.S. Federal Income Tax Consequences of the Spin-Off.” The IRS Ruling, while generally binding upon the IRS, is based on certain factual statements and representations. If any such factual statements or representations were incomplete or untrue in any material respect, or if the facts on which the IRS Ruling is based are materially different from the facts at the time of the spin-off, the IRS could modify or revoke the IRS Ruling retroactively.

An opinion of counsel is not binding on the IRS. Accordingly, the IRS may reach conclusions with respect to the spin-off that are different from the conclusions reached in the opinion. Like the IRS Ruling, the opinion will be based on certain factual statements and representations, which, if incomplete or untrue in any material respect, could alter counsel’s conclusions.

Neither we nor Northrop Grumman are aware of any facts or circumstances that would cause any such factual statements or representations in the IRS Ruling or the legal opinion to be incomplete or untrue or cause the facts on which the IRS Ruling is based, or the legal opinion will be based, to be materially different from the facts at the time of the spin-off.

If all or a portion of the spin-off does not qualify as a tax-free transaction because any of the factual statements or representations in the IRS Ruling or the opinion are incomplete or untrue, or because the facts upon which the IRS Ruling is based are materially different from the facts at the time of the spin-off, Northrop Grumman would recognize a substantial gain for U.S. Federal income tax purposes. In such case, under IRS regulations each member of Northrop Grumman consolidated group at the time of the spin-off (including us and our subsidiaries), would be severally liable for the resulting U.S. Federal income tax liability.

Even if the spin-off otherwise qualifies as a tax-free transaction for U.S. Federal income tax purposes, the distribution will be taxable to Northrop Grumman (but not to Northrop Grumman stockholders) pursuant to Section 355(e) of the Internal Revenue Code if there are one or more acquisitions (including issuances) of the stock of either us or Northrop Grumman, representing 50% or more, measured by vote or value, of the then-outstanding stock of either corporation and the acquisition or acquisitions are deemed to be part of a plan or series of related transactions that include the distribution. Any acquisition of our common stock within two years before or after the distribution (with exceptions, including public trading by less-than-5% stockholders and certain compensatory stock issuances) generally will be presumed to be part of such a plan unless we can rebut that presumption. The tax liability resulting from the application of Section 355(e) would be substantial. In addition, under IRS regulations each member of Northrop Grumman consolidated group at the time of the spin-off (including us and our subsidiaries), would be severally liable for the resulting U.S. Federal income tax liability.

We will agree not to enter into any transaction that could reasonably be expected to cause any portion of the spin-off (including the internal reorganization) to be taxable to Northrop Grumman, including under Section 355(e). We will also agree to indemnify Northrop Grumman for any tax liabilities resulting from any such transactions. The amount of any such indemnification could be substantial. These obligations may discourage, delay or prevent a change of control of our company. For additional detail, see “—Anti-takeover provisions in our organizational documents and Delaware law, as well as regulatory requirements, could delay or prevent a change in control” and “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Tax Matters Agreement.”

We may be unable to make, on a timely basis, the changes necessary to operate as an independent, publicly owned company.

We have historically relied on Northrop Grumman for various financial, legal, administrative and other corporate services to support our operations. After the distribution, Northrop Grumman will continue to supply us certain of these services on a short-term transitional basis. However, we will be required to establish the necessary infrastructure and systems to supply these services on an ongoing basis. We may not be able to replace these services provided by Northrop Grumman in a timely manner or on terms and conditions as favorable as those we receive from Northrop Grumman.

In addition, as a public entity, we will be subject to the reporting requirements of the Exchange Act and requirements of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”). These requirements may place a strain on our systems and resources. The Exchange Act requires that we file annual, quarterly and current reports 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
We do not have a recent operating history as an independent company and our historical financial information may not be a reliable indicator of our future results.

The historical financial information we have included in this information statement has been derived from Northrop Grumman’s consolidated financial statements and does not necessarily reflect what our financial position, results of operations and cash flows would have been had we been a separate, stand-alone entity during the periods presented. Northrop Grumman did not account for us, and we were not operated, as a single stand-alone entity for the periods presented. In addition, the historical information is not necessarily indicative of what our results of operations, financial position and cash flows will be in the future. For example, following the spin-off, changes will occur in our cost structure, funding and operations, including changes in our tax structure, increased costs associated with reduced economies of scale and increased costs associated with becoming a public, stand-alone company. While we have been profitable as part of Northrop Grumman, we cannot assure you that as a stand-alone company our profits will continue at a similar level.

Our customers and prospective customers will consider whether our responsibility on a stand-alone basis satisfies their requirements for engaging in business with us.

Under federal acquisition regulations, the government commonly makes affirmative responsibility determinations before entering into new contracts with a contractor. In so doing, the government considers various factors, including financial resources, performance record, technical skills and facilities. Our customers and prospective customers will consider whether our responsibility on a stand-alone basis satisfies their requirements for entering into new contracts with us. We believe the U.S. Navy is in the final stages of completing a responsibility determination. There are several contracts in the negotiation phase that may not be finalized and awarded before the spin-off is concluded, even if the U.S. Navy successfully concludes its responsibility determination prior to the spin-off. We believe we continue to be a responsible contractor. Nonetheless, if our customers or prospective customers are not satisfied with our responsibility, including our financial resources, it could likely affect our ability to bid for, obtain or retain contracts which, if unresolved, could have a material adverse effect on our financial position, results of operations or cash flows.

More generally, our customers will need to develop and retain confidence in us as a partner on a stand-alone basis. We believe that will occur. In the process, however, our customers may continue to request additional information, as well as undertake further audits or take other steps that could lead to certain delays and costs.

The spin-off may expose us to potential liabilities arising out of state and federal fraudulent conveyance laws and legal dividend requirements.

The spin-off is subject to review under various state and federal fraudulent conveyance laws. Under these laws, if a court in a lawsuit by an unpaid creditor or an entity vested with the power of such creditor (including without limitation a trustee or debtor-in-possession in a bankruptcy by us or Northrop Grumman or any of our respective subsidiaries) were to determine that Northrop Grumman or any of its subsidiaries did not receive fair consideration or reasonably equivalent value for distributing our common stock or taking other action as part of the spin-off, or that we or any of our subsidiaries did not receive fair consideration or reasonably equivalent value for incurring indebtedness, including the new debt incurred by us in connection with the spin-off, transferring assets or taking other action as part of the spin-off and, at the time of such action, we, Northrop Grumman or any of our respective subsidiaries (i) was insolvent or would be rendered insolvent, (ii) had reasonably small capital with which to carry on its business and all business in which it intended to engage or (iii) intended to incur, or believed it would incur, debts beyond its ability to repay such debts as they would mature, then such court could void the spin-off as a constructive fraudulent transfer. If such court made this determination, the court could impose a number of different remedies, including without limitation, voiding our liens and claims against Northrop Grumman, or providing Northrop Grumman with a claim for money damages against us in an amount equal to the difference between the consideration received by Northrop Grumman and the fair market value of our company at the time of the spin-off.

The measure of insolvency for purposes of the fraudulent conveyance laws will vary depending on which jurisdiction’s law is applied. Generally, however, an entity would be considered insolvent if the present fair saleable value of its assets is less than (i) the amount of its liabilities (including contingent liabilities) or (ii) the amount that will be required to pay its probable liabilities on its existing debts as they become absolute and mature. No assurance can be given as to what standard a court would apply to determine insolvency or that a court would determine that we, Northrop Grumman or any of our respective subsidiaries were 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, as well as regulatory requirements, could delay or prevent a change in control.

Prior to completion of the spin-off, we will adopt the Restated Certificate of Incorporation and the Restated Bylaws. Certain provisions of the Restated Certificate of Incorporation and the Restated Bylaws may delay or prevent a merger or acquisition that a stockholder may consider favorable. For example, the Restated Certificate of Incorporation and the Restated Bylaws provide for a classified board, require advance notice for stockholder proposals and nominations, place limitations on convening stockholder meetings and authorize our board of directors to issue one or more series of preferred stock. These provisions may also discourage acquisition proposals or delay or prevent a change in control, which could harm our stock price. Delaware law also imposes some restrictions on mergers and other business combinations between any holder of 15% or more of our outstanding common stock and us. See “Description of Capital Stock.”

Under tax sharing arrangements, we will agree not to enter into any transaction involving an acquisition (including issuance) of HII common stock or any other transaction (or, to the extent we have the right to prohibit it, to permit any such transaction) that could reasonably be expected to cause the distribution of or any of the internal reorganization transactions to be taxable to Northrop Grumman. We will also agree to indemnify Northrop Grumman for any tax liabilities resulting from any such transactions. The amount of any such indemnification could be substantial. Generally, Northrop Grumman will recognize taxable gain on the distribution if there are one or more acquisitions (including issuances) of our capital stock, directly or indirectly, representing 50% or more, measured by vote or value, of our then-outstanding capital stock, and the acquisitions or issuances are deemed to be part of a plan or series of related transactions that include the distribution. We will agree that, for two years after the spin-off, we will not enter into any transactions that reasonably could be expected to result in a 40%-or-more change in ownership of our stock, in the aggregate. See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Tax Matters Agreement.” Any such shares of our common stock acquired, directly or indirectly, within two years before or after the distribution (with exceptions, including public trading by less-than-5% stockholders and certain compensatory stock issuances) will generally be presumed to be part of such a plan unless we can rebut that presumption.

Under the Separation and Distribution Agreement, in the event that, prior to the fifth anniversary of the distribution, if we experience a change of control and our corporate rating is downgraded to B or B2 or below, as applicable, during the period beginning upon the announcement of such change of control and ending 60 days after the announcement of the consummation of such change of control, we will be required to provide credit support for our indemnity obligations under the Separation and Distribution Agreement in the form of one or more standby letters of credit in an amount equal to $250 million. See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Separation and Distribution Agreement.”

Our activities, especially our nuclear shipbuilding operations, are considered vitally important to the U.S. Navy. As such, in the event of a potential change in control, we believe the U.S. Navy would want to be comfortable with the buyer and ensure that the buyer would continue to conduct our operations in a satisfactory manner. More specifically, in the event of a change in control, we believe the U.S. Navy and other regulatory agencies would want to assure themselves that our nuclear operations would continue to be conducted in a manner consistent with regulatory and contract requirements and that they should continue to provide the authorizations and indemnification necessary to conduct our nuclear operations. Depending on the circumstances, they could withdraw authorizations or decline to extend indemnification to new contracts, which could have a material adverse effect on our financial position, results of operations or cash flows. We have recently begun discussions with the U.S. Navy regarding whether to incorporate into our contracts more explicit terms regarding the requirements for U.S. Navy approval before transferring authorizations in the event of changes in control; we understand these discussions are part of a U.S. Navy initiative across our shipbuilding industry. See “—Our nuclear operations subject us to various environmental, regulatory, financial and other risks.”

Additionally, we intend to enter into the Guaranty Performance Agreement, pursuant to which, among other things, we will agree to cause NGSC’s guarantee obligations under the $83.7 million Revenue Bonds, which were issued for our benefit, to terminate or to cause credit support to be provided in the event we experience a change of control. For any period of time between a change of control and the termination of NGSC’s guarantee obligations, we will be required to cause credit support to be provided for NGSC’s guarantee obligations in the form of one or more letters of credit in an amount reasonably satisfactory to NGSC to support the payment of all principal, interest and any premiums under the
Revenue Bonds. For a description of the Guaranty Performance Agreement, see “Certain Relationships and Related Party Transactions—Other Agreements.”

As a result, our obligations may discourage, delay or prevent a change of control of our company.
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 financial position, results of operations or cash flows. Any such risks could cause our results to differ materially from those expressed in forward-looking statements.
THE SPIN-OFF

Background

On March 14, 2011, Northrop Grumman approved the spin-off of HII from Northrop Grumman, following which we will be an independent, publicly owned company. As part of the spin-off, Current NGC will complete an internal reorganization, which we refer to as the “internal reorganization,” which will result in:

- New NGC, a subsidiary of Current NGC, replacing Current NGC as the publicly owned holding company that directly and indirectly owns all of the capital stock of Current NGC and its subsidiaries, including our common stock;
- New NGC changing its name to “Northrop Grumman Corporation;”
- Our becoming the parent company of those Northrop Grumman subsidiaries that currently operate the shipbuilding business; and
- Current NGC becoming a direct, wholly owned non-operating subsidiary of HII and being renamed “Titan II Inc.”

To complete the spin-off, Northrop Grumman will, following the internal reorganization, distribute to its stockholders all of the shares of our common stock. The distribution will occur on the distribution date, which is March 31, 2011. Each holder of Northrop Grumman common stock will receive one share of our common stock for every six shares of Northrop Grumman common stock held on March 30, 2011, the record date. After completion of the spin-off:

- we will be an independent, publicly owned company, will own and operate the shipbuilding business and will own all of the stock of Current NGC; and
- New NGC, primarily through its subsidiary NGSC, will own and operate the aerospace systems, electronic systems, information systems and technical services businesses previously owned by and operated by Current NGC.

Each holder of Northrop Grumman common stock will continue to hold his, her or its shares in Northrop Grumman. No vote of Northrop Grumman’s stockholders is required or is being sought in connection with the spin-off, and Northrop Grumman’s stockholders will not have any appraisal rights in connection with the spin-off, including the internal reorganization.

The distribution of our common stock as described in this information statement is subject to the satisfaction or waiver of certain conditions. In addition, Northrop Grumman has the right not to complete the spin-off if, at any time prior to the distribution, the board of directors of Northrop Grumman determines, in its sole discretion, that the spin-off is not in the best interests of Northrop Grumman or its stockholders, that a sale or other alternative is in the best interests of Northrop Grumman or its stockholders or that it is not advisable for us to separate from Northrop Grumman. For a more detailed description, see “—Conditions to the Spin-Off.”

Reasons for the Spin-Off

Northrop Grumman’s board of directors has determined that the spin-off is in the best interests of Northrop Grumman and its stockholders because the spin-off will provide various benefits including: (i) greater strategic focus of investment resources and each management’s efforts, (ii) tailored customer focus, (iii) direct and differentiated access to capital markets and (iv) enhanced investor choices by offering investment opportunities in separate entities.

Greater Strategic Focus of Financial Resources and Each Management’s Efforts. Northrop Grumman’s shipbuilding business represents a discrete portion of Northrop Grumman’s overall businesses. It has historically exhibited different financial and operating characteristics than Northrop Grumman’s other businesses. Northrop Grumman has a portfolio of C4ISR systems and electronics, manned and unmanned air and space platforms, cyber-security and related system-level applications and logistics that it has strategically positioned to align with what Northrop Grumman believes is its customers’ emerging security priorities. Northrop Grumman management believes it has capabilities and synergies in these areas of its portfolio across its aerospace, electronics, information systems and technical services sectors. Going forward, however, Northrop Grumman management sees little synergy between its shipbuilding business and its other businesses. Additionally, the shipbuilding business is a mature business that is more capital-intensive than most of Northrop Grumman’s other businesses, with longer periods of performance. Northrop Grumman’s management believes that its shipbuilding business, on one hand, and its other businesses, on the other hand, require inherently different strategies in order to maximize their long-term value. Because the shipbuilding business requires capital intensiveness to support its key customers, Northrop Grumman has been required, in recent years, to make continuing capital expenditures in the
shipbuilding business. Northrop Grumman’s and our management believe that Northrop Grumman’s management resources would be more efficiently utilized if Northrop Grumman’s management concentrated solely on Northrop Grumman’s other businesses, and that our management resources would be more efficiently utilized if our management concentrated solely on the shipbuilding business. Consequently, Northrop Grumman has determined that its current structure may not be the most effective to design and implement the distinct strategies necessary to operate in a manner that maximizes the long-term value of each company.

Both Northrop Grumman and we expect to have better use of management and financial resources as a result of having board and management teams solely focused on their respective businesses. The spin-off will allow us to better align management’s attention and resources to pursue opportunities in the shipbuilding market and to more actively manage our cost structure. Northrop Grumman will similarly benefit from its management’s ability to focus on the management and operation of its other businesses.

**Tailored Customer Focus.** Both Northrop Grumman and we believe that, as a unified, commonly managed, stand-alone shipbuilding business, our management will be able to focus solely on the needs of our own customers (primarily the U.S. Navy), without dilution arising from a connection to a larger parent with tangential goals and incentives.

**Direct and Differentiated Access to Capital Markets.** After the spin-off, we will no longer need to compete with Northrop Grumman’s other businesses for capital resources. As a long-cycle, mature industrial business with heavy capital needs but with long-duration and highly transparent cash flows, the shipbuilding business has different financial and operating characteristics from Northrop Grumman’s other businesses. Both Northrop Grumman and we believe that direct and differentiated access to the capital markets will allow each of us to better optimize the amounts and terms of the capital needed for each of the respective businesses, aligning financial and operational characteristics with investor and market expectations. Northrop Grumman’s management also believes that, as a separate entity, we will have ready access to capital, because we will attract investors who are interested in the characteristics of the shipbuilding business. Although we will no longer have financial support from Northrop Grumman, our financial resources have been established in a manner that considers the capital-intensiveness of our business and specifically factors in the projected requirement for future capital expenditures.

**Enhanced Investor Choices by Offering Investment Opportunities in Separate Entities.** After the spin-off, investors should be better able to evaluate the financial performances of Northrop Grumman and us, as well as our respective strategies within the context of our respective markets, thereby enhancing the likelihood that both entities will achieve appropriate market valuations. Northrop Grumman’s management and financial advisors believe that the investment characteristics of the shipbuilding business and Northrop Grumman’s other businesses may appeal to different types of investors. As a result of the spin-off, management of both companies should be able to implement goals and evaluate strategic opportunities in light of investor expectations within their respective specialties without undue attention to investor expectations in other specialties. In addition, each company should be able to focus its public relations efforts on cultivating its own separate identity.

**Manner of Effecting the Spin-Off**

The general terms and conditions relating to the spin-off will be set forth in a Separation and Distribution Agreement among us, Northrop Grumman, NGSC and NGSB.

**Internal Reorganization**

Prior to the distribution, as described under “—Distribution of Shares of Our Common Stock,” and as part of the internal reorganization, Current NGC will complete a corporate reorganization, which we refer to as the “holding company reorganization,” to create a holding company structure. The holding company reorganization will be effected by action of the board of directors of Current NGC without a vote of Northrop Grumman’s stockholders pursuant to Section 251(g) of the DGCL. In accordance with Section 251(g) of the DGCL, Titan Merger Sub Inc., a Delaware corporation and indirect, wholly owned subsidiary of New NGC, will merge with and into Current NGC, with Current NGC as the surviving corporation and an indirect, wholly owned subsidiary of New NGC, the new holding company. At the effective time of that merger and in connection with the holding company reorganization, Current NGC will change its name from “Northrop Grumman Corporation” to “Titan II Inc.” and New NGC will change its name to “Northrop Grumman Corporation.” In the holding company reorganization, all of the outstanding shares of capital stock of Current NGC will become the same number of shares of the same class of capital stock of New NGC. Outstanding options to acquire common stock of Current NGC will become options to acquire common stock of New NGC. The board of directors of New NGC immediately after completion of the holding company reorganization will be composed of the same persons who are on the board of directors of Current NGC immediately prior to the holding company reorganization.

As part of the internal reorganization, through a series of internal transfers including the Contribution and the transfer to New NGC of all of the non-shipbuilding-related assets and liabilities of Current NGC, we will be the parent company of the
Northrop Grumman subsidiaries that currently operate the shipbuilding business and Current NGC will be our direct, wholly owned subsidiary. After completion of the internal reorganization, Current NGC will have no material assets or liabilities other than Current NGC’s guarantees of our performance under certain of our contracts and certain of our indebtedness and insurance agreements related to NGSB (the “Current NGC Obligations”). See “Description of Material Indebtedness.” These guarantees, which will remain with Current NGC and will not be transferred in the internal reorganization or the Spin-Off, require Current NGC to guarantee the performance of our subsidiary, NGSB, under certain of its shipbuilding contracts and to guarantee the payment of amounts owed by us in connection with the GO Zone IRBs and the related loan agreement with the MBFC. We will enter into performance and indemnity agreements with Current NGC, pursuant to which we will agree to perform all of the Current NGC Obligations and indemnify Current NGC for any costs arising from such obligations. These indemnities do not relate to our relationship with Northrop Grumman. The diagrams below show the transaction structure, simplified for illustrative purposes only:

Distribution of Shares of Our Common Stock

Under the Separation and Distribution Agreement, the distribution will be effective as of 12:01 a.m., Eastern time, on March 31, 2011, the distribution date. As a result of the spin-off, on the distribution date, each holder of Northrop Grumman common stock will receive one share of our common stock for every six shares of Northrop Grumman common stock that he, she or it owns. In order to receive shares of our common stock in the spin-off, a Northrop Grumman stockholder must be stockholder at the close of business of the NYSE on March 30, 2011, the record date.

The diagram below shows the structure, simplified for illustrative purposes only, of Northrop Grumman and HII after completion of the spin-off:
On the distribution date, Northrop Grumman will release the shares of our common stock to our distribution agent to distribute to Northrop Grumman stockholders. For most of these Northrop Grumman stockholders, our distribution agent will credit their shares of our common stock to book-entry accounts established to hold their shares of our common stock. Our distribution agent will send these stockholders, including any Northrop Grumman stockholder that holds physical share certificates of Northrop Grumman common stock and is the registered holder of such shares of Northrop Grumman common stock represented by those certificates on the record date, a statement reflecting their ownership of our common stock. Book-entry refers to a method of recording stock ownership in our records in which no physical certificates are used. For stockholders who own Northrop Grumman common stock through a broker or other nominee, their shares of our common stock will be credited to these stockholders’ accounts by the broker or other nominee. It is expected that it will take the distribution agent up to two weeks to electronically issue shares of our common stock to Northrop Grumman stockholders or their bank or brokerage firm by way of direct registration in book-entry form. Trading of our stock will not be affected by this delay in issuance by the distribution agent. As further discussed below, we will not issue fractional shares of our common stock in the distribution. Following the spin-off, stockholders whose shares are held in book-entry form may request that their shares of our common stock be transferred to a brokerage or other account at any time.

Northrop Grumman stockholders will not be required to make any payment or surrender or exchange their shares of Northrop Grumman common stock or take any other action to receive their shares of our common stock. No vote of Northrop Grumman stockholders is required or sought in connection with the spin-off, including the internal reorganization, and Northrop Grumman stockholders have no appraisal rights in connection with the spin-off.

Treatment of Fractional Shares

The distribution agent will not distribute any fractional shares of our common stock to Northrop Grumman stockholders. Instead, as soon as practicable on or after the distribution date, the distribution agent will aggregate fractional shares of our common stock held by holders of record into whole shares, sell them in the open market at the prevailing market prices and then distribute the aggregate sale proceeds ratably to Northrop Grumman stockholders who would otherwise have been entitled to receive fractional shares of our common stock. The amount of this payment will depend on the prices at which the distribution agent sells the aggregated fractional shares of our common stock in the open market shortly after the distribution date. We will be responsible for any payment of brokerage fees. The amount of these brokerage fees is not expected to be material to us. The receipt of cash in lieu of fractional shares of our common stock will generally result in a taxable gain or loss to the recipient stockholder. Each stockholder entitled to receive cash proceeds from these shares should consult his, her or its own tax advisor as to the stockholder’s particular circumstances. The tax consequences of the distribution are described in more detail under “—U.S. Federal Income Tax Consequences of the Spin-Off.”

In addition, at the time of the distribution, the exercise price of each outstanding option to purchase Northrop Grumman stock held by our employees on the distribution date will be reduced to reflect the value of the distribution, which will be calculated using the equitable adjustment approach contained in the existing awards.

U.S. Federal Income Tax Consequences of the Spin-Off

Northrop Grumman has received the IRS Ruling and will receive an opinion from the law firm of Ivins, Phillips & Barker substantially to the effect that, among other things, (i) the holding company reorganization, together with certain other internal reorganization transactions, will qualify for tax-free treatment, and (ii) the distribution will qualify under Section 355 of the Code as a tax-free spin-off to the holders of Northrop Grumman common stock (except with respect to cash received in lieu of fractional shares of our common stock) and will be tax-free to Northrop Grumman and HII. Assuming the holding company reorganization, together with certain other internal reorganization transactions, qualifies for tax-free treatment, and the distribution qualifies under Section 355 of the Code as tax-free:

In the holding company reorganization:

- no gain or loss will be recognized by the holders of Northrop Grumman common stock upon their receipt of New NGC common stock in exchange for their Current NGC common stock in the holding company reorganization;
- the basis of New NGC common stock received in exchange for Current NGC common stock in the holding company reorganization will be equal to the basis of the Current NGC common stock surrendered in exchange therefor; and
- the holding period of New NGC common stock received in exchange for Current NGC stock in the holding company reorganization will include the period during which the stockholder held the Current NGC common...
stock, provided the Current NGC common stock is held as a capital asset on the date of the merger in the holding company reorganization.

In the internal reorganization, neither we nor Northrop Grumman will recognize any taxable income, gain or loss.

In the distribution:

- no gain or loss will be recognized by, and no amount will be included in the income of, holders of Northrop Grumman common stock upon their receipt of shares of our common stock in the distribution;
- the basis of Northrop Grumman common stock immediately before the distribution will be allocated between the Northrop Grumman common stock and our common stock received in the distribution, in proportion with relative fair market values at the time of the distribution;
- the holding period of our common stock received by each Northrop Grumman stockholder will include the period during which the stockholder held the Northrop Grumman common stock on which the distribution is made, provided that the Northrop Grumman common stock is held as a capital asset on the distribution date;
- any cash received in lieu of fractional share interest in our common stock will give rise to taxable gain or loss equal to the difference between the amount of cash received and the tax basis allocable to the fractional share interests, determined as described above, and such gain will be capital gain or loss if the Northrop Grumman common stock on which the distribution is made is held as a capital asset on the distribution date; and
- no gain or loss will be recognized by Northrop Grumman upon the distribution of our common stock.

U.S. Treasury regulations require certain stockholders that receive stock in a spin-off to attach to their respective U.S. Federal income tax returns, for the year in which the spin-off occurs, a detailed statement setting forth certain information relating to the spin-off. Shortly after the distribution, Northrop Grumman will provide stockholders who receive our common stock in the distribution with the information necessary to comply with that requirement, as well as information to help stockholders allocate their stock basis between their Northrop Grumman common stock and our common stock.

The IRS Ruling is, and the opinion of counsel will be, conditioned on the truthfulness and completeness of certain factual statements and representations provided by Northrop Grumman and us. If those factual statements and representations are incomplete or untrue in any material respect, the IRS Ruling and opinion of counsel could become inoperative. Northrop Grumman and we have reviewed the statements of fact and representations on which the IRS Ruling is, and the opinion of counsel will be, based, and neither Northrop Grumman nor we are aware of any facts or circumstances that would cause any of the statements of fact or representations to be incomplete or untrue. Both Northrop Grumman and we have agreed to some restrictions on our future actions to provide further assurance that the distribution will qualify as a tax-free distribution under Section 355 of the Code.

If the holding company reorganization does not qualify as a tax-free reorganization, taxable gain or loss would be recognized by each holder of Northrop Grumman stock. The amount of such gain or loss would be equal to the difference between the fair market value of such holder’s New NGC stock (including our stock received in the distribution) and such holder’s adjusted basis in his, her or its Current NGC stock. In addition, if the holding company reorganization does not qualify as a tax-free organization, taxable gain would be recognized by Northrop Grumman. The amount of such gain would result in a significant U.S. Federal income tax liability to Northrop Grumman.

If the distribution does not qualify under Section 355 of the Code, each holder of Northrop Grumman common stock receiving our common stock in the distribution would be treated as receiving a taxable distribution in an amount equal to the fair market value of our common stock received, which would result in:

- a taxable dividend to the extent of the stockholder’s pro rata share of Northrop Grumman’s current and accumulated earnings and profits;
- a reduction in the stockholder’s basis in Northrop Grumman common stock to the extent the amount received exceeds such stockholder’s share of earnings and profits;
- taxable gain from the exchange of Northrop Grumman common stock to the extent the amount received exceeds both the stockholder’s share of earnings and profits and the stockholder’s basis in Northrop Grumman common stock; and
- basis in our stock equal to its fair market value on the date of the distribution.
Under certain circumstances Northrop Grumman would recognize taxable gain on the distribution. These circumstances would include the following:

- the distribution does not qualify as tax-free under Section 355 of the Code; and
- there are one or more acquisitions (including issuances) of either our stock or the stock of Northrop Grumman, representing 50% or more, measured by vote or value, of the then-outstanding stock of either corporation, and the acquisition or acquisitions are deemed to be part of a plan or series of related transactions that include the distribution. Any such acquisition of our stock within two years before or after the distribution (with exceptions, including public trading by less-than-5% stockholders and certain compensatory stock issuances) generally will be presumed to be part of such a plan unless we can rebut that presumption.

The amount of such gain would result in a significant U.S. Federal income tax liability to Northrop Grumman.

Furthermore, under certain circumstances, we would recognize taxable gain on portions of the internal reorganization. These circumstances would include the following:

- certain portions of the holding company reorganization or the internal reorganization do not qualify as a tax-free reorganization; and
- there are one or more acquisitions (including issuances and repurchases) of either our stock or the stock of NGSC, a subsidiary of Northrop Grumman, representing 50% or more, measured by vote or value, of the then-outstanding stock of either corporation, and the acquisition or acquisitions are deemed to be part of a plan or series of related transactions that include the internal reorganization. Any such acquisition of our stock within two years before or after the distribution (with exceptions, including public trading by less-than-5% stockholders and certain compensatory stock issuances) generally will be presumed to be part of such a plan unless we can rebut that presumption.

The amount of such gain would result in a significant U.S. Federal income tax liability to us, which may have a material adverse effect on our financial position, results of operations or cash flows.

We will agree to indemnify Northrop Grumman for any tax liabilities of Northrop Grumman resulting from the holding company reorganization, the internal reorganization, and the distribution under certain circumstances. Our obligation to indemnify Northrop Grumman may discourage, delay or prevent a change of control of our company. In addition, under IRS regulations, each member of the Northrop Grumman consolidated tax return group at the time of the spin-off (including us and our subsidiaries) would be severally liable to the IRS for such tax liability. The resulting tax liability may have a material adverse effect on both our and Northrop Grumman’s financial position, results of operations or cash flows.

The preceding summary of the anticipated U.S. Federal income tax consequences of the spin-off is for general information only. Northrop Grumman stockholders should consult their own tax advisors as to the specific tax consequences of the spin-off to them, including the application and effect of state, local or non-U.S. tax laws and of changes in applicable tax laws.

**Results of the Spin-Off**

After the spin-off, we will be an independent, publicly owned company. Immediately following the spin-off, we expect to have approximately 32,000 holders of shares of our common stock and approximately 48.8 million shares of our common stock outstanding, based on the number of stockholders and outstanding shares of Northrop Grumman common stock expected as of the record date. The figures assume no exercise of outstanding options and exclude shares of Northrop Grumman common stock held directly or indirectly by Northrop Grumman, if any. The actual number of shares to be distributed will be determined on the record date and will reflect any exercise of Northrop Grumman options between the date the Northrop Grumman board of directors declares the dividend for the distribution and the record date for the distribution.

For information regarding options to purchase shares of our common stock that will be outstanding after the distribution, see “Capitalization,” “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Employee Matters Agreement” and “Management.”

Before the spin-off, we will enter into several agreements with Northrop Grumman to effect the spin-off and provide a framework for our relationship with Northrop Grumman after the spin-off. These agreements will govern the relationship between us and Northrop Grumman after completion of the spin-off and provide for the allocation between us and Northrop Grumman of Northrop Grumman’s assets, liabilities and obligations. For a more detailed description of these agreements,
see “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off.”

Trading Prior to the Distribution Date

It is anticipated that, at least two trading days prior to the record date and continuing up to and including the distribution date, there will be a “when-issued” market in our common stock. When-issued trading refers to a sale or purchase made conditionally because the security has been authorized but not yet issued. The when-issued trading market will be a market for shares of our common stock that will be distributed to Northrop Grumman stockholders on the distribution date. Any Northrop Grumman stockholder that owns shares of Northrop Grumman common stock at the close of business on the record date will be entitled to shares of our common stock distributed in the spin-off. Northrop Grumman stockholders may trade this entitlement to shares of our common stock, without the shares of Northrop Grumman common stock they own, on the when-issued market. On the first trading day following the distribution date, we expect when-issued trading with respect to our common stock will end and “regular-way” trading will begin. See “Trading Market.”

Following the distribution date, we expect shares of our common stock to be listed on the NYSE under the ticker symbol “HII.” We will announce the when-issued ticker symbol when and if it becomes available.

It is also anticipated that, at least two trading days prior to the record date and continuing up to and including the distribution date, there will be two markets in Northrop Grumman common stock: a “regular-way” market and an “ex-distribution” market. Shares of Northrop Grumman common stock that trade on the regular-way market will trade with an entitlement to shares of our common stock distributed pursuant to the distribution. Shares that trade on the ex-distribution market will trade without an entitlement to shares of our common stock distributed pursuant to the distribution. Therefore, if shares of Northrop Grumman common stock are sold in the regular-way market up to and including the distribution date, the selling stockholder’s right to receive shares of our common stock in the distribution will be sold as well. However, if Northrop Grumman stockholders own shares of Northrop Grumman common stock at the close of business on the record date and sell those shares on the ex-distribution market up to and including the distribution date, the selling stockholder will still receive the shares of our common stock that they would otherwise receive pursuant to the distribution. See “Trading Market.”

Treatment of 401(k) Shares for Current and Former Employees

Our Employees Invested in the Northrop Grumman Stock Fund of the Northrop Grumman 401(k) Plan.

Our current and former employees who hold accounts in the Northrop Grumman 401(k) Plan on March 30, 2011 will have their accounts transferred to the HII 401(k) Plan, as of March 31, 2011, including any shares of Northrop Grumman common stock held in the Northrop Grumman Stock Fund under the Northrop Grumman 401(k) Plan. On the distribution date, one share of our common stock, based on the distribution ratio for every six shares of Northrop Grumman common stock held in such employee’s Northrop Grumman stock fund account, will be included in a new HII stock fund account under the HII 401(k) Plan. However, in conformity with the fiduciary responsibility requirements of ERISA, remaining shares of Northrop Grumman common stock held in our employees’ Northrop Grumman stock fund accounts following the distribution will be disposed of and allocated to another investment alternative available under the HII 401(k) Plan as directed by participants until such date as shall be determined by the Investment Committee, after which date the Investment Committee shall dispose of all remaining shares and invest the proceeds in another investment alternative to be determined by the Investment Committee.

Northrop Grumman Employees Invested in the Northrop Grumman Stock Fund of the Northrop Grumman 401(k) Plan.

Current and former Northrop Grumman employees who hold shares of Northrop Grumman common stock in their Northrop Grumman 401(k) Plan account as of the record date will receive shares of our common stock in the distribution. Our shares will be included in a new, temporary HII stock fund under the Northrop Grumman 401(k) Plan. In conformity with the fiduciary responsibility requirements of ERISA, remaining shares of our common stock held in the temporary HII stock fund following the distribution will be disposed of and allocated to another investment alternative available under the Northrop Grumman 401(k) Plan as directed by participants until such date as shall be determined by the Investment Committee, after which date the Investment Committee shall dispose of all remaining shares and invest the proceeds in another investment alternative to be determined by the Investment Committee (but this will not prohibit diversified, collectively managed investment alternatives available under the Northrop Grumman 401(k) Plan from holding our common stock or prohibit employees who use self-directed accounts in the Northrop Grumman 401(k) Plan from investing their accounts in our common stock).
Incurrence of Debt

It is anticipated that, prior to the spin-off, we will (i) receive the net proceeds from the HII Debt, (ii) enter into the HII Credit Facility and (iii) make the Contribution, all on terms acceptable to Northrop Grumman.

Conditions to the Spin-Off

We expect that the spin-off will be effective as of 12:01 a.m., Eastern time, on March 31, 2011, the distribution date, provided that the following conditions shall have been satisfied or waived by Northrop Grumman:

• the board of directors of Northrop Grumman, in its sole and absolute discretion, shall have authorized and approved the spin-off and not withdrawn such authorization and approval, and the New NGC board shall have declared the dividend of our common stock to Northrop Grumman stockholders;
• the Separation and Distribution Agreement and each ancillary agreement contemplated by the Separation and Distribution Agreement shall have been executed by each party thereto;
• the SEC shall have declared effective our registration statement on Form 10, of which this information statement is a part, under the Exchange Act, and no stop order suspending the effectiveness of the registration statement shall be in effect, and no proceedings for such shall be pending before or threatened by the SEC;
• our common stock shall have been accepted for listing on the NYSE or another national securities exchange approved by Northrop Grumman, subject to official notice of issuance;
• the internal reorganization (as described in "—Background") shall have been completed;
• Northrop Grumman shall have received the IRS Ruling and an opinion of its tax counsel, each of which shall remain in full force and effect, that the spin-off (including the internal reorganization) will not result in the recognition, for U.S. Federal income tax purposes, of gain or loss to Northrop Grumman or its stockholders, except to the extent of cash received in lieu of fractional shares;
• HII shall have (i) entered into the HII Credit Facility, (ii) received the net proceeds from the HII Debt and (iii) made the Contribution;
• no order, injunction or decree that would prevent the consummation of the distribution shall be threatened, pending or issued (and still in effect) by any governmental authority of competent jurisdiction, other legal restraint or prohibition preventing consummation of the distribution shall be in effect and no other event outside the control of Northrop Grumman shall have occurred or failed to occur that prevents the consummation of the distribution;
• no other events or developments shall have occurred prior to the distribution that, in the judgment of the board of directors of Northrop Grumman, would result in the spin-off having a significant adverse effect on Northrop Grumman or its stockholders;
• prior to the distribution, this information statement shall have been mailed to the holders of Northrop Grumman common stock as of the record date;
• our current directors shall have duly elected the individuals listed as members of our post-distribution board of directors in this information statement, and such individuals shall become the members of our board of directors immediately prior to the distribution;
• prior to the distribution, Northrop Grumman shall have delivered to us resignations from those HII positions, effective as of immediately prior to the distribution, of each individual who will be an employee of Northrop Grumman after the distribution and who is our officer or director immediately prior to the distribution; and
• immediately prior to the distribution, the Restated Certificate of Incorporation and the Restated Bylaws, each in substantially the form filed as an exhibit to the registration statement on Form 10 of which this information statement is a part, shall be in effect.
The fulfillment of the foregoing conditions will not create any obligation on Northrop Grumman’s part to effect the spin-off. We are not aware of any material federal or state regulatory requirements that must be complied with or any material approvals that must be obtained, other than compliance with SEC rules and regulations and the declaration of effectiveness of the registration statement on Form 10 by the SEC, in connection with the distribution. Northrop Grumman has the right not to complete the spin-off if, at any time prior to the distribution, the board of directors of Northrop Grumman determines, in its sole discretion, that the spin-off is not in the best interests of Northrop Grumman or its stockholders, that a sale or other alternative is in the best interests of Northrop Grumman or its stockholders or that it is not advisable for us to separate from Northrop Grumman.

Reason for Furnishing this Information Statement

This information statement is being furnished solely to provide information to Northrop Grumman’s stockholders that are entitled to receive shares of our common stock in the spin-off. This information statement is not, and is not to be construed as, an inducement or encouragement to buy, hold or sell any of our securities. We believe that the information in this information statement is accurate as of the date set forth on the cover. Changes may occur after that date and neither Northrop Grumman nor we undertake any obligation to update the information except in the normal course of our respective public disclosure obligations.
TRADING MARKET

Market for Our Common Stock

There has been no public market for our common stock. An active trading market may not develop or may not be sustained. We anticipate that trading of our common stock will commence on a “when-issued” basis at least two trading days prior to the record date and continue through the distribution date. When-issued trading refers to a sale or purchase made conditionally because the security has been authorized but not yet issued. When-issued trades generally settle within four trading days after the distribution date. If you own shares of Northrop Grumman common stock at the close of business on the record date, you will be entitled to shares of our common stock distributed pursuant to the spin-off. You may trade this entitlement to shares of our common stock, without the shares of Northrop Grumman common stock you own, on the when-issued market. On the first trading day following the distribution date, any when-issued trading with respect to our common stock will end and “regular-way” trading will begin. We intend to list our common stock on the NYSE under the ticker symbol “HII.” We will announce our when-issued trading symbol when and if it becomes available.

It is also anticipated that, at least two trading days prior to the record date and continuing up to and including the distribution date, there will be two markets in Northrop Grumman common stock: a “regular-way” market and an “ex-distribution” market. Shares of Northrop Grumman common stock that trade on the regular-way market will trade with an entitlement to shares of our common stock distributed pursuant to the distribution. Shares that trade on the ex-distribution market will trade without an entitlement to shares of our common stock distributed pursuant to the distribution. Therefore, if you sell shares of Northrop Grumman common stock in the regular-way market up to and including the distribution date, you will be selling your right to receive shares of our common stock in the distribution. However, if you own shares of Northrop Grumman common stock at the close of business on the record date and sell those shares on the ex-distribution market up to and including the distribution date, you will still receive the shares of our common stock that you would otherwise receive pursuant to the distribution.

We cannot predict the prices at which our common stock may trade before the spin-off on a “when-issued” basis or after the spin-off. Those prices will be determined by the marketplace. Prices at which trading in our common stock occurs may fluctuate significantly. Those prices may be influenced by many factors, including anticipated or actual fluctuations in our operating results or those of other companies in our industry, investor perception of our company and the shipbuilding industry, market fluctuations and general economic conditions. In addition, the stock market in general has experienced extreme price and volume fluctuations that have affected the performance of many stocks and that have often been unrelated or disproportionate to the operating performance of these companies. These are just some factors that may adversely affect the market price of our common stock. See “Risk Factors—Risks Relating to Our Common Stock.”

Transferability of Shares of Our Common Stock

We expect that upon completion of the spin-off, we will have approximately 48.8 million shares of common stock issued and outstanding, based on the number of shares of Northrop Grumman common stock expected to be outstanding as of the record date. The shares of our common stock that you will receive in the distribution will be freely transferable, unless you are considered an “affiliate” of ours under Rule 144 under the Securities Act of 1933, as amended (the “Securities Act”). Persons who can be considered our affiliates after the spin-off generally include individuals or entities that directly, or indirectly through one or more intermediaries, control, are controlled by, or are under common control with, us, and may include certain of our officers and directors. As of the record date, we estimate that our directors and officers will beneficially own 98,510 shares of our common stock. In addition, individuals who are affiliates of Northrop Grumman on the distribution date may be deemed to be affiliates of ours. Our affiliates may sell shares of our common stock received in the distribution only:

- under a registration statement that the SEC has declared effective under the Securities Act; or
- under an exemption from registration under the Securities Act, such as the exemption afforded by Rule 144.

In general, under Rule 144 as currently in effect, an affiliate will be entitled to sell, within any three-month period commencing 90 days after the date the registration statement, of which this information statement is a part, is declared effective, a number of shares of our common stock that does not exceed the greater of:

- 1.0% of our common stock then outstanding; or
- the average weekly trading volume of our common stock on the NYSE during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Sales under Rule 144 are also subject to restrictions relating to manner of sale and the availability of current public information about us.

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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.
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.
CAPITALIZATION

The following table presents NGSB’s historical capitalization at December 31, 2010 and our pro forma capitalization at that date reflecting the spin-off and the related transactions and events described in the notes to our unaudited pro forma condensed consolidated balance sheet as if the spin-off and the related transactions and events, including our financing transaction, had occurred on December 31, 2010. The capitalization table below should be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and NGSB’s historical consolidated financial statements, our unaudited pro forma condensed consolidated financial statements and the notes to those financial statements included elsewhere in this information statement.

We are providing the capitalization table below for informational purposes only. It should not be construed to be indicative of our capitalization or financial condition had the spin-off and the related transactions and events been completed on the date assumed. The capitalization table below may not reflect the capitalization or financial condition that would have resulted had we been operated as a separate, independent entity at that date and is not necessarily indicative of our future capitalization or financial condition.

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2010</th>
<th>Historical</th>
<th>Pro Forma Adjustments</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and cash equivalents</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ in millions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ 300</td>
<td></td>
<td>$ 300</td>
<td></td>
</tr>
<tr>
<td><strong>Debt, including current and long-term:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>$ 105</td>
<td></td>
<td>$ 105</td>
<td></td>
</tr>
<tr>
<td>Revolving credit facility</td>
<td>[A]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Term loan</td>
<td>$ 575 [A]</td>
<td></td>
<td>$ 575</td>
<td></td>
</tr>
<tr>
<td>Senior notes</td>
<td>$ 1,200 [A]</td>
<td></td>
<td>$ 1,200</td>
<td></td>
</tr>
<tr>
<td>Notes payable to parent</td>
<td>$ 715</td>
<td></td>
<td>$ 715 [B]</td>
<td></td>
</tr>
<tr>
<td>Accrued interest on notes payable to parent</td>
<td>$ 239</td>
<td></td>
<td>$ 239 [B]</td>
<td></td>
</tr>
<tr>
<td>Total debt</td>
<td>$ 1,059</td>
<td></td>
<td>$ 821</td>
<td>$ 1,880</td>
</tr>
<tr>
<td><strong>Equity:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>[B]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>$ 1,508 [B]</td>
<td></td>
<td>$ 1,508</td>
<td></td>
</tr>
<tr>
<td>Parent’s equity in unit</td>
<td>$ 1,933</td>
<td></td>
<td>$ 1,933 [B]</td>
<td></td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(515)</td>
<td></td>
<td>(515)</td>
<td></td>
</tr>
<tr>
<td>Total equity</td>
<td>$ 1,418</td>
<td></td>
<td>(425)</td>
<td>993</td>
</tr>
<tr>
<td><strong>Total capitalization</strong></td>
<td>$ 2,477</td>
<td>$ 396</td>
<td>$ 2,873</td>
<td></td>
</tr>
</tbody>
</table>

[A] Historically, cash received by us has been transferred to Northrop Grumman, and Northrop Grumman has funded our disbursement accounts on an as-needed basis. The pro forma cash and cash equivalents balance reflects proceeds, net of fees, of $1,729 million from the incurrence of the HII Debt (consisting of $1,200 million in notes) and the HII Credit Facility (which includes a $575 million term loan and a revolving facility of $650 million, of which approximately $137 million of letters of credit are expected to be outstanding at the time of the spin-off, and the remainder will be undrawn), less a Contribution of $1,429 million to Northrop Grumman. This remaining balance will be available for our general corporate purposes. The $1,200 million in notes consist of a $600 million 6.875% senior note due in 2018 and a $600 million 7.125% senior note due in 2021. The $575 million term loan is due in 2016 and has a variable interest rate based on LIBOR plus a spread based on leverage ratio, which at the current leverage ratio is 2.5% and may vary between 2.0% and 3.0%.

After giving effect to the capitalization transactions, $513 million of borrowing capacity would have been available under our new $650 million revolving credit facility. See “Description of Material Indebtedness” for further information on the HII Credit Facility. We expect that we will obtain approximately $137 million of letters of credit under this facility upon closing to support various performance obligations.

[B] In connection with our recapitalization, we intend to retire the notes payable to parent of $715 million and accrued interest thereon of $239 million, eliminate the parent’s equity in unit of $1,933 million, eliminate the $50 million of pro forma adjustments described below, establish the capital structure ($0 million of common stock and $1,508

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million of additional paid-in capital) of HII and make the Contribution of $1,429 million. The $50 million of pro forma adjustments consist of $5 million of capitalized debt issuance costs funded by Northrop Grumman, the removal of $28 million in accumulated Settlement Liabilities associated with Federal Contract Matters (as described in Note [B] of the Unaudited Pro Forma Condensed Consolidated Financial Statements) and the removal of $11 million in liabilities and establishment of $6 million in receivable from Northrop Grumman for uncertain federal and state tax positions (as described in Note [H] of the Unaudited Pro Forma Condensed Consolidated Financial Statements). For purposes of this capitalization table, we have used $.01 per share par value and the one-for-six exchange ratio for shares of HII common stock based on the 290,956,752 shares of Northrop Grumman common stock outstanding as of December 31, 2010 as filed in Northrop Grumman’s Form 10-K. Adjustments to establish the HII common stock and the associated additional paid-in capital were determined based on the stated value of the common stock and the number of shares outstanding.
**SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA**

The following table presents the selected historical condensed consolidated financial data for NGSB. The condensed consolidated financial data set forth below for the years ended December 31, 2010, 2009, 2008 and 2007 is derived from NGSB’s audited consolidated financial statements. NGSB’s audited consolidated financial statements for the years ended December 31, 2010, 2009 and 2008 are included elsewhere in this information statement. The condensed consolidated financial data as of and for the year ended December 31, 2006 is derived from NGSB’s unaudited consolidated financial statements that are not included in this information statement. The unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of our management include all adjustments necessary for a fair presentation of the information set forth herein.

The selected historical condensed consolidated financial and other data presented below should be read in conjunction with NGSB’s consolidated financial statements and accompanying notes and “Capitalization” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this information statement. NGSB’s condensed consolidated financial data may not be indicative of our future performance and does not necessarily reflect what our financial position and results of operations would have been had we been operating as an independent, publicly owned company during the periods presented, including changes that will occur in our operations and capitalization as a result of the spin-off from Northrop Grumman. See “Unaudited Pro Forma Condensed Consolidated Financial Statements” for a further description of the anticipated changes.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and service revenues</td>
<td>$6,723</td>
<td>$6,292</td>
<td>$6,189</td>
<td>$5,692</td>
<td>$5,319</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>—</td>
<td>—</td>
<td>2,490</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>248</td>
<td>211</td>
<td>(2,554)</td>
<td>447</td>
<td>331</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>135</td>
<td>124</td>
<td>(2,420)</td>
<td>276</td>
<td>194</td>
</tr>
<tr>
<td>Total assets</td>
<td>5,203</td>
<td>5,036</td>
<td>4,760</td>
<td>7,658</td>
<td>7,644</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>105</td>
<td>283</td>
<td>283</td>
<td>283</td>
<td>283</td>
</tr>
<tr>
<td>Total long-term obligations</td>
<td>1,559</td>
<td>1,645</td>
<td>1,761</td>
<td>1,790</td>
<td>1,784</td>
</tr>
<tr>
<td>Free cash flow (1)</td>
<td>168</td>
<td>(269)</td>
<td>121</td>
<td>364</td>
<td>164</td>
</tr>
</tbody>
</table>

(1) Free cash flow is a non-GAAP financial measure and represents cash from operating activities less capital expenditure. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Free Cash Flow” for more information on this measure.
The following table presents our unaudited pro forma condensed consolidated financial data, reflecting adjustments to NGSB’s condensed consolidated financial data for the year ended December 31, 2010. NGSB’s condensed consolidated financial data for the year ended December 31, 2010 is derived from NGSB’s audited consolidated financial statements included elsewhere in this information statement.

The unaudited pro forma condensed consolidated financial data for the year ended December 31, 2010 have been prepared to reflect the spin-off, including: (i) the distribution of 48,492,792 shares of HII common stock by Northrop Grumman to its stockholders; (ii) the incurrence of $1,775 million of the HII Debt and the HII Credit Facility by HII and the making of the $1,429 million Contribution; (iii) adjustments for certain federal contract matters in accordance with the Separation and Distribution Agreement; (iv) adjustments for uncertain federal and state tax positions in accordance with the Tax Matters Agreement; (v) the cost of special long-term incentive stock grants, which are contingent upon completion of the spin-off, in the form of restricted stock rights for our Named Executive Officers, including our President, and other key employees; and (vi) the cost of modifying certain terms of existing long-term incentive stock plans to allow continued vesting for our participants. No pro forma adjustments have been included for the Transition Services Agreement, as we expect that the costs for the Transition Services Agreement will be comparable to those included in our historical consolidated financial statements. The unaudited pro forma condensed consolidated statement of operations data presented for the year ended December 31, 2010 assumes the spin-off occurred on January 1, 2010, the first day of fiscal year 2010. The unaudited pro forma condensed consolidated statement of financial position data assumes the spin-off occurred on December 31, 2010. The assumptions used and pro forma adjustments derived from such assumptions are based on currently available information and we believe such assumptions are reasonable under the circumstances.

The unaudited pro forma condensed consolidated financial statements are not necessarily indicative of our results of operations or financial condition had the distribution and our anticipated post-spin-off capital structure been completed on the dates assumed. Also, they may not reflect the results of operations or financial condition which would have resulted had we been operating as an independent, publicly owned company during such periods. In addition, they are not necessarily indicative of our future results of operations or financial condition.
## Unaudited Pro Forma Condensed Consolidated Statement of Operations

**Year ended December 31, 2010**

### In millions except per share data

<table>
<thead>
<tr>
<th>Description</th>
<th>Historical</th>
<th>Pro Forma Adjustments</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and service revenues</td>
<td>$ 6,723</td>
<td></td>
<td>$ 6,723</td>
</tr>
<tr>
<td>Cost of sales and service revenues</td>
<td>6,475</td>
<td>(7)[A][B]</td>
<td>6,468</td>
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<tr>
<td>Operating income</td>
<td>248</td>
<td>7</td>
<td>255</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(40)</td>
<td>(80)[C]</td>
<td>(120)</td>
</tr>
<tr>
<td>Other, net</td>
<td>(2)</td>
<td></td>
<td>(2)</td>
</tr>
<tr>
<td>Earnings before income taxes</td>
<td>206</td>
<td>(73)</td>
<td>133</td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>71</td>
<td>(17)[D]</td>
<td>54</td>
</tr>
<tr>
<td>Net earnings</td>
<td>$ 135</td>
<td>$ (56)</td>
<td>$ 79</td>
</tr>
<tr>
<td>Other comprehensive income, net of tax</td>
<td>16</td>
<td></td>
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<tr>
<td>Comprehensive income</td>
<td>$ 151</td>
<td>$ (56)</td>
<td>$ 95</td>
</tr>
</tbody>
</table>

Basic earnings per share: $ 1.60  
Basic weighted average common shares outstanding: 49.4 [I]  
Diluted earnings per share: $ 1.60  
Diluted weighted average common shares outstanding: 49.4 [I]

*See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements.*

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HII
Unaudited Pro Forma Condensed Consolidated Statement of Financial Position

November 30, 2010

$ in millions

<table>
<thead>
<tr>
<th></th>
<th>Historical</th>
<th>Adjustments</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<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>Cash and cash equivalents</td>
<td>300 [E]</td>
<td>300</td>
<td>300</td>
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<tr>
<td>Accounts receivable, net</td>
<td>728</td>
<td>728</td>
<td>728</td>
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<tr>
<td>Inventoried costs, net</td>
<td>293</td>
<td>293</td>
<td>293</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>284</td>
<td>284</td>
<td>284</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>1,313</td>
<td>300</td>
<td>1,613</td>
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<tr>
<td>Property, plant and equipment, net</td>
<td>1,997</td>
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<td>1,997</td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td></td>
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</tr>
<tr>
<td>Goodwill</td>
<td>1,134</td>
<td></td>
<td>1,134</td>
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<tr>
<td>Other purchased intangibles, net</td>
<td>587</td>
<td>587</td>
<td>587</td>
</tr>
<tr>
<td>Pension plan asset</td>
<td>131</td>
<td></td>
<td>131</td>
</tr>
<tr>
<td>Miscellaneous other assets</td>
<td>41 [E][H]</td>
<td></td>
<td>98</td>
</tr>
<tr>
<td><strong>Total other assets</strong></td>
<td>1,893</td>
<td>57</td>
<td>1,950</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>5,203</td>
<td>357</td>
<td>5,560</td>
</tr>
<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>715</td>
<td>(715) [G]</td>
<td>29</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>29 [E]</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>Trade accounts payable</td>
<td>274</td>
<td></td>
<td>274</td>
</tr>
<tr>
<td>Current portion of workers’ compensation liabilities</td>
<td>197</td>
<td>197</td>
<td></td>
</tr>
<tr>
<td>Accrued interest on notes payable to parent</td>
<td>239 [G]</td>
<td>239</td>
<td></td>
</tr>
<tr>
<td>Current portion of post-retirement plan liabilities</td>
<td>146</td>
<td>146</td>
<td></td>
</tr>
<tr>
<td>Accrued employees’ compensation</td>
<td>203</td>
<td>203</td>
<td></td>
</tr>
<tr>
<td>Provision for contract losses</td>
<td>107</td>
<td>107</td>
<td></td>
</tr>
<tr>
<td>Advance payments and billings in excess of costs incurred</td>
<td>80</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>265</td>
<td>(28) [B]</td>
<td>237</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>2,226</td>
<td>(953)</td>
<td>1,273</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>105</td>
<td></td>
<td>105</td>
</tr>
<tr>
<td>Revolving credit facility</td>
<td></td>
<td>[F]</td>
<td></td>
</tr>
<tr>
<td>Term loan</td>
<td>546 [E]</td>
<td>546</td>
<td></td>
</tr>
<tr>
<td>Senior notes</td>
<td>1,200 [E]</td>
<td>1,200</td>
<td></td>
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<tr>
<td>Other post-retirement plan liabilities</td>
<td>567</td>
<td>567</td>
<td></td>
</tr>
<tr>
<td>Pension plan liabilities</td>
<td>381</td>
<td>381</td>
<td></td>
</tr>
<tr>
<td>Workers’ compensation liabilities</td>
<td>351</td>
<td>351</td>
<td></td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>99</td>
<td></td>
<td>99</td>
</tr>
<tr>
<td><strong>Other long-term liabilities</strong></td>
<td>56</td>
<td>(11) [H]</td>
<td>45</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>3,785</td>
<td>782</td>
<td>4,567</td>
</tr>
<tr>
<td>Common stock (par value $.01)</td>
<td></td>
<td>[G]</td>
<td></td>
</tr>
<tr>
<td>Additional paid-in-capital</td>
<td>1,508 [G][E]</td>
<td>1,508</td>
<td></td>
</tr>
<tr>
<td>Parent’s equity in unit</td>
<td>1,933</td>
<td>(1,933) [G]</td>
<td></td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(515)</td>
<td>(515)</td>
<td></td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>1,418</td>
<td>(425)</td>
<td>993</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>5,203</td>
<td>357</td>
<td>5,560</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] We believe that costs required to operate the shipbuilding business as a standalone company approximate those costs allocated to NGSB by Northrop Grumman in the historical NGSB financial statements. Accordingly, no pro forma adjustment has been made for incremental operating costs. However, we have included two adjustments totaling an $13 million increase to cost of sales and service revenues for the year ended December 31, 2010, related to additional stock-based compensation associated with the anticipated spin-off transaction.

In connection with the anticipated spin-off, retention stock awards are expected to be granted to key employees to ensure a successful transition and business continuity. Retention grants will be delivered in the form of restricted stock rights with cliff vesting on the third anniversary of the grant. The annual expense for the retention grants included in the pro forma adjustment is $10 million (based on a total grant value of $6 million for the Named Executive Officers (the “NEOs”) and $24 million for other key employees). The total value of these grants was determined based on the criticality of the employee’s position and on a percentage of the employees’ base salary. We cannot determine the number of shares expected to be granted at this time as each share will be valued based on HII’s stock price, which is not yet known.

An additional adjustment of $3 million in compensation expense was included in cost of sales and service revenues to reflect the full year impact of a modification to the terms of Northrop Grumman’s long-term incentive stock plan. The December 2010 modification clarified that certain Northrop Grumman participants transferring to HII would not be deemed terminated under the plan. The plan amendment was made in contemplation of the spin-off to allow continued vesting for our participants. The amount of the adjustment represents the vested portion of the difference between the aggregate value of the incentive awards at the date of the amendment and the value of the awards at their original date of grant.

There is approximately $100 million of products and services provided by Northrop Grumman, at its cost without margin, to HII to support HII’s contracts included in the historical cost of sales and service revenues. Northrop Grumman’s profit margin rate for the type of work provided to NGSB for the year ended December 31, 2010 was approximately 13.4%. Subsequent to the completion of the anticipated spin-off transaction, we will negotiate with Northrop Grumman the terms of future subcontract work to be performed by Northrop Grumman. Because the final terms of such work have not been negotiated and the ultimate margin rates to be paid by HII are unknown, we have not included any pro forma adjustments for incremental subcontract costs.

[B] A reduction of $20 million to cost of sales and service revenues and $28 million to other current liabilities represents the removal of the 2010 costs and Settlement Liabilities, respectively, associated with specific Federal Contract Matters (as defined in the Separation and Distribution Agreement) relating to costs incurred by Northrop Grumman. These amounts were allocated in the historical financial statements to represent HII’s proportionate share of Northrop Grumman’s accruals for claims and audits identifying potentially disallowed costs and penalties. However, the Separation and Distribution Agreement provides that post separation, HII and Northrop Grumman will each be solely responsible for the resolution of their respective pre-separation allowable cost audits relating to costs incurred at either the HII or Northrop Grumman level. The pro forma adjustment removes all costs incurred by Northrop Grumman that were previously allocated to HII, but which will become the sole responsibility of Northrop Grumman post separation pursuant to the Separation and Distribution Agreement. Costs and obligations incurred by HII for its potential disallowed costs and penalties have been included in the consolidated financial statements and are insignificant.

[C] The adjustment to interest expense includes $115 million for the year ended December 31, 2010, related to HII’s issuance of $1,775 million of debt as described in Note [E] and the removal of $35 million of interest associated with the elimination of $27 million in interest on the notes payable to parent as described in Note [G] and $8 million in interest related to the $178 million in Go Zone IRBs that was replaced by an equal amount of note payable to parent in November 2010 and effectively refinanced as part of the HII Debt. The pro forma interest expense of $115 million represents interest expense of $103 million using the interest rates and maturities for the $1,775 debt issuance described in Note [E], plus $4 million in interest associated with outstanding letters of credit under the HII Credit Facility and $8 million in amortization of debt issuance costs, determined as described below.

The $27 million interest adjustment was determined by applying the 5% annual interest rate to $537 million of principal for two of the notes payable to parent outstanding for the entire year and by applying the 4.55% annual interest rate to $178 million of principal for the note payable to parent that replaced the Go Zone IRBs in November 2010.
The amortization of debt issuance costs of $8 million was determined by calculating the annual cost associated with the $51 million of capitalized costs described in Note [E]. The components of the capitalized costs were $25 million for the HII Credit Facility term loan to be amortized over five years, $13 million for the HII Debt note due in 2018 to be amortized over seven years and $13 million for the other HII Debt note due in 2021 to be amortized over 10 years.

[D] The adjustment to Federal income taxes represents the tax effect of the pro forma adjustments impacting earnings before income taxes calculated using the U.S. statutory tax rate of 35% and an increase of $9 million in tax expense associated with the removal of the liability for uncertain federal tax positions as discussed in Note [H].

[E] These adjustments reflect the incurrence of the HII Debt and entry into the term loan under the HII Credit Facility in an aggregate amount of $1,775 million and the Contribution in the amount of $1,429 million. The $1,200 million in HII Debt consist of a $600 million 6.875% senior note due in 2018 and a $600 million 7.125% senior note due in 2021. The $575 million term loan is due in 2016 and has a variable interest rate based on LIBOR. The rate used in the pro forma adjustment, which averaged 2.84% for 2010, represents the LIBOR rates measured quarterly during the year, plus 2.5%. Costs and expenses related to obtaining the HII Debt including $5 million in costs funded by Northrop Grumman (as discussed in Note [G]), for an estimated total of $51 million, will be capitalized in accordance with GAAP.

[F] After giving effect to the capitalization transactions, $513 million of borrowing capacity would have been available under our new revolving credit facility of $650 million. See “Description of Material Indebtedness” for further information on the HII Credit Facility. We expect that we will obtain approximately $137 million of letters of credit under this facility upon closing to support various performance obligations, and we expect that there will be no outstanding borrowings under this facility at the date of separation.

[G] In connection with our recapitalization, we intend to retire the notes payable to parent of $715 million and accrued interest thereon of $239 million, eliminate the parent’s equity in unit of $1,933 million, eliminate the $50 million of pro forma adjustments described below, establish the capital structure ($0 million of common stock and $1,508 million of additional paid-in capital) of HII and make the Contribution of $1,429 million. The $50 million of pro forma adjustments consist of $5 million of capitalized debt issuance costs funded by Northrop Grumman, the removal of $28 million in accumulated Settlement Liabilities associated with Federal Contract Matters as described in Note [B] and the removal of $11 million in liabilities and establishment of $6 million in receivable from Northrop Grumman for uncertain federal and state tax positions as described in Note [H]. For purposes of these pro forma financial statements, we have used $.01 per share par value and the one-for-six exchange ratio for shares of HII common stock based on the 290,956,752 shares of Northrop Grumman common stock outstanding as of December 31, 2010 as filed in Northrop Grumman’s Form 10-K. Adjustments to establish the HII common stock and the associated additional paid-in capital were determined based on the stated value of the common stock and the number of shares outstanding.

[H] The adjustment of $9 million to federal income taxes and $11 million to other long-term liabilities represents the removal of the 2010 federal tax benefit and liabilities for all uncertain federal tax positions and a portion of the uncertain state tax positions, respectively. These amounts were allocated in the historical financial statements to represent HII’s proportionate share of Northrop Grumman’s liabilities for uncertain federal and state tax positions. However, the Tax Matters Agreement provides that post separation, Northrop Grumman will be solely responsible for the resolution of these pre-separation uncertain tax positions. In certain state tax jurisdictions where NGSB’s pre-separation results were filed in state tax returns separate from Northrop Grumman, the Tax Matters Agreement requires Northrop Grumman to reimburse HII for pre-separation uncertain state tax positions. The adjustment of $6 million to miscellaneous other assets represents a receivable from Northrop Grumman for these items.

[I] The basic and diluted weighted average shares outstanding were determined by applying the one-for-six exchange ratio described in Note [G] to Northrop Grumman’s basic weighted average shares outstanding as of December 31, 2010 as filed in Northrop Grumman’s Form 10-K. We have assumed the same basic and diluted weighted average shares outstanding because the potentially dilutive effect of the outstanding stock awards and stock options was not material.
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

You should read the following discussion of our results of operations and financial condition together with the audited and unaudited historical consolidated financial statements and the notes thereto included elsewhere in this information statement as well as the discussion in the section of this information statement entitled “Business.” This discussion contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in the sections of this information statement entitled “Risk Factors” and “Special Note About Forward-Looking Statements.”

The consolidated financial statements, which are discussed below, reflect the historical financial condition, results of operations and cash flows of Northrop Grumman Shipbuilding, Inc., which will be our wholly owned subsidiary at the time of the distribution. The financial information discussed below and included in this information statement, however, may not necessarily reflect what our financial condition, results of operations or cash flows would have been had we been a stand alone company during the periods presented or what our financial condition, results of operations and cash flows may be in the future.

Overview

The Spin-Off

On March 14, 2011, Northrop Grumman approved the spin-off of HII from Northrop Grumman, following which we will be an independent, publicly owned company. As part of the spin-off, Northrop Grumman will complete an internal reorganization, as described in “The Spin-Off—Background.” To complete the spin-off, Northrop Grumman will, following the internal reorganization, distribute to its stockholders all of the shares of our common stock. After completion of the spin-off we will be an independent, publicly owned company and will own and operate the Northrop Grumman shipbuilding business. The spin-off is subject to certain customary conditions. We also expect to enter into a series of agreements with Northrop Grumman, including the Separation and Distribution Agreement and other agreements, which will govern the relationship between us and Northrop Grumman after completion of the spin-off and provide for the allocation between us and Northrop Grumman of various assets, liabilities and obligations (including employee benefits, intellectual property, insurance and tax-related assets and liabilities). These agreements are described in “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off” Consummation of the spin-off is subject to the satisfaction or waiver of certain conditions, as described in “The Spin-Off—Conditions to the Spin-Off.”

Our Business

Our business is organized into two operating segments, Gulf Coast and Newport News, which also represent our reportable segments. Through our Gulf Coast shipyards, we are the sole supplier and builder of amphibious assault and expeditionary warfare ships to the U.S. Navy, the sole builder of National Security Cutters for the U.S. Coast Guard, and one of only two companies that builds the U.S. Navy’s current fleet of DDG-51 Arleigh Burke-class destroyers. Through our Newport News shipyard, we are the nation’s sole industrial designer, builder, and refueler of nuclear-powered aircraft carriers, and one of only two companies currently designing and building nuclear-powered submarines for the U.S. Navy. We build more ships, in more ship types and classes, than any other U.S. naval shipbuilder. We are the exclusive provider of RCOH services for nuclear-powered aircraft carriers, a full-service systems provider for the design, engineering, construction and life cycle support of major programs for surface ships and a provider of fleet support and maintenance services for the U.S. Navy. As prime contractor, principal subcontractor, team member or partner, we participate in many high-priority defense technology programs in the United States. We conduct most of our business with the U.S. Government, principally the Department of Defense.

Factors Affecting Our Results of Operations

Our operating results are primarily affected by the following factors:

Contracts

We generate the majority of our business from long-term government contracts for design, production and support activities. Government contracts typically include the following cost elements: direct material, labor and subcontracting costs, and certain indirect costs including allowable general and administrative costs. Unless otherwise specified in a contract, costs billed to contracts with the U.S. Government are determined under the requirements of the FAR and Cost Accounting Standards (“CAS”) regulations as allowable and allocable costs. Examples of costs incurred by us and not
billed to the U.S. Government in accordance with the requirements of the FAR and CAS regulations include, but are not limited to, certain legal costs, lobbying costs, charitable donations, interest expense and advertising costs.

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

Our long-term contracts typically fall into one of two broad categories:

**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 99% of our 2010 revenue was generated by flexibly priced contracts (including certain fixed-price incentive contracts which have exceeded their cost-share limit), with the remaining 1% from firm fixed-price arrangements. Substantially all of our revenue for 2010 was derived from the U.S. Government.

**Contract Fees** — Negotiated contract fee structures for both flexibly priced and fixed-price contracts include, but are not limited to: fixed-fee amounts, cost sharing arrangements to reward or penalize for either under or over cost target performance, positive award fees and negative penalty arrangements. Profit margins may vary materially depending on the negotiated contract fee arrangements, percentage-of-completion of the contract, the achievement of performance objectives, and the stage of performance at which the right to receive fees, particularly under incentive and award fee contracts, is finally determined.

**Award Fees** — Certain contracts contain provisions consisting of award fees based on performance criteria such as cost, schedule, quality and technical performance. Award fees are determined and earned based on an evaluation by the customer of our performance against such negotiated criteria. Fees that can be reasonably assured and reasonably estimated are recorded over the performance period of the contract.

**Impacts from Hurricanes**

In August 2005, our shipyards in Louisiana and Mississippi sustained significant windstorm damage as a result of Hurricane Katrina, causing work and production delays. We incurred costs to replace or repair and improve destroyed and damaged assets, suffered losses under our contracts and incurred substantial costs to clean up and recover our operations. We invested significant capital to harden, protect and modernize our Pascagoula facilities, and to ensure the shipyard’s robustness. In 2008, as a result of Hurricane Gustav, our Gulf Coast shipyards experienced a shut-down for several days and a resulting minor delay in ship construction throughout the yards; however, the storm caused no significant physical damage to the yards, we believe in part due to our successful hardening and improvement after Hurricane Katrina. Also in 2008, Hurricane Ike severely impacted a subcontractor’s operations in Texas. The subcontractor produced compartments for two of the LPD amphibious transport dock ships under construction at the Gulf Coast shipyards. As a result of the delays and cost growth caused by the subcontractor’s production delays, our operating income was reduced during the second half of 2008.

**Recent Developments in U.S. Cost Accounting Standards (CAS) Pension Recovery Rules**

A substantial portion of our current and retired employee population is covered by pension plans, the costs of which are dependent upon various assumptions, including estimates of rates of return on benefit-related assets, discount rates for future payment obligations, rates of future cost growth and trends for future costs. In addition, funding requirements for benefit obligations of our pension plans are subject to legislative and other government regulatory actions. For example, due to government regulations, pension plan cost recoveries under our government contracts may occur in different periods from when those pension costs are accrued for financial statement purposes or when pension funding is made. Timing differences between pension costs accrued for financial statement purposes or when pension funding occurs compared to when such costs are recoverable as allowable costs under our government contracts could have a material adverse effect on our cash flow from operations. See “Notes to Consolidated Financial Statements—Note 17.”
In addition, on May 10, 2010, the CAS Board published a Notice of Proposed Rulemaking (“NPRM”) that, if adopted, would provide a framework to partially harmonize the CAS rules with the Pension Protection Act of 2006 (“PPA”) funding requirements. The NPRM would “harmonize” by partially mitigating the mismatch between CAS costs and PPA-amended ERISA minimum funding requirements. Until the final rule is published, and to the extent that the final rule does not completely eliminate mismatches between ERISA funding requirements and CAS pension costs, government contractors maintaining defined benefit pension plans will continue to experience a timing mismatch between required contributions and pension expenses recoverable under CAS. We expect the rule to be issued in 2011. The final rule is expected to apply to contracts starting the year following the award of the first CAS covered contract after the effective date of the new rule. This would mean the rule would most likely apply to our contracts in 2012. We anticipate that contractors will be entitled to an equitable adjustment on existing contracts for any additional CAS contract costs resulting from the final rule.

Consolidated Operating Results

Selected financial highlights are presented in the table below:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and service revenues</td>
<td>$6,723</td>
<td>$6,292</td>
<td>$ 6,189</td>
</tr>
<tr>
<td>Cost of sales and service revenues</td>
<td>5,812</td>
<td>5,442</td>
<td>5,489</td>
</tr>
<tr>
<td>Corporate home office and general and administrative costs</td>
<td>663</td>
<td>639</td>
<td>564</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>—</td>
<td>—</td>
<td>2,490</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>248</td>
<td>211</td>
<td>(2,354)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>40</td>
<td>36</td>
<td>40</td>
</tr>
<tr>
<td>Other, net</td>
<td>(2)</td>
<td>1</td>
<td>—</td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>71</td>
<td>52</td>
<td>26</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>135</td>
<td>124</td>
<td>(2,420)</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>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product sales</td>
<td>$5,798</td>
<td>$5,046</td>
<td>$5,207</td>
</tr>
<tr>
<td>Service revenues</td>
<td>925</td>
<td>1,246</td>
<td>982</td>
</tr>
<tr>
<td>Total sales and service revenues</td>
<td>$6,723</td>
<td>$6,292</td>
<td>$6,189</td>
</tr>
</tbody>
</table>

2010 — Product sales increased $752 million, or 15%, from 2009. The increase is primarily due to higher sales volume in the LPD and LHA expeditionary warfare programs, the CVN-78 Gerald R. Ford aircraft carrier construction program, the CVN-71 USS Theodore Roosevelt RCOH and the SSN-774 Virginia-class submarine construction program. These increases were partially offset by reduced sales in 2010 due to the 2009 deliveries of LHD-8 USS Makin Island and CVN-77 USS George H.W. Bush. Additionally, during the second quarter of 2010 we announced the wind down of shipbuilding operations at the Avondale facility in 2013 (see “Notes to Consolidated Financial Statements—Note 4”) and reduced product revenues by $115 million to reflect revised estimates to complete LPD-23 and LPD-25. In 2009, we reduced product revenues by $160 million to reflect revised estimates to complete the LPD-class ships and LHA-6 America.

64
Service revenues decreased $321 million, or 26%, from 2009. The decrease is primarily due to the completion of the CVN-65 USS Enterprise Extended Dry-docking Selected Restricted Availability (“EDSRA”) in the second quarter of 2010.

2009 — Product sales decreased $161 million, or 3%, from 2008. The decrease was primarily due to the delivery of several ships in the second and third quarters of 2009, including the aircraft carrier CVN-77 USS George H.W. Bush, the expeditionary ship LHD-8 USS Makin Island, and the surface combatant DDG-105 USS Dewey. The lower volume associated with these ship deliveries during the year was partially offset by higher sales on the construction of SSN-774 Virginia-class submarines and production ramp-ups in the LPD program.

Service revenues increased $264 million, or 27%, from 2008. The increase was primarily due to higher volume on the CVN-65 USS Enterprise EDSRA and Post-Shakedown Availabilities on the CVN-77 USS George H.W. Bush and CVN-70 USS Carl Vinson.

**Cost of Sales and Service Revenues**

Cost of sales and service revenues and corporate home office and other general and administrative costs were as follows:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of product sales</td>
<td><strong>$5,042</strong></td>
<td><strong>$4,415</strong></td>
<td><strong>$4,672</strong></td>
</tr>
<tr>
<td>% of product sales</td>
<td>87.0%</td>
<td>87.5%</td>
<td>89.7%</td>
</tr>
<tr>
<td>Cost of service revenues</td>
<td><strong>770</strong></td>
<td><strong>1,027</strong></td>
<td><strong>817</strong></td>
</tr>
<tr>
<td>% of service revenues</td>
<td>83.2%</td>
<td>82.4%</td>
<td>83.2%</td>
</tr>
<tr>
<td>Corporate home office and general and administrative costs</td>
<td><strong>663</strong></td>
<td><strong>639</strong></td>
<td><strong>564</strong></td>
</tr>
<tr>
<td>% of total sales and service revenues</td>
<td>9.9%</td>
<td>10.2%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>—</td>
<td>—</td>
<td><strong>2,490</strong></td>
</tr>
<tr>
<td>Cost of sales and service revenues</td>
<td><strong>$6,475</strong></td>
<td><strong>$6,081</strong></td>
<td><strong>$8,543</strong></td>
</tr>
</tbody>
</table>

**Cost of Product Sales and Service Revenues**

2010 — Cost of product sales increased $627 million, or 14%, from 2009 primarily as a result of the higher sales volume described above. Cost of product sales as a percentage of product sales declined slightly year over year principally as a result of lower unfavorable margin adjustments in our Gulf Coast segment in 2010 relative to 2009 (see “Segment Operating Income (Loss)” below).

Cost of service revenues decreased $257 million, or 25%, from 2009 primarily as a result of the lower sales volume described above. The modest increase in cost of service revenues as a percentage of service revenues is the result of normal year-to-year variances in contract mix.

2009 — Cost of product sales in 2009 decreased $257 million, or 6%, from 2008 primarily as a result of the lower sales volume described above. Cost of product sales as a percentage of product sales declined year over year principally as a result of lower unfavorable margin adjustments in our Gulf Coast segment in 2009 relative to 2008 (see “Segment Operating Income (Loss)” below).

Cost of service revenues in 2009 increased $210 million, or 26%, from 2008 primarily as a result of the higher sales volume described above. The modest decrease in cost of service revenues as a percentage of service revenues is the result of normal year-to-year variances in contract mix.

**Corporate Home Office and Other General and Administrative Costs**

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

2010 — Corporate home office and other general and administrative expenses in 2010 increased to $663 million from $639 million in 2009 primarily as a result of higher cost allocations for Northrop Grumman management and support services. The Northrop Grumman management and support services expense in 2010 increased to $115 million from $82 million in 2009. The increase in management and support services allocations reflects higher employee compensation expenses in 2010 and the impact of the final allocation of prior year overheads. As a percentage of total sales and service revenues, these costs decreased year over year due principally to the higher sales volume in 2010.
2009 — Corporate home office and other general and administrative expenses in 2009 increased to $639 million from $564 million in 2008 primarily as a result of higher net pension and post-retirement benefits expense and increased state tax expense. These 2009 increases were partially offset by lower cost allocations for Northrop Grumman management and support services, which included a larger favorable impact of final allocation of prior year overheads. As a percentage of total sales and service revenues, these costs increased year over year due principally to the cost increases described above, partially offset by the higher sales volume in 2009.

Goodwill Impairment

In 2008, we recorded a non-cash charge totaling $2.5 billion for the impairment of goodwill, driven primarily by adverse equity market conditions that caused a decrease in current market multiples and Northrop Grumman’s stock price as of November 30, 2008. See "Notes to Consolidated Financial Statements—Note 9.”

Operating Income (Loss)

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

We internally manage our operations by reference to “segment operating income.” Segment operating income is defined as operating income before net pension and post-retirement benefits adjustment and deferred state income taxes, neither of which affects segment performance. Segment operating income is one of the key metrics we use to evaluate operating performance. Segment operating income is not, however, a measure of financial performance under the generally accepted accounting principles in the United States of America (“GAAP”), and may not be defined and calculated by other companies in the same manner.

The table below reconciles segment operating income to total operating income:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment operating income (loss)</td>
<td>$294</td>
<td>$284</td>
<td>$(2,328)</td>
</tr>
<tr>
<td>Net pension and post-retirement benefits adjustment</td>
<td>(49)</td>
<td>(88)</td>
<td>(25)</td>
</tr>
<tr>
<td>Deferred state income taxes</td>
<td>3</td>
<td>15</td>
<td>(1)</td>
</tr>
<tr>
<td>Total operating income (loss)</td>
<td>$248</td>
<td>$211</td>
<td>$(2,354)</td>
</tr>
</tbody>
</table>

Segment Operating Income (Loss)

2010 — Segment operating income was $294 million, an increase of $10 million from 2009. Segment operating income was 4.3% and 4.5% of sales and service revenues for 2010 and 2009, respectively. In 2010, we recorded net performance adjustments of $132 million on the LPD-22 through LPD-25 contract, including the effect of a $113 million charge for the cumulative effect of the $210 million of incremental costs expected in connection with our decision to wind down shipbuilding operations at the Avondale facility in 2013 (see “Notes to Consolidated Financial Statements—Note 4”). Results for 2010 also include an unfavorable adjustment of $30 million to reflect additional costs to complete post-delivery work on LHD-8 USS Makin Island (see “Notes to Consolidated Financial Statements—Note 6”). Results for 2009 included unfavorable performance adjustments totaling $171 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 Consolidated Financial Statements—Note 6”). Activity within each segment is discussed in “—Segment Operating Results” below.

2009 — Segment operating income was $284 million as compared with a segment operating loss of $2.3 billion in 2008. The increase was primarily due to the 2008 goodwill impairment charge of $2.5 billion (see “Notes to Consolidated Financial Statements—Note 9”), and improved performance on the LHD expeditionary warfare program as compared to 2008. In 2008, the Gulf Coast segment had net negative performance adjustments of $263 million due principally to adjustments on the LHD-8 contract, as well as cost growth and schedule delays on the LPD program and the effects of Hurricane Ike on a subcontractor’s performance (see “Notes to Consolidated Financial Statements—Notes 6 and 15”).

Net Pension and Post-Retirement Benefits Adjustment

Net pension and post-retirement benefits adjustment reflects the difference between expenses for pension and other post-retirement benefits determined in accordance with GAAP and the expenses for these items included in segment operating income in accordance with CAS.

2010 — The net pension and post-retirement benefits adjustment was an expense of $49 million and $88 million in 2010 and 2009, respectively. The decrease in net expense in 2010 is primarily due to lower GAAP pension expense principally as a result of favorable returns on pension plan assets in 2009.
2009 — The net pension and post-retirement benefits adjustment was an expense of $88 million and $25 million in 2009 and 2008, respectively. The increase in net expense in 2009 was primarily due to negative returns on plan assets in 2008.

Deferred State Income Taxes
Deferred state income taxes reflect the change in deferred state tax assets and liabilities in the period. These amounts are recorded within operating income while the current period state income tax expense is charged to contract costs and included in cost of sales and service revenues in segment operating income.

2010 — The benefit provided by deferred state income taxes in 2010 was $3 million, compared to a benefit of $15 million in 2009. The change was primarily due to the timing of contract-related deductions.

2009 — The benefit provided by deferred state income taxes in 2009 was $15 million, compared to an expense of $1 million in 2008. The change was primarily due to the timing of contract-related deductions.

Interest Expense
2010 — Interest expense in 2010 increased $4 million as compared with 2009. The increase is primarily due to lower capitalized interest in 2010, which resulted from a lower level of long-term capital projects in 2010 as compared to 2009.

2009 — Interest expense in 2009 decreased $4 million, or 10%, as compared with 2008. The decrease is primarily due to higher capitalized interest in 2009, which resulted from a higher level of long-term capital projects in 2009 as compared to 2008.

Other, net
2010 — Other, net for 2010 decreased $3 million as compared with 2009. The decrease is primarily due to the write off of $2 million of capitalized debt issuance costs associated with the partial retirement of GO Zone IRBs in the fourth quarter of 2010 pursuant to a tender offer. See “—Financing Activities” below and also “Notes to Consolidated Financial Statements—Note 11.”

U.S. Federal Income Taxes
2010 — Our effective tax rate on earnings from continuing operations for 2010 was 34.5% compared with 29.5% in 2009. The increase in effective tax rate is due to the elimination of certain tax benefits with the passage of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 and a decrease in the manufacturers’ deduction and the expiration of wage credit benefits, partially offset by the effects of the settlement with the Internal Revenue Service and the U.S. Congressional Joint Committee on Taxation of our parent’s tax returns for the years 2004 through 2006. See “Notes to Consolidated Financial Statements—Note 10.”

2009 — Our effective tax rate on earnings from continuing operations for 2009 was 29.5% compared with 27.1% in 2008 (excluding the non-cash, non-deductible goodwill impairment charge of $2.5 billion). The effective tax rate for 2008 was lower than 2009 due to the benefit of a higher wage credit in 2008 offset by a higher manufacturing deduction in 2009.
## Segment Operating Results

### Basis of Presentation

We are aligned into two reportable segments: Gulf Coast and Newport News.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales and Service Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>$3,027</td>
<td>$2,865</td>
<td>$2,848</td>
</tr>
<tr>
<td>Newport News</td>
<td>3,775</td>
<td>3,534</td>
<td>3,427</td>
</tr>
<tr>
<td>Intersegment eliminations</td>
<td>(79)</td>
<td>(107)</td>
<td>(86)</td>
</tr>
<tr>
<td><strong>Total sales and service revenues</strong></td>
<td>$6,723</td>
<td>$6,292</td>
<td>$6,189</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Income (Loss)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>$(61)</td>
<td>$(29)</td>
<td>$(1,433)</td>
</tr>
<tr>
<td>Newport News</td>
<td>355</td>
<td>313</td>
<td>(895)</td>
</tr>
<tr>
<td><strong>Total Segment Operating Income (Loss)</strong></td>
<td>294</td>
<td>284</td>
<td>(2,328)</td>
</tr>
<tr>
<td>Non-segment factors affecting operating income (loss)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net pension and post-retirement benefits adjustment</td>
<td>(49)</td>
<td>(88)</td>
<td>(25)</td>
</tr>
<tr>
<td>Deferred state income taxes</td>
<td>3</td>
<td>15</td>
<td>(1)</td>
</tr>
<tr>
<td><strong>Total operating income (loss)</strong></td>
<td>$248</td>
<td>$211</td>
<td>$(2,354)</td>
</tr>
</tbody>
</table>

### Key Segment Financial Measures

#### Sales and Service Revenues

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

#### Segment Operating Income

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

#### Program Descriptions

For convenience, a brief description of certain programs discussed in this registration statement on Form 10 is included in the “Glossary of Programs” beginning on page 15.
Gulf Coast

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and service revenues</td>
<td>$3,027</td>
<td>$2,865</td>
<td>$2,848</td>
</tr>
<tr>
<td>Segment operating loss</td>
<td>(61)</td>
<td>(29)</td>
<td>(1,433)</td>
</tr>
<tr>
<td>As a percentage of segment sales</td>
<td>(2.0%)</td>
<td>(1.0%)</td>
<td>(50.3%)</td>
</tr>
</tbody>
</table>

Sales and Service Revenues

2010 — Gulf Coast revenues increased $162 million, or 6%, from 2009, primarily driven by $339 million higher sales in Expeditionary Warfare, partially offset by $122 million lower sales in Surface Combatants and $62 million lower sales in Coast Guard & Coastal Defense. The increase in Expeditionary Warfare was due to higher sales volume in the LPD program and on LHA-6 *America*, partially offset by lower sales in 2010 due to the delivery of LHD-8 USS *Makin Island* in 2009. The decrease in Surface Combatants was primarily due to lower sales volume on the DDG-51 program following delivery of DDG-105 USS *Dewey* in the third quarter of 2009. The decrease in Coast Guard & Coastal Defense was primarily due to lower sales volume following delivery of NSC-2 USCGC *Waesche* in the fourth quarter of 2009.

2009 — Gulf Coast revenues increased $17 million from 2008, primarily driven by $81 million higher sales in Expeditionary Warfare, partially offset by $64 million lower sales in Surface Combatants. The increase in Expeditionary Warfare was due to higher sales volume in the LPD program due to production ramp-ups, partially offset by the delivery of LHD-8 USS *Makin Island* in the second quarter of 2009. The decrease in Surface Combatants was primarily due to lower sales volume on the DDG-51 program following delivery of DDG-105 USS *Dewey* in the third quarter.

Segment Operating Income

2010 — Gulf Coast operating loss was $61 million as compared with a loss of $29 million in 2009. The increase in operating loss was caused primarily by unfavorable performance on Expeditionary Warfare programs and a lower level of operating income on other programs resulting from the sales volume reductions described above. In Expeditionary Warfare, we recorded net performance adjustments of $132 million on the LPD-22 through LPD-25 contract, including the effect of a $113 million charge for the cumulative effect of the $210 million of incremental costs expected in connection with our decision to wind down shipbuilding operations at the Avondale facility in 2013 (see “Notes to Consolidated Financial Statements—Note 4”). Additionally, we recognized an unfavorable adjustment of $30 million to reflect additional costs to complete post-delivery work on LHD-8 USS *Makin Island* (see “Notes to Consolidated Financial Statements—Note 6”). In 2009, operating income included a favorable adjustment of $54 million on the LHD-8 contract, which was more than offset by unfavorable adjustments of $38 million and $171 million on the DDG-51 and LPD programs, respectively.

2009 — Gulf Coast operating loss was $29 million as compared with a loss of $1.4 billion in 2008. The change was primarily due to the 2008 goodwill impairment charge of $2.5 billion, of which the Gulf Coast segment realized $1.3 billion (see “Notes to Consolidated Financial Statements—Note 9”), and improved performance on LHD-8 USS *Makin Island* as compared to 2008. In 2008, Gulf Coast had net negative performance adjustments of $263 million due principally to adjustments on the LH-8 contract, as well as cost growth and schedule delays on the LPD program and the effects of Hurricane Ike on an LPD subcontractor’s performance. The absence of these unfavorable events in 2009 was partially offset by $171 million in net unfavorable performance adjustments in 2009 on the LPD-22 through LPD-25 contract (see “Notes to Consolidated Financial Statements—Note 6”).

Newport News

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and service revenues</td>
<td>$3,775</td>
<td>$3,534</td>
<td>$3,427</td>
</tr>
<tr>
<td>Segment operating income (loss)</td>
<td>355</td>
<td>313</td>
<td>(895)</td>
</tr>
<tr>
<td>As a percentage of segment sales</td>
<td>9.4%</td>
<td>8.9%</td>
<td>(26.1%)</td>
</tr>
</tbody>
</table>

Sales and Service Revenues

2010 — Newport News revenues increased $241 million, or 7%, from 2009, primarily driven by $148 million higher sales in Aircraft Carriers and $108 million higher sales in Submarines. The increase in Aircraft Carriers was primarily due to higher sales volume on CVN-78 *Gerald R. Ford* and CVN-71 *Theodore Roosevelt* ROCOL, partially offset by lower volume in 2010 on CVN-77 USS *George H.W. Bush* and CVN-70 USS *Carl Vinson* ROCOL, both of which were completed in the second quarter of 2009. The increase in Submarines was primarily due to higher sales volume on the construction of SSN-774 *Virginia*-class submarines.
2009 — Newport News revenues increased $107 million, or 3%, from 2008, primarily driven by $176 million higher sales in Submarines and $26 million higher sales in Aircraft Carriers, partially offset by $111 million lower sales in Fleet Support. The increase in Submarines was primarily due to higher sales volume on the construction of SSN-774 Virginia-class submarines. The increase in Aircraft Carriers was primarily due to higher sales volume on CVN-78 Gerald R. Ford, CVN-65 USS Enterprise EDSRA, and CVN-71 USS Theodore Roosevelt RCOH, partially offset by lower volume on CVN-77 USS George H.W. Bush and CVN-70 USS Carl Vinson RCOH, both of which were completed in the second quarter of 2009. The decrease in Fleet Support was primarily due to the redelivery of the USS Toledo submarine in the first quarter of 2009 and decreased carrier fleet support services.

Segment Operating Income

2010 — Newport News operating income was $355 million compared with $313 million in 2009. The increase was primarily due to the impact of the sales volume changes described above, improved operating performance on Aircraft Carriers and higher earnings from the company’s equity method investments, which totaled $19 million and $10 million in 2010 and 2009, respectively (see "Notes to Consolidated Financial Statements—Note 12").

2009 — Newport News operating income was $313 million as compared with a loss of $895 million in 2008. The increase was primarily due to the 2008 goodwill impairment charge of $2.5 billion, of which the Newport News segment realized $1.2 billion (see "Notes to Consolidated Financial Statements—Note 9"). Additionally, the change in segment operating income in 2009 includes the impact of the higher sales volume described above for Aircraft Carriers and Submarines, partially offset by the impact of lower sales volume in Fleet Support.

Backlog

Total backlog at December 31, 2010 was approximately $17 billion. Total backlog includes both funded backlog (firm orders for which funding is contractually obligated by the customer) and unfunded backlog (firm orders for which funding is not currently contractually obligated by the customer). Backlog excludes unexercised contract options and unfunded Indefinite Delivery/Indefinite Quantity (IDIQ) orders. For contracts having no stated contract values, backlog includes only the amounts committed by the customer.

The following table presents funded and unfunded backlog by segment at December 31, 2010 and 2009:

<table>
<thead>
<tr>
<th>Segment</th>
<th>2010 Funded</th>
<th>2010 Unfunded</th>
<th>2010 Total</th>
<th>2009 Funded</th>
<th>2009 Unfunded</th>
<th>2009 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gulf Coast</td>
<td>$4,317</td>
<td>$581</td>
<td>$4,898</td>
<td>$6,070</td>
<td>$38</td>
<td>$6,108</td>
</tr>
<tr>
<td>Newport News</td>
<td>5,248</td>
<td>7,191</td>
<td>12,439</td>
<td>5,141</td>
<td>9,116</td>
<td>14,257</td>
</tr>
<tr>
<td>Total backlog</td>
<td>$9,565</td>
<td>$7,772</td>
<td>$17,337</td>
<td>$11,211</td>
<td>$9,154</td>
<td>$20,365</td>
</tr>
</tbody>
</table>

Backlog is converted into the following years’ sales as costs are incurred or deliveries are made. Approximately 31% of the $17 billion total backlog at December 31, 2010 is expected to be converted into sales in 2011. Total U.S. Government orders comprised substantially all of the total backlog at the end of 2010.

Awards

2010 — The value of new contract awards during the year ended December 31, 2010, was approximately $3.6 billion. Significant new awards during this period include $480 million for the construction of the U.S. Coast Guard’s fourth National Security Cutter (unnamed), $480 million for design and long-lead material procurement activities for the CVN-79 aircraft carrier (unnamed), $377 million for CVN-78 Gerald R. Ford, $224 million for LHA-7 (unnamed), $184 million for LPD-26 John P. Murtha, $114 million for DDG-114 Callaghan and $62 million for long-lead material procurement activities for LPD-27 (unnamed).

2009 — The value of new contract awards during the year ended December 31, 2009, was approximately $4.3 billion. Significant new awards during this period include a contract valued at up to $2.4 billion for the CVN-71 USS Theodore Roosevelt RCOH, a contract valued at up to $635 million for engineering, design and modernization support of submarines, and $374 million for design and long-lead material procurement activities for the CVN-79 (unnamed) aircraft carrier.

Backlog Adjustments

In 2009, Gulf Coast segment backlog includes a decrease of $670 million for the customer’s restructuring of the DDG-1000 program.

Liquidity and Capital Resources

We endeavor to ensure the most efficient conversion of operating results into cash for deployment in operating our businesses and maximizing stockholder value. We effectively utilize our capital resources through working capital.
management, capital expenditures, strategic business acquisitions, debt service, required and voluntary pension contributions, and returning cash to stockholders through Northrop Grumman.

We use various financial measures to assist in capital deployment decision making, including net cash provided by operating activities and free cash flow. We believe these measures are useful to investors in assessing our financial performance.

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

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net earnings (loss)</td>
<td>$135</td>
<td>$124</td>
<td>$(2,420)</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>—</td>
<td>—</td>
<td>2,490</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(19)</td>
<td>(98)</td>
<td>10</td>
</tr>
<tr>
<td>Other non-cash items (1)</td>
<td>183</td>
<td>186</td>
<td>193</td>
</tr>
<tr>
<td>Retiree benefit funding less than (in excess of) expense</td>
<td>33</td>
<td>(28)</td>
<td>(28)</td>
</tr>
<tr>
<td>Trade working capital decrease (increase)</td>
<td>27</td>
<td>(272)</td>
<td>94</td>
</tr>
<tr>
<td>Net cash provided by (used in) operating activities</td>
<td>$359</td>
<td>$(88)</td>
<td>$339</td>
</tr>
</tbody>
</table>

(1) Includes depreciation and amortization.

Cash Flows

The following is a discussion of our major operating, investing and financing activities for each of the three years in the period ended December 31, 2010, as classified on the consolidated statements of cash flows.

Operating Activities

2010 — Net cash provided by operating activities was $359 million in 2010 compared with cash used of $88 million in 2009. The change of $447 million was due principally to a decrease in discretionary pension contributions of $97 million, a decrease in trade working capital of $299 million, and a decrease in deferred income taxes of $79 million. In 2009, trade working capital balances included the unfavorable impact of delayed customer billings associated with the negative performance adjustments on the LPD-22 through LPD-25 contract due to projected cost increases at completion (see “Notes to Consolidated Financial Statements—Note 6”). The change in deferred taxes was due principally to the timing of contract-related deductions. U.S. Federal income tax payments made by Northrop Grumman on our behalf were $89 million in 2010.

We expect cash generated from operations for 2011 to be sufficient to service debt, meet contract obligations, and finance capital expenditures. Although 2011 cash from operations is expected to be sufficient to service these obligations, we may borrow funds from Northrop Grumman to accommodate timing differences in cash flows. After completion of the spin-off, we will be an independent, publicly owned company and we expect to obtain any funds needed from third parties through the capital markets or bank financing.

2009 — Net cash provided by operating activities in 2009 decreased $427 million as compared with 2008, due primarily to an increase in trade working capital of $366 million and an increase in deferred income taxes of $108 million. The trade working capital change resulted primarily from the unfavorable impact of delayed customer billings associated with the negative performance adjustments on the LPD-22 through LPD-25 contract due to projected cost increases at completion (see “Notes to Consolidated Financial Statements—Note 6”). The change in deferred taxes was due to the timing of contract-related deductions. U.S. Federal income tax payments made by Northrop Grumman on our behalf were $132 million in 2009.

2008 — Net cash provided by operating activities in 2008 decreased $271 million as compared with 2007, due primarily to lower net earnings (adjusted for non-cash goodwill impairment), an increase in discretionary pension contributions of $60 million, and a smaller year-over-year decrease in trade working capital of $50 million. The lower net earnings were the result of unfavorable performance on LHD-8 USS Makin Island (see “Notes to Consolidated Financial Statements—Note 6”). The change in trade working capital reflected the receipt in 2007 of $123 million of insurance proceeds related to Hurricane Katrina, partially offset by the impact of Hurricanes Ike and Gustav (see “Notes to Consolidated Financial Statements—Note 15”). U.S. Federal income tax payments made by Northrop Grumman on our behalf were $21 million in 2008.

Investing Activities

2010 — Cash used by investing activities was $189 million in 2010, principally for capital expenditures.
2009 — Cash used by investing activities was $178 million in 2009, due principally to $181 million in capital expenditures.

2008 — Cash used by investing activities was $152 million in 2008, due primarily to $218 million in capital expenditures. During 2008, we received $61 million from the release of restricted cash related to the GO Zone IRBs (see “Notes to Consolidated Financial Statements—Note 11”).

Financing Activities

Transactions between Northrop Grumman and us are reflected as effectively settled for cash at the time of the transaction and are included in financing activities in the consolidated statements of cash flows. The net effect of these transactions is reflected in the parent’s equity in unit in the consolidated statements of financial position.

2010 — In connection with the potential spin-off, on November 30, 2010, NGSB purchased $178 million of the outstanding principal amount of GO Zone IRBs pursuant to a tender offer. NGSB used the proceeds of an intercompany loan for $178 million with Northrop Grumman to purchase the GO Zone IRBs and submitted the purchased bonds to the trustee for cancellation. See “Notes to Consolidated Financial Statements—Note 11.”

Free Cash Flow

Free cash flow represents cash from operating activities less capital expenditures. We believe free cash flow is a useful measure for investors to consider. This measure is a key factor in our planning.

Free cash flow is not a measure of financial performance under GAAP, and may not be defined and calculated by other companies in the same manner. This measure should not be considered in isolation, as a measure of residual cash 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>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash provided by (used in) operating activities</td>
<td>$359</td>
<td>$(88)</td>
<td>$339</td>
</tr>
<tr>
<td>Less capital expenditures</td>
<td>(191)</td>
<td>(181)</td>
<td>(218)</td>
</tr>
<tr>
<td>Free cash flow from operations</td>
<td>$168</td>
<td>$(269)</td>
<td>$121</td>
</tr>
</tbody>
</table>

Other Sources and Uses of Capital

Additional Capital — Northrop Grumman currently provides certain capital needed in excess of the amounts generated by our operating activities. After completion of the spin-off, we will be an independent, publicly owned company and we expect to obtain any funds needed from third parties through the capital markets or bank financing, and not from Northrop Grumman. We expect cash generated from operations for 2011 to be sufficient to service debt, meet contractual obligations and finance capital expenditures.

We have (i) incurred $1,200 million of HII Debt (consisting of a $600 million 6.875% senior note due in 2018 and a $600 million 7.125% senior note due in 2021) and (ii) entered into the HII Credit Facility with third-party lenders (in an amount of $1,225 million, comprising a $575 million term loan (due in 2016 with a variable interest rate based on LIBOR plus a spread based on leverage ratio, which at the current leverage ratio is 2.5% and which may vary between 2.0% and 3.0%) that is expected to be funded in connection with the internal reorganization, and a $650 million revolving credit facility (maturing in 2021 with a variable interest rate based on LIBOR plus a spread based upon leverage ratio, which spread at the current leverage ratio is 2.5% and which may vary between 2.0% and 3.0%), of which approximately $137 million of letters of credit are expected to be outstanding at the time of the spin-off, and the remainder will be undrawn. See “Description of Material Indebtedness.” The proceeds of the HII Debt and the HII Credit Facility are to be used to fund the $1,429 million Contribution and for general corporate purposes in the amount of $300 million.

Financial Arrangements — In the ordinary course of business, Northrop Grumman uses standby letters of credit issued by commercial banks and surety bonds issued by insurance companies principally to support our self-insured workers’ compensation plans. At December 31, 2010, there were $125 million of unused stand-by letters of credit and $296 million of surety bonds outstanding related to our operations. After completion of the spin-off, we will be an independent, publicly owned company. We are working to obtain similar arrangements from the capital markets as needed although we may not be able to obtain letters of credit and surety bonds in the same amount and on as favorable terms and conditions as prior to the spin-off.

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Contractual Obligations

In connection with the spin-off, we intend to enter into a Transition Services Agreement with Northrop Grumman, under which Northrop Grumman or certain of its subsidiaries will provide us with certain services for a limited time to help ensure an orderly transition following the distribution.

We anticipate that under the Transition Services Agreement, Northrop Grumman will provide certain enterprise shared services (including information technology, resource planning, financial, procurement and human resource services), benefits support services and other specified services to HII. We expect these services will be provided at cost and are planned to extend generally for a period of six to twelve months. See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Transition Services Agreement.”

In connection with the spin-off, we also intend to enter into a Tax Matters Agreement with Northrop Grumman that will govern the respective rights, responsibilities and obligations of Northrop Grumman and us after the spin-off with respect to tax liabilities and benefits, tax attributes, tax contests and other tax sharing regarding U.S. Federal, state, local and foreign income taxes, other taxes and related tax returns. As a subsidiary of Northrop Grumman, we have (and will continue to have following the spin-off) several liability with Northrop Grumman to the IRS for the consolidated U.S. Federal income taxes of the Northrop Grumman consolidated group relating to the taxable periods in which we were part of that group. However, we expect that the Tax Matters Agreement will specify the portion, if any, of this tax liability for which we will bear responsibility, and Northrop Grumman will agree to indemnify us against any amounts for which we are not responsible. We expect that the Tax Matters Agreement will also provide special rules for allocating tax liabilities in the event that the spin-off, together with certain related transactions, is not tax-free. See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Tax Matters Agreement.”

We do not expect either the Transition Services Agreement or the Tax Matters Agreement to have a significant impact on our financial condition and results of operations.

The following table presents our contractual obligations and pro forma adjustments reflecting separation from Northrop Grumman as of December 31, 2010, and the estimated timing of future cash payments:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Total</th>
<th>2011</th>
<th>2012-2013</th>
<th>2014-2015</th>
<th>2016 and beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable to parent(1)</td>
<td>$ 715</td>
<td>$ 715</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Accrued interest on notes payable to parent(1)</td>
<td>239</td>
<td>239</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>105</td>
<td></td>
<td></td>
<td></td>
<td>105</td>
</tr>
<tr>
<td>Interest payments on long-term debt</td>
<td>105</td>
<td>8</td>
<td>15</td>
<td>15</td>
<td>67</td>
</tr>
<tr>
<td>Operating leases</td>
<td>137</td>
<td>21</td>
<td>36</td>
<td>25</td>
<td>55</td>
</tr>
<tr>
<td>Purchase obligations(2)</td>
<td>1,972</td>
<td>1,045</td>
<td>733</td>
<td>190</td>
<td>4</td>
</tr>
<tr>
<td>Other long-term liabilities(3)</td>
<td>587</td>
<td>76</td>
<td>127</td>
<td>82</td>
<td>302</td>
</tr>
<tr>
<td>Total contractual obligations</td>
<td>$3,860</td>
<td>$2,104</td>
<td>$911</td>
<td>$312</td>
<td>$533</td>
</tr>
</tbody>
</table>

Pro forma adjustments reflecting separation from parent

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Total</th>
<th>2011</th>
<th>2012-2013</th>
<th>2014-2015</th>
<th>2016 and beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable to parent and accrued interest(4)</td>
<td>(954)</td>
<td>(954)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HII debt incurred in connection with spin-off</td>
<td>1,775</td>
<td>29</td>
<td>86</td>
<td>460</td>
<td>1,200</td>
</tr>
<tr>
<td>Interest payments on HII debt(5)</td>
<td>797</td>
<td>103</td>
<td>203</td>
<td>195</td>
<td>296</td>
</tr>
<tr>
<td>Total contractual obligations with pro forma adjustments</td>
<td>$5,478</td>
<td>$1,282</td>
<td>$1,200</td>
<td>$967</td>
<td>$2,029</td>
</tr>
</tbody>
</table>

(1) The notes payable to parent and accrued interest are presented as due in 2011 because such notes are due on demand by our parent.

(2) A “purchase obligation” is defined as an agreement to purchase goods or services that is enforceable and legally binding on us and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. These amounts are primarily comprised of open purchase order commitments to vendors and subcontractors pertaining to funded contracts.

(3) Other long-term liabilities primarily consist of total accrued workers’ compensation reserves, deferred compensation, and other miscellaneous liabilities, of which $197 million is the current portion of workers’ compensation liabilities. It excludes obligations for uncertain tax positions of $17 million, as the timing of the payments, if any, cannot be reasonably estimated.
In connection with the recapitalization resulting from the spin-off transaction, the amount of Northrop Grumman’s investment in HII, including intercompany debt and accrued interest thereon, net of the Contribution, will be contributed to additional paid-in capital.

Interest expense includes interest on $575 million of variable interest rate debt calculated based on interest rates at December 31, 2010.

Further details regarding long-term debt and operating leases can be found in “Notes to Consolidated Financial Statements—Notes 11 and 14.”

Off-Balance Sheet Arrangements

As of December 31, 2010, we had no significant off-balance sheet arrangements other than the surety bonds and letters of credit discussed in “Other Sources and Uses of Capital” above and operating leases. For a description of our operating leases, see “Notes to Consolidated Financial Statements—Notes 2 and 14.”

Quantitative and Qualitative Disclosures about Market Risk

Interest Rates — At December 31, 2010, we do not consider the market risk exposure relating to interest rates to be material to the consolidated financial statements. Substantially all outstanding borrowings were fixed-rate long-term debt obligations. See “Notes to Consolidated Financial Statements—Note 11.”

Foreign Currency — We may enter into foreign currency forward contracts to manage foreign currency exchange rate risk related to payments to suppliers denominated in foreign currencies. At December 31, 2010, the amount of foreign currency forward contracts outstanding was not material.

Critical Accounting Policies, Estimates and Judgments

Our consolidated financial statements are prepared in accordance with GAAP, which require management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Management considers an accounting policy to be critical if it is important to our financial condition and results of operations, and if it requires significant judgment and estimates on the part of management in its application. The development and selection of these critical accounting policies have been determined by our management. Due to the significant judgment involved in selecting certain of the assumptions used in these areas, it is possible that different parties could choose different assumptions and reach different conclusions. We consider the policies relating to the following matters to be critical accounting policies:

- Revenue recognition
- Purchase accounting and goodwill
- Litigation, commitments and contingencies
- Retirement benefits
- Workers' compensation

Revenue Recognition

Overview — We derive the majority of our business from long-term contracts for the production of goods and services provided to the federal government, which are accounted for in conformity with GAAP, for construction-type and production-type contracts and federal government contractors. We classify contract revenues as product sales or service revenues depending on the predominant attributes of the relevant underlying contracts. We consider the nature of these contracts and the types of products and services provided when determining the proper accounting method for a particular contract.

Percentage-of-Completion Accounting — We generally recognize revenues from our long-term contracts under the cost-to-cost measure of the percentage-of-completion method of accounting. The percentage-of-completion method recognizes income as work on a contract progresses. For most contracts, sales are calculated based on the percentage of total costs incurred in relation to total estimated costs at completion of the contract. For certain contracts with large up-front purchases of material, sales are generally calculated based on the percentage that direct labor costs incurred bear to total estimated direct labor costs.

The use of the percentage-of-completion method depends on our ability to make reasonably dependable cost estimates for the design, manufacture, and delivery of our products and services. Such costs are typically incurred over a
period of several years, and estimation of these costs requires the use of judgment. We record sales under cost-type contracts as costs are incurred.

Many contracts contain positive and negative profit incentives based upon performance relative to predetermined targets that may occur during or subsequent to delivery of the product. These incentives take the form of potential additional fees to be earned or penalties to be incurred. Incentives and award fees that can be reasonably assured and reasonably estimated are recorded over the performance period of the contract. Incentives and award fees that are not reasonably assured or cannot be reasonably estimated are recorded when awarded or at such time as a reasonable estimate can be made.

Changes in estimates of contract sales, costs and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Hence, the effect of the changes on future periods of contract performance is recognized as if the revised estimate had been the original estimate. A significant change in an estimate on one or more contracts could have a material effect on our consolidated financial position or results of operations for that period.

Cost Estimation — The cost estimation process requires significant judgment and is based upon the professional knowledge and experience of our engineers, program managers, and financial professionals. Factors that are considered in estimating the work to be 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. The results of our goodwill impairment tests as of June 30, 2010 and November 30, 2010 indicated that the estimated fair value of each of our reporting units was substantially in excess of its carrying value. See “Notes to Consolidated Financial Statements—Note 4.”
Litigation, Commitments and Contingencies

Overview — We are subject to a range of claims, lawsuits, environmental and income tax matters, and administrative proceedings that arise in the ordinary course of business. Estimating liabilities and costs associated with these matters requires judgment and assessment based upon professional knowledge and experience of management and our internal and external legal counsel. In accordance with our practices relating to accounting for contingencies, we record amounts as charges to earnings after taking into consideration the facts and circumstances of each matter, including any settlement offers, and determine that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The ultimate resolution of any such exposure to us may vary from earlier estimates as further facts and circumstances become known.

Environmental Accruals — We are subject to the environmental laws and regulations of the jurisdictions in which we conduct operations. We record a liability for the costs of expected environmental remediation obligations when we determine that it is probable we will incur such costs, and the amount of the liability can be reasonably estimated. When a range of costs is possible and no amount within that range is a better estimate than another, we record the minimum amount of the range.

Factors which could result in changes to the assessment of probability, range of estimated costs and environmental accruals include: modification of planned remedial actions, increase or decrease in the estimated time required to remediate, discovery of more extensive contamination than anticipated, results of efforts to involve other legally responsible parties, financial insolvency of other responsible parties, changes in laws and regulations or contractual obligations affecting remediation requirements and improvements in remediation technology. Although we cannot predict whether new information gained as projects progress will materially affect the estimated liability accrued, we do not anticipate that future remediation expenditures will have a material adverse effect on our financial position, results of operations or cash flows.

Asset Retirement Obligations — We record all known asset retirement obligations for which the liability’s fair value can be reasonably estimated, including certain asbestos removal, asset decommissioning and contractual lease restoration obligations. Recorded amounts as of December 31, 2010 are $20 million and consist primarily of obligations associated with the wind down of operations at our Avondale facility (see “Notes to Consolidated Financial Statements—Note 4”). Amounts as of December 31, 2009 were not material.

We also have known conditional asset retirement obligations related to assets currently in use, such as certain asbestos remediation and asset decommissioning activities to be performed in the future, that are not reasonably estimable as of December 31, 2010, due to insufficient information about the timing and method of settlement of the obligation. Accordingly, the fair value of these obligations has not been recorded in the consolidated financial statements. Environmental remediation and/or asset decommissioning of these facilities may be required when we cease to utilize these facilities. In addition, there may be conditional environmental asset retirement obligations that we have not yet discovered (e.g., asbestos may exist in certain buildings which we have not become aware of through its normal business operations), and therefore, these obligations also have not been included in the consolidated financial statements.

Litigation Accruals — Litigation accruals are recorded as charges to earnings when management, after taking into consideration the facts and circumstances of each matter, including any settlement offers, has determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The ultimate resolution of any exposure to us may vary from earlier estimates as further facts and circumstances become known. Based upon the information available, we believe that the resolution of any of these various claims and legal proceedings would not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Uncertain Tax Positions — Uncertain tax positions meeting the more-likely-than-not recognition threshold are recognized in the financial statements. If a tax position does not meet the minimum statutory threshold to avoid payment of penalties, we recognize an expense for the amount of the penalty in the period the tax position is claimed in our tax return. We recognize interest accrued related to unrecognized tax benefits in income tax expense. Penalties, if probable and reasonably estimable, are recognized as a component of income tax expense. The timing and amount of accrued interest is determined by the applicable tax law associated with an underpayment of income taxes. See “Notes to Consolidated Financial Statements—Note 10.” Under existing GAAP, prior to January 1, 2009, changes in accruals associated with uncertainties arising from the resolution of pre-acquisition contingencies of acquired businesses were charged or credited to goodwill; effective January 1, 2009, such changes are now recorded to income tax expense. Adjustments to other tax accruals are generally recorded in earnings in the period they are determined.

Retirement Benefits

Overview — We annually evaluate assumptions used in determining projected benefit obligations and the fair values of plan assets for our pension plans and other post-retirement benefits plans in consultation with our outside actuaries. In
the event that we determine that plan amendments or changes in the assumptions are warranted, future pension and post-retirement benefit expenses could increase or decrease.

**Assumptions** — The principal assumptions that have a significant effect on our consolidated financial position and results of operations are the discount rate, the expected long-term rate of return on plan assets, the health care cost trend rate and the estimated fair market value of plan assets. For certain plan assets where the fair market value is not readily determinable, such as real estate, private equity, and hedge funds, estimates of fair value are determined using the best information available.

**Discount Rate** — The discount rate represents the interest rate that is used to determine the present value of future cash flows currently expected to be required to settle the pension and post-retirement benefit obligations. The discount rate is generally based on the yield of high-quality corporate fixed-income investments. At the end of each year, the discount rate is primarily determined using the results of bond yield curve models based on a portfolio of high quality bonds matching the notional cash inflows with the expected benefit payments for each significant benefit plan. Taking into consideration the factors noted above, our weighted-average pension composite discount rate was 5.84% at December 31, 2010 and 6.04% at December 31, 2009. Holding all other assumptions constant, and since net actuarial gains and losses were in excess of the 10% accounting corridor in 2010, an increase or decrease of 25 basis points in the discount rate assumption for 2010 would have decreased or increased pension and post-retirement benefit expense for 2010 by approximately $13 million, of which $2 million relates to post-retirement benefits, and decreased or increased the amount of the benefit obligation recorded at December 31, 2010, by approximately $140 million, of which $20 million relates to post-retirement benefits. The effects of hypothetical changes in the discount rate for a single year may not be representative and may be asymmetrical or nonlinear for future years because of the application of the accounting corridor. The accounting corridor is a defined range within which amortization of net gains and losses is not required. Due to adverse capital market conditions in 2008 our pension plan assets experienced a negative return of approximately 16% in 2008. As a result, substantially all of our plans experienced net actuarial losses outside the 10% accounting corridor at the end of 2008, thus requiring accumulated gains and losses to be amortized to expense. As a result of this condition, sensitivity of net periodic pension costs to changes in the discount rate was much higher in 2009 and 2010 than was the case in 2008 and prior. This condition is expected to continue into the near future.

**Expected Long-Term Rate of Return** — The expected long-term rate of return on plan assets represents the average rate of earnings expected on the funds invested in a specified target asset allocation to provide for anticipated future benefit payment obligations. For 2010 and 2009, we assumed an expected long-term rate of return on plan assets of 8.5%. An increase or decrease of 25 basis points in the expected long-term rate of return assumption for 2010, holding all other assumptions constant, would increase or decrease our pension and post-retirement benefit expense for 2010 by approximately $8 million.

**Health Care Cost Trend Rates** — The health care cost trend rates represent the annual rates of change in the cost of health care benefits based on external estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances, and changes in the health status of the plan participants. Using a combination of market expectations and economic projections including the effect of health care reform, we selected an expected initial health care cost trend rate of 8.0% and an ultimate health care cost trend rate of 5.0% reached in 2017. In 2009, we assumed an expected initial health care cost trend rate of 7.0% for 2010 and an ultimate health care cost trend rate of 5.0% reached in 2017. Although our actual cost experience is much lower at this time, market conditions and the potential effects of health care reform are expected to increase medical cost trends in the next one to three years thus our past experience may not reflect future conditions.

Differences in the initial through the ultimate health care cost trend rates within the range indicated below would have had the following impact on 2010 post-retirement benefit results:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>1-Percentage Point Increase</th>
<th>1-Percentage Point Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post-retirement benefit expense</td>
<td>$2</td>
<td>$(2)</td>
</tr>
<tr>
<td>Post-retirement benefit liability</td>
<td>18</td>
<td>(18)</td>
</tr>
</tbody>
</table>

**Workers’ Compensation**

Our operations are subject to federal and state workers’ compensation laws. We maintain self-insured workers’ compensation plans, in addition to participating in federal administered second injury workers’ compensation funds. We estimate the required liability for such claims and state funding requirements on a discounted basis utilizing actuarial methods based on various assumptions, which include, but are not limited to, our historical loss experience and projected loss development factors as compiled in an annual actuarial study. Related self-insurance accruals include amounts related
to the liability for reported claims and an estimated accrual for claims incurred but not reported. Our workers’ compensation liability is discounted at 3.31% and 3.47% at December 31, 2010 and 2009, respectively, based on future payment streams and a risk-free rate. Workers’ compensation benefit obligation on an undiscounted basis is $726 million and $686 million as of December 31, 2010 and 2009, respectively.

Accounting Standard Updates

Accounting Standards Updates not effective until after December 31, 2010 are not expected to have a significant effect on our consolidated financial position, results of operations or cash flows.
Our Company

For more than a century, we have been designing, building, overhauling and repairing ships primarily for the U.S. Navy and the U.S. Coast Guard. We are the nation’s sole industrial designer, builder and refueler of nuclear-powered aircraft carriers, the sole supplier and builder of amphibious assault and expeditionary warfare ships to the U.S. Navy, the sole builder of National Security Cutters for the U.S. Coast Guard, one of only two companies currently designing and building nuclear-powered submarines for the U.S. Navy and one of only two companies that builds the U.S. Navy’s current fleet of DDG-51 Arleigh Burke-class destroyers. We build more ships, in more ship types and classes, than any other U.S. naval shipbuilder. We are also a full-service systems provider for the design, engineering, construction and life cycle support of major programs for surface ships and a provider of fleet support and maintenance services for the U.S. Navy. With our product capabilities, heavy industrial facilities and a workforce of approximately 39,000 shipbuilders, we believe we are poised to continue to support the long-term objectives of the U.S. Navy to adapt and respond to a complex, uncertain and rapidly changing national security environment.

Our primary areas of business include the design, construction, repair and maintenance of nuclear-powered ships, such as aircraft carriers and submarines, and non-nuclear ships, such as surface combatants, expeditionary warfare/amphibious assault and coastal defense surface ships, as well as the overhaul and refueling of nuclear-powered ships.

The credit quality of our primary customer (the U.S. Government), the long life cycle of our products, our significant contracted backlog, our manufacturing capabilities at our heavy industrial facilities and the alignment of our products to the 30-Year Plan assist us in forecasting our near- and long-term business plans that we believe provide us with a measure of financial stability and predictability.

Our three major shipyards are currently located in Newport News, Virginia, Pascagoula, Mississippi and Avondale, Louisiana.

We manage our business in two segments: Newport News, which includes all of our nuclear ship design, construction, overhaul and refueling businesses, and Gulf Coast, which includes our non-nuclear ship design, construction, repair and maintenance businesses.

Newport News

Through our Newport News shipyard, we are the sole supplier of nuclear-powered aircraft carriers to the U.S. Navy. We delivered the last of the ten-ship CVN-68 Nimitz-class, CVN-77 USS George H.W. Bush, on May 11, 2009. In 2008, we were awarded a $5.1 billion contract for the detail design and construction of the first ship of the CVN-78 Gerald R. Ford-class, the next generation of nuclear-powered aircraft carriers, which is scheduled for delivery in 2015. In 2009, we were also awarded construction preparation contracts totaling $451 million for the second CVN-78 Gerald R. Ford-class aircraft carrier, CVN-79 (unnamed). The duration of this initial CVN-79 award is two years plus a one-year option. The 30-Year Plan includes the award of a new aircraft carrier construction contract every five years.

Through a teaming agreement with Electric Boat that provides for approximate equality of work allocated between the parties, we provide SSN-774 Virginia-class nuclear fast attack submarines. Under the teaming agreement, Electric Boat is the prime contractor to whom construction contracts have been awarded in blocks, and we are principal subcontractor. Block I was awarded in 1998 and consisted of four submarines, Block II was awarded in 2003 and consisted of six submarines, and Block III was awarded in 2008 and consisted of eight submarines. We and Electric Boat have delivered the first seven submarines of the class (all four submarines from Block I and three submarines from Block II), have another five submarines under construction (the remaining three submarines of Block II and the first two submarines of Block III) and have been contracted to deliver an additional six submarines (the remaining six submarines of Block III). Based on expected build rates, the last Block III SSN-774 Virginia-class submarine is scheduled for delivery in 2018. We are also investing in our facilities to support the increase in production rate from one to two SSN-774 Virginia-class submarines per year beginning in 2011. Additionally, we have begun working with Electric Boat on the initial design phase for the SSBN(X) Ohio-class Submarine Replacement Program. We also have a submarine engineering department that provides planning yard services to the U.S. Navy for its other two classes of nuclear-powered submarines, the Los Angeles-class and the Seawolf-class.

We are the exclusive provider of RCOH services for nuclear-powered aircraft carriers and a provider of fleet maintenance services to the U.S. Navy. In 2009, we were awarded a contract for up to $2.4 billion for the RCOH of CVN-71 USS Theodore Roosevelt, which is scheduled for redelivery to the U.S. Navy in 2013. In 2010, we were also awarded a three-year $678 million planning contract (an initial award of $79 million with two one-year options) for the RCOH of CVN-72 USS Abraham Lincoln. In 2011, the first option was exercised for $207 million. RCOH execution contracts are provided for the design, engineering, construction and life cycle support of major programs for surface ships and a provider of fleet support and maintenance services for the U.S. Navy. With our product capabilities, heavy industrial facilities and a workforce of approximately 39,000 shipbuilders, we believe we are poised to continue to support the long-term objectives of the U.S. Navy to adapt and respond to a complex, uncertain and rapidly changing national security environment.

Our primary areas of business include the design, construction, repair and maintenance of nuclear-powered ships, such as aircraft carriers and submarines, and non-nuclear ships, such as surface combatants, expeditionary warfare/amphibious assault and coastal defense surface ships, as well as the overhaul and refueling of nuclear-powered ships.

The credit quality of our primary customer (the U.S. Government), the long life cycle of our products, our significant contracted backlog, our manufacturing capabilities at our heavy industrial facilities and the alignment of our products to the 30-Year Plan assist us in forecasting our near- and long-term business plans that we believe provide us with a measure of financial stability and predictability.

Our three major shipyards are currently located in Newport News, Virginia, Pascagoula, Mississippi and Avondale, Louisiana.

We manage our business in two segments: Newport News, which includes all of our nuclear ship design, construction, overhaul and refueling businesses, and Gulf Coast, which includes our non-nuclear ship design, construction, repair and maintenance businesses.
awarded approximately every four years. Additionally, we are currently building a facility at our Newport News shipyard for the inactivation of nuclear-powered aircraft carriers, the contract for the first of which, CVN-65 USS Enterprise, is expected to be awarded in 2013.

We leverage our nuclear capabilities in non-shipbuilding programs as well. For example, we are working with our joint venture partner, AREVA NP, to prepare for the manufacture of heavy components to support civilian nuclear power plant construction work. We are also working with several other joint venture partners for the DoE on environmental management and operations projects at the Savannah River Site near Aiken, South Carolina, and potentially at the Idaho National Laboratory, near Idaho Falls, Idaho. We believe these programs allow us to utilize our nuclear expertise to take advantage of opportunities to provide niche services in our areas of core competencies.

The table below sets forth the primary product lines in our Newport News segment:

Newport News Programs

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Program Description</th>
<th>Contract Overview</th>
<th>Funding Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrier New Construction</td>
<td>• New aircraft carrier for the 21st century • Increased warfighting capabilities</td>
<td>• Cost plus incentive fee • Exclusive provider • Incentivized capital investment</td>
<td>• New construction contract expected to be awarded approximately every 5 years</td>
</tr>
<tr>
<td>CVN-78 Gerald R. Ford-class</td>
<td>• New propulsion plant • Reduced ship manning • Focused on operating cost reduction</td>
<td>• Incentivized capital investment under the planning contract • 8-year design, 7.5-year construction</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Designed for modular construction</td>
<td>• Rate increasing from 1 to 2 annually in 2011 • 7 delivered, 11 additional in program backlog</td>
<td></td>
</tr>
<tr>
<td>Carrier RCOH</td>
<td>• Complex overhaul of the ship’s machinery and equipment • Refueling of both of the ship’s reactors • Significant renovation and modernization work</td>
<td>• Cost plus incentive fee • Exclusive provider • 3-year advanced planning • Approximately 3.5-year overhaul execution</td>
<td>• RCOH Execution contracts expected to be awarded approximately every 4 years</td>
</tr>
<tr>
<td>Submarine New Construction</td>
<td>• Post-Cold War design focused on maneuverability, stealth, warfighting capability and affordability</td>
<td>• Fixed price incentive • Exclusive provider through joint production arrangement • Incentivized capital investment</td>
<td></td>
</tr>
<tr>
<td>SSN-774 Virginia-class and Fleet Support</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

80
The table below sets forth the potential future programs in our Newport News segment:

Newport News Potential Future Programs

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Program Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aircraft Carrier Inactivation</td>
<td>• CVN-65 inactivation expected to begin in 2013</td>
</tr>
<tr>
<td></td>
<td>• End-of-life nuclear reactor defueling</td>
</tr>
<tr>
<td></td>
<td>• Inactivation of ship systems, equipment and machinery</td>
</tr>
<tr>
<td></td>
<td>• 4-year execution</td>
</tr>
<tr>
<td></td>
<td>• Contracts for Nimitz-class carriers expected to be awarded approximately every 4 years beginning in 2023</td>
</tr>
<tr>
<td>Ohio-class Replacement Program</td>
<td>• Anticipated to begin in 2019</td>
</tr>
<tr>
<td></td>
<td>• 30-Year Plan includes 12 SSBN(X) submarines</td>
</tr>
<tr>
<td></td>
<td>• NGSB currently acting as subcontractor in design of SSBN(X)</td>
</tr>
<tr>
<td>Energy</td>
<td>• AREVA Newport News: Manufacturing heavy reactor components</td>
</tr>
<tr>
<td></td>
<td>• DoE: Site management and operations</td>
</tr>
<tr>
<td></td>
<td>• Newport News Industrial</td>
</tr>
</tbody>
</table>

Gulf Coast

Our Gulf Coast shipyards design and construct surface combatant and amphibious assault/expeditionary warfare ships for the U.S. Navy and coastal defense surface ships for the U.S. Coast Guard. We are the sole supplier and builder of amphibious assault/expeditionary warfare ships (LHA, LHD and LPD) to the U.S. Navy. We are currently constructing four LPD-17 San Antonio-class amphibious transport dock ships: LPD-22 San Diego (scheduled for delivery in 2011) and LPD-24 Arlington (scheduled for delivery in 2012) in our Pascagoula, Mississippi shipyard, and LPD-23 Anchorage (scheduled for delivery in 2012) and LPD-25 Somerset (scheduled for delivery in 2013) in our Avondale shipyard. Long-lead procurement is currently underway for LPD-26 and LPD-27. As we complete work on LPD-23 Anchorage and LPD-25 Somerset, we intend to wind down our construction activities at Avondale, our Louisiana shipyard, and two Louisiana components facilities and consolidate all Gulf Coast construction into our Mississippi facilities. We believe that consolidation in Pascagoula would allow us to realize the benefits of serial production, reduce program costs on existing contracts and make future vessels more affordable, thereby reducing overhead rates and realizing cost savings for the U.S. Navy and the U.S. Coast Guard. We are also exploring the potential for alternative uses of the Avondale facility by new owners, including alternative opportunities for the workforce there. We expect that process to take some time.
In 2009, construction of the LHD-1 *Wasp*-class amphibious assault ships was concluded with the delivery of LHD-8 USS *Makin Island*, and the first ship of the follow-on class of large-deck amphibious assault ships, LHA-6 *America*, is currently under construction and we expect to deliver it in 2013. Long-lead procurement is currently underway for LHA-7.

We are one of only two companies that build the U.S. Navy’s current fleet of DDG-51 *Arleigh Burke*-class destroyers, a program for which the U.S. Navy recently decided to restart production. We delivered DDG-107 USS *Gravely* to the U.S. Navy in July 2010 and DDG-110 *William P. Lawrence* in February 2011. Long-lead procurement is currently underway for DDG-113 and DDG-114.

We are also constructing the composite superstructure of DDG-1000 *Zumwalt* and DDG-1001 *Michael Monsoor*.

For the U.S. Coast Guard, we are currently constructing NSC-3 *Stratton* (scheduled for delivery in 2011) for the National Security Cutter program, providing advanced and operationally efficient deepwater capabilities for the U.S. Coast Guard. The construction contract for NSC-4 *Hamilton* was awarded in November 2010. Long-lead procurement is currently underway for NSC-5.

Additionally, we provide fleet maintenance and modernization services to the U.S. Navy and U.S. Coast Guard fleets. On any given day, over 600 employees of our wholly owned subsidiary AMSEC are on board U.S. Navy ships, assessing equipment conditions, modernizing systems and training sailors. Through our wholly owned subsidiary, CMSD, a Master Ship Repair Contractor, we provide ship repair, regular overhaul and selected restricted availability services (pierside or in customer’s drydocks) for the U.S. Navy. We also perform emergent repair for the U.S. Navy on all classes of ships.

In 2009, our Gulf Coast shipyards began implementation of a new management approach, the Gulf Coast Operating System, focused on better organizing and managing the construction of the ships we build. Through the Gulf Coast Operating System, we believe program managers will be better able to confirm that a ship is adhering to our newly developed standardized performance metrics, and to assure that we are providing high quality products in a safe, timely and cost-effective manner.

The table below sets forth the primary product lines in our Gulf Coast segment:

**Gulf Coast Programs**

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Program Description</th>
<th>Contract Overview</th>
<th>Funding Overview</th>
</tr>
</thead>
</table>
| DDG-51 *Arleigh Burke*-class Destroyer | • Most advanced surface combatant in the fleet  
• 62-Ship Program/ 28 awarded to us | • Fixed price incentive  
• 4-year construction | • 32 additional DDG-51s/Large Surface Combatants expected for procurement by 2031  
• Long lead time and material contract awarded for DDG-113 and DDG-114 |
| LPD-17 *San Antonio*-class Amphibious Transport Dock Ship | • Transport and land 700 to 800 Marines, their equipment and supplies  
• Supports amphibious assault, special operations | • Fixed price incentive  
• 4.5-year construction | • 5 delivered (LPD 17—21), 4 under construction (LPD 22—25)  
• Long lead time and material contract awarded for LPD-26 and LPD-27 |
<table>
<thead>
<tr>
<th>Program Name</th>
<th>Program Description</th>
<th>Contract Overview</th>
<th>Funding Overview</th>
</tr>
</thead>
</table>
| LHA-6 *America*-class Next Generation Amphibious Ship for Joint Operations | • Navy’s largest warfare ship for joint operations  
• Gas turbines  
• All electric auxiliaries | • Fixed price incentive  
• 5-year construction | • LHA-6 under construction  
• Long lead time and material contract awarded for LHA-7 |
| National Security Cutter (Legend Class)          | • Largest/most capable of the U.S. Coast Guard’s new multi-mission cutters  
• Twin-screw propulsion  
• Two hangars/large flight deck | • Cost plus incentive fee (NSC 1—3); fixed price incentive (NSC-4)  
• 3-year construction | • Plan for a total of 8 ships  
• 2 delivered (NSC-1, 2), 1 under construction (NSC-3)  
• Construction contract awarded for NSC-4  
• Long lead time and material contract awarded for NSC-5 |

The table below sets forth a potential future program in our Gulf Coast segment:

**Gulf Coast Potential Future Program**

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Program Description</th>
</tr>
</thead>
</table>
| LSD(X) Amphibious Dock Landing Ship               | • 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
• Projecting procurement of 276 ships over the next 30 years (198 combat ships and 78 logistics and support ships).

The QDR has directed certain specific enhancements to U.S. forces and capabilities and a number of these enhancements present NGSB with substantial new competitive opportunities including:

• Exploitation of advantages in subsurface operations;
• U.S. Air Force and U.S. Navy joint development of air-sea battle concepts to integrate air and naval force capabilities across all operational domains;
• Increased ballistic missile defense capabilities;
• Expanded future long-range strike capabilities;
• Expanded capacity of Virginia-class fast attack nuclear submarines for long-range strike; and

The shipbuilding defense industry, as characterized by its competitors, customers, suppliers, potential entrants and substitutes, is unique in many ways. It is highly capital- and skilled labor-intensive. There are two major participants: us and General Dynamics, which together represent over 90% of the market and employ over 60,000 shipbuilders. The U.S. Navy, a large single customer with many needs and requirements, dominates the industry’s customer base and is served by a supplier base where competition is giving way to exclusive providers. However, there are smaller shipyards entering the market to build the U.S. Navy’s new LCS. The U.S. Navy must compete with other national priorities, including other defense activities and entitlement programs, for a share of federal budget dollars.

The DoD recently announced various initiatives designed to gain efficiencies, refocus priorities and enhance business practices used by the DoD, including those used to procure goods and services from defense contractors. The most recent initiatives are organized in five major areas: Affordability and Cost Growth; Productivity and Innovation; Competition; Services Acquisition; and Processes and Bureaucracy. These initiatives are still fairly new and the specific impacts on our industry will be understood better as the DoD implements them further. See “Risk Factors—The Department of Defense has announced plans for significant changes to its business practices that could have a material effect on its overall procurement process and adversely impact our current programs and potential new awards.”

Competitive Strengths

We believe that we have the following key competitive strengths:

We are one of the two largest publicly owned shipbuilders in the United States. We and our primary competitor are the builders of 232 of the U.S. Navy’s current 286 ships, and the exclusive builders of 16 of the U.S. Navy’s 29 classes of ship (seven classes for which we are the exclusive builder, and four classes for which we are co-builders with our primary competitor). We build more ships, in more types and classes, than any other U.S. naval shipbuilder and we are the exclusive builder of 33 of the U.S. Navy’s 286 ships, representing seven of the U.S. Navy’s 29 classes of ships. We are the sole builder and refueler of nuclear-powered aircraft carriers, the sole supplier of amphibious assault and expeditionary warfare ships for the U.S. Navy, and the sole provider of the National Security Cutter to the U.S. Coast Guard. We are also teamed with Electric Boat as the sole builders of nuclear-powered submarines for the U.S. Navy. We are also a full-service systems provider for the design, engineering, construction and life cycle support of major programs for surface ships and a provider of fleet support and maintenance services for the U.S. Navy. We are one of only two nuclear shipbuilders and the only company capable of constructing and refueling aircraft carriers.

We have long-term contracts with visible revenue streams and highly probable backlog based on the U.S. Navy’s 30-Year Plan. Most of our contracts are long-term in nature with visible revenue streams. Total backlog at December 31, 2010 was approximately $17 billion. At the end of 2010, total orders from the U.S. Government comprised substantially all of the total backlog. In connection with ships that we have constructed, we expect to continue our regular service and support, including RCOH of aircraft carriers and inactivation of aging nuclear aircraft carriers. For ships that may be built in the future, we intend to continue to pursue and obtain planning and design contracts with the U.S. Government. Thus, we

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believe we have a highly probable backlog associated with every stage of the life cycle for the ships we build. We believe these factors allow us to assess our financial performance for many years into the future, which contributes to our long-term stability.

We generate a significant amount of our revenue from contracts for classes of ships for which we are the exclusive provider. We are the exclusive provider of seven of the U.S. Navy’s 29 classes of ships, and a significant amount of our revenue is from contracts for these classes of ships. Collectively, our contracts for ship classes for which we are the exclusive provider accounted for 64% and 68% of our revenues in 2009 and 2010, respectively.

We are capable of manufacturing multiple classes of ships at our heavy industrial facilities. Our Newport News and Pascagoula shipyards possess heavy industrial assets and are capable of manufacturing multiple ship types and classes. The Newport News shipyard, which is able to simultaneously construct in staggered phases two nuclear aircraft carriers and five nuclear submarines, provide refueling and overhaul services for up to two additional aircraft carriers, and provide maintenance and repair services for additional ships, has an 18-acre all weather onsite steel fabrication workshop, a modular outfitting facility for assembly of a ship’s basic structural modules indoors and on land, machine shops totaling approximately 300,000 square feet, a 1,050-ton gantry crane capable of servicing two aircraft carriers at one time, and a 2,170 foot long dry dock. 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 approximately 39,000 shipbuilders. Our workforce includes individuals specializing in 19 crafts and trades, including more than 7,500 engineers and designers and more than 1,000 employees with advanced degrees. Additionally, our workforce is composed of many third-, fourth- and fifth-generation shipbuilding employees. At December 31, 2010, we had 771 Master Shipbuilders, employees who have been with us or our predecessors for over 40 years. We operate two Apprentice Schools: one in Newport News, which trains over 750 apprentices each year in 19 trades and several advanced programs, and one in the Gulf Coast, which currently has nearly 1,000 registered apprentices in its programs. We also provide ongoing training for all of our employees, providing over 60,000 individual training seats in 2009 and 64,000 in 2010 across our Newport News and Gulf Coast operations.

Our Strategy

Our objectives are to maintain our leadership position in the U.S. naval shipbuilding industry and to deliver long-term value to our stockholders. To achieve these objectives, we utilize the following strategies:

Strengthen and protect market position.

Align our business to support the U.S. Navy’s 30-Year Plan. To ensure that we remain the U.S. Navy’s builder of choice on ships we currently build, we intend to continue to align ourselves with the U.S. Navy to support its 30-Year Plan. We intend to continue to support the U.S. Navy in the design and construction of new ships, including the construction of an aircraft carrier and an amphibious assault ship approximately every five years, the restart of construction of DDG-51s and the increase in production rates of VCS to two submarines per year. Through investments in our workforce, processes and facilities, and through the streamlining of our operations, we intend to support continued construction of these core U.S. Navy programs, ensure quality construction and make ships more affordable. We plan to continue to work to keep our U.S. Navy programs fully funded in order to avoid their delay or cancellation.

Ensure capabilities that support new U.S. Navy requirements. Through alignment with the U.S. Navy’s requirements in the 30-Year Plan, we intend to position ourselves as the provider of choice for new platforms and services related to our current core markets. In 2013, the U.S. Navy is expected to award the first aircraft carrier inactivation contract for CVN-65 USS Enterprise. We intend to complete construction of a new facility at our Newport News shipyard designed specifically
for aircraft carrier inactivations, to ensure that we are the U.S. Navy’s choice for this and future aircraft carrier inactivations. We have also deployed our design and engineering talents and capabilities to support work as a subcontractor on the design of the SSBN (X) replacement for the aging Ohio-class ballistic missile submarines, in anticipation of our participation as a subcontractor in the construction of the expected 12 new submarines under that program. Additionally, we intend to position ourselves as the builder of choice for the LSD(X), the next class of amphibious ship expected to be built as a follow-on to the LPD-17 and LHA-6 classes of ships, for which we are currently the exclusive supplier.

**Streamline our operations and footprint to deliver more affordable ships.** To maintain our market position, we intend to monitor our operations to determine where strategic investments or consolidation may be necessary to allow us to provide the U.S. Navy with the highest quality, most technologically advanced ships possible, on a cost-effective basis. For example, in light of the U.S. Navy’s 30-Year Plan requirements and the need to continue to make ships more affordable for our customers, we intend to consolidate our Gulf Coast operations and footprint to shift all future Gulf Coast ship construction work to our Pascagoula and Gulfport facilities in Mississippi. Our construction activities at the Avondale shipyard in Louisiana are expected to wind down in 2013 when work on LPD-25 is completed. Future ship construction work would be performed at our larger and more modern Pascagoula shipyard. With this consolidation, we believe that we are ensuring the long-term viability of our Gulf Coast operations by making them more cost competitive through increased throughput, continuity of production, single learning curves and workload efficiency gains. We also expect that this consolidation may reduce program costs on some existing contracts and make future vessels more affordable for the U.S. Navy and the U.S. Coast Guard.

**Execute well on all contracts.**

**Improve performance in our Gulf Coast operations.** We intend to continue to improve quality, cost and schedule performance in our Gulf Coast operations to address past operational issues, such as quality and high rework costs caused by hurricane-related disruptions, and to maintain our market position on non-nuclear surface ship construction. To accomplish this, our Gulf Coast operations have recently implemented a new management approach that is geared toward planning and managing our work in discrete phases to drive performance, accountability and predictability. Through the Gulf Coast Operating System, we believe program managers will be better able to confirm that a ship is adhering to our newly developed standardized performance metrics, and to assure that we are providing a quality product in a safe, timely and cost-effective manner. By organizing the work on each ship class to provide for the construction in a carefully managed sequence, our Gulf Coast Operating System ensures that each ship within a class is constructed in the same way each time to maximize learning from ship to ship. We intend to continue to utilize the Gulf Coast Operating System across the spectrum of our ships to improve both quality and efficiency of our building processes in all aspects of our design and construction activities, bringing together our engineers, craftspeople and technical workers. See “—Our Business—Gulf Coast.”

**Capture the benefits of serial production.** We intend to seek opportunities to maximize the quality and affordability of our ships through serial production, while ensuring that we undertake “first-in-class” construction where such construction is expected to lead to additional serial production. For example, in 2009, we entered into an agreement with the U.S. Navy to shift work on DDG-1001 Michael Monsoor to General Dynamics Bath Iron Works (“BIW”), in exchange for new construction work on two ships in the new flight of the DDG-51 Arleigh Burke-class, DDG-113 William S. Sims and DDG-114 Callaghan (the “Swap Agreement”). In 2008, the U.S. Navy announced that the more expensive DDG-1000 Zumwalt-class is being truncated to three ships. With the Swap Agreement, all three DDG-1000 ships will now be built at BIW, but we will remain the co-lead for the DDG-1000 design and will provide the integrated composite deckhouse and aft peripheral vertical launch system for all three ships. The U.S. Navy anticipates it will procure eight ships in the new flight of DDG-51s over the next five years. We believe the Swap Agreement allows us to benefit from serial production on DDG-51s and to reduce the programmatic complexity and risk of building the DDG-51 and DDG-1000 classes of destroyers simultaneously in one shipyard. We also believe the Swap Agreement eliminates the required investment for a single ship production run that would have occurred if we had built DDG-1001 Michael Monsoor.

**Deliver quality products on contract targets.** We are focused on delivering quality products on contract schedule and cost targets for all current contracts, which we believe will protect our market position and enhance our efforts to secure future contracts. We believe we must adhere to schedule and cost commitments and quality expectations on our current U.S. Navy contracts. Specifically, we must execute on our human capital strategy, create and sustain a first-time quality culture and capitalize on our supply chain management initiatives.

**Our Business**

We design and construct nuclear and non-nuclear ships for the U.S. Navy and U.S. Coast Guard, including nuclear-powered aircraft carriers and submarines, and non-nuclear surface combatants, amphibious assault ships and National Security Cutters. Additionally, through our shipyards and through our AMSEC and CMSD operations, we provide fleet
maintenance and support services for the U.S. Navy’s ships. Our Newport News shipyard is also the exclusive supplier for the overhaul and refueling of nuclear-powered ships for the U.S. Navy.

**Newport News**

The capabilities of our Newport News operations extend from our core nuclear business of designing and constructing nuclear-powered ships, such as aircraft carriers and submarines and the refueling and overhaul of such ships, to our secondary businesses, which are focused on the construction of heavy manufacturing equipment for commercial nuclear power facilities and the operations, management and cleanup of environmental hazard sites through the DoE’s cleanup programs. Our Newport News shipyard is one of the largest shipyards in the United States. Our facilities are located on approximately 550 acres on the mouth of the James River, which adjoins the Chesapeake Bay. The shipyard has two miles of waterfront property and heavy industrial facilities that include seven graving docks, a floating dry dock, two outfitting berths, five outfitting piers, a module outfitting facility and various other workshops. Our Newport News shipyard also has a 2,170 foot drydock and a 1,050-ton gantry crane capable of servicing two aircraft carriers at one time.

**Design, Construction and Refueling and Complex Overhaul of Aircraft Carriers**

Engineering, design and construction of U.S. Navy nuclear aircraft carriers are core to our operations. Aircraft carriers are the largest ships in the U.S. Navy’s fleet, with a weight (displacement) of about 90,000 tons. Since 1933, Newport News has delivered 30 aircraft carriers to the U.S. Navy, including all 11 ships currently deployed.

The U.S. Navy’s newest carrier and the last of the CVN-68 Nimitz-class, CVN-77 USS George H.W. Bush, was delivered on May 11, 2009. Design work on the next generation carrier, the CVN-78 Gerald R. Ford-class, has been underway for over eight years. The CVN-78 Gerald R. Ford-class incorporates transformational technologies including an enhanced flight deck with increased sortie rates, improved weapons movement, a redesigned island, a new nuclear propulsion plant design, flexibility to incorporate future technologies and reduced manning. In 2008, we were awarded a $5.1 billion contract for detail design and construction of the first ship of the class, CVN-78 Gerald R. Ford, which is scheduled for delivery in 2015. In 2009 we were also awarded construction preparation contracts totaling $451 million for the second CVN-78 Gerald R. Ford-class aircraft carrier, CVN-79 (unnamed). The duration of this initial CVN-79 award is two years plus a one-year option.

We continue to be the exclusive prime contractor for nuclear carrier RCOHs. Each RCOH takes over three years and accounts for approximately 35% of all maintenance and modernization in the service life of an aircraft carrier. RCOH services include propulsion (refueling of reactors, propulsion plant modernization, propulsion plant repairs), restoration of service life (dry docking, tank and void maintenance; hull shafting, propellers, rudders; piping repairs, replacement and upgrades; electrical systems upgrades; aviation capabilities) and modernization (warfare, interoperability and environmental compliance). We provide ongoing maintenance for the U.S. Navy aircraft carrier fleet through both RCOH and repair work. In 2009, the completion of the RCOH of CVN-70 USS Carl Vinson was followed by the arrival of CVN-71 USS Theodore Roosevelt, which is expected to be redelivered to the U.S. Navy following its RCOH in early 2013.

In 2010, we were awarded a $678 million planning contract (an initial award of $79 million with two one-year options) for the RCOH of CVN-72 USS Abraham Lincoln. In 2011, the first option was exercised for $207 million. We believe that our position as the exclusive designer and builder of nuclear-powered aircraft carriers, as well as the fact that this work requires a highly trained workforce, is capital-intensive and has high barriers to entry due to its nuclear requirements, strongly positions us as the frontrunner for the award of future RCOH contracts on the current and future fleet of U.S. Navy carriers.

**Aircraft Carrier Inactivation**

We anticipate that in 2013 the U.S. Navy will contract with us, through our Newport News shipyard, to inactivate CVN-65 USS Enterprise, the world’s first nuclear-powered aircraft carrier, which was built by us and commissioned in 1961. We are currently building the facility to perform this work at our Newport News shipyard. Additionally, as other aircraft carriers in the naval fleet age, we believe that the U.S. Navy will require inactivation of those ships, and we plan to be positioned as the best choice for the U.S. Navy to grant that work. Aircraft carriers generally have a lifespan of approximately 50 years, and we believe the 11 carriers we have delivered and those we deliver going forward present a significant opportunity for us in the future with respect to both RCOH and inactivation. We expect funding for an aircraft carrier inactivation to be approximately $650 million.

**Design and Construction of Nuclear-Powered Submarines**

We are one of only two U.S. companies capable of designing and building nuclear-powered submarines for the U.S. Navy. Since 1960, Newport News has delivered 56 submarines, including 42 fast attack and 14 ballistic submarines, to the U.S. Navy. Of the 53 nuclear-powered fast attack submarines currently in active service, 25 have been delivered by Newport News. Our nuclear submarine program, located at our Newport News shipyard, includes construction,
engineering, design, research and integrated planning. In February 1997, Northrop Grumman and Electric Boat executed a teaming agreement to cooperatively build SSN-774 Virginia-class fast attack nuclear submarines. Under the present arrangement, we build the 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 cannot guarantee that we will continue to work on the SSBN(X) design with Electric Boat, and we can give no assurance regarding the final design concept chosen by the U.S. Navy or the amount of funding made available by Congress for the SSBN(X) Ohio-class Submarine Replacement Program. Construction is expected to begin in 2019 with the procurement of long-lead time materials in 2015. We believe that this program may represent a significant opportunity for us in the future.

Energy

Our DoE and Commercial Nuclear Programs leverage our core competencies in nuclear operations, program management and heavy manufacturing. We selectively partner with experienced industry leaders and we are significant participants in three joint ventures. Additionally, through our subsidiary Newport News Industrial Corporation (“NNI”), we are able to provide a range of services to the energy and petrochemical industries as well as government customers.

AREVA Newport News, LLC

In October 2008, we announced the formation of a joint venture, AREVA Newport News, LLC, with AREVA NP to build a new manufacturing facility in Newport News, Virginia to help supply heavy components to the civilian nuclear electrical power sector. AREVA Newport News plans to construct a production facility for the manufacture of heavy commercial nuclear power plant components. We are minority owners of the limited liability company that we formed pursuant to this joint venture.

DoE Programs

Savannah River

In January 2008, Savannah River Nuclear Solutions, LLC, our joint venture with Fluor Corporation and Honeywell International Inc., was awarded a five-year $4 billion contract for site management and operations of the DoE’s Savannah River Site located 12 miles south of Aiken, South Carolina. Work at the site includes management of a national laboratory and the cleanup of nuclear waste, both newly generated and backlogged and legacy wastes that exist at various facilities throughout the Savannah River Site. As part of the American Recovery and Reinvestment Act of 2009, Savannah River Nuclear Solutions was awarded a stimulus contract for $1.4 billion to deactivate and remediate several reactors and sites at the Savannah River Site. We have a 34% ownership stake in Savannah River Nuclear Solutions, LLC.

Idaho National Laboratory

We, together with our joint venture partner CH2M Hill, bid on environmental management and cleanup projects for the DoE at the Idaho National Laboratory, near Idaho Falls, Idaho. In March 2010, the team was awarded a six-year $590
million contract, which award was protested and is under re-evaluation by the DoE. We have a 25% ownership stake in CH2M Hill Newport News Nuclear, LLC.

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.

VASCIC

Established in 1998 with state funding, VASCIC, located in Newport News, Virginia, is the only facility in the world devoted to furthering research for nuclear-powered aircraft carriers and submarines. VASCIC is a facility where we conduct on-site warfare systems testing, training and laboratory research for the next generation of aircraft carriers, submarines and other ships. The center houses a team of 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, long lead time material contracts for LPD-26 John P. Martin and LPD-27 (unnamed) were awarded in June 2009 and October 2010, respectively.

As we complete work on LPD-23 Anchorage and LPD-25 Somerset, we intend to wind down our construction activities at Avondale, our Louisiana shipyard, in 2013 and two Louisiana components facilities (Waggaman and Tallulah) by 2013 and consolidate all Gulf Coast construction into our Mississippi facilities. We believe that this consolidation will allow our Gulf Coast shipbuilding decreased fixed overhead expenses, provide improved facility utilization and a more cost-efficient construction process and allow us to centralize our shipbuilding learning and realize the benefits of serial production. We expect that consolidation of operations in Pascagoula and Gulfport would reduce program costs on existing contracts and make future vessels more affordable, thereby reducing rates and realizing cost savings for the U.S. Navy and the U.S. Coast Guard. We are also exploring the potential for alternative uses of the Avondale facility by new owners, including alternative opportunities for the workforce there. We expect that process to take some time.

**Surface Combatants**

We are a design agent for and one of only two companies that constructs the DDG-51 Arleigh Burke-class guided missile destroyers, as well as major components for the DDG-1000 Zumwalt-class of land attack destroyers. We previously delivered 27 DDG-51 Arleigh Burke-class destroyers to the U.S. Navy and were awarded a long lead time material contract for a restart of the DDG-51 Arleigh Burke-class in December 2009. We delivered DDG-107 USS Gravely to the U.S. Navy in July 2010 and DDG-110 William P. Lawrence in February 2011. Our participation in the DDG-1000 Zumwalt-class guided missile destroyers program includes detailed design and construction of the ships’ integrated composite deckhouses, as well as portions of the ships’ aft peripheral vertical launch systems. The U.S. Navy expects to build three DDG-1000
Zumwalt-class destroyers. At our Gulfport, Mississippi shipyard, which is focused on composite research and engineering, we are currently constructing the composite superstructure of DDG-1000 Zumwalt and DDG-1001 Michael Monsoor.

As set forth in the 30-Year Plan, the U.S. Navy has decided to truncate the DDG-1000 Zumwalt-class program and restart the DDG-51 Arleigh Burke-class destroyer production line. As a result of that determination, in December 2009, we were awarded a $171 million long lead contract for the next ship in the DDG-51 Arleigh Burke-class. We anticipate that the DoD will award the construction contract for DDG-113 William S. Sims in 2011 and the construction contract for DDG-114 Callaghan in 2012. We intend to be the U.S. Navy’s contractor of choice for the construction of the DDG-51 Arleigh Burke-class ships.

National Security Cutter

We are a participant, along with Lockheed Martin, in the U.S. Coast Guard’s Deepwater Modernization Program. This program is designed to replace aging and operationally expensive ships and aircraft used to conduct missions in excess of 50 miles from the shoreline. The flagship of this program is the NSC, a multi-mission platform designed and built by us. This type of cutter meets or exceeds traditional U.S. Coast Guard mission requirements as well as counter-terrorism requirements. In 2006, ICGS, a joint venture between us and Lockheed Martin was awarded a 43-month extension of the original design and construction contract awarded to the joint venture for the Deepwater Modernization Program. The first National Security Cutter, NSC-1 USCGC Bertholf, was delivered to the U.S. Coast Guard in 2008 followed by NSC-2 USCGC Waesche in 2009. Currently, NSC-3 Stratton is in construction, and the construction contract for NSC-4 Hamilton was awarded in November 2010. Long-lead procurement is currently underway for NSC-5. We believe that future NSC procurements will be contracted directly to us and not to the joint venture.

Fleet Support

AMSEC and Continental Maritime

Fleet support provides comprehensive life-cycle services, including depot maintenance, modernization, repairs, logistics and technical support and planning yard services for naval and commercial vessels through our AMSEC and CMSD subsidiaries. We have ship repair facilities in Newport News, Virginia, and San Diego, California, which are near the U.S. Navy’s largest homeports of Norfolk, Virginia and San Diego. AMSEC provides naval architecture and marine engineering, ship system assessments, maintenance engineering and logistics services to the U.S. Navy and commercial maritime industry from 28 locations nationwide and overseas. On any given day, over 600 of our AMSEC employees are on board U.S. Navy ships, assessing equipment conditions, modernizing systems and training sailors. Through CMSD, a Master Ship Repair Contractor, we provide ship repair, regular overhaul and selected restricted availability services (pierside or in customer’s drydocks) for the U.S. Navy. We also perform emergent repair for the U.S. Navy on all classes of ships.

Customers

U.S. Government revenue accounted for substantially all of total revenue in 2010, 2009 and 2008. Of those revenues in 2010, 97% were from the U.S. Navy and 3% from the U.S. Coast Guard. While we are reliant upon the U.S. Government for substantially all of our business, we are also the design agent and sole supplier for the nuclear aircraft carrier CVN-68 Nimitz-class and CVN-78 Gerald R. Ford-class, and together with our teammate Electric Boat, we are responsible for the construction of the entire SSN-774 Virginia-class of nuclear submarines. We are the builder of 28 of the original 62-ship program for DDG-51 Arleigh Burke-class U.S. Navy destroyers and the builder of amphibious assault ships (LHA, LHD and LPD). In addition, we have built the largest multi-mission National Security Cutters for the U.S. Coast Guard.

Intellectual Property

We incorporate new technologies and designs into our vessels. With more than 2,500 engineers, designers and technicians, we develop and implement new ship technologies.

Research and Development

Our research and development activities primarily include independent research and development (“IR&D”) efforts related to government programs. IR&D expenses are included in general and administrative expenses and are generally allocated to U.S. Government contracts. IR&D expenses totaled approximately $23 million, $21 million and $21 million for each of the years ended December 2010, 2009 and 2008, respectively. Expenses for research and development required by contracts are charged directly to the related contracts.

At VASCIC, we conduct on-site warfare systems testing, training and laboratory research for the next generation aircraft carriers, submarines and other ships. VASCIC serves as the focal point for the integration of ship systems and the application of new technologies. It has a classified facility and an integration area that allows for research and development related to setup and testing of electronic as well as hull, mechanical and electrical systems prior to introducing new
equipment on board a ship. It also has modeling and simulation capability allowing for visualization using 3-D displays. See “—Our Business—VASCIC.”

Governmental Regulation and Supervision

Our business is affected by numerous laws and regulations relating to the award, administration and performance of U.S. Government contracts. See “Risk Factors—Risks Relating to Our Business.”

We operate in a highly regulated environment and are routinely audited and reviewed by the U.S. Government and its agencies such as the U.S. Navy’s Supervisor of Shipbuilding, the Defense Contract Audit Agency and the Defense Contract Management Agency. These agencies review our performance under our contracts, our cost structure and our compliance with applicable laws, regulations and standards, as well as the adequacy of, and our compliance with, our internal control systems and policies. Systems that are subject to review include but are not limited to our accounting systems, purchasing systems, billing systems, property management and control systems, cost estimating systems, earned value management systems, compensation systems and management information systems. Any costs found to be unallowable or improperly allocated to a specific contract will not be reimbursed or must be refunded if already reimbursed. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspension, or prohibition from doing business with the U.S. Government. The U.S. Government also has the ability to decrement payments when it deems systems subject to its review to be inadequate.

In addition, the U.S. Government generally has the ability to terminate contracts, in whole or in part, with little to no prior notice, for convenience or for default based on performance. In the event of termination for the government’s convenience, contractors are normally protected by provisions covering reimbursement for costs incurred on the contracts and profit on those costs, but not for anticipatory profit on the work that was terminated. Termination resulting from our default could expose us to various liabilities, including but not limited to excess procurement costs, and could have a material adverse effect on our ability to compete for contracts. See “Risk Factors—Risks Relating to Our Business.”

In 2009, Congress passed legislation to improve the organization and procedures of the DoD for the acquisition of major weapons systems, including shipbuilding and maritime systems. This legislation, the Weapon System Acquisition Reform Act of 2009, requires the DoD to develop mechanisms to address cost, schedule and performance in establishing program requirements. As acquisition reform progresses, we will continue to anticipate and respond to the actions of the Pentagon and Congress to determine their impact on our operations.

U.S. Government contractors must comply with a myriad of significant procurement regulations and other requirements. Contracting with the U.S. Government may result in our filing of Requests for Equitable Adjustments (“REAs”) in connection with government contracts. REAs represent requests for the U.S. Government to make appropriate adjustments to aspects of a contract including pricing, delivery schedule, technical requirements or other affected terms, due to changes in the original contract requirements and resulting delays and disruption in contract performance for which the U.S. Government is responsible. REAs are prepared, submitted and negotiated in the ordinary course of business, and large REAs are not uncommon at the conclusion of both new construction and overhaul activities. Such REAs are not considered claims under the Contract Disputes Act of 1978, although they may be converted to such claims if good faith negotiations are unproductive.

In cases where there are multiple suppliers, contracts for the construction and conversion of U.S. Navy ships and submarines are generally subject to competitive bidding. In evaluating proposed prices, the U.S. Navy sometimes requires that each bidder submit information on pricing, estimated costs of completion and anticipated profit margins in order to assess cost realism. The U.S. Navy uses this and other data to determine an estimated cost for each bidder. Under U.S. Government regulations, certain costs, including certain financing costs and marketing expenses, are not allowable contract costs. The U.S. Government also regulates the methods by which all costs, including overhead, are allocated to government contracts.

Additional procurement regulations to which our contracts with various agencies of the U.S. Government and subcontracts with other prime contractors are subject include but are not limited to the Truth in Negotiations Act, the Procurement Integrity Act, the False Claims Act, Procurement Integrity Act, Cost Accounting Standards, the International Traffic in Arms Regulations promulgated under the Arms Export Control Act, the Close the Contractor Fraud Loophole Act and the Foreign Corrupt Practices Act. Noncompliance found by any one agency may result in fines, penalties, debarment or suspension from receiving additional contracts with all U.S. Government agencies.

Raw Materials

The most significant raw material we use is steel. Other materials used in large quantities include paint, aluminum, pipe, electrical cable and fittings. All of these materials are currently available in adequate supply from domestic and
foreign sources. In connection with our government contracts, we are required to procure certain materials and component parts from supply sources approved by the U.S. Government. Generally, for all of our long-term contracts, we obtain price quotations for many of our materials requirements from multiple suppliers to ensure competitive pricing. We have not generally been dependent upon any one supply source; however, due largely to the consolidation of the defense industry, there are currently several components for which there is only one supplier. We believe that these sole source suppliers as well as our overall supply base are adequate to meet our future needs. We have mitigated some supply risk by negotiating long-term agreements with a number of steel suppliers; such agreements are anticipated to be renegotiated in 2011. In addition, we have mitigated price risk related to steel purchases through certain contractual arrangements with the U.S. Government. We must continue our efforts to maintain sources for raw materials, fabricated parts, electronic components and major subassemblies. In this manufacturing and systems integration environment, effective oversight of subcontractors and suppliers is as vital to success as managing internal operations. While we have generally been able to obtain key raw materials required in our production processes in a timely manner, a significant delay in supply deliveries could have a material adverse effect on our financial position, results of operations or cash flows. See “Risk Factors—Risks Relating to Our Business.”

**Competition**

We primarily compete with General Dynamics and to a lesser extent with smaller shipyards, one or more of whom may be teamed with a large defense contractor. Intense competition related to programs, resources and funding, and long operating cycles are both key characteristics of our business and the defense industry. It is common in this industry for work on major programs to be shared among a number of companies. A company competing to be a prime contractor may, upon ultimate award of the contract to another party, turn out to be a subcontractor for the ultimate prime contracting party. It is not uncommon to compete for a contract award with a peer company and, simultaneously, perform as a supplier to or a customer of such competitor on other contracts. The nature of major defense programs, conducted under binding contracts, allows companies that perform well to benefit from a level of program continuity not common in many industries.

We believe we are well-positioned in the market. Because we are the only company currently capable of building and refueling the U.S. Navy’s nuclear-powered aircraft carriers, we believe we are in a strong competitive position to be awarded any contracts to build or refuel nuclear-powered aircraft carriers. We are the only builder of large deck amphibious assault and expeditionary warfare ships for the U.S. Navy, including LHD, LHA and LPD, and would be positioned to be awarded any future contracts for these types of vessels. Our success in the competitive shipbuilding defense industry depends upon our ability to develop, market and produce our products and services at a cost consistent with the U.S. Navy’s budget, as well as our ability to provide the people, technologies, facilities, equipment and financial capacity needed to deliver those products and services with maximum efficiency.

**Environmental, Health and Safety**

Our manufacturing operations are subject to and affected by federal, state and local laws and regulations relating to the protection of the environment. We provide for the estimated cost to complete environmental remediation where we determine it is probable that we will incur such costs in the future in amounts we can reasonably estimate to address environmental impacts at currently or formerly owned or leased operating facilities, or at sites where we are named a Potentially Responsible Party (“PRP”) by the U.S. Environmental Protection Agency or similarly designated by other environmental agencies. These estimates may change given the inherent difficulty in estimating environmental cleanup costs to be incurred in the future due to the uncertainties regarding the extent of the required cleanup, determination of legally responsible parties, and the status of laws, regulations and their interpretations.

We assess the potential impact on our financial statements by estimating the range of reasonably possible remediation costs that we could incur on a site-by-site basis, taking into account currently available facts on each site as well as the current state of technology and prior experience in remediating contaminated sites. We review our estimates periodically and adjust them to reflect changes in facts and technical and legal circumstances. We record accruals for environmental cleanup costs in the accounting period in which it becomes probable we have incurred a liability and the costs can be reasonably estimated. We record insurance recoveries only when we determine that collection is probable and we do not include any litigation costs related to environmental matters in our environmental remediation accrual.

We estimate that as of December 31, 2010, the probable future costs for environmental remediation sites is $3 million, which is accrued in other current liabilities in the consolidated statements of financial position. We record environmental accruals on an undiscounted basis. At sites involving multiple parties, we provide environmental accruals based upon our expected share of liability, taking into account the financial viability of other jointly liable parties. We expense or capitalize environmental expenditures as appropriate. Capitalized expenditures relate to long-lived improvements in currently operating facilities. We may have to incur costs in addition to those already estimated and accrued if other PRPs do not pay their allocable share of remediation costs, which could have a material effect on our business, financial position, results of operations or cash flows. We have made the investments we believe necessary to
comply with environmental laws. Although we cannot predict whether information gained as projects progress will materially affect the estimated accrued liability, we do not anticipate that future remediation expenditures will have a material adverse effect on our financial position, results of operations or cash flows.

We may incur future environmental costs at some point that may be related to the wind down of our construction activities at Avondale. Due to insufficient information about the nature, timing and extent of any potential environmental remediation and costs that we may experience at some point, these costs are not reasonably estimable at this time. Accordingly, potential environmental costs associated with the wind down of our construction activities at Avondale are not included in the estimated $3 million of probable future costs for environmental remediation sites discussed above, in the $310 million estimate of asset write downs and restructuring-related Avondale costs noted above or in the consolidated financial statements. Based on the FAR, we expect that a significant portion of any potential future environmental costs would be recoverable consistent with government accounting practices.

We believe that we are in material compliance with all applicable environmental regulations, and historical environmental compliance costs have not been material to our business. However, on June 4, 2010, the EPA proposed new regulations at 40 CFR Part 63 Subpart 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 and would likely need to be replaced. The capital cost to replace these could be significant. However, on December 2, 2010, the EPA official responsible for these regulations stated publicly that the proposed emissions limits in the regulation were unachievable. On December 7, 2010, the EPA filed papers in court to secure an extension of up to 15 months on the current judicial deadline governing these regulations in order to repose a revised set of regulations. Pursuant to a court order, the EPA is expected to promulgate final regulations in February 2011. The EPA has stated that these final rules will be “significantly different” than the June 2010 proposed rules and will be immediately subject to administrative reconsideration. Given the regulatory uncertainty, it is impossible to predict the impact of these regulations at this time.

We could be affected by future laws or regulations, including those enacted in response to climate change concerns and other actions known as “green initiatives.” We recently established an internal goal of reducing our greenhouse gas emissions during the next five years. To comply with current and future environmental laws and regulations and to meet this goal, we expect to incur capital and operating costs, but at this time we do not expect that such costs will have a material adverse effect on our financial position, results of operations or cash flows.

With regard to occupational health and safety, the Shipbuilding and Ship Repair industry involves work with many hazardous materials and processes, and remains one of the most highly hazardous industry segments. According to the Bureau of Labor statistics, the Shipbuilding and Ship Repair industry (SIC Code 3731) ranks among the highest in virtually every injury metric. Nevertheless, in terms of serious injuries at our operations, there have been six industrial related fatalities in the past six years, and none in the past two years. There are no outstanding Occupational Safety & Health Administration (“OSHA”) investigations or violations, and our internal audit program seeks to assure that our OSHA compliance programs remain strong. In 1995, our Newport News, Virginia shipyard became the only shipyard to be awarded the Star Award from the Occupational Safety and Health Administration’s Voluntary Protection Program (“OSHA VPP”). To earn this award, we joined efforts with our unions and supported the participation in the Voluntary Protection Program in which all parties help each other to make our shipyard a safer place to work. Since then, our Gulfport, Mississippi and Tallulah and Waggaman, Louisiana, facilities have all also been certified as OSHA VPP Star Sites. Additionally, our Avondale facility in New Orleans, Louisiana and our Continental Maritime facility in San Diego, California facilities have been certified as OSHA VPP Merit Sites.

The Nuclear Regulatory Commission, the Department of Energy and the DoD regulate and control various matters relating to nuclear materials that we handle. Subject to certain requirements and limitations, our government contracts generally provide for indemnity by the U.S. Government for costs arising out of or resulting from certain nuclear risks.

**Employees**

We have approximately 39,000 employees. We are the largest industrial employer in Virginia and the largest private employer in Mississippi. Our workforce contains many third-, fourth- and fifth-generation shipbuilding employees. We employ individuals specializing in 19 crafts and trades, including more than 7,500 engineers and designers and more than 1,000 employees with advanced degrees. Employees who have been with us or our predecessors for over 40 years achieve the title of Master Shipbuilder. At December 31, 2010, we had 771 Master Shipbuilders (506 in Newport News, 265 in the Gulf Coast). Additionally, we employ nearly 6,200 veterans.
At our Newport News shipyard, we operate the Apprentice School, which trains over 750 apprentices each year in 19 trades and several advanced programs. Our Gulf Coast Apprentice School currently has nearly 1,000 registered apprentices in its programs. Apprentices are paid as full-time employees for the duration of their studies, and usually continue to work with us upon graduation. From nuclear pipe welders to senior executives, over 2,650 alumni of the Apprentice School at Newport News and over 1,775 alumni of our Gulf Coast Apprentice School continue to work with us.

Approximately 50% of our employees are covered by a total of 10 collective bargaining agreements. We expect to re-negotiate each of our collective bargaining agreements between 2012 and 2014 as they approach expiration. It is not expected that the results of these negotiations will have a material adverse effect on our financial position, results of operations or cash flows. We believe that our relationship with our employees is satisfactory.

Properties

At December 31, 2010, we had operations in San Diego, California; Avondale (New Orleans), Louisiana; Gulfport and Pascagoula, Mississippi; and Hampton, Newport News and Suffolk, Virginia. We also lease and/or own office buildings related to our operations in both Virginia Beach, Virginia and Washington, D.C.

Newport News. Our facilities located in Newport News, Virginia are on approximately 550 acres that we own at the mouth of the James River, which adjoins the Chesapeake Bay, the premier deep water harbor on the east coast of the United States. Our Newport News shipyard is one of the largest in the United States. It is the nation’s sole designer, builder and refueler of nuclear-powered aircraft carriers and one of only two companies capable of designing and building nuclear-powered submarines for the U.S. Navy. The shipyard also provides services for naval and commercial vessels. Its facilities include seven graving docks, a floating dry dock, two outfitting berths, five outfitting piers, a module outfitting facility and various other shops. Dry Dock 12 has been extended to 662 meters. Dry Dock 12 is serviced by a 1,050 metric ton capacity gantry crane that spans the dry dock and work platen.

Our Newport News shipyard also has a variety of other facilities including an 18-acre all-weather on-site steel fabrication shop, accessible by both rail and transporter, a module outfitting facility which enables us to assemble a ship’s basic structural modules indoors and on land, machine shops totaling 300,000 square feet, and its own school which provides a four-year accredited apprenticeship program that trains shipbuilders.

We believe that substantially all of our plants and equipment are, in general, well maintained and in good operating condition. They are considered adequate for present needs and, as supplemented by planned construction, are expected to remain adequate for the near future.

Gulf Coast. Our five properties across the Gulf Coast are located in Pascagoula and Gulfport, Mississippi and Avondale, Tallulah and Waggaman, Louisiana. In addition, our facilities in San Diego, California and Virginia Beach, Virginia are considered part of our Gulf Coast operations.

Our Pascagoula shipyard is a main provider of major surface warships to the U.S. Navy and has modernized dozens of other naval ships. It is the only U.S. shipyard in recent years to be developing and building six different classes of ships for the U.S. Navy and U.S. Coast Guard. Our facilities in Pascagoula sit on approximately 800 acres on the banks of the Pascagoula River where it flows into the Mississippi Sound. We lease the west bank of our Pascagoula facility from the State of Mississippi pursuant to a 99-year lease (consisting of a 40-year base term plus six additional option terms). We anticipate continued use of this facility for the remaining currently anticipated 56 years on the lease and beyond.

Our components facility in Gulfport, Mississippi, is on approximately 120 acres and is focused on composite research and engineering. The facility is currently building the DDG-1000 composite deckhouses. We believe that this composites capability, coupled with strong alliances with several universities and suppliers, positions us to take advantage of any shift toward lighter-weight topside composite structures in U.S. Naval and U.S. Coast Guard applications.

Our Avondale shipyard is on approximately 268 acres located on the banks of the Mississippi River approximately 12 miles upriver from downtown New Orleans. This site has the capacity to manufacture large amphibious assault and military and commercial transport vessels, and includes three outfitting docks totaling more than 6,000 linear feet. In addition to the shipyard, operations include the Maritime Technology Center of Excellence.

Our Tallulah facility consists of a 115,000-square foot production shop.

Our Waggaman facility is located three miles upriver from the Avondale shipyard and features an 81,625-square foot production facility that consists of a machine shop, a fabrication and assembly area, a piping production area, a warehouse and a paint booth.

Our San Diego and Virginia Beach facilities provide fleet support services.
Our Gulf Coast operations continue to recover from the infrastructure and workforce impacts from Hurricane Katrina in 2005. In August 2005, our shipyards in Louisiana and Mississippi sustained significant windstorm damage as a result of Hurricane Katrina, causing work and production delays. We incurred costs to repair or replace and improve damaged assets, suffered losses under our contracts, and incurred substantial costs to clean up and recover our operations. We invested significant capital to harden, protect and modernize our Pascagoula facilities, and to ensure the shipyard’s robustness. In 2008, our Gulf Coast shipyards were affected by Hurricane Gustav and Hurricane Ike. As a result of Hurricane Gustav, our shipyards experienced a shut-down for several days and a resulting minor delay in ship construction throughout the yards; however, the storm caused no significant physical damage to the yards, we believe in part due to our successful hardening and improvement after Hurricane Katrina. Hurricane Ike severely impacted a subcontractor’s operations in Texas. The subcontractor produced components for two of the LPD amphibious transport dock ships under construction at the Gulf Coast shipyards. As a result of the delays and cost growth caused by the subcontractor’s production delays, our operating income was reduced during the second half of 2008.

We intend to wind down our construction activities at Avondale, our Louisiana shipyard, in 2013 and two Louisiana components facilities by 2013 and consolidate all Gulf Coast construction into our Mississippi facilities. We expect that consolidation of operations in Mississippi would reduce program costs on existing contracts and make future vessels more affordable, thereby reducing rates and realizing cost savings for the U.S. Navy and the U.S. Coast Guard. We are also exploring the potential for alternative uses of the Avondale facility by new owners, including alternative opportunities for the workforce there. We expect that process to take some time.

Legal Proceedings

U.S. Government Investigations and Claims. Departments and agencies of the U.S. Government have the authority to investigate various transactions and operations of our company, and the results of such investigations may lead to administrative, civil or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments or compensatory or treble damages. U.S. Government regulations provide that certain findings against a contractor may lead to suspension or debarment from future U.S. Government contracts or the loss of export privileges for a company or a division or subdivision. Suspension or debarment could have a material adverse effect on us because of our reliance on government contracts.

In the second quarter of 2007, the U.S. Coast Guard issued a revocation of acceptance under the Deepwater Modernization Program for eight converted 123-foot patrol boats based on alleged “hull buckling and shaft alignment problems” and alleged “nonconforming topside equipment” on the vessels. We submitted a written response that argued that the revocation of acceptance was improper. The U.S. Coast Guard advised ICGS, which was formed by us and Lockheed Martin to perform the Deepwater Modernization Program, that it was seeking $96 million from ICGS as a result of the revocation of acceptance. The majority of the costs associated with the 123-foot conversion effort are associated with the alleged structural deficiencies of the vessels, which were converted under contracts with us and one of our subcontractors. In 2008, the U.S. Coast Guard advised ICGS that the U.S. Coast Guard would support an investigation by the U.S. Department of Justice of ICGS and its subcontractors instead of pursuing its $96 million claim independently. The Department of Justice conducted an investigation of ICGS under a sealed False Claims Act complaint filed in the U.S. District Court for the Northern District of Texas and decided in early 2009 not to intervene at that time. On February 12, 2009, the District Court unsealed the complaint filed by Michael J. DeKort, a former Lockheed Martin employee, against us, ICGS, Lockheed Martin Corporation relating to the 123-foot conversion effort. Damages under the False Claims Act are subject to trebling. On October 15, 2009, the three defendants moved to dismiss the Fifth Amended complaint. On April 5, 2010, the District Court ruled on the defendants’ motions to dismiss, granting them in part and denying them in part. As to us, the District Court dismissed conspiracy claims and those pertaining to the C4ISR systems. On October 27, 2010, the District Court entered summary judgment for us on DeKort’s HM&E claims brought against us. On November 10, 2010, DeKort acknowledged that with the dismissal of the HM&E claims, no issues remained against us for trial and the District Court subsequently vacated the December 1, 2010 trial. On November 12, 2010, DeKort filed a motion for reconsideration regarding the District Court’s denial of his motion to amend the Fifth Amended complaint. On November 19, 2010, DeKort filed a second motion for reconsideration regarding the District Court’s order granting summary judgment on the HM&E claims. Based upon the information available to us to date, we believe that we have substantive defenses to any potential claims but can give no assurance that we will prevail in this litigation.

Litigation. We are party to various investigations, lawsuits, claims and other legal proceedings that arise in the ordinary course of our business. Based on information available, we believe that the resolution of any of these various claims and legal proceedings would not have a material adverse effect on our financial position, results of operations or cash flows.

We are pursuing legal action against an insurance provider, FM Global, arising out of a disagreement concerning the coverage of certain losses related to Hurricane Katrina (see “Notes to Consolidated Financial Statements—Note 15”). Legal
action was commenced against FM Global on November 4, 2005, which is now pending in the U.S. District Court for the Central District of California, Western Division. In August 2007, the District Court issued an order finding that the excess insurance policy provided coverage for Katrina-related losses. FM Global appealed the District Court’s order and on August 14, 2008, the U.S. Court of Appeals for the Ninth Circuit reversed the earlier summary judgment order in favor of Northrop Grumman’s interest, holding that the FM Global excess policy unambiguously excludes damage from the storm surge caused by Hurricane Katrina under its “Flood” exclusion. The Ninth Circuit remanded the case to the District Court to determine whether the California efficient proximate cause doctrine affords coverage sought by Northrop Grumman under the policy even if the Flood exclusion of the policy is unambiguous. On April 2, 2009, the Ninth Circuit denied Northrop Grumman’s Petition for Rehearing and remanded the case to the District Court. On June 10, 2009, Northrop Grumman filed a motion seeking leave of court to file a complaint adding Aon as a defendant. On July 1, 2009, FM Global filed a motion for partial summary judgment seeking a determination that the California efficient proximate cause doctrine is not applicable or that it affords no coverage under the policy. On August 26, 2010, the District Court denied Northrop Grumman’s motion to add Aon as a defendant to the case pending in federal court, finding that Northrop Grumman has a viable option to bring suit against Aon in state court. Also on August 26, the District Court granted FM Global’s motion for summary judgment based upon California’s doctrine of efficient proximate cause, and denied FM Global’s motion for summary judgment based upon breach of contract, finding that triable issues of fact remained as to whether and to what extent we sustained wind damage apart from the storm surge that inundated our Pascagoula facility. We believe that we are entitled to full reimbursement of our covered losses under the excess policy. The District Court has scheduled trial on the merits for April 3, 2012. On January 27, 2011, Northrop Grumman filed an action against Aon Insurance Services West, Inc., formerly known as Aon Risk Services, Inc. of Southern California, in Superior Court in California alleging breach of contract, professional negligence, and negligent misrepresentation. Based on the current status of the litigation, no assurances can be made as to the ultimate outcome of these matters.

However, if either of these claims are successful, the potential impact to our consolidated financial position, results of operations or cash flows would be favorable.

During 2008, notification from Munich Re, the only remaining insurer within the primary layer of insurance coverage with which a resolution has not been reached, was received noting that it will pursue arbitration proceedings against Northrop Grumman related to approximately $19 million owed by Munich Re to NGRMI, a wholly owned subsidiary of Northrop Grumman, for certain losses related to Hurricane Katrina. An arbitration was later invoked by Munich Re in the United Kingdom under the reinsurance contract. Northrop Grumman was also notified that Munich Re is seeking reimbursement of approximately $44 million of funds previously advanced to NGRMI for payment of claim losses of which Munich Re provided reinsurance protection to NGRMI pursuant to an executed reinsurance contract, and $6 million of adjustment expenses. The arbitral panel has set a hearing for November 14, 2011. We believe that NGRMI is entitled to full reimbursement of its covered losses under the reinsurance contract and has substantive defenses to the claim of Munich Re for return of the funds paid to date. If the matters are resolved in NGRMI’s favor, then NGRMI would be entitled to the remaining $19 million owed for covered losses and it would have no further obligations to Munich Re. Payments to be made to NGRMI in connection with this matter would be for the benefit of our accounts, and reimbursements to be made to Munich Re would be made by us, if any.

On January 31, 2011, the U.S. Department of Justice first informed Northrop Grumman and us of a False Claims Act complaint that we believe was filed under seal by a relator (the plaintiff) in mid-2010 in the U.S. District Court for the District of Columbia. The redacted copy of the complaint that we received to NGRMI, a wholly owned subsidiary of Northrop Grumman, for certain losses related to Hurricane Katrina. An arbitration was later invoked by Munich Re under the reinsurance contract. Northrop Grumman was also notified that Munich Re is seeking reimbursement of approximately $44 million of funds previously advanced to NGRMI for payment of claim losses of which Munich Re provided reinsurance protection to NGRMI pursuant to an executed reinsurance contract, and $6 million of adjustment expenses. The arbitral panel has set a hearing for November 14, 2011. We believe that NGRMI is entitled to full reimbursement of its covered losses under the reinsurance contract and has substantive defenses to the claim of Munich Re for return of the funds paid to date. If the matters are resolved in NGRMI’s favor, then NGRMI would be entitled to the remaining $19 million owed for covered losses and it would have no further obligations to Munich Re. Payments to be made to NGRMI in connection with this matter would be for the benefit of our accounts, and reimbursements to be made to Munich Re would be made by us, if any.

For several years, Northrop Grumman has pursued recovery under its insurance policies for Hurricane Katrina-related property damage and business interruption losses. One of the insurers involved in those actions has made allegations that overlap significantly with certain of the issues raised in the Complaint, including allegations that Northrop Grumman and we used certain Hurricane Katrina-related funds for losses under the contracts unrelated to the hurricane. Northrop Grumman and we believe that the insurer’s defenses, including those related to the use of Hurricane Katrina funding, are without merit.

We have agreed to cooperate with the government investigation relating to the False Claims Act Complaint. We have been advised that the Department of Justice has not made a decision whether to intervene. Based upon our review to date of the information available to us, we believe we have substantive defenses to the allegations in the Complaint. We believe that the claims as set forth in the Complaint evidence a fundamental lack of understanding of the terms and conditions in our shipbuilding contracts, including the post-Katrina modifications to those contracts, and the manner in
which the parties performed in connection with the contracts. Based upon our review to date of the information available to us, we believe that the claims as set forth in the Complaint lack merit and are not likely to result in a material adverse effect on our consolidated financial position. We intend vigorously to defend the matter, but we cannot predict what new or revised claims might be asserted or what information might come to light so can give no assurances regarding the ultimate outcome.

Additionally, we and our predecessors in interest are defendants in several hundred cases filed in numerous jurisdictions around the country wherein former and current employees and various third parties allege exposure to asbestos-containing materials on or associated with our premises or while working on vessels constructed or repaired by us. Some cases allege exposure to asbestos-containing materials through contact with our employees and third persons who were on the premises. The cases allege various injuries including those associated with pleural plaque disease, asbestosis, cancer, mesothelioma and other alleged asbestos-related conditions. In some cases, in addition to us, several of our former executive officers are also named defendants. In some instances, partial or full insurance coverage is available to us for our liability and that of our former executive officers. Because of the varying nature of these actions, and based upon the information available to us to date, we believe we have substantive defenses in many of these cases but can give no assurance that we will prevail on all claims in each of these cases. We believe that the ultimate resolution of these cases will not have a material adverse effect on our financial position, results of operations or cash flows. See “Notes to Consolidated Financial Statements—Note 14.”
Our Executive Officers

The following table sets forth certain information as of March 14, 2011, concerning certain of our executive officers, including a five-year employment history and any directorships held in public companies following the spin-off.

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Position(s)</th>
</tr>
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<tbody>
<tr>
<td>C. Michael Petters</td>
<td>51</td>
<td>President and Chief Executive Officer</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>52</td>
<td>Vice President and Chief Financial Officer</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>56</td>
<td>Vice President and General Manager — Gulf Coast Operations</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>51</td>
<td>Vice President and General Manager — Newport News Operations</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>46</td>
<td>Vice President and Chief Human Resources Officer</td>
</tr>
</tbody>
</table>

**C. Michael Petters, President and Chief Executive Officer**—Mr. Petters has been President of Northrop Grumman Shipbuilding since 2008, when NGSB was formed, and was previously President of the Newport News sector. Since joining the Company in 1987, his responsibilities have included oversight of the Virginia-class submarine program, the nuclear-powered aircraft carrier programs, aircraft carrier overhaul and refueling, submarine fleet maintenance, commercial and naval ship repair, human resources and business and technology development. Mr. Petters holds a Bachelor of Science degree in Physics from the United States Naval Academy and a Master of Business Administration degree from the College of William and Mary.

**Barbara A. Niland, Vice President and Chief Financial Officer**—Ms. Niland has been Sector Vice President, Business Management and Chief Financial Officer for NGSB since 2008, when NGSB was formed. In that position, she has been responsible for strategy and processes supporting growth and profitability goals, as well as the business management functions of NGSB. Since joining Northrop Grumman in 1979, Ms. Niland has held a variety of positions, including Vice President of Business Management and Chief Financial Officer of the Newport News sector. Ms. Niland holds a Bachelor of Science degree in finance from Towson State University and a Master of Business Administration degree from the University of Maryland University College.

**Irwin F. Edenzon, Vice President and General Manager — Gulf Coast Operations**—Mr. Edenzon has been Sector Vice President and General Manager, Gulf Coast since 2008, when NGSB was formed. Since Mr. Edenzon joined the Company in 1997, his responsibilities have included overseeing Newport News’ Technical Engineering Division, Advanced Programs and Internal Research, as well as serving as Vice President for Business and Technology Development, and Vice President for Technology Development and Fleet Support of the Newport News sector. Mr. Edenzon holds a Bachelor of Arts degree in Criminal Justice, magna cum laude, from Rutgers University and a Master of Business Administration degree from Florida Atlantic University.

**Matthew J. Mulherin, Vice President and General Manager — Newport News Operations**—Mr. Mulherin has been Sector Vice President and General Manager, Newport News since 2008. Since joining the Company in 1981, Mr. Mulherin has had many responsibilities, including serving as Vice President of the CVNX program, Vice President of the CVN-21 program, and Vice President of Programs for the Newport News operations, where he successfully led the aircraft carrier design and construction programs, carrier refueling and overhaul programs and the submarine program. Mr. Mulherin holds a Bachelor of Science degree in Civil Engineering from Virginia Tech.

**William R. Ermatinger, Vice President and Chief Human Resources Officer**—Mr. Ermatinger has been Sector Vice President of Human Resources and Administration since 2008, when NGSB was formed. In that position, he has been responsible for all NGSB human resources and administration activities. Since joining the Company in 1987, Mr. Ermatinger has held several human resources management positions with increasing responsibility, including Vice President of Human Resources and Administration of the Newport News sector. Mr. Ermatinger holds a Bachelor of Arts degree in Political Science from the University of Maryland Baltimore County (UMBC).
Our Board of Directors

The following table sets forth information with respect to those persons who are expected to serve on our board of directors following the spin-off. See “Management—Our Executive Officers” for Mr. Petters’s biographical information.

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Position(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thomas B. Fargo</td>
<td>62</td>
<td>Chairman</td>
</tr>
<tr>
<td>C. Michael Petters</td>
<td>51</td>
<td>Director</td>
</tr>
<tr>
<td>Robert Bruner</td>
<td>61</td>
<td>Director</td>
</tr>
<tr>
<td>Artur Davis</td>
<td>43</td>
<td>Director</td>
</tr>
<tr>
<td>Anastasia Kelly</td>
<td>61</td>
<td>Director</td>
</tr>
<tr>
<td>Paul D. Miller</td>
<td>69</td>
<td>Director</td>
</tr>
<tr>
<td>Tom Schievelbein</td>
<td>57</td>
<td>Director</td>
</tr>
<tr>
<td>Karl von der Heyden</td>
<td>74</td>
<td>Director</td>
</tr>
</tbody>
</table>

Thomas B. Fargo, Chairman—Admiral Fargo joined the private sector in March of 2005 following a 35-year career in the Department of Defense and the U.S. Navy. He was President of Trex Enterprises until April of 2008 when he became a Managing Director and member of the Operating Executive Board of J.F. Lehman and Company. He currently holds the John M. Shalikashvili Chair in National Security Studies at the National Bureau of Asian Research. Admiral Fargo serves on the boards of directors of Northrop Grumman Corporation, Hawaiian Electric Industries and USAA. Prior public company experience included Chairman of the Compensation Committee of Hawaiian Airlines. His last assignment on active duty was as Commander, U.S. Pacific Command, leading the largest unified command while directing the joint operations of the Army, Navy, Air Force and Marine Corps. His service included six tours in Washington, D.C. and five Commands in the Pacific, Indian Ocean and Middle East.

Robert Bruner, Director—Dr. Bruner currently serves as the dean of the Darden Graduate School of Business Administration at the University of Virginia, where he has been a faculty member since 1982. Dr. Bruner is a financial economist whose research focuses in the areas of capital structure management, commercial and investment banking and corporate finance and he frequently works as a consultant for leading banks and professional services firms to train employees on these subjects. He has published numerous books and articles on a variety of investment bank and finance topics and has created a variety of instructional software programs on corporate value creation. Dr. Bruner was the founding co-editor, and since 2004 has served on the Advisory Board, of the Emerging Markets Review. From 1996 to 2010, Dr. Bruner served as Co-Editor of Educator: Courses, Cases, and Teaching, which is a successor to Finance Teaching and Case Abstracts, which Dr. Bruner founded in 1996. Presently, Dr. Bruner chairs a Task Force on the Globalization of Management for AACSB International, and is also chairman of the Board of the Consortium for Graduate Study in Management. Prior to his time in academia, he worked as a banker at First Chicago Corporation for three years, and also served in the U.S. Army Reserve from 1971 to 1977. Dr. Bruner received a B.A. from Yale University and an M.B.A. and a D.B.A. from Harvard University.

Artur Davis, Director—Mr. Davis joined the law firm SNR Denton in 2011 as a partner in the white collar crime and government investigations section. Prior to joining SNR Denton, Mr. Davis served four terms as a member of the United States House of Representatives, representing Alabama’s Seventh Congressional District. He served for four years as a member of the Ways and Means Committee, which has exclusive jurisdiction over tax-writing policy, and during his tenure, also served on the Committee on House Administration, the Judiciary Committee, the Budget Committee and the House Financial Services Committee, previously called the Banking Committee. Mr. Davis served as co-chair of the House New Democrat Caucus for four years. Mr. Davis received a B.A., magna cum laude, and a J.D., cum laude, both from Harvard University.

Anastasia Kelly, Director—Ms. Kelly joined the law firm of DLA Piper in 2010 as a partner. Prior to joining DLA Piper, she was an Executive Officer of American International Group, Inc. (“AIG”) from 2006 to 2010, serving as Executive Vice President and General Counsel from 2006 to January 2009 and as Vice Chairman until December 2009, specifically dealing with legal, regulatory, corporate governance and risk management issues. Prior to joining AIG, Ms. Kelly was an executive and general counsel of several large, publicly traded companies, including MCI/WorldCom, Sears, Roebuck and Co., and Fannie Mae. She serves as a director and member of the Compensation and Risk Committees of Owens-Illinois, Inc., the world’s largest manufacturer of glass containers, and sits on the board of numerous philanthropic organizations. Ms. Kelly serves as a trustee of the Carey School of Business at John Hopkins University and is also a member of the Rock Center for Corporate Governance at Stanford University Law School. She is also past Chair of Equal Justice Works and a Director of Lawyers for Children America and the International Institute for Conflict Prevention & Resolution. She was a director of Saxon Capital from 2005 to 2007. Ms. Kelly received a B.A., cum laude, from Trinity.
University and a J.D., magna cum laude, from George Washington Law School. Ms. Kelly is a member of the Texas Bar, the District of Columbia Bar and the American Bar Foundation.

Paul D. Miller, Director—Admiral Miller served as Chairman and CEO of Alliant Techsystems Inc., an aerospace and defense company, from 1999 until his retirement in 2005. He was also the President and CEO of Sperry Marine from 1994 to 1998, a company that was acquired by Litton Industries in 1997. During his 30-year career with the U.S. Navy, Admiral Miller served as Commander-in-Chief, U.S. Atlantic Command, one of five U.S. theater commands, and served concurrently as NATO Supreme Allied Commander-Atlantic. Since 2001, Admiral Miller has served on the board of directors as a member of the audit committee of both Donaldson Company, Inc. and Teledyne Technologies, Incorporated. Additionally, he was a director at Atlantic Marine Inc., a private company, from 2009 until the company was sold in 2010. Admiral Miller has a B.A. from Florida State University, completed the U.S. Navy War College, has an M.B.A. from the University of Georgia, and completed the Executive Management Program (PDM) at Harvard Business School.

Tom Schievelbein, Director—Mr. Schievelbein is the Lead Director of New York Life Insurance Co., where he has served as a member of the board of directors since 2006, and has been a member of the board of directors of Brinks Co., where he serves as a member of the Audit Committee, since March 2009, and McDermott International Inc., where he serves as the chair of the Compensation Committee, since February 2004. Mr. Schievelbein served as the President of Northrop Grumman Newport News and was a member of the Northrop Grumman Corporate Policy Council from November 2001 until his retirement in November 2004. Mr. Schievelbein served as Chief Operating Officer of Newport News Shipbuilding Inc. from 1995 until 2001 and was responsible for the design, construction and maintenance of nuclear-powered aircraft carriers and submarines. His experience includes the Virginia-class submarine program, CVN-76, CVN-77 and CVN-21 aircraft carrier programs, aircraft carrier overhaul and refueling, submarine fleet maintenance, commercial and naval ship repair and business development. Mr. Schievelbein is also a past member of the Secretary of the Navy’s Advisory Panel. Mr. Schievelbein holds a B.S. in Marine Engineering from the United States Naval Academy and a Master’s Degree in Nuclear Engineering from the University of Virginia.

Karl von der Heyden, Director—Mr. von der Heyden currently serves as co-chairman of The American Academy in Berlin and as a trustee of New York City Global Partners. He has served on the board of directors of several public companies, including DreamWorks Animation SKG Inc. (October 2005 to June 2009), Macy’s, Inc. (February 1992 to May 2010), Aramark Corporation (September 2001 to December 2006), PanAmSat (March 2005 to May 2006) and NYSE Euronext, Inc. (December 2005 to May 2008). From 1996 to 2001, Mr. von der Heyden was vice chairman of the board of directors of PepsiCo, Inc., where he also served in various senior management capacities, including as chief financial officer. Mr. von der Heyden was previously co-chairman and chief executive officer of RJR Nabisco, president and chief executive officer of Metallgesellschaft Corp. and senior vice president, chief financial officer and a director of and H.J. Heinz Company. He is a former trustee of Duke University, the YMCA of Greater New York and other non-profit organizations. He has served as Chairman of the Financial Accounting Standard Board’s Advisory Council and was a senior adviser to the Clipper Group, a private equity firm. Mr. von der Heyden attended the Free University of Berlin and has received a B.A. from Duke University and an M.B.A. from the Wharton School of Business at the University of Pennsylvania. He has also received a CPA certificate.

Qualifications of Directors

We believe the board of directors should be comprised of individuals with appropriate skills and experiences to meet board governance responsibilities and contribute effectively to the company. Pursuant to its charter, the Governance Committee will review the skills and experiences of directors and nominate candidates before nominating directors for election to the board. All of our non-employee directors are expected to serve on board committees, further supporting the board by providing expertise to those committees. The needs of the committees will also be reviewed when considering nominees to the board.

The board of directors is expected to be comprised of active and former senior executives of major corporations and former senior executives of the U.S. military and individuals with business and academic experience in the defense industry and other fields. As such, they are expected to have a deep working knowledge of matters common to large companies, generally including experience with financial statement preparation, compensation determinations, regulatory compliance, corporate governance, public affairs and legal matters. Many of our directors are likely to serve on the boards of one or more other publicly owned companies. We believe the company benefits from the experience and expertise our directors gain from serving on those boards. We also believe for effective board governance and collaboration it is important to have Mr. Petters, our President and Chief Executive Officer, serve on the board.

Our non-employee directors are qualified to serve as directors and members of the committees on which they will serve based on the following experience:

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Admiral Fargo’s experience with the Department of Defense and the U.S. Navy, and as an executive in the private sector, together with his experience as a member of the Northrop Grumman board of directors.

Dr. Bruner’s experience as the dean of a graduate school of business, as a financial economist and varied business and academic experience.

Mr. Davis’s experience in the U.S. House of Representatives, including on the Ways and Means Committee, the Budget Committee and the House Financial Services Committee, and varied public service and legal experience.

Ms. Kelly’s experience as a senior executive and general counsel of several large, publicly traded companies and varied business and legal experience.

Admiral Miller’s experience with the U.S. Navy, and as the chairman of an aerospace and defense company.

Mr. Schievelbein’s experience as the President and Chief Operating Officer of Northrop Grumman Newport News, together with his experience on the Northrop Grumman Corporate Policy Council.

Mr. von der Heyden’s experience on several boards of directors and boards of trustees and as a senior executive of large public companies, together with his varied business and finance experience.

Structure of the Board of Directors

Our board of directors will be divided into three classes that will be, as nearly as possible, of equal size. Each class of directors will be elected for a three-year term of office, and the terms are staggered so that the term of only one class of directors expires at each annual meeting. The terms of the Class I, Class II and Class III directors will expire in 2012, 2013 and 2014, respectively. The proposed Class I directors will include Mr. von der Heyden, Admiral Miller and Mr. Petters, the proposed Class II directors will include Admiral Fargo, Dr. Bruner and Mr. Davis and the proposed Class III directors will include Mr. Schievelbein and Ms. Kelly.

Committees of the Board of Directors

Following the spin-off, the standing committees of our board of directors will include an Audit Committee, a Compensation Committee and a Governance Committee, each as further described below. Following our listing on the NYSE and in accordance with the transition provisions of the rules of the NYSE applicable to companies listing in conjunction with a spin-off transaction, each of these committees will, by the date required by the rules of the NYSE, be composed exclusively of directors who are independent. Other committees may also be established by the board of directors from time to time.

Audit Committee. The members of the Audit Committee are expected to be Mr. von der Heyden (chair), Mr. Schievelbein and Dr. Bruner. The Audit Committee will have the responsibility, among other things, to meet periodically with management and with both our independent auditor and internal auditor to review audit results and the adequacy of and compliance with our system of internal controls. In addition, the Audit Committee will appoint or discharge our independent auditor, and review and approve auditing services and permissible non-audit services to be provided by the independent auditor in order to evaluate the impact of undertaking such added services on the independence of the auditor. The responsibilities of the Audit Committee, which are anticipated to be substantially identical to the responsibilities of Northrop Grumman’s Audit Committee, will be more fully described in our Audit Committee charter. The Audit Committee charter will be posted on our website at www.northropgrumman.com and will be available in print to any stockholder that requests it. By the date required by the transition provisions of the rules of the NYSE, all members of the Audit Committee will be independent and financially literate. Further, the board of directors has determined that Mr. von der Heyden possesses accounting or related financial management expertise within the meaning of the NYSE listing standards and that he qualifies as an “audit committee financial expert” as defined under the applicable SEC rules.

Compensation Committee. The members of the Compensation Committee are expected to be Admiral Miller (chair) and Admiral Fargo. The Compensation Committee will oversee all compensation and benefit programs and actions that affect our 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.northropgrumman.com and will be available in print to any stockholder that requests it. Each member of the Compensation Committee will be a non-employee director, and there are no Compensation Committee interlocks involving any of the projected members of the Compensation Committee.

Governance Committee. The members of the Governance Committee are expected to be Ms. Kelly (chair), Mr. Davis and Admiral Fargo. The Governance Committee will be responsible for developing and recommending to the board of directors criteria for identifying and evaluating director candidates; identifying, reviewing the qualifications of and
recruiting candidates for election to the board of directors; and assessing the contributions and independence of incumbent directors in determining whether to recommend them for reelection to the board of directors. The Governance Committee will also review and recommend action to the board of directors on matters concerning transactions with related persons and matters involving corporate governance and, in general, oversee the evaluation of the board of directors. The responsibilities of the Governance Committee, which are anticipated to be substantially identical to the responsibilities of Northrop Grumman’s Governance Committee, will be more fully described in the Governance Committee charter. The Governance Committee charter will be posted on our website at www.com and will be available in print to any stockholder that requests it.

**Director Independence.** Our board of directors is expected to formally determine the independence of its directors following the spin-off. We expect that our board of directors will determine that the following directors, who are anticipated to be elected to our board of directors, are independent: Admiral Fargo, Dr. Bruner, Mr. Davis, Ms. Kelly, Admiral Miller, Mr. Schievelbein and Mr. von der Heyden. Our board of directors is expected to annually determine the independence of directors based on a review by the directors and the Governance Committee. 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. In affirmatively determining whether a director is independent, the board of directors will determine whether each director meets the objective standards for independence set forth in the NYSE rules, which generally provide that:

- A director who is an employee, or whose immediate family member (defined as a spouse, parent, child, sibling, father- and mother-in-law, son- and daughter-in-law, brother- and sister-in-law and anyone, other than a domestic employee, sharing the director’s home) is an executive officer of the company, would not be independent until three years after the end of such relationship.
- A director who receives, or whose immediate family member receives, more than $120,000 per year in direct compensation from the company, other than director and committee fees and pension or other forms of deferred compensation for prior services (provided such compensation is not contingent in any way on continued service) would not be independent until three years after ceasing to receive such amount.
- A director who is a partner of or employed by, or whose immediate family member is a partner of or employed by and personally works on the company’s audit, a present or former internal or external auditor of the company would not be independent until three years after the end of the affiliation or the employment or auditing relationship.
- A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the company’s present executives serve on the other company’s compensation committee would not be independent until three years after the end of such service or employment relationship.
- A director who is an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the company for property or services in an amount which, in any single fiscal year, exceeds the greater of $1 million, or 2% of such other company’s consolidated gross revenues, would not be independent until three years after falling below such threshold.

**Compensation of Non-Employee Directors**

Following the spin-off, director compensation will be determined by our board of directors with the assistance of its Compensation Committee. It is anticipated that such compensation will consist of an annual retainer, an annual equity award, annual fees for serving as a committee chair and other types of compensation as determined by the board from time to time.

**Director Compensation Table**

The following table sets forth information concerning the 2010 compensation awarded by Northrop Grumman to non-employee directors of Northrop Grumman who are expected to be non-employee directors of HII:

<table>
<thead>
<tr>
<th>Name</th>
<th>Fees Earned or Paid in Cash(1) ($)</th>
<th>Stock Awards(2) ($)</th>
<th>All Other Compensation ($)</th>
<th>Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thomas B. Fargo(3)</td>
<td>122,500</td>
<td>120,000</td>
<td></td>
<td>242,500</td>
</tr>
<tr>
<td>Tom Schievelbein(5)</td>
<td>—</td>
<td>—</td>
<td>60,000</td>
<td>60,000</td>
</tr>
</tbody>
</table>

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Footnotes:

(1) Effective October 1, 2008, non-employee directors of Northrop Grumman earned an annual retainer of $220,000, $100,000 of which was paid in cash and the remainder of which was required to be deferred into a stock unit account pursuant to the 1993 Stock Plan for Non-Employee Directors, as amended (the “1993 Directors Plan”). The other annual retainers were paid in cash as follows:

<table>
<thead>
<tr>
<th>Type of Retainer</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Committee Retainer</td>
<td>10,000</td>
</tr>
<tr>
<td>Audit Committee Chair Retainer</td>
<td>25,000</td>
</tr>
<tr>
<td>Compensation Committee Chair Retainer</td>
<td>10,000</td>
</tr>
<tr>
<td>Governance Committee Chair Retainer</td>
<td>10,000</td>
</tr>
<tr>
<td>Policy Committee Chair Retainer</td>
<td>7,500</td>
</tr>
<tr>
<td>Non-executive Chairman of the Board</td>
<td>250,000</td>
</tr>
<tr>
<td>Matching Gifts for Education Program</td>
<td>Match of $1 per $1 of director contributions, up to $10,000 per director, to eligible educational programs in accordance with the rules of the program</td>
</tr>
</tbody>
</table>

(2) Represents the target value of stock units awarded to each non-employee director of Northrop Grumman in 2010 under the 1993 Directors Plan. Of the $220,000 annual retainer earned by non-employee directors of Northrop Grumman, $120,000 was required to be deferred into a stock unit account (Automatic Stock Units) pursuant to the 1993 Directors Plan. Effective January 1, 2010, the amended 1993 Directors Plan provides that the Automatic Stock Units be paid at the conclusion of board service or earlier, as specified by the director, if he or she has more than five years of service. In addition, each director may defer payment of all or a portion of his or her remaining board retainer fee and other annual committee fees, which are placed into a stock unit account (Elective Stock Units). The Elective Stock Units are paid at the conclusion of board service or earlier as specified by the director, regardless of years of service. All deferral elections must be made prior to the beginning of the year for which the retainer and fees will be paid. Directors are credited with dividend equivalents in connection with the shares of Common Stock until the shares are paid. The amount reported in this column for each director reflects the aggregate fair value on the date of grant, as determined under Financial Accounting Standards Board Accounting Standards Codification Topic 718, Stock Compensation, of the stock units for each director, excluding any assumed forfeitures.

(3) In 2010, a matching contribution was made by the company’s Matching Gifts for Education Program on behalf of Admiral Fargo in the amount of $2,500.

(4) Admiral Fargo received an additional $10,000 for service on an Ad Hoc Committee of the Northrop Grumman board during 2010.

(5) Pursuant to an agreement with NGSB, renewable on an annual basis, in 2010 Mr. Schievelbein received payment for service as a consultant on issues related to the management of NGSB and its programs, specializing in shipbuilding, ship repair, ship overhaul and other defense matters. The agreement expired on December 31, 2010 and has not been renewed.

**Deferred Stock Units**

As of December 31, 2010, the non-employee directors of Northrop Grumman who are expected to be non-employee directors of HII had the following aggregate number of deferred stock units accumulated in their deferral accounts for all years of service as a director of Northrop Grumman, including additional stock units credited as a result of dividend equivalents earned on the stock units:

<table>
<thead>
<tr>
<th>Name</th>
<th>Mandatory Deferral</th>
<th>Additional Voluntary Deferral</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thomas B. Fargo</td>
<td>5,870</td>
<td>0</td>
<td>5,870</td>
</tr>
</tbody>
</table>
EXECUTIVE COMPENSATION

Prior to the spin-off, we were a subsidiary of Northrop Grumman; therefore, our historical compensation strategy has been primarily determined by Northrop Grumman’s senior management (“Northrop Grumman Management”) and the Compensation Committee of Northrop Grumman’s board of directors (the “Northrop Grumman Compensation Committee”) along with our senior management. Since the information presented in this document relates to our 2010 fiscal year, which ended on December 31, 2010, this Compensation Discussion and Analysis focuses primarily on our compensation programs and decisions with respect to 2010 and the processes used to determine 2010 compensation. The information in this section, including in the tables herein, is presented as of December 31, 2010 when Northrop Grumman was the relevant employer. In connection with the spin-off, we will be the relevant employer and will form our own Compensation Committee that will be responsible for our executive compensation programs prospectively, which may be different from the compensation programs in place for 2010.

This Compensation Discussion and Analysis is presented in the following sections:

Compensation Philosophy: describes the principles that formed the foundation of the compensation and benefits programs covering our executives in 2010.

Section I — Roles and Responsibilities: provides an overview of the roles and responsibilities of the Northrop Grumman Compensation Committee, Northrop Grumman Management, our senior management and other parties involved in determining compensation for our Named Executive Officers (“HII NEOs”) for 2010.

Section II — Elements of Compensation: provides more details on our main compensation elements for HII NEOs for 2010—salary, annual incentives (or bonus), long-term incentive compensation and other benefits.

Section III — Policies and Procedures: gives additional information on policies and procedures related to HII NEO compensation for 2010.

Compensation Philosophy

The following compensation principles were based on principles approved by the Northrop Grumman Compensation Committee and formed the basis of our Compensation Philosophy prior to the spin-off.

• Compensation programs were to be directly aligned with and reinforce stockholder interests, and accordingly had to be performance-based, transparent, defensible and designed to provide pay commensurate with company results. Compensation was designed to motivate and reward our management for delivering operational and strategic performance to maximize stockholder value and demonstrating our and Northrop Grumman’s values, behaviors, and leadership competencies.

• Compensation and benefits had to be competitive within the market to attract and retain key talent that drives the desired business results. Market data was utilized to appropriately determine competitive pay levels.

• A significant part of compensation was to be at risk based on financial and individual performance. The appropriate level of equity-related compensation linked to stockholder value was delivered through long-term incentives.

• Compensation was to be disclosed and explained in a transparent, understandable manner. Clear and concise goals were established to enable the assessment of performance by the Northrop Grumman Compensation Committee and by stockholders through the Compensation Discussion and Analysis.

• Compensation programs were to be consistent with financial objectives relative to our business conditions. Alignment to peer companies was considered when developing programs and goals; however, measures oriented to strongly improving business results will be the predominant factor.

• Successful accomplishment of business goals in both annual operating performance and the achievement of increased stockholder value were designed to produce significant individual rewards, and failure to attain business goals was designed to negatively affect the pay of our executives.

• To promote alignment of management and stockholder interests, all officers were expected to meet stock ownership guidelines in the following denominations of base salary: our President was required to hold three times his base salary and the other HII NEOs were required to hold one and one-half times their salary.

• The mix of long-term awards, selection of performance criteria and oversight of compensation programs, together with other programs such as stock ownership guidelines, were designed to mitigate excessive risk by emphasizing a long-term focus on compensation and financial performance.
The HII NEO compensation strategy was to be consistent in philosophy for all incentive plan participants to ensure proper alignment, accountability, and line of sight regarding commitments and priorities. For 2010, over 85% of our President’s pay, and over 70% of the other HII NEOs’ pay, was based on compensation at risk.

SECTION I

Roles and Responsibilities for 2010

Role of Northrop Grumman Management

Northrop Grumman has an annual compensation review process that has historically taken place during the first quarter each year where it determines regular base salary merit increases, annual bonuses and grants of long-term incentives through an annual review of all employees, including the HII NEOs. The purpose of this review process has been to measure individual performance over the course of the performance year against pre-set financial, operational, and individual goals. The system has assisted in ensuring that each HII NEO’s compensation is tied to the financial and operating performance of the company, the HII NEO’s individual achievement and the HII NEO’s demonstration of Northrop Grumman’s strategic initiatives and values.

Throughout the year, our President provided recommendations regarding the compensation of the HII NEOs (other than our President) to Northrop Grumman Management for their review and approval. These recommendations were reviewed by Northrop Grumman’s Chief Human Resources Officer (“Northrop Grumman CHRO”) and included all compensation actions for our officers, including the HII NEOs (other than our President), as well as participation in the company’s various executive benefit and perquisite programs. The Northrop Grumman CHRO reviewed all compensation actions for our officers and then made a recommendation to the Northrop Grumman CEO for his review and approval. This was one of many inputs the Northrop Grumman CEO considered when reviewing compensation recommendations provided by our President. The Northrop Grumman CEO also took into account the leadership, performance, skills and industry knowledge of our officers when making his decision. The Northrop Grumman CEO could also seek additional input from an independent consultant or request additional market data from the Northrop Grumman CHRO to assist with the decision. The Northrop Grumman CEO approved all compensation actions for our officers other than our President, whose compensation and benefits were approved by the Northrop Grumman Compensation Committee.

Northrop Grumman Management also provided recommendations to the Northrop Grumman Compensation Committee regarding compensation actions for our President along with all executive plan designs and strategies. These recommendations included financial goals and criteria for the annual and long-term incentive plans. Northrop Grumman Management provided its recommendations based on information gathered from consultants and the market as well as from internal resources, allowing designs and strategies to be tied directly to the needs of Northrop Grumman’s and the company’s businesses.

Compensation Decisions for HII NEOs

In February 2010, the Northrop Grumman Compensation Committee, acting pursuant to authority under its charter, reviewed and approved compensation recommendations for our President. These compensation actions included a salary increase from $575,000 to $750,000, an annual bonus payment of $350,000 for 2009, and a grant of long-term incentives that included a grant of 122,700 stock options and a grant of 29,000 Restricted Performance Stock Rights (“RPSRs”) for the 2010 through 2012 performance period. These recommendations were provided to the Northrop Grumman Compensation Committee by the Northrop Grumman CEO.

In conjunction with the annual compensation cycle in the first quarter described above, the Northrop Grumman CEO approved the compensation actions for the HII NEOs below our President level. These compensation actions included salary increases, bonus payouts, and grants of RPSRs.

All grants of long-term incentive awards made to our employees by Northrop Grumman were within the annual grant guidelines established by the Northrop Grumman Compensation Committee. The Northrop Grumman Compensation Committee also established performance criteria for all Northrop Grumman employees, including our executives, regarding performance targets for both the Annual Incentive Plan (“AIP”) and Northrop Grumman’s long-term incentive stock plan (“LTI”).

Independent Consultant

The Northrop Grumman Compensation Committee relied on Mr. George Paulin, Chairman and CEO of Frederic W. Cook & Co., Inc. (“F.W. Cook”), for guidance in determining the levels and structure of executive compensation including our President. The Northrop Grumman Compensation Committee also utilized competitive salary data provided to the
Mr. Paulin’s role included: advising the Northrop Grumman Compensation Committee on management proposals as requested; serving as a resource to the Northrop Grumman Compensation Committee Chair on setting agenda items for Committee meetings and undertaking special projects; reviewing Northrop Grumman’s total compensation philosophy, peer groups and target competitive positioning for reasonableness and appropriateness; identifying market trends or practices; and providing proactive counsel to the Northrop Grumman Compensation Committee on best practices for board governance of executive compensation as well as areas of concern or risk in Northrop Grumman’s executive compensation programs. Our executives historically participated in those programs in which Mr. Paulin advised the Northrop Grumman Compensation Committee. Mr. Paulin and F.W. Cook received no other compensation from Northrop Grumman or from us except in connection with Mr. Paulin’s role as an independent consultant to the Northrop Grumman Compensation Committee.

In addition to Mr. Paulin, Northrop Grumman Management also utilized consulting services from Hewitt to provide competitive market data on our officer positions. Hewitt also provided data to Mr. Paulin on behalf of the Northrop Grumman Compensation Committee on an annual basis.

Neither Mr. Paulin nor Hewitt determined compensation amounts or made decisions regarding compensation recommendations for HII NEOs and other executives.

**Benchmarking**

Although compensation paid to the HII NEOs was not rigorously tied to that paid by peer groups, the Northrop Grumman Compensation Committee and the Northrop Grumman CEO determined that in order to support the objective of attracting and retaining leading executive talent, its total compensation program (base salary, target annual incentive awards, target long-term incentive award values and benefits) should, in the aggregate, approximate the 50th percentile in the market.

To assess market levels of compensation for Northrop Grumman elected officers, Northrop Grumman Management collected compensation data from a Target Industry Peer Group and a General Industry Peer Group to perform annual analyses. These peer groups for 2010 are detailed below. The Northrop Grumman Compensation Committee has determined that these groups provide a reasonable and relevant comparison of market data.

Consistent with the Compensation Philosophy discussed above, in 2010 the Northrop Grumman Compensation Committee initiated a review of these peer groups previously established for benchmarking compensation of Northrop Grumman’s elected officers, including our President. This study, prepared for the Northrop Grumman Compensation Committee by Mr. Paulin of F.W. Cook, resulted in modifications to the Target Industry Peer Group. The group was expanded from 11 to 15 companies, and some companies in the existing peer group were replaced. The objective of these changes was to better approximate the competitive marketplace within which Northrop Grumman operates and competes for talent while enhancing Northrop Grumman’s ability to obtain market data upon which to evaluate executive compensation. The new group included six of the nine largest worldwide defense contractors where comparable U.S. data was available and captured companies participating in Hewitt’s executive compensation survey.

For 2010, the Target Industry Peer Group consisted of the following 15 companies:

**2010 Target Industry Peer Group (current)**

<table>
<thead>
<tr>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>3M Co.*</td>
</tr>
<tr>
<td>The Boeing Co.</td>
</tr>
<tr>
<td>Caterpillar, Inc.*</td>
</tr>
<tr>
<td>Emerson Electric Co.*</td>
</tr>
<tr>
<td>General Dynamics Corp.</td>
</tr>
<tr>
<td>Goodrich Corp.*</td>
</tr>
<tr>
<td>Honeywell International, Inc.</td>
</tr>
<tr>
<td>ITT Corp.*</td>
</tr>
<tr>
<td>Johnson Controls, Inc.*</td>
</tr>
<tr>
<td>L-3 Communications Holdings, Inc.*</td>
</tr>
<tr>
<td>Lockheed Martin Corp.</td>
</tr>
<tr>
<td>Raytheon Co.</td>
</tr>
<tr>
<td>SAIC, Inc.*</td>
</tr>
<tr>
<td>Textron, Inc.*</td>
</tr>
<tr>
<td>United Technologies Corp.</td>
</tr>
</tbody>
</table>

* Added in 2010

Historically, the composition of the General Industry Peer Group fluctuated from year to year based on participation in Hewitt’s executive compensation survey however the basic design remained consistent; Fortune 100 companies participating in the survey, excluding financial services organizations due to their unique pay models. For 2010, data was compiled from 47 organizations. The analysis included a review of data as reported in the survey (including the 25th, 50th, and 75th percentile information) and employed statistical analysis to assess market pay on an adjusted basis, as determined by revenue size.
For 2010, the General Industry Peer Group consisted of the following 47 companies:

<table>
<thead>
<tr>
<th>2010 General Industry Peer Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbott Laboratories</td>
</tr>
<tr>
<td>Aetna, Inc.</td>
</tr>
<tr>
<td>AT&amp;T, Inc.</td>
</tr>
<tr>
<td>Caterpillar, Inc.</td>
</tr>
<tr>
<td>Chevron Corporation</td>
</tr>
<tr>
<td>CHS, Inc.</td>
</tr>
<tr>
<td>Comcast Corporation</td>
</tr>
<tr>
<td>CVS Corporation</td>
</tr>
<tr>
<td>Delta Air Lines Inc.</td>
</tr>
<tr>
<td>E. I. du Pont de Nemours and Company</td>
</tr>
<tr>
<td>FedEx Corporation</td>
</tr>
<tr>
<td>Ford Motor Company</td>
</tr>
<tr>
<td>General Dynamics Corporation</td>
</tr>
<tr>
<td>General Electric Company</td>
</tr>
<tr>
<td>Honeywell International, Inc.</td>
</tr>
<tr>
<td>Humana, Inc.</td>
</tr>
<tr>
<td>IBM Corporation</td>
</tr>
<tr>
<td>Ingram Micro, Inc.</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 Corporation</td>
</tr>
<tr>
<td>Lowe’s Companies, Inc.</td>
</tr>
<tr>
<td>Medco Health Solutions, Inc.</td>
</tr>
<tr>
<td>Merck &amp; Co., Inc.</td>
</tr>
<tr>
<td>PepsiCo, Inc.</td>
</tr>
<tr>
<td>Pfizer, Inc</td>
</tr>
<tr>
<td>Philip Morris International</td>
</tr>
<tr>
<td>Procter &amp; Gamble</td>
</tr>
<tr>
<td>Raytheon Company</td>
</tr>
<tr>
<td>Sunoco, Inc.</td>
</tr>
<tr>
<td>SUPERVALU INC.</td>
</tr>
<tr>
<td>Target Corporation</td>
</tr>
<tr>
<td>The Boeing Company</td>
</tr>
<tr>
<td>The Coca-Cola Company</td>
</tr>
<tr>
<td>The Dow Chemical Company</td>
</tr>
<tr>
<td>The Home Depot, Inc.</td>
</tr>
<tr>
<td>The Kroger Co.</td>
</tr>
<tr>
<td>The Walt Disney Company</td>
</tr>
<tr>
<td>Tyson Foods Incorporated</td>
</tr>
<tr>
<td>United Parcel Service</td>
</tr>
<tr>
<td>United Technologies Corporation</td>
</tr>
<tr>
<td>UnitedHealth Group</td>
</tr>
<tr>
<td>Valero Energy Corporation</td>
</tr>
<tr>
<td>Verizon Communications, Inc.</td>
</tr>
<tr>
<td>Walgreen Co.</td>
</tr>
<tr>
<td>Wellpoint, Inc.</td>
</tr>
</tbody>
</table>

**Compensation for Our President**

Hewitt provided an analysis of elected officers in the two peer groups compared to Northrop Grumman executives. This information was analyzed by F.W. Cook and presented to the Northrop Grumman Compensation Committee in December 2010. This study was used as a reference to make base salary, bonus and long-term incentive plan recommendations for the Northrop Grumman Compensation Committee to review and approve in February 2011. The Northrop Grumman CEO utilized this information to determine compensation for his direct reports, including our President. With respect to our President however, the Northrop Grumman CEO recommendation to the Northrop Grumman Compensation Committee was limited to an annual bonus (pertaining to the 2010 performance year). The recommendation for our President’s annual incentive award was approved by the Northrop Grumman Compensation Committee at their meeting on February 15, 2011.

In 2010, target total compensation was measured for Northrop Grumman elected officers, including our President. Target total compensation is comprised of base salary, target annual incentive awards, target long-term incentive award values and benefits. As an elected officer of Northrop Grumman, Mr. Petters’ target total compensation was measured each year as part of an annual review conducted by Hewitt and F. W. Cook.

Compared to the Target Industry Peer Group, Mr. Petters’ target total compensation was 34% above the size-adjusted median, and for the General Industry Peer Group his target total compensation was 28% above the size-adjusted median. Mr. Petters’ compensation levels reflect the value Northrop Grumman has placed on the knowledge, skills and experience that he has brought to his role overseeing the Shipbuilding sector. In addition, Northrop Grumman has placed value on internal peer comparisons and equity in terms of Mr. Petters’ job scope and responsibilities.

**Compensation for HII NEOs**

Northrop Grumman Management had available extensive information on competitive market practices. The primary source of survey information that Northrop Grumman Management relied upon was provided by Hewitt and typically focused on companies in the heavy manufacturing industry with annual revenues similar, in Northrop Grumman Management’s judgment, to our annual revenue. Northrop Grumman Management, including the Northrop Grumman CEO, utilized this information when reviewing compensation information for all officers, including the HII NEOs.

To evaluate competitive pay levels in the marketplace, both the Northrop Grumman Compensation Committee and the Northrop Grumman CEO reviewed data reported from F.W. Cook and Hewitt for our President. The Northrop Grumman CEO reviewed data from Hewitt and SIRS Executive surveys from ORC Worldwide/Mercer for the remaining HII NEOs, including the 25th, 50th, and 75th percentile information. Where appropriate, the data presented to the Northrop Grumman Compensation Committee and the Northrop Grumman CEO also used statistical analysis of the applicable peer group to predict market pay levels based on revenue size.
Each of our executive positions that could be compared to relevant peer data was benchmarked to the relevant data. Executive positions that were unique to us and could not be benchmarked to the market were compared internally based on their relative duties and responsibilities. HII NEOs were matched to the Hewitt or SIRS benchmark positions, considering revenue size of the business unit for base salary, annual bonus and long-term incentives. Once the survey results were released, the matches were confirmed and the market data was extracted for use in determining annual salary, bonus and long-term incentive recommendations. In 2010, total direct compensation (base salary, annual bonus, long-term incentives) was measured for the remaining HII NEOs and their compensation levels ranged from 11% to 20% above the 50th percentile of the applicable survey results; Ms. Niland, 11%; Mr. Edenzon, 11%; Mr. Mulherin, 11%; Mr. Ermatinger, 20%.

Risk Assessment

During the fourth quarter of 2009 the Northrop Grumman board of directors oversaw an internal assessment of Northrop Grumman’s risk profile, including the potential risk posed by the compensation programs in which our employees participated. This was followed by a risk assessment of Northrop Grumman’s executive compensation programs in the first quarter of 2010, performed by the Northrop Grumman Compensation Committee’s compensation consultant, Mr. Paulin of F.W. Cook. As a part of these risk assessments, the following were determined:

- the board and the Northrop Grumman Compensation Committee exercise close oversight over the performance measures utilized by the annual and long-term incentive plans, both of which serve to drive long-term performance and enhance stockholder value;
- the performance objectives of the plans are linked such that achievement of annual incentive plan measures serves to enhance long-term performance of Northrop Grumman and the company while also supporting the goals established for the long-term incentive plan; and
- the connection of performance metrics between the annual and long-term plans incentivizes long-term performance over short-term gain.

Moreover, in addition to other risk-mitigating features incorporated into Northrop Grumman’s compensation programs such as holding-period requirements, stock ownership guidelines and a compensation recoupment policy, Northrop Grumman relies upon a rigorous system of internal controls to prevent any individual employee from creating adverse material risk in pursuit of an annual or long-term award.

SECTION II

Elements of Compensation

The compensation elements for the HII NEOs for fiscal 2010 are summarized in the table below and then described in more detail following the table.

<table>
<thead>
<tr>
<th>Element of Compensation</th>
<th>Objectives</th>
<th>If Variable, Performance Measured</th>
<th>Cash or Equity</th>
</tr>
</thead>
</table>
| Salaries                | • targeted at a competitive market median on a job-by-job basis  
                          • adjusted above or below median based on executive’s experience, skills and sustained performance  
                          • served to recruit and retain the talent necessary to run our businesses | Not variable | Cash |
| Annual Incentive        | • designed to motivate executives to attain vital short-term goals  
                          • intended to provide a competitive level of compensation when the individual and the company achieve the approved performance objectives  
                          • tying the annual incentive directly to financial performance provided the most effective alignment with stockholder interests | Variable, based on our and Northrop Grumman’s performance for all executives other than our President, which is based solely on Northrop Grumman performance, and adjusted for individual performance | Cash |
| Long-Term Incentives    | • for 2010, long-term incentives granted to our President in the form of Northrop Grumman stock options (50%) and Northrop Grumman Restricted Performance Stock Rights (50%); to the other HII NEOs in the form of Northrop Grumman Restricted Performance Stock Rights (100%) | See below | Equity |
Salaries

Base salaries of the HII NEOs were targeted at a competitive market median on a job-by-job basis with individual variations explained by differences in each incumbent’s experience, skills, and sustained performance. Internal pay relationships and equitability were also considered. The Northrop Grumman Compensation Committee reviewed and approved our President’s salary and the Northrop Grumman CEO reviewed and approved the other HII NEOs’ salaries, based on recommendations from our President, on an annual basis, or at the time of promotion or a substantial change in responsibilities, and made adjustments as needed based on the Compensation Philosophy described above.

In February 2010, the Northrop Grumman Compensation Committee approved base salary increases for certain sector presidents, including Mr. Petters, whose base salary was raised from $575,000 to $750,000. This action was taken to more closely align the sector presidents in terms of internal equity since the scope of job responsibilities is very similar.

Annual Incentives

Under the Northrop Grumman Annual Incentive Plan, the Northrop Grumman Compensation Committee approved annual incentive compensation targets for our President and the Northrop Grumman CEO approved the annual incentive compensation targets for the other HII NEOs. The incentive compensation targets were determined for each position based on market prevalence, individual job level, scope and overall influence on the business results. The Northrop Grumman Compensation Committee and the Northrop Grumman CEO considered both the recommendations of consultants and those of Northrop Grumman Management and our senior management in determining appropriate annual incentive target levels. The target incentive award (“Target Bonus”) represented a percentage of each executive’s base salary and, after the year ended, provided a basis upon which a final award amount was determined by the Northrop Grumman Compensation Committee and the Northrop Grumman CEO based on an assessment of the financial performance against pre-determined performance criteria and individual performance.

The annual incentive targets below were established for the HII NEOs:

### 2010 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 F. Edenzon</td>
<td>Vice President and General Manager — Gulf Coast Operations</td>
<td>45%</td>
<td>0% – 90%</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>Vice President and General Manager — Newport News Operations</td>
<td>45%</td>
<td>0% – 90%</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>Vice President and Chief Human Resources Officer</td>
<td>40%</td>
<td>0% – 80%</td>
</tr>
</tbody>
</table>

For 2010, our President’s bonus was evaluated based on the Northrop Grumman Company Performance Factor (“CPF”) and an Individual Performance Factor (“IPF”). For the remaining HII NEOs, bonuses were evaluated based on the Northrop Grumman Company Performance Factor, our Sector Performance Factor (“SPF”), and an IPF. Within the annual incentive formula described below, the CPF and SPF were weighted equally (50% each) and could range from 0% to 200%. The IPF could range 0-125%. Final bonus award payments were capped at 200% of an individual’s target bonus.
Annual incentive formula for 2010:

Base Salary x Target % = Target Bonus

Target Bonus x CPF x IPF = Final Bonus Award *

* For elected officers including our President, as a member of Northrop Grumman’s Corporate Policy Council, the CPF within the formula is weighted 100% on Northrop Grumman company performance. For the other NEOs, the CPF equals Final Company Financial Metric (50%) plus Final Sector Score (50%). The Final Sector Score is comprised of sector level performance of the same financial and non-financial metrics explained below.

At the conclusion of the calendar year, an annual performance evaluation for each HII NEO, other than our President, was conducted by the Northrop Grumman CEO who reviewed and approved the IPFs for those HII NEOs. The IPF was determined based upon consideration of the following factors:

- Financial performance
- Performance on non-financial goals, including company-level goals and specific operating factors
- Strategic leadership and vision
- Program execution and performance
- Customer relationships
- Peer and employee relationships

The Northrop Grumman CEO and Northrop Grumman Compensation Committee reviewed all performance information, as well as the comparison to market data, and approved bonus amounts. As previously noted, the Northrop Grumman CEO approved bonus amounts for all HII NEOs (other than our President) and the Northrop Grumman Compensation Committee approved our President’s final bonus amount. The Northrop Grumman Compensation Committee approved the final financial performance factors (CPF and SPF) that were used to determine the annual incentive payout. The Northrop Grumman Compensation Committee also has full discretion to make adjustments to the CPF and/or SPF if it determines such adjustment is warranted. For example, in instances where our performance has been impacted by material, unusual or non-recurring gains and losses, changes in law, regulations or in generally accepted accounting principles, accounting charges or other extraordinary events not foreseen at the time the targets were set. The Northrop Grumman Compensation Committee has also adjusted payouts downward in the past despite performance targets having been met when it determined circumstances existed that had a negative impact on us and they were not reflected in the performance calculation. Actual adjustments for 2010 are described below.

2010 Annual Incentive Goals and Results

For the 2010 performance year, the Northrop Grumman Compensation Committee determined that the evaluation of Northrop Grumman performance would be based on achievement of both financial and non-financial metric goals. The final Northrop Grumman CPF equaled the financial metric score multiplied by the assessment for the non-financial metrics which were scored in the range of 80% to 120%. The Northrop Grumman Compensation Committee assessed non-financial performance with a recommendation from the Northrop Grumman CEO.

The three Northrop Grumman financial metrics focused on capturing new business awards, expanding the current pension-adjusted operating margin rate and on free cash flow conversion (calculated as free cash flow before discretionary pension funding divided by net income). The six Northrop Grumman non-financial metrics were customer satisfaction, diversity, engagement (attrition), environmental, quality and safety, measured as follows:

- **Customer Satisfaction** — measured in terms of feedback received from customers including customer generated performance scores, award fees, as well as verbal and written feedback. For example, Department of Defense contracts that meet certain thresholds are required to provide feedback through the Contractor Performance Assessment Reporting System.
- **Diversity** — measured in terms of improving representation of females and people of color in mid-level and senior-level management positions with respect to peer benchmarks.
- **Engagement (attrition)** — measured in terms of voluntary attrition, which is an indicator of engagement levels within an organization as companies with high employee engagement retain a more motivated and productive workforce.
- **Environmental** — measured in terms of the reduction, in metric tons, of greenhouse gases emissions.
• **Quality** — measured using program-specific objectives available within each of Northrop Grumman’s sectors. This metric integrates available measures of quality including defect rates, process quality, supplier quality, planning quality and other appropriate criteria for program type and phase.

• **Safety** — measured by Total Case Rate, and defined as the number of OSHA recordable injuries (any medical treatment requiring more than first aid) per 100 full-time employees.

The score for operating margin is adjusted based upon the amount of earnings charges recorded for the year. The adjustment can increase the score by a maximum of five percentage points if the actual operating margin rate is equal to or above target and minimal charges are recorded or decrease the score by up to five percentage points if significant charges are recorded and the target operating margin rate is not achieved. Each financial metric/goal is described below and shown with its relative weighting.

### Northrop Grumman Financial Goals that were Applicable to our President

<table>
<thead>
<tr>
<th>Metric/Goal</th>
<th>Weighting</th>
<th>Threshold Performance</th>
<th>Target Performance</th>
<th>Maximum Performance</th>
<th>2010 Actual Performance (as adjusted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Business Awards (Amounts in Billions)</td>
<td>20%</td>
<td>$27.0</td>
<td>$30.0</td>
<td>$37.0</td>
<td>$31.8</td>
</tr>
<tr>
<td>Pension-Adjusted Operating Margin Rate *</td>
<td>40%</td>
<td>8.0%</td>
<td>9.0%</td>
<td>10.0%</td>
<td>$9.3%</td>
</tr>
<tr>
<td>Free Cash Flow Conversion</td>
<td>40%</td>
<td>80%</td>
<td>100%</td>
<td>135%</td>
<td>119%</td>
</tr>
</tbody>
</table>

* This goal is adjusted for net FAS/CAS pension expense.

For 2010, the Northrop Grumman Compensation Committee used its discretion to adjust the financial metric scores for four unusual, non-recurring items: financial impacts resulting from the shipbuilding strategic actions; IRS tax settlement for years 2004 through 2006; cash tender offer for Northrop Grumman debt securities; and the purchase of the new headquarters facility in Virginia. Three of the adjustments increased the score and one of the adjustments decreased the score.

After adjusting for the four unusual items described above, the Northrop Grumman adjusted financial performance score was 142%. For non-financial metrics, the calculated score was 107%. After incorporating performance on the three financial metrics and six non-financial metrics, the final CPF at Northrop Grumman was 152%. Based on an overall assessment of performance at Northrop Grumman, the Northrop Grumman CEO recommended to the Northrop Grumman Compensation Committee a company performance score of 150%. After reviewing Northrop Grumman’s overall performance, the Northrop Grumman Compensation Committee approved a final CPF of 150%.

Northrop Grumman non-financial goals applicable to our President were based on Company-level performance, including customer satisfaction, diversity, engagement (attrition), environmental, quality and safety, as described above. Based on an assessment of the adjusted company-level financial performance, the company-level non-financial performance metrics, and his individual performance factor, the Northrop Grumman Compensation Committee determined a score of 161% for our President for 2010. The calculation resulted in an annual incentive payout of $900,000 for the 2010 performance year.

### Financial Goals that were Applicable to the Remaining HII NEOs

<table>
<thead>
<tr>
<th>Metric/Goal</th>
<th>Weighting</th>
<th>Threshold Performance</th>
<th>Target Performance</th>
<th>Maximum Performance</th>
<th>2010 Actual Performance (as adjusted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Business Awards (Amounts in Billions)</td>
<td>20%</td>
<td>$3.4</td>
<td>$3.8</td>
<td>$4.6</td>
<td>$5.4</td>
</tr>
<tr>
<td>Operating Margin Rate</td>
<td>40%</td>
<td>5.9%</td>
<td>6.9%</td>
<td>7.9%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Free Cash Flow Conversion</td>
<td>40%</td>
<td>50%</td>
<td>65%</td>
<td>85%</td>
<td>92%</td>
</tr>
</tbody>
</table>

* Defined as free cash flow divided by operating margin where free cash flow is adjusted for net external interest expense and foreign tax and operating margin is adjusted for purchased intangible amortization and intersegment margin.

AIP scores for our NEOs other than our President are based on the HII Final AIP score times an individual performance factor, with the HII Final AIP score based on the following calculation:

\[
\text{HII Final AIP Score} = 50\% \times \text{Northrop Grumman financial metric score} + 50\% \times \text{HII score}
\]

\[
\text{HII Score} = (\text{HII financial metric score} \times \text{HII non-financial metric score} + \text{HII operating factor (range of 80 — 120%)})
\]

Within the annual incentive formula for the HII score, the operating factor is based on our performance as measured against a set of pre-approved HII specific objectives that consist of the following priorities: HII improvement projects,
human capital, achieving first time quality, supply chain management, facilities and technology, and financial predictability. Consistent with the calculation of the Northrop Grumman financial metric score, our operating margin score is adjusted based upon the amount of HII earnings charges taken during the year. The HII non-financial metrics are the same as those for the company described above.

After adjusting for the Shipbuilding strategic actions (wind down of Shipbuilding activities in Avondale, Louisiana), the adjusted HII financial metric score was 150%. The combined assessment for the non-financial metrics and HII specific objectives was 118% resulting in a HII score of 177%. A final HII AIP score of 160% was calculated by taking 50% of the company financial metric score (142%) and 50% of the HII score (177%). For 2010, the Compensation Committee accepted the CEO's recommendation that the HII Final AIP score be set at 160%, including an adjustment to the HII financial metrics for non-recurring strategic actions in Shipbuilding, and recognizing the success of the HII team in addressing the non-financial goals in Shipbuilding.

Details on the range of bonuses that could have been payable based on 2010 performance are provided in the Grants of Plan-Based Awards table. Actual bonus payouts for 2010 performance are provided in the Summary Compensation Table.

Long-Term Incentive Compensation

2010 Stock Option and Restricted Performance Stock Right Award

During 2010, each of the HII NEOs was granted long-term incentive awards in the form of Northrop Grumman equity grants. With respect to the amount of long-term incentive awards granted to the HII NEOs in 2010, the Northrop Grumman Compensation Committee determined the target award value for our President, and the Northrop Grumman CEO determined the target award values for the other HII NEOs based on the market analysis discussed in this Compensation Discussion and Analysis, applying value-based guidelines which focus on the value delivered versus the number of shares delivered (share-based guidelines). The Northrop Grumman Compensation Committee and Northrop Grumman CEO believes that value-based guidelines more effectively allow for the delivery of target opportunities that are consistent with median awards given to individuals holding comparable positions at peer companies.

2010 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>114%</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>Vice President and General Manager — Gulf Coast Operations</td>
<td>122%</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>Vice President and General Manager — Newport News Operations</td>
<td>122%</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>Vice President and Chief Human Resources Officer</td>
<td>83%</td>
</tr>
</tbody>
</table>

In 2010, the Northrop Grumman Compensation Committee granted 50% of the target value in the form of stock options and 50% in the form of RPSRs to our President. The Northrop Grumman Compensation Committee believes it is important to utilize performance-based units such as RPSRs in combination with stock options, as this long-term incentive combination focuses on creating stockholder value. Stock options granted to our President in 2010 vest in three annual installments of 33% each, becoming fully vested after three years, and expiring after seven years. For the other NEOs, the Northrop Grumman CEO approved awards 100% in the form of RPSRs.

The Northrop Grumman Compensation Committee evaluates RPSR performance requirements each year to ensure they are aligned with Northrop Grumman’s objectives. For the 2010 grant, the Northrop Grumman Compensation Committee reviewed the performance metrics with management and determined that for elected officers of Northrop Grumman, including our President, performance would be measured in terms of relative Total Shareholder Return ("TSR"). TSR is measured by comparing Northrop Grumman share performance over a three-year period to the performance of top aerospace and defense companies in the United States and Europe, and to the S&P Industrials Index which comprises companies within the S&P 500 classified as Industrials.

For the other HII NEOs, financial performance would be measured based on the Return On Net Assets ("RONA") adjusted for pension benefits and the pension-adjusted operating margin rate achieved at the end of the three-year period. Final performance determination is an equally weighted sum of RONA and pension-adjusted operating margin rate results. Target performance is based upon achieving a RONA of 14% and achieving a pension-adjusted operating margin rate of 10% at the end of 2012.

Shares that ultimately are vested and paid out under an RPSR award to the executive can vary from 0% to 200% of the original number of shares granted. RPSR awards may be paid in shares, cash or a combination of shares and cash. Dividends are not paid or earned on RPSR awards. More details on the 2010 stock option and RPSR grants to the President and HII NEOs are provided in the Grants of Plan-Based Awards Table.
Recently Completed RPSR Performance Period (2008 — 2010)

During the first quarter of each year, the Northrop Grumman Compensation Committee reviews Northrop Grumman’s financial performance achievement against established goals to determine payout multiples for RPSRs with a performance period that ended in the prior year. The Northrop Grumman Compensation Committee has authority to make adjustments to the payout multiple if it determines such adjustment is warranted. For example, in instances where our performance has been impacted by material, unusual or non-recurring gains and losses, changes in law, regulations or in generally accepted accounting principles, accounting charges or other extraordinary events not foreseen at the time the targets were set, the Northrop Grumman Compensation Committee has used discretion in the past to modify the final awards. Individual performance is not relevant to the amount of the final payout of RPSRs.

At the February 15, 2011 meeting, the Northrop Grumman Compensation Committee reviewed performance for the January 1, 2008 to December 31, 2010 RPSR performance period. The final award for this grant of RPSRs was based on an equally weighted sum of RONA and cumulative, pension-adjusted, operating margin.

The amount of cumulative pension adjusted operating margin over the three year period was less than the threshold amount, resulting in a score of 0%, primarily because of the $3.1 billion goodwill impairment charge taken in 2008. RONA exceeded the maximum amount, resulting in a score of 200%. Based on equal weighting for each metric, the final performance for the 2008 grant was determined to be 100%.

Retention Grants for Key Employees

In January 2011, the Northrop Grumman Compensation Committee approved, for recommendation to the HII board of directors, special long-term incentive stock grants in the form of restricted stock rights (“RSRs”) for the HII NEOs, including our President. These grants are contingent upon the completion of the spin-off. The purpose of these grants is to ensure overall business continuity and a successful transition from Northrop Grumman to Huntington Ingalls Industries. The HII NEOs will be granted RSRs with the following approximate values on the date of grant: Mr. Petters, $2,500,000; Ms. Niland, $1,000,000; Mr. Edenzon, $1,000,000; Mr. Mulherin, $1,000,000; Mr. Ermatinger, $750,000. These grants will be made in HII shares upon the date of the distribution, with the number of shares based on the closing price on that date, and will vest 100% after three years.

Treatment of Long-Term Incentive Awards Following the Spin-Off

In connection with the spin-off, HII will establish an equity incentive plan to provide for awards with respect to shares of HII’s common stock. At the time of the distribution, the exercise price of and number of shares subject to any outstanding option to purchase Northrop Grumman stock, as well as the number of shares subject to any RPSRs, RSRs or other Northrop Grumman equity award, held by HII’s current and former employees on the distribution date will be adjusted to reflect the value of the distribution such that the intrinsic value of such awards at the time of separation is held constant. The performance of each award will be determined as of December 31, 2010 and fixed with a payout during the normal cycle in shares of HII stock at the end of the performance period. The awards will continue under HII for the remaining portion of each respective performance period. In addition, existing performance criteria applicable to such awards will be modified appropriately to reflect the spin-off such that the remaining portion of each grant will be based on HII performance metrics. The equity awards held by the HII NEOs will be adjusted in the same manner as the awards held by our other current and former employees.

Other Benefits

This section describes the other benefits HII NEOs received in 2010. These benefits were non-performance related and were designed to provide a market competitive package for purposes of attracting and retaining the executive talent needed to achieve our business objectives. These included benefits under broad-based retirement plans, as well as supplemental executive benefits provided in addition to those provided to all other employees. These supplemental benefits included supplemental pension plans, enhanced health and welfare benefits and the Special Officers Retiree Medical Plan (“SORMP”) for our President offered at retirement.

Defined Benefit Retirement Plans

Northrop Grumman maintains tax-qualified defined benefit plans that covered the HII NEOs and the majority of our workforce. Compensation, age and service factor into the amount of the benefits provided under the plans. Thus, the plans were structured to reward and retain employees of long service and to recognize higher performance levels as evidenced by increases in annual pay.

Northrop Grumman maintains supplemental defined benefit plans that covered the HII NEOs. These plans (1) provided benefits that would have been provided under the tax-qualified plans but for limitations imposed by the
Internal Revenue Code and (2) provided larger accruals for elected and appointed officers in recognition of the higher levels of responsibility for such executives. Such benefits are common in the aerospace and defense industry.

Although benefits were paid from different plans due to plan and legal requirements, Northrop Grumman imposed an overall cap on all the pension benefits which included the HII NEOs. Each officer’s total pension benefit under all pension plans combined was limited to no more than 60% of his or her final average pay. Additional information on these defined benefit retirement plans and the cap on officer pension benefits is provided in the Pension Benefits Table.

**Defined Contribution Savings Plans**

Northrop Grumman maintains tax-qualified retirement savings plans that covered the HII NEOs and the majority of our workforce. Participating employees contributed amounts from their pay to the plans, and Northrop Grumman generally provides a matching contribution.

Northrop Grumman maintains two supplemental savings plans that covered all eligible employees, including the HII NEOs. The Savings Excess Plan allowed the HII NEOs and all other eligible employees to defer compensation beyond the limits of the tax-qualified plans and receive a matching contribution. The HII NEOs and all other eligible employees could also defer compensation under the Deferred Compensation Plan. No match was provided under the Deferred Compensation Plan, which was closed to new contributions as of December 31, 2010.

Additional information about the Savings Excess and Deferred Compensation Plans is provided in the Nonqualified Deferred Compensation Table.

**Special Officer Retiree Medical Plan (“SORMP”)**

The SORMP was closed to new participants in 2007. Only our President was a participant in the SORMP and was entitled to retiree medical benefits pursuant to the terms of the SORMP. The coverage was essentially a continuation of the executive medical benefits plus retiree life insurance. Additional information about the SORMP is provided in the Retiree Medical Arrangement section in the attached tables.

**Perquisites**

HII NEOs were eligible for certain executive perquisites which included financial planning, income tax preparation, physical exams and personal liability insurance. While almost all other executive perquisites have been eliminated, the perquisites that remained were the most common within the marketplace and were viewed as an important component of our total compensation package. On an annual basis, Northrop Grumman Management and the Northrop Grumman Compensation Committee reviewed both perquisites and benefits for companies participating in the Aon Hewitt market-based database.

**Use of Northrop Grumman Aircraft**

Our President was able to utilize Northrop Grumman aircraft for business and personal travel. Throughout the year, if any HII NEO used Northrop Grumman aircraft for personal travel, the costs for such travel were imputed as income and subject to the appropriate tax reporting according to IRS regulations and this benefit was not grossed up.

**Severance and Change-in-Control Benefits**

Northrop Grumman has an established severance plan for elected and appointed officers. Prior to December 31, 2010, Northrop Grumman also maintained a change-in-control Special Agreement for certain elected officers, including our President. During its March 2010 meeting, the Northrop Grumman Compensation Committee approved the termination of all change-in-control agreements and plans at Northrop Grumman as of December 31, 2010, including the Special Agreement previously in effect for our President.

The severance plan provided compensation and benefits for a reasonable period if participants are terminated.

Northrop Grumman’s Severance Plan for Elected and Appointed Officers was implemented in August 2003, and offers severance to officers who qualify and are approved to receive such treatment. Generally, executives are unemployed for a time period following a termination, and the purpose of the severance plan was to help bridge an executive’s income and health coverage during this period. Effective October 1, 2009, the Northrop Grumman Compensation Committee approved a modification to severance benefits for our President and reduced the severance benefits from two years of salary and bonus to eighteen months. All other HII NEOs were eligible for severance benefits equal to one year of base salary + target bonus. In general, these benefits were consistent with severance multiples and benefit continuation periods in the market. The severance benefits that are provided to the HII NEOs under the Northrop Grumman Severance Plan for Elected and Appointed Officers are the following:
For our President

- Lump sum cash payment = 1.5 x (Base Salary + Target Bonus)
- Continue to pay portion of medical & dental benefits for 18 months concurrent with COBRA coverage. The employee is responsible for his/her portion
- Outplacement assistance up to 1 year after termination
- Continued reimbursement of eligible financial planning expenses for the year of termination and the following year, up to a maximum of $15,000 per year

For the HII NEOs

- Lump sum cash payment = 1 x (Base Salary + Target Bonus)
- Continue to pay portion of medical & dental benefits for 12 months concurrent with COBRA coverage. The employee is responsible for his/her portion
- Outplacement assistance up to 1 year after termination
- Continued reimbursement of eligible financial planning expenses for the year of termination and the following year, up to a maximum of $5,000 per year

Additional information on the benefits provided under the severance plan is provided in the Severance/Change-in-Control section of the tables. None of the HII NEOs will be entitled to any severance benefits under the Northrop Grumman Severance Plan for Elected and Appointed Officers as a result of the spin-off.

SECTION III
Policies and Procedures

Tax Deductibility of Pay
Section 162(m) of the Internal Revenue Code generally limits the annual tax deduction to $1 million per person for compensation paid to a public company’s CEO and its next three highest-paid executive officers (other than the CFO). Qualifying performance-based compensation is not subject to the deduction limit. For 2010, none of the HII NEOs was within the group of Northrop Grumman executive officers that was subject to the Code Section 162(m) limitations. Following the spin-off, we intend to consider the application of the Code Section 162(m) limits. However, our compensation decisions will be made, among other things, to ensure market competitive rates are maintained and retention of critical executives is achieved. Sometimes these decisions may result in compensation amounts being non-deductible under Code Section 162(m).

Grant Date for Equity Awards
Historically, the annual grant cycle for stock options and other equity awards occurred at the same time as salary increases and annual incentive grants. This typically occurred in February each calendar year. This timing allowed management and the Northrop Grumman Compensation Committee and the Northrop Grumman CEO to make decisions on three compensation components at the same time, utilizing a total compensation perspective. The Northrop Grumman Compensation Committee and the Northrop Grumman CEO reviewed and approved long-term incentive grants in February and established the grant price for stock options on the date of the Northrop Grumman Compensation Committee meeting. The grant price was equal to the closing price of Northrop Grumman’s stock on the date of grant.

At its February 2010 meeting, the Northrop Grumman Compensation Committee reviewed and approved the long-term incentives for our President, and long-term incentives for the remaining HII NEOs were approved by the Northrop Grumman CEO under his delegation from the Northrop Grumman Compensation Committee. The 2010 grant was approved after the filing of Northrop Grumman’s Form 10-K for 2009 on February 9, 2010, as the Northrop Grumman Compensation Committee and Northrop Grumman CEO believe it is important to have the grant occur following the release of detailed financial information about the company. This approach allows for the stock price to be fully reflective of the market’s consideration of material information disclosed in Northrop Grumman’s Form 10-K.

Stock Ownership Guidelines
Northrop Grumman maintains stock ownership guidelines which apply to the HII NEOs. These guidelines are intended to further promote alignment of management and stockholder interests. These guidelines required that the HII NEOs and other officers own stock denominated as a multiple of their annual salaries which could be accumulated over a five-year period from the date of hire or promotion into an officer position.
The Stock Ownership guidelines were as follows:

- HII President: 3 x base salary
- Other HII NEOs: 1 1/2 x base salary

Shares that satisfy the stock ownership guidelines included:

- Stock owned outright by an officer
- Restricted Stock Rights, whether or not vested
- Value of equivalent shares held in the Northrop Grumman Savings Plan, the Northrop Grumman Financial Security and Savings Program and the Northrop Grumman Savings Excess Plan.

Stock options and unvested RPSRs were not included in calculating ownership until they were converted to actual shares owned.

During its September 2010 meeting, the Northrop Grumman Compensation Committee performed its annual review of the ownership of all elected officers including our President. The Northrop Grumman CEO performed a review of the stock ownership holdings of Northrop Grumman’s Appointed Officers; these included the remaining HII NEOs. Officers whose current stock ownership fell below certain thresholds were asked to provide a plan for achieving compliance. The Northrop Grumman Compensation Committee and the Northrop Grumman CEO were satisfied with the efforts of all officers to achieve compliance.

In September 2008, the Northrop Grumman Compensation Committee approved a stock trading program under SEC Rule 10b5-1 for purposes of more effectively managing insider sales of stock. The plan covered all the HII NEOs and other officers. An insider could establish a plan during any quarterly window period for the next window period. The duration of the plan was one year.

**Executive Compensation Recoupment**

Ethical behavior and integrity remain an important priority for the company leadership. In support of this, the Northrop Grumman Compensation Committee approved an executive compensation recoupment policy (also known as a “clawback” policy) at its December 2008 meeting that became effective in the first quarter of 2009, and was subsequently amended in March 2010. The policy applied to our NEOs and all other employees at the level of Vice President or higher. When first adopted, Northrop Grumman could recover annual and long-term incentive compensation when incentive payments had been based on financial results that were later restated due to misconduct.

In the first quarter of 2010, the Northrop Grumman Compensation Committee approved strengthening the policy to allow for the recovery of incentive compensation payments based on restated financial results regardless of whether misconduct was determined to have been the cause of the restatement. The Northrop Grumman Compensation Committee believed this broader definition governing the basis for incentive compensation recoupment would better serve shareholder interests and those of Northrop Grumman.

The Northrop Grumman Compensation Committee was responsible for investigating potential payments based on inaccurate financial results that were later restated, and determining whether any incentive payments are to be recovered.

**Stock Holding Requirement**

Effective with February 2010 awards, Northrop Grumman implemented a new stock holding policy for elected and appointed officers further emphasizing the importance of sustainable performance and appropriate risk management behaviors. This new policy worked in conjunction with the stock ownership requirements and required all officers (Corporate Policy Council members and vice presidents) to hold, for a period of three years, 50% of the net shares (after taxes) received from RPSR payouts and stock option exercises. This change was effective with the 2010 grants and for grants made in subsequent years. Grants to employees prior to 2010 are not subject to these holding requirements. These holding requirements will generally continue upon termination and retirement for a one-year period after separation from the company, affecting any stock vesting or option exercises in that one-year period. Stock vesting or options exercised after the one-year anniversary of retirement or termination will not be subject to the holding requirement.
## 2010 Summary Compensation Table

<table>
<thead>
<tr>
<th>Name &amp; Principal Position</th>
<th>Year</th>
<th>Salary (1) ($)</th>
<th>Bonus ($)</th>
<th>Stock Awards (2) ($)</th>
<th>Option Awards (2) ($)</th>
<th>Non-Equity Incentive Plan Compensation (3) ($)</th>
<th>Change in Pension Value and Non-Qualified Deferred Compensation Earnings (4) ($)</th>
<th>All Other Compensation (5) ($)</th>
<th>Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>2010</td>
<td>716,346</td>
<td>0</td>
<td>2,208,350</td>
<td>1,400,034</td>
<td>900,000</td>
<td>434,140</td>
<td>62,009</td>
<td>5,720,879</td>
</tr>
<tr>
<td>President and Chief</td>
<td>2009</td>
<td>572,788</td>
<td>0</td>
<td>1,490,069</td>
<td>861,877</td>
<td>350,000</td>
<td>593,065</td>
<td>76,789</td>
<td>3,944,588</td>
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<tr>
<td>Executive Officer</td>
<td>2008</td>
<td>566,827</td>
<td>0</td>
<td>2,379,608</td>
<td>946,494</td>
<td>603,750</td>
<td>490,672</td>
<td>73,803</td>
<td>5,061,154</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>2010</td>
<td>332,875</td>
<td>0</td>
<td>1,043,265</td>
<td>0</td>
<td>267,800</td>
<td>545,626</td>
<td>69,391</td>
<td>1,957,519</td>
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<tr>
<td>Vice President and Chief</td>
<td>2009</td>
<td>312,115</td>
<td>0</td>
<td>920,387</td>
<td>0</td>
<td>110,000</td>
<td>340,778</td>
<td>60,144</td>
<td>1,937,977</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>2008</td>
<td>297,019</td>
<td>0</td>
<td>652,775</td>
<td>0</td>
<td>174,300</td>
<td>376,775</td>
<td>76,442</td>
<td>1,577,311</td>
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<tr>
<td>Irwin F. Edenzon</td>
<td>2010</td>
<td>368,723</td>
<td>0</td>
<td>1,264,864</td>
<td>0</td>
<td>306,798</td>
<td>215,018</td>
<td>53,168</td>
<td>2,208,571</td>
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<tr>
<td>Vice President and General Manager — Gulf Coast Operations</td>
<td>2009</td>
<td>347,115</td>
<td>0</td>
<td>1,051,902</td>
<td>51,959</td>
<td>140,000</td>
<td>340,778</td>
<td>60,144</td>
<td>1,991,898</td>
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<tr>
<td>Matthew J. Mulherin</td>
<td>2010</td>
<td>368,723</td>
<td>0</td>
<td>1,264,864</td>
<td>0</td>
<td>306,798</td>
<td>243,700</td>
<td>62,712</td>
<td>2,246,797</td>
</tr>
<tr>
<td>Vice President and General Manager — Newport News Operations</td>
<td>2009</td>
<td>347,115</td>
<td>0</td>
<td>1,051,902</td>
<td>51,959</td>
<td>140,000</td>
<td>273,116</td>
<td>73,885</td>
<td>1,937,977</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>2010</td>
<td>286,017</td>
<td>0</td>
<td>664,874</td>
<td>0</td>
<td>207,088</td>
<td>256,136</td>
<td>57,304</td>
<td>1,471,419</td>
</tr>
<tr>
<td>Chief Human Resources Officer</td>
<td>2009</td>
<td>267,471</td>
<td>0</td>
<td>670,603</td>
<td>0</td>
<td>90,000</td>
<td>309,709</td>
<td>75,247</td>
<td>1,413,030</td>
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<td></td>
<td>2008</td>
<td>257,500</td>
<td>0</td>
<td>388,171</td>
<td>0</td>
<td>124,500</td>
<td>256,791</td>
<td>75,263</td>
<td>1,102,225</td>
</tr>
</tbody>
</table>

Footnotes:
(1) The amounts in this column include amounts deferred under the savings and nonqualified deferred compensation plans.
(2) The dollar value shown in these columns is equal to the grant-date fair value of equity awards made during the year. For assumptions used in calculating these numbers, see Footnote 4 on the Grants of Plan-Based Awards table. Amounts for 2008 have been adjusted to reflect expected performance on date of grant. The maximum grant date value (200%) of 2010 stock awards for each NEO is listed below:
- C. Michael Petters $3,454,480
- Barbara A. Niland $1,605,023
- Irwin F. Edenzon $1,945,944
- Matthew J. Mulherin $1,945,944
- William R. Ermatinger $1,022,883
(3) For 2009 and 2008, these amounts were paid under Northrop Grumman’s annual bonus plan based on performance achieved during the prior year, as described in the Compensation Discussion and Analysis. 2010 bonus information was approved by the Northrop Grumman Compensation Committee on February 15, 2011. The amounts in this column include amounts deferred under the savings and nonqualified deferred compensation plans.
(4) There were no above-market earnings in the nonqualified deferred compensation plans (see the description of these plans under the Nonqualified Deferred Compensation table). The amounts in this column relate solely to the increased present value of the executive’s pension plan benefits (see the description of these plans under the Pension Benefits table).
(5) The 2010 amount listed in this column for Mr. Petters includes medical, dental, life and disability premiums ($47,192), company contributions to Northrop Grumman defined contribution plans ($9,800), personal liability insurance ($541) and personal and dependent travel including company aircraft ($4,476).
The 2010 amount listed in this column for Ms. Niland includes medical, dental, life and disability premiums ($33,699), company contributions to Northrop Grumman defined contribution plans ($16,533), personal liability insurance ($500) and personal and dependent travel including company aircraft ($47).
The 2010 amount listed in this column for Mr. Edenzon includes medical, dental, life and disability premiums ($33,652), company contributions to Northrop Grumman defined contribution plans ($18,066), financial planning/income tax preparation ($950) and personal liability insurance ($500).

The 2010 amount listed in this column for Mr. Mulherin includes medical, dental, life and disability premiums ($43,896), company contributions to Northrop Grumman defined contribution plans ($14,316), financial planning/income tax preparation ($4,000) and personal liability insurance ($500).

The 2010 amount listed in this column for Mr. Ermatinger includes medical, dental, life and disability premiums ($42,592), company contributions to Northrop Grumman defined contribution plans ($13,752), financial planning/income tax preparation ($460) and personal liability insurance ($500).

Method for Calculating Perquisite Value

The following method was used to calculate the value of personal use of Northrop Grumman aircraft described in the paragraphs above. Northrop Grumman calculates the incremental cost of each element, which includes trip-related crew hotels and meals, in-flight food and beverages, landing and ground handling fees, hourly maintenance contract costs, hangar or aircraft parking costs, fuel costs based on the average annual cost of fuel per mile flown, and other smaller variable costs. Fixed costs that would be incurred in any event to operate Northrop Grumman aircraft (e.g., aircraft purchase costs, maintenance not related to personal trips, and flight crew salaries) are not included. The amount related to the loss of tax deduction to Northrop Grumman on account of personal use of corporate aircraft under the Internal Revenue Code is not included.
### 2010 Grants of Plan-Based Awards

<table>
<thead>
<tr>
<th>Name &amp; Principal Position</th>
<th>Grant Type</th>
<th>Grant Date</th>
<th>Estimated Future Payouts Under Non-Equity Incentive Plan Awards $(1)$</th>
<th>Estimated Future Payouts Under Equity Incentive Plan Awards $(2)$</th>
<th>All Other Stock Awards $(3)$</th>
<th>All Other Option Awards $(4)$</th>
<th>Exercise or Base Price of Stock and Option Awards $(5)$</th>
<th>Grant Date Fair Value of Stock and Option Awards $(6)$</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>RPSR</td>
<td>2/16/10</td>
<td>0</td>
<td>542,500</td>
<td>1,125,000</td>
<td>0</td>
<td>29,000</td>
<td>58,000</td>
</tr>
<tr>
<td>Executive Officer</td>
<td>Options</td>
<td>2/16/10</td>
<td>0</td>
<td>0</td>
<td>122,700</td>
<td>59.56</td>
<td>1,400,034</td>
<td></td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>RPSR</td>
<td>2/16/10</td>
<td>0</td>
<td>133,900</td>
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<td>13,474</td>
<td>26,948</td>
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<tr>
<td>Vice President and Chief</td>
<td>RPSR</td>
<td>2/16/10</td>
<td>0</td>
<td>133,900</td>
<td>267,800</td>
<td>0</td>
<td>13,474</td>
<td>26,948</td>
</tr>
<tr>
<td>Financial Officer</td>
<td>RPSR</td>
<td>2/16/10</td>
<td>0</td>
<td>133,900</td>
<td>267,800</td>
<td>0</td>
<td>13,474</td>
<td>26,948</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>RPSR</td>
<td>2/16/10</td>
<td>0</td>
<td>146,860</td>
<td>333,720</td>
<td>0</td>
<td>16,336</td>
<td>32,672</td>
</tr>
<tr>
<td>Vice President and General</td>
<td>RPSR</td>
<td>2/16/10</td>
<td>0</td>
<td>146,860</td>
<td>333,720</td>
<td>0</td>
<td>16,336</td>
<td>32,672</td>
</tr>
<tr>
<td>Manager — Gulf Coast</td>
<td>RPSR</td>
<td>2/16/10</td>
<td>0</td>
<td>146,860</td>
<td>333,720</td>
<td>0</td>
<td>16,336</td>
<td>32,672</td>
</tr>
<tr>
<td>Operations</td>
<td>RPSR</td>
<td>2/16/10</td>
<td>0</td>
<td>146,860</td>
<td>333,720</td>
<td>0</td>
<td>16,336</td>
<td>32,672</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>RPSR</td>
<td>2/16/10</td>
<td>0</td>
<td>115,051</td>
<td>230,102</td>
<td>0</td>
<td>8,587</td>
<td>17,174</td>
</tr>
<tr>
<td>Vice President and General</td>
<td>RPSR</td>
<td>2/16/10</td>
<td>0</td>
<td>115,051</td>
<td>230,102</td>
<td>0</td>
<td>8,587</td>
<td>17,174</td>
</tr>
<tr>
<td>Manager — Newport News</td>
<td>RPSR</td>
<td>2/16/10</td>
<td>0</td>
<td>115,051</td>
<td>230,102</td>
<td>0</td>
<td>8,587</td>
<td>17,174</td>
</tr>
<tr>
<td>Operations</td>
<td>RPSR</td>
<td>2/16/10</td>
<td>0</td>
<td>115,051</td>
<td>230,102</td>
<td>0</td>
<td>8,587</td>
<td>17,174</td>
</tr>
</tbody>
</table>

Footnotes:

(1) Amounts in these columns show the range of payouts that was possible under Northrop Grumman’s annual bonus plan based on performance during 2010, as described in the Compensation Discussion and Analysis.

(2) These amounts relate to RPSRs granted in 2010 under the 2001 Long-Term Incentive Stock Plan. Each RPSR represents the right to receive a share of Northrop Grumman’s common stock upon vesting of the RPSR. For the President, the RPSRs may be earned based on relative Total Shareholder Return over a three-year period commencing on January 1, 2010 and ending December 31, 2012. For other NEOs, the RPSRs may be earned based on Northrop Grumman’s Operating Margin (“OM”) and RONA performance over a three-year performance period commencing January 1, 2010 and ending December 31, 2012. The payout will occur in early 2013 and may range from 0% to 200% of the rights awarded. Earned RPSRs may be paid in shares, cash or a combination of shares and cash. An executive must remain employed through the performance period to earn an award, although pro-rata vesting results if employment terminates earlier due to retirement, death or disability. See the Severance/Change-in-Control section for treatment of RPSRs in these situations and upon a change in control.

(3) These amounts relate to non-qualified stock options granted in 2010 under the 2001 Long-Term Incentive Stock Plan. The exercise price for the options equals the closing price of Northrop Grumman’s common stock on the date of grant. The options vest in one-third installments on the first three anniversaries of the grant date and become fully vested after three years. The options may also vest upon a change in control under certain circumstances, and a portion of the options may vest upon termination due to retirement, death or disability (see more on these issues in the Severance/Change-in-Control section). The options expire seven years from the date of the grant. No dividends or dividend equivalents are payable with respect to the options.

(4) For assumptions used in calculating these numbers in accordance with U.S. GAAP, see the discussion in Footnote 18 of Northrop Grumman Shipbuilding’s financial statements for the fiscal year ended December 31, 2010, included elsewhere herein, adjusted to exclude forfeitures.
## Outstanding Equity Awards at 2010 Year-End

<table>
<thead>
<tr>
<th>Name &amp; Principal Position</th>
<th>Option Awards</th>
<th>Stock Awards</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Securities Underlying Option Awards</td>
<td>Number of Securities Underlying Stock Awards</td>
</tr>
<tr>
<td></td>
<td>Exercisable (#)</td>
<td>Unexercisable (#)</td>
</tr>
<tr>
<td>C. Michael Petters</td>
<td>0</td>
<td>122,700</td>
</tr>
<tr>
<td>President and Chief Executive Officer</td>
<td>39,700</td>
<td>9,850</td>
</tr>
<tr>
<td>Vice President and General Manager — Gulf Coast Operations</td>
<td>10,000</td>
<td>6,404</td>
</tr>
<tr>
<td>Vice President and General Manager — Newport News Operations</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Footnotes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Options awarded vest at a rate of 33 1/3% per year on the grant’s anniversary date over the first three years of the seven-year option term. Options granted prior to 2008 vest at a rate of 25% per year on the grant’s anniversary date over the first four years of the ten-year option term.</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Outstanding Restricted Stock Rights (RSRs) for Mr. Petters of 12,500 fully vested on January 15, 2011.</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>These are target numbers for RPSRs. The first RPSR award for each NEO will vest based on performance for the three-year period ending on December 31, 2012; the second, based on performance for the three-year period ending on December 31, 2011; and the third (and fourth for Mr. Edenzon and Mr. Ermatinger), based on performance for the three-year period ending on December 31, 2010.</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Based on closing price of Northrop Grumman’s stock on December 31, 2010 of $64.78 for target RPSRs.</td>
<td></td>
</tr>
</tbody>
</table>
### 2010 Option Exercises and Stock Vested

<table>
<thead>
<tr>
<th>Name &amp; Principal Position</th>
<th>Number of Shares Acquired on Exercise (¢)</th>
<th>Value Realized on Exercise ($)</th>
<th>Number of Shares Acquired on Vesting(*) (¢)</th>
<th>Value Realized on Vesting ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>0</td>
<td>0</td>
<td>15,660</td>
<td>932,710</td>
</tr>
<tr>
<td>President and Chief Executive Officer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>0</td>
<td>0</td>
<td>4,567</td>
<td>272,011</td>
</tr>
<tr>
<td>Vice President and Chief Financial Officer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>0</td>
<td>0</td>
<td>4,350</td>
<td>259,086</td>
</tr>
<tr>
<td>Vice President and General Manager — Gulf Coast Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>0</td>
<td>0</td>
<td>6,090</td>
<td>362,720</td>
</tr>
<tr>
<td>Vice President and General Manager — Newport News Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>0</td>
<td>0</td>
<td>3,480</td>
<td>207,269</td>
</tr>
<tr>
<td>Vice President and Chief Human Resources Officer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Footnote: 
(*) All shares in this column are RPSRs.

### 2010 Pension Benefits

<table>
<thead>
<tr>
<th>Name &amp; Principal Position</th>
<th>Plan Name</th>
<th>Number of Years Credited Service (¢)</th>
<th>Present Value of Accumulated Benefit(*) ($)</th>
<th>Payments During Last Fiscal Year ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>CPC SERP</td>
<td>6.17</td>
<td>1,236,757</td>
<td>0</td>
</tr>
<tr>
<td>President and Chief Executive Officer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>NNS Restoration</td>
<td>22.50</td>
<td>2,326,126</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>NNS Salaried Pension Plan</td>
<td>22.50</td>
<td>496,901</td>
<td>0</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>OSERP</td>
<td>32.00</td>
<td>1,765,890</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and Chief Financial Officer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ERISA 2</td>
<td>7.50</td>
<td>281,647</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>ES Executive Pension Plan</td>
<td>32.00</td>
<td>946,364</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Northrop Grumman Pension Plan</td>
<td>32.00</td>
<td>588,673</td>
<td>0</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>OSERP</td>
<td>21.00</td>
<td>1,055,557</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and General Manager — Gulf Coast Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>NNS Restoration</td>
<td>13.17</td>
<td>471,922</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>NNS Salaried Pension Plan</td>
<td>13.17</td>
<td>437,970</td>
<td>0</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>OSERP</td>
<td>30.00</td>
<td>684,500</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and General Manager — Newport News Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>NNS Restoration</td>
<td>28.50</td>
<td>941,115</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>NNS Salaried Pension Plan</td>
<td>28.50</td>
<td>556,063</td>
<td>0</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>OSERP</td>
<td>23.58</td>
<td>868,995</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and Chief Human Resources Officer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ERISA 2</td>
<td>7.50</td>
<td>106,145</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>ES Executive Pension Plan</td>
<td>23.55</td>
<td>345,854</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Northrop Grumman Pension Plan</td>
<td>23.55</td>
<td>339,573</td>
<td>0</td>
</tr>
</tbody>
</table>

Footnote: 
(*) While benefits may be spread over different plans, it is Northrop Grumman’s policy that an executive’s total benefit under these plans is essentially limited to 60% of such executive’s final average pay. Service listed above in the CPC SERP represents employment while in a CPC position. The pension benefits for Mr. Petters under the CPC SERP are based on an alternate formula (as described in more detail in the CPC SERP section below) which includes total Northrop Grumman service.

The pension values included in this table are the present value of the benefits expected to be paid in the future. They do not represent actual lump sum values that may be paid from a plan. The amount of future payments is based on the
current accrued pension benefit as of December 31, 2010. Pursuant to the SEC disclosure rules: (i) the actuarial assumptions used to calculate amounts for this table are the same as those used for Northrop Grumman’s financial statements and (ii) all pension values are determined assuming the NEO works until the specified retirement age, which is the earliest unreduced retirement age (as defined in each plan).

The value of accumulated benefits for Ms. Niland and Mr. Ermatinger has been computed in accordance with SEC guidance. This guidance results in an overlap of benefits in the OSERP and the ES Executive Pension Plan (“EPP”) which has the effect of overvaluing their benefits. Based on SEC guidance, the assumed OSERP retirement age for Ms. Niland and Mr. Ermatinger is the date on which they attain 85 points (age 55 in each case). At this age, their EPP benefit is zero, thereby increasing the OSERP benefit (see description of each of these plans below for further details). The assumed retirement age for the remaining plans is age 60. Under this assumption, the EPP and the OSERP are both payable. In reality, Ms. Niland and Mr. Ermatinger will retire under only one retirement age. If they were to retire on their earliest retirement age of 55, their annual annuity, based on current service and earnings, would be approximately $218,300 and $147,500 respectively. The present values are $2,570,985 and $1,298,413 which represent a more accurate value of their total benefit rather than the total amounts of $3,582,574 and $1,660,567 shown above.

**General Explanation of the Table**

Through acquisitions, Northrop Grumman has acquired numerous pension plans applying to different groups of employees. Through changes in employment, individual employees may be covered by several different pension plans. However, an executive’s total benefit under these plans is essentially limited to 60% of his final average pay. Legally, the accrued pension benefit cannot be reduced or taken away so all of these historical pension plans have been maintained.

Pension plans provide income during retirement as well as benefits in special circumstances including death and disability. In general, the plans are structured to reward and retain employees of long service and recognize higher achievement levels as evidenced by increases in annual pay. The term “qualified plan” generally means a plan that qualifies for favorable tax treatment under Internal Revenue Code Section 401. Savings plans (also known as 401(k) plans) and traditional pension plans are examples of qualified plans. Qualified plans apply to a broad base of employees. The term “nonqualified plan” generally means a plan that is limited to a specified group of management personnel. The nonqualified plans supplement the qualified plans and (1) provide benefits that would be provided under Northrop Grumman’s qualified plans but for limitations imposed by the Internal Revenue Code and (2) provide a minimum level of pension benefits to elected and appointed officers of Northrop Grumman in recognition of the higher levels of responsibility.

The amounts in the table are based on the specific provisions of each plan, which are described in more detail below. There are two basic types of pension benefits reflected in the Pension Benefits Table: non-cash balance type benefits and cash balance type benefits. For purposes of the amounts in the table: non-cash balance type benefits are determined based on the annual pension earned as of December 31, 2010, and include any supplemental payments. Cash balance type benefits are based on the account balance as of December 31, 2010, plus a future interest credit, converted to an annuity using the applicable conversion factors.


The change in pension values shown in the Summary Compensation Table includes the effect of:

- an additional year of service from December 31, 2009 to December 31, 2010;
- changes in eligible pension pay;
- changes in applicable pay cap limits; and
- changes in actuarial assumptions.
Description of Qualified Plans

Northrop Grumman Pension Plan (NGPP) and Newport News Shipbuilding, Inc. Retirement Plan (“NNS Plan”)

These plans are part of the Northrop Grumman Pension Program (the “Program”). The general benefit structure of plans within the Program is similar except for the historical benefit formulas, the transition benefit formulas and the timing of the transition period, all of which are described below.

The Program is a group of defined benefit pension plans qualified under Internal Revenue Code Section 401. The Program provides up to three component pieces of benefits depending on when a participant is hired and terminates. The following chart illustrates the component pieces of the Program benefit (described in more detail after the chart):

<table>
<thead>
<tr>
<th>Part A</th>
<th>Benefit under the historical plan formula before the transition period</th>
</tr>
</thead>
<tbody>
<tr>
<td>+</td>
<td>Part B (5-Year Transition Benefit)</td>
</tr>
<tr>
<td></td>
<td>Benefit based on a formula similar to the one under the historical plan formula during the transition period</td>
</tr>
<tr>
<td>or</td>
<td>(if greater)</td>
</tr>
<tr>
<td></td>
<td>Part D (5-Year Transition Benefit)</td>
</tr>
<tr>
<td></td>
<td>Benefit under the cash balance formula after the transition period</td>
</tr>
</tbody>
</table>

The components are the historical benefit (the Part A benefit), the transition benefit (the greater of the Part B benefit or the Part C benefit) and the cash balance benefit (the Part D benefit). Eligible employees who joined the Program after the transition date associated with their pension plan accrue only the cash balance benefit (Part D) from their date of participation.

The qualified benefit for each NEO is the sum of these three benefits (Part A + Part B or C + Part D). The transition period for the NGPP is July 1, 2003 through June 30, 2008 while the transition period for the NNS Plan is January 1, 2004 through December 31, 2008. During the transition period, each eligible participant earned the greater of (i) the benefit calculated under a formula similar to his or her historical plan (Part B) or (ii) the cash balance formula benefit (Part C).

The Program’s cash balance formula (Parts C and D benefits) uses a participant’s points (age plus years of service) to determine a pay-based credit amount (a percentage of eligible pay) on a monthly basis. Interest is credited monthly on the amount in the participant’s hypothetical individual account. At normal retirement age, a participant’s balance in the hypothetical account is converted into an annuity payable for life, using factors specified in the Program. There are various forms of annuities from which the participant can choose, including a single life annuity or a joint-and-survivor annuity.

Specific Elements of the Program

The following paragraphs describe specific elements of the Program in more detail.

- **Formulas Under Historical Plans:**
  - **Northrop Grumman Electronic Systems Pension Plan (“NG ESPP”).** The NG ESPP is a sub-plan of the NGPP and provides a benefit equal to 2% multiplied by the sum of all years of pensionable compensation (as limited by Code section 401(a)(17)) from January 1, 1995 plus a frozen benefit accrued under the prior Westinghouse Pension Plan, if any. Participants hired prior to January 1, 1995 who elect an annuity form of payment for their Westinghouse frozen benefit are eligible for an annual pre-age 62 supplemental benefit equal to $144 per year of service. This supplemental benefit is paid to those who retire prior to age 62 with payments ceasing at age 62. The NG ESPP was a contributory plan until April 1, 2000. Ms. Niland and Mr. Ermatinger have historical (Part A) benefits under this formula.

  - **Newport News Shipbuilding, Inc. Retirement Plan.** The NNS Plan provides a benefit equal to 55% of final average pay (as limited by Code section 401(a)(17)) multiplied by benefit service up to a
maximum of 35 years divided by 35. Participants with pre-1997 service also have a frozen accrued benefit with the prior NNS parent company, Tenneco. Total benefit service is used for the NNS Plan benefit but the frozen accrued benefit with Tenneco is offset from the total benefit. Final average pay is the average of the final 60 months of base pay multiplied by 12 to determine an annual final average pay. Mr. Petters, Mr. Edenzon and Mr. Mulherin have historical (Part A) benefits under this formula.

- **Cash Balance Formula.** Table 1 shows the percentage of pay credit specified at each point level for the Part C benefit for each NEO. Interest is credited monthly based on the 30-year Treasury bond rate.

- For the Part D benefit, the cash balance formula for all NEOs is based on Table 2.

<table>
<thead>
<tr>
<th>Points (attained age and total service)</th>
<th>Credit Amount</th>
<th>All Eligible Pay</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>
<td></td>
</tr>
<tr>
<td>25 to 34</td>
<td>6.5%</td>
<td>6.0%</td>
<td></td>
</tr>
<tr>
<td>35 to 44</td>
<td>7.0%</td>
<td>6.0%</td>
<td></td>
</tr>
<tr>
<td>45 to 54</td>
<td>7.5%</td>
<td>6.0%</td>
<td></td>
</tr>
<tr>
<td>55 to 64</td>
<td>8.0%</td>
<td>6.0%</td>
<td></td>
</tr>
<tr>
<td>65 to 74</td>
<td>8.5%</td>
<td>6.0%</td>
<td></td>
</tr>
<tr>
<td>75 to 84</td>
<td>9.0%</td>
<td>6.0%</td>
<td></td>
</tr>
<tr>
<td>Over 84</td>
<td>9.5%</td>
<td>6.0%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Points (attained age and total service)</th>
<th>Credit Amount</th>
<th>All Eligible Pay</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>
<td></td>
</tr>
<tr>
<td>25 to 34</td>
<td>4.0%</td>
<td>4.0%</td>
<td></td>
</tr>
<tr>
<td>35 to 44</td>
<td>4.5%</td>
<td>4.0%</td>
<td></td>
</tr>
<tr>
<td>45 to 54</td>
<td>5.0%</td>
<td>4.0%</td>
<td></td>
</tr>
<tr>
<td>55 to 64</td>
<td>5.5%</td>
<td>4.0%</td>
<td></td>
</tr>
<tr>
<td>65 to 74</td>
<td>6.5%</td>
<td>4.0%</td>
<td></td>
</tr>
<tr>
<td>75 to 84</td>
<td>7.5%</td>
<td>4.0%</td>
<td></td>
</tr>
<tr>
<td>Over 84</td>
<td>9.0%</td>
<td>4.0%</td>
<td></td>
</tr>
</tbody>
</table>

- **Vesting.** Participants vest in their Program benefits upon completion of three years of service. As of December 31, 2010, each NEO has a nonforfeitable right to receive retirement benefits, which are payable upon early (if eligible) or normal retirement, as elected by the NEO.

- **Form of Benefit.** The standard form of benefit is an annuity payable for the life of the participant. At normal retirement the annuity for the cash balance formula is equal to the accumulated account balance divided by 9. Other annuity options may be elected; however, each of them is actuarially equivalent in value to the standard form. The NG ESPP also allows a lump-sum form of distribution to be elected on a portion of the historical (Part A) benefit.

- **Pay.** Pay for purposes of the cash balance, and the NG ESPP formulas is basically salary plus the annual cash bonus. Final average pay for the NNS Plan is determined using base salary only.

- **Normal Retirement.** Normal retirement means the benefit is not reduced for early commencement. It is generally specified in each formula: age 65 for the historical NG ESPP and NNS Plan formula and the later of age 65 and three years of vesting service for the cash balance formula.

- **Early Retirement.** Early retirement eligibility for the historical NNS Plan and for the cash balance formulas occurs when the participant attains both age 55 and completes 10 years of service. Early retirement for the NG ESPP can occur when the participant attains either age 58 and completes 30 years of service or attains age 60 and completes 10 years of service. Alternatively, an NG ESPP participant may elect to commence an actuarially reduced vested benefit at any time following termination. Early retirement benefits under both the historical and cash balance formulas may be reduced for commencement prior to normal retirement. This is to reflect the longer period of time over which the benefit will be paid.

- All NEOs have completed 10 or more years of service; hence, they are eligible for early retirement under the NGPP or the NNS Plan, as applicable, upon attainment of the early retirement age requirement. Early retirement benefits for each NEO cannot commence prior to termination of employment.
Description of Nonqualified Plans

**ERISA 2**

ERISA 2 is a nonqualified plan which provides benefits that would have been paid under the NGPP but for the Code section 401(a)(17) limit on the amount of compensation that may be taken into account under a qualified plan. ERISA 2 also provides benefits based on compensation deferred under a Company deferred compensation plan, because such deferrals are not included as compensation under the qualified plans. Benefits under ERISA 2 are subject to a general limitation of 60% of final average pay (reduced for early retirement, if applicable, according to the rules of the OSERP) for all Company pension benefits. Optional forms of payment are generally the same as those from the qualified plan, plus a 13-month delayed lump sum option on a portion of the ERISA 2 benefit. Reductions for early retirement apply in the same manner as under the associated qualified plan.

Ms. Niland and Mr. Ermatinger began participation under the ERISA 2 plan on July 1, 2003; the date ERISA 2 was amended to cover NG ESPP participants.

**NNS Restoration Plan**

NNS Restoration Plan is a nonqualified plan which provides benefits that would have been paid under the NNS Plan but for the Code section 401(a)(17) limit on the amount of compensation that may be taken into account under a qualified plan and the Code Section 415 limit on benefits that may be paid under a qualified plan. The NNS Restoration Plan also provides benefits based on total compensation (generally base pay plus bonus earned in a calendar year) including compensation deferred under a Northrop Grumman deferred compensation plan. Benefits under the NNS Restoration Plan are subject to a general limitation of 60% of final average pay (reduced for early retirement, if applicable, according to the rules of the OSERP) for all Northrop Grumman pension benefits. Optional forms of payment are the same as those under the NNS Plan. Reductions for early retirement apply in the same manner as under the NNS Plan.

Mr. Petters, Mr. Edenzon and Mr. Mulherin began participation under the NNS Restoration Plan when they reached applicable pay grades for inclusion in the Plan.

**ES Executive Pension Plan**

The ES EPP is a nonqualified plan, frozen to new entrants on July 1, 2003. It provides a gross supplemental pension equal to 1.47% of final average pay for each year or portion thereof that the participant was making maximum contributions to the NG ESPP or predecessor plan. Final average pay is the average of the highest five annualized base salaries at December of each year on or after 1995 plus the average of the highest five annual incentive payments since January 1, 1995. The final ES EPP benefit is reduced by benefits from the NG ESPP and ERISA 2. Participants vest in their ES EPP benefits upon attaining age 58 and completion of 30 years of service, attaining age 60 and completion of 10 years of service or attaining age 65 and completion of 5 years of service. These milestones must be attained prior to termination from the Company. Currently, Ms. Niland and Mr. Ermatinger are not vested in their respective ES EPP benefits. Optional forms of payment are the same as those from the NG ESPP.

Normal Retirement: Age 65.

Early Retirement: Age 55 and completion of 10 years of service. Benefits are reduced by the smaller of 2.5% for each year between retirement age and age 65, or 2.5% for each point less than 85 at retirement. Points are equal to the sum of age and years of service.
Vesting: Participants vest in their OSERP benefits upon attaining age 55 and completion of 10 years of service or attaining age 65 and completion of 5 years of service. These milestones must be attained prior to termination from Northrop Grumman.

**CPC SERP**

The CPC SERP is a nonqualified plan, frozen to new entrants on July 1, 2009. Mr. Petters is eligible to participate in the CPC SERP which provides a pension equal to the greater of the amount accrued under the CPC SERP formula or the benefit calculated using the OSERP provisions. Effective July 1, 2009, the CPC SERP formula is a percentage of final average pay (as defined under the OSERP) where the percentage is determined by the following formula: 3.3334% for each year or portion thereof that the participant has served on the Corporate Policy Council up to 10 years, 1.5% for each subsequent year up to 20 years and 1% for each additional year over 20. The final CPC SERP benefit is determined by deducting any other Northrop Grumman pension benefits accrued for the same period of council service.

CPC SERP participants will also have their benefits calculated under the OSERP provisions and if it results in a greater amount, the benefit under the OSERP provisions will be provided.

The CPC SERP benefit when combined with all Northrop Grumman pension benefits cannot exceed the general limit of 60% of final average pay (reduced for early retirement, if applicable, according to the rules of the CPC SERP). Optional forms of payment are generally the same as those from the qualified plan, plus a 13-month delayed lump sum option on a portion of the CPC SERP benefit.

Normal Retirement: Age 65.

Early Retirement: The later of the first day of the month following termination or the commencement of the participant’s qualified plan benefit. Benefits are reduced by the smaller of 2.5% for each year between retirement age and age 65, or 2.5% for each point less than 85 at retirement. Points are equal to the sum of age and years of service.

Vesting: Participants vest in their CPC SERP benefits when they have vested in their qualified plan benefits.

### 409A Restrictions on Timing and Optional Forms of Payment

Under IRC section 409A, employees who participate in company-sponsored nonqualified plans such as the ES EPP, ERISA 2, NNS Restoration Plan, the OSERP and the CPC SERP are subject to special rules regarding the timing and forms of payment for benefits earned or vested after December 31, 2004 ("post-2004 benefits"). Payment of post-2004 benefits must begin on the first day of the month coincident with or following the later of attainment of age 55 and termination from the Northrop Grumman. The optional forms of payment for post-2004 benefits are limited to single life annuity or a selection of joint and survivor options.

### Specific Assumptions Used to Estimate Present Values

**Assumed Retirement Age:** For all plans, pension benefits are assumed to begin at the earliest retirement age that the participant can receive an unreduced benefit payable from the plan. OSERP and CPC SERP, benefits are first unreduced once the NEO reaches age 55 and accumulates 85 points or reaches age 65. For the NG ESPP (Part A and B benefits), the associated ERISA 2 (Part B benefits) and the ES EPP, vested benefits are first unreduced for the NEO at the earlier of age 60 and completion of 30 years of service or age 65. NNS Plan and associated NNS Restoration Plan benefits (Part A and B benefits), are first unreduced at the earlier of age 62 and completion of 10 years of service or age 65. Given each NEO’s period of service, cash balance benefits (Part C and D benefits) will be converted to an annuity on an unreduced basis at age 55.

When portions of an NEO’s benefit under the "Part A + Part B or Part C + Part D” structure have different unreduced retirement ages, the later unreduced age is used for the entire benefit.

**Discount Rate:** The applicable discount rates are 6.00% as of December 31, 2009 (6.25% for the NNS Plan and 5.75% for Plan B) and 5.75% as of December 31, 2010 (6.00% for the NNS Plan).

**Mortality Table:** As was used for financial reporting purposes, RP-2000 projected ten years without collar adjustment as of December 31, 2009 and RP-2000 projected eleven years without collar adjustment as of December 31, 2010.

**Present Values:** Present values are calculated using the Assumed Retirement Age, Discount Rate, and Mortality Table described above; they assume the NEO remains employed until his earliest unreduced retirement age.

**Future Investment Crediting Rate Assumption:** Cash balance amounts are projected to the Assumed Retirement Age based on the future investment crediting rate assumptions of 4.37% as of December 31, 2009 and 3.80% as of
December 31, 2010. These rates are used in conjunction with the discount rate to estimate the present value amounts for cash balance benefits.

Information on Executives Eligible to Retire and Additional Notes

Mr. Edenzon is eligible to retire early and begin pension benefits immediately under all plans in which he participates. His total annual immediate benefit assuming he had terminated on December 31, 2010 was $165,943.

2010 Nonqualified Deferred Compensation

<table>
<thead>
<tr>
<th>Name &amp; Principal Position</th>
<th>Plan Name</th>
<th>Executive Contributions in Last FY (1) ($)</th>
<th>Registra...</th>
<th>Aggregate Earnings in Last FY (3) ($)</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 Compensation</td>
<td>0</td>
<td>0</td>
<td>255,026</td>
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<td>2,544,647</td>
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<tr>
<td>President and Chief Executive Officer</td>
<td>Savings Excess</td>
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<td>0</td>
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<td>0</td>
<td>2,544,647</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>Deferred Compensation</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>Savings Excess</td>
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<td>9,016</td>
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<td>312,896</td>
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<tr>
<td>Irwin F. Edenzon</td>
<td>Deferred Compensation</td>
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<td>0</td>
<td>26,742</td>
<td>52,221</td>
<td>138,690</td>
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<tr>
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<td>Savings Excess</td>
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<td>10,549</td>
<td>14,974</td>
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<td>152,868</td>
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<tr>
<td>Matthew J. Mulherin</td>
<td>Deferred Compensation</td>
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<td>215,114</td>
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<td>1,619,631</td>
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<tr>
<td>Vice President and General Manager — Newport News Operations</td>
<td>Savings Excess</td>
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<td>4,516</td>
<td>1,601</td>
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<td>15,561</td>
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<tr>
<td>William R. Ermatinger</td>
<td>Deferred Compensation</td>
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<td>0</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and Chief Human Resources Officer</td>
<td>Savings Excess</td>
<td>20,963</td>
<td>5,241</td>
<td>13,717</td>
<td>0</td>
<td>136,028</td>
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</tbody>
</table>

Footnotes:

(1) Executive contributions in this column also are included in the salary and non-equity incentive plan columns of the 2010 Summary Compensation Table.

(2) Northrop Grumman contributions in this column are included under the All Other Compensation column in the 2010 Summary Compensation Table.

(3) Aggregate earnings in the last fiscal year are not included in the 2010 Summary Compensation Table since they are not above market or preferential.

(4) The only amounts reflected in this column that previously were reported as compensation to the NEO in the Summary Compensation Table were executive and Northrop Grumman contributions for the respective fiscal year-end and only if the NEO was reported as an NEO for each respective year. Aggregate earnings in this column were not reported previously in the Summary Compensation Table.

All Deferred Compensation Plan balances consist of employee contributions and earnings only; there are no company contributions to this plan.

Ms. Niland’s Savings Excess Plan (“SEP”) account balance consists of $255,411 in employee contributions, as adjusted for investment returns.

Mr. Edenzon’s SEP account balance consists of $123,526 in employee contributions, as adjusted for investment returns.

Mr. Mulherin’s SEP account balance consists of $8,279 in employee contributions, as adjusted for investment returns.

Mr. Ermatinger’s SEP account balance consists of $102,047 in employee contributions, as adjusted for investment returns.

Outlined below are the material terms of the two nonqualified deferred compensation plans in which the executives could participate. No above market earnings are provided under these plans.

<table>
<thead>
<tr>
<th>Feature</th>
<th>Savings Excess Plan</th>
<th>Deferred Compensation Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation Eligible for Deferral</td>
<td>1% to 75% of salary and ICP bonus above IRS limits</td>
<td>Up to 90% of salary and/or ICP bonus</td>
</tr>
<tr>
<td>Company Allocation</td>
<td>Up to 4%, based on a contribution rate of 8% • First 2% is matched at 100% • Next 2% is matched at 50% • Next 4% is matched at 25%</td>
<td>None</td>
</tr>
</tbody>
</table>
Feature | Savings Excess Plan | Deferred Compensation Plan
--- | --- | ---
Method of Crediting Earnings | Participants may make elections on a daily basis as to how their account balances will be deemed invested for purposes of crediting earnings to the account. Deemed investments are chosen from a limited list of investment options selected by the Committee administering the Plan. | Participants may make elections on a daily basis as to how their account balances will be deemed invested for purposes of crediting earnings to the account. Deemed investments are chosen from a limited list of investment options selected by the Committee administering the Plan.

Vesting | 100% at all times | 100% at all times

**Distributions**

**At Termination of Employment**
- Based on advance election, payment made in lump sum or installments over period of up to 15 years.

**Scheduled In-Service Distribution**
- Not available

**Non-Scheduled In-Service Distribution**
- Not available

**Hardship Withdrawals**
- Not available

All deferred compensation that was not earned and vested before January 1, 2005 is subject to the requirements under Internal Revenue Code section 409A. Those requirements largely restrict an executive’s ability to control the form and timing of distributions from nonqualified plans such as those listed in this chart.

**2010 Change-in-Control and Severance**

The tables below provide estimated payments and benefits that Northrop Grumman would have provided each NEO if his employment had terminated on December 31, 2010 for specified reasons. These payments and benefits are payable based on the following Northrop Grumman arrangements:

- The Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation
- The 2001 Long-Term Incentive Stock Plan and terms and conditions of equity awards
- The Special Officer Retiree Medical Plan
- The Special Agreements (change-in-control agreements)

We summarized these arrangements before providing the estimated payment and benefit amounts in the tables. Due to the many factors that affect the nature and amount of any benefits provided upon the termination events discussed below, any actual amounts paid or distributed to NEOs may be different. Factors that may affect these amounts include timing during the year of the occurrence of the event, our stock price and the NEO's age. The amounts described below are in addition to a NEO's benefits described in the Pension Benefits and Nonqualified Deferred Compensation Tables, as well as benefits generally available to our employees such as distributions under our 401(k) plan, disability or life insurance benefits and accrued vacation.

**Severance Plan Benefits**

Upon a “qualifying termination” (defined below) Northrop Grumman had discretion to provide severance benefits to the NEOs under the Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation (“Severance Plan”). Provided the NEO signed a release, such executive would have received: (i) a lump sum severance benefit equal to one times base salary, and target bonus, except our President who would have received one and one-half times base salary and target bonus, (ii) continued medical and dental coverage for the severance period, (iii) income tax preparation/financial planning fees for one year and (iv) outplacement expenses up to 15% of salary. The cost of providing continued medical and dental coverage was based upon current premium costs. The cost of providing income tax preparation and financial planning for one year was capped at $15,000 for the Corp VP & President and $5,000 for each of the other NEOs.

A “qualifying termination” means one of the following:

- involuntary termination, other than for cause or mandatory retirement,
- election to terminate in lieu of accepting a downgrade to a non-officer position,
- following a divestiture of the NEO’s business unit, election to terminate in lieu of accepting a relocation, or

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if the NEO’s position is affected by a divestiture, the NEO is not offered salary or bonus at a certain level.

Terms of Equity Awards

The terms of equity awards to the NEOs under the 2001 Long-Term Incentive Plan provided for accelerated vesting if an NEO terminated for certain reasons. For stock options and RPSRs, accelerated vesting of a portion of each award results from a termination due to death, disability, or retirement (after age 55 with 10 years of service or mandatory retirement at age 65). An extended exercise period is also provided for options under these circumstances. For restricted stock rights (“RSRs”), accelerated vesting occurs for a termination due to death or disability.

For purposes of estimating the payments due under RPSRs below, Northrop Grumman performance is assumed to be at target levels through the close of each three-year performance period.

The terms of equity awards to the NEOs under the 2001 Long-Term Incentive Plan also provided for accelerated vesting of stock options and RSRs (and for prorated payment in the case of RPSRs) in the event that the NEO was terminated in a qualifying termination related to a change in control (see “Change-in-Control Benefits” below). Prorated payment for RPSRs made upon a qualifying termination will be based on the portion of the three-year performance period prior to the qualifying termination. For example, if the qualifying termination occurred on June 30 in the second year of a three-year performance period, the target number of RPSRs subject to an award would be multiplied by one-half and then multiplied by the earnout percentage that is based on Northrop Grumman’s performance for the performance period.

Payout of RPSRs for retirements and terminations is made during the normal process for payouts which occur during the first quarter following the end of the performance period.

Retiree Medical Arrangement

The Special Officer Retiree Medical Plan (“SORMP”) was closed to new participants in 2007. NEOs who are vested participants in the SORMP are entitled to retiree medical benefits pursuant to the terms of the SORMP. The coverage is essentially a continuation of the NEO’s executive medical benefits plus retiree life insurance. A participant becomes vested if he or she has either five years of vesting service as an elected officer or 30 years of total service with Northrop Grumman and its affiliates. A vested participant can commence SORMP benefits at retirement before age 65 if he has attained age 55 and 10 years of service. The estimated cost of the SORMP benefit reflected in the tables below is the present value of the estimated cost to provide future benefits using actuarial calculations and assumptions. Mr. Petters is the only NEO eligible for SORMP benefits.

Change-in-Control Benefits

During its March 2010 meeting, the Northrop Grumman Compensation Committee approved the termination of all change-in-control programs and agreements effective January 1, 2011. Through December 31, 2010, Mr. Petters was entitled to severance benefits under his change-in-control agreement only upon a qualifying termination that occurred during a protected period (of up to six months) prior to a change in control or in the 24-month period following a change in control. For this purpose, a “qualifying termination” generally occurred if the NEO’s employment was terminated by Northrop Grumman for reasons other than “Cause” or the NEO terminated employment for specified “Good Reason” during the two-year period following the change in control.

As reflected in the following table, through December 31, 2010 and upon a qualifying termination, the Company would have provided the NEO with the following:

- a lump sum payment equal to three times the President’s highest annualized base salary earned
- a lump sum payment equal to three times the President’s target bonus for the year during which the change in control occurs
- a lump sum payment equal to the pro rata portion of the President’s target bonus for the year during which termination occurs
- a lump sum payment equal to the increase in the present value of all the President’s qualified and nonqualified pension benefits based on an addition in age and service of three years
- three years of continued welfare benefits
- reimbursement for the costs of outplacement services for 12 months following the effective date of termination, up to an amount equal to 15% of the President’s base salary
### Termination Payments

**C. Michael Petters**  
President and Chief Executive Officer

#### Benefits and Perquisites

<table>
<thead>
<tr>
<th>Benefits and Perquisites</th>
<th>Voluntary Termination</th>
<th>Involuntary Termination Not For Cause (2)</th>
<th>Post-CIC Involuntary or Good Reason Termination</th>
<th>Death or Disability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>$0</td>
<td>$1,125,000</td>
<td>$2,250,000</td>
<td>$0</td>
</tr>
<tr>
<td>Short-term Incentives</td>
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<td>$843,750</td>
<td>$1,687,500</td>
<td>$0</td>
</tr>
<tr>
<td>Long-term Incentives (1)</td>
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<td>0</td>
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<tr>
<td>Retiree Medical and Life Insurance</td>
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<td>$369,669</td>
<td>$369,669</td>
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<tr>
<td>Medical/Dental Continuation</td>
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<td>Life Insurance Coverage</td>
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<tr>
<td>Financial Planning/Income Tax</td>
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<tr>
<td>Outplacement Services</td>
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<td>$112,500</td>
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<td>0</td>
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</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

#### Benefits and Perquisites

<table>
<thead>
<tr>
<th>Benefits and Perquisites</th>
<th>Voluntary Termination</th>
<th>Involuntary Termination Not For Cause (2)</th>
<th>Post-CIC Involuntary or Good Reason Termination</th>
<th>Death or Disability</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
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<tr>
<td>Financial Planning/Income Tax</td>
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<tr>
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**Footnotes:**

1. Long-term Incentives include grants of Restricted Performance Stock Rights and Stock Options. Results in a benefit under Voluntary Termination only if eligible for retirement treatment under the terms and conditions of the grants (age 55 with 10 years of service).
2. Similar treatment provided for certain “good reason” terminations, as described above. However, there would be no termination payment in the event of an involuntary termination for cause.
## Executive Benefits

<table>
<thead>
<tr>
<th></th>
<th>Voluntary Termination</th>
<th>Involuntary Termination Not For Cause (2)</th>
<th>Post-CIC Involuntary or Good Reason Termination</th>
<th>Death or Disability</th>
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<tbody>
<tr>
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<td>Benefits and Perquisites</td>
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</tr>
<tr>
<td>Medical/Dental Continuation</td>
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<td>Financial Planning/Income Tax</td>
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<td>Outplacement Services</td>
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<td>$55,620</td>
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### Footnotes:

1. Long-term Incentives include grants of Restricted Performance Stock Rights and Stock Options. Results in a benefit under Voluntary Termination only if eligible for retirement treatment under the terms and conditions of the grants (age 55 with 10 years of service).

2. Similar treatment provided for certain “good reason” terminations, as described above. However, there would be no termination payment in the event of an involuntary termination for cause.

## Executive Benefits

<table>
<thead>
<tr>
<th></th>
<th>Voluntary Termination</th>
<th>Involuntary Termination Not For Cause (2)</th>
<th>Post-CIC Involuntary or Good Reason Termination</th>
<th>Death or Disability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>$0</td>
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<td>Outplacement Services</td>
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### Footnotes:

1. Long-term Incentives include grants of Restricted Performance Stock Rights and Stock Options. Results in a benefit under Voluntary Termination only if eligible for retirement treatment under the terms and conditions of the grants (age 55 with 10 years of service).

2. Similar treatment provided for certain “good reason” terminations, as described above. However, there would be no termination payment in the event of an involuntary termination for cause.
Footnotes:

(1) Long-term Incentives include grants of Restricted Performance Stock Rights and Stock Options. Results in a benefit under Voluntary Termination only if eligible for retirement treatment under the terms and conditions of the grants (age 55 with 10 years of service).

(2) Similar treatment provided for certain “good reason” terminations, as described above. However, there would be no termination payment in the event of an involuntary termination for cause.

**Accelerated Equity Vesting Due to Change in Control**

The terms of equity awards to the NEOs under the 2001 Long-Term Incentive Plan provide for accelerated vesting of stock options and RSRs (and for prorated payments in the case of RPSRs) when Northrop Grumman is involved in certain types of “change in control” events that are more fully described in the Plan (e.g., certain business combinations after which Northrop Grumman is not the surviving entity and the surviving entity does not assume the awards). Vested stock options that are not exercised prior to one of these changes in control may be settled in cash and terminated. Prorated payments for RPSRs made upon one of these changes in control will be based on the portion of the three-year performance period prior to the change in control. For example, if a change in control occurred on June 30 in the second year of a three-year performance period, the target number of RPSRs subject to an award would be multiplied by one-half and then multiplied by the earnout percentage that is based on Northrop Grumman’s performance for the first half of the performance period.

The table below provides the estimated value of accelerated equity vesting and/or payments if such a change in control had occurred on December 31, 2010. The value of the accelerated vesting was computed using the closing market price of Northrop Grumman’s common stock on December 31, 2010 ($64.78). The value for unvested RPSRs was computed by multiplying $64.78 by the number of unvested shares that would vest. The value of unvested stock options equals the difference between the exercise price of each option and $64.78. No value was attributed to accelerated vesting of a stock option if its exercise price was greater than $64.78.

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<th>Name and Principal Position</th>
<th>Stock Options Acceleration of Vesting ($)</th>
<th>RSRs Acceleration of Vesting ($)</th>
<th>RPSRs Prorated Payment ($)</th>
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<td>Matthew J. Mulherin</td>
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<tr>
<td>Vice President and Chief Human Resources Officer</td>
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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Agreements with Northrop Grumman Related to the Spin-Off

This section of the information statement summarizes material agreements between us and Northrop Grumman that will govern the ongoing relationships between the two companies after the spin-off and are intended to provide for an orderly transition to our status as an independent, publicly owned company. Additional or modified agreements, arrangements, and transactions, which will be negotiated at arm’s length, may be entered into between Northrop Grumman and us after the spin-off.

Following the spin-off, we and Northrop Grumman will operate independently, and neither will have any ownership interest in the other. In order to govern certain ongoing relationships between us and Northrop Grumman after the spin-off and to provide mechanisms for an orderly transition, we and Northrop Grumman intend to enter into agreements pursuant to which certain services and rights will be provided for following the spin-off, and we and Northrop Grumman will indemnify each other against certain liabilities arising from our respective businesses. The following is a summary of the terms of the material agreements we expect to enter into with Northrop Grumman.

Separation and Distribution Agreement

We and NGSB intend to enter into a Separation and Distribution Agreement with Northrop Grumman and NGSC before the distribution of our shares of common stock to Northrop Grumman stockholders. The Separation and Distribution Agreement will set forth our agreements with Northrop Grumman regarding the principal actions needed to be taken in connection with our separation from Northrop Grumman, including the internal reorganization. It will also set forth other agreements that govern certain aspects of our relationship with Northrop Grumman following the spin-off.

Transfer of Assets and Assumption of Liabilities. The Separation and Distribution Agreement will identify certain transfers of assets and assumptions of liabilities that are necessary in advance of our separation from Northrop Grumman so that each of HII and Northrop Grumman retains both the assets of, and the liabilities associated with, our respective businesses. Matters identified above in the “Legal Proceedings” section that relate to our shipbuilding business will thus be allocated to us under the Separation and Distribution Agreement. The Separation and Distribution Agreement will also provide for the settlement or extinguishment of certain liabilities and other obligations between HII and Northrop Grumman. See “Unaudited Pro Forma Condensed Consolidated Financial Statements—Note D.”

Effective on the distribution date, all agreements, arrangements, commitments and understandings, including all intercompany accounts payable or accounts receivable, including intercompany indebtedness and intercompany work orders, between us and our subsidiaries and other affiliates, on the one hand, and Northrop Grumman and its other subsidiaries and other affiliates, on the other hand, will terminate as of the distribution date, except certain agreements and arrangements, which are intended to survive the distribution. After the distribution, we expect to issue letter subcontracts for the performance of follow-on work for terminated intercompany work orders. We expect then to negotiate definitive subcontracts with Northrop Grumman and its other subsidiaries and affiliates.

Shared Gains and Shared Liabilities. Subject to certain exceptions, including those set forth in the Tax Matters Agreement, the Separation and Distribution Agreement will provide for the sharing of certain gains and liabilities. We and Northrop Grumman will each be entitled to or responsible for the appropriate proportion of the shared gains or liabilities. The appropriate proportion applicable to any shared gain or liability will generally be determined by the extent to which the shared gain or liability relates to our or Northrop Grumman’s respective businesses. The Separation and Distribution Agreement further provides that where the Separation and Distribution Agreement has not already specified the appropriate proportions applicable to any such shared gain or liability, the applicable appropriate proportions with respect to a shared gain or liability will generally be determined by an allocation committee comprising one representative designated by each of Northrop Grumman and us.

Representations and Warranties. In general, neither we nor Northrop Grumman will make any representations or warranties regarding any assets or liabilities transferred or assumed, any consents or approvals that may be required in connection with such transfers or assumptions, the value or freedom from any lien or other security interest of any assets transferred, the absence of any defenses relating to any claim of either party or the legal sufficiency of any conveyance documents. Except as expressly set forth in the Separation and Distribution Agreement or in any ancillary agreement, all assets will be transferred on an “as is,” “where is” basis.

The Distribution. The Separation and Distribution Agreement will govern the rights and obligations of the parties regarding the proposed distribution. Prior to the distribution, the number of our shares held by Northrop Grumman will be increased to the number of shares of our common stock distributable in the distribution. Northrop Grumman will cause its agent to distribute all of the issued and outstanding shares of our common stock to Northrop Grumman stockholders who hold Northrop Grumman shares as of the record date.
Conditions. The Separation and Distribution Agreement will provide that the distribution is subject to several conditions that must be satisfied or waived by Northrop Grumman in its sole discretion. For further information regarding these conditions, see “The Spin-Off—Conditions to the Spin-Off.” Northrop Grumman may, in its sole discretion, determine the distribution date and the terms of the distribution and may at any time prior to the completion of the distribution decide to abandon or modify the distribution. The board of New NGC may determine the record date.

Termination. The Separation and Distribution Agreement will provide that it may be terminated by the board of directors of Northrop Grumman at any time prior to the distribution date.

Release of Claims. We and Northrop Grumman will agree to broad releases pursuant to which we will each release the other and its affiliates, successors and assigns and their respective stockholders, directors, officers, agents and employees from any claims against any of them that arise out of or relate to events, circumstances or actions occurring or failing to occur or any conditions existing at or prior to the time of the distribution. These releases will be subject to certain exceptions set forth in the Separation and Distribution Agreement.

Indemnification. We and NGSB on one hand, and Northrop Grumman and NGSC on the other, will agree to indemnify each other and each of our respective affiliates, former, current and future directors, officers and employees, and each of the heirs, executors, successors and assigns of any of the foregoing against certain liabilities in connection with the spin-off and our respective businesses.

The amount of any party’s indemnification obligations will be subject to reduction by any insurance proceeds received by the party being indemnified. The Separation and Distribution Agreement will also specify procedures with respect to claims subject to indemnification and related matters.

In the event that, prior to the fifth anniversary of the distribution, if we experience a change of control and our corporate rating is downgraded to B or B2 or below, as applicable, during the period beginning upon the announcement of such change of control and ending 60 days after the announcement of the consummation of such change of control, we will be required to provide credit support for our indemnity obligations under the Separation and Distribution Agreement in the form of one or more standby letters of credit in an amount equal to $250 million.

Employee Matters Agreement

We intend to enter into an Employee Matters Agreement with Northrop Grumman that will set forth our agreements with Northrop Grumman as to certain employment, compensation and benefits matters.

The Employee Matters Agreement will provide for the allocation and treatment of assets and liabilities arising out of employee compensation and benefit programs in which our employees participated prior to the distribution. In connection with the distribution, we will provide benefit plans and arrangements in which our employees will participate going forward. Generally, we will assume or retain sponsorship of, and liabilities relating to, employee compensation and benefit programs relating to our current and former employees and all employees who will be transferred to us from Northrop Grumman in connection with the distribution.

We expect that all outstanding Northrop Grumman equity awards held by current and former employees of NGSB and its subsidiaries as of the distribution will be converted to HII equity awards, issued pursuant to a plan that we will establish. We expect the conversion will result in the converted award having substantially the same intrinsic value as the applicable Northrop Grumman equity award as of the conversion. The performance criteria applicable to any converted restricted performance stock rights shall also be adjusted so that the applicable criteria are measured based on Northrop Grumman performance through December 31, 2010 and our performance following such date through the end of the applicable performance period.

The Employee Matters Agreement will also provide for post-distribution transfers of employees between Northrop Grumman and us. Such transfers may be effected within 45 days of the distribution by mutual agreement between Northrop Grumman and us. In such event, the recipient employer will generally be responsible for all employment-related liabilities relating to the transferred employees, and, under the Employee Matters Agreement, the transferred employees will be treated in the same manner as other employees of the recipient.

Insurance Matters Agreement

We intend to enter into an Insurance Matters Agreement with Northrop Grumman pursuant to which we will allocate rights regarding various policies of insurance.

Under the Insurance Matters Agreement, Northrop Grumman will assign to us its rights and obligations in certain insurance policies that are exclusive to our business. In the event that Northrop Grumman experiences a loss that relates to our business and may be recoverable under the insurance policies transferred to us pursuant to the Insurance Matters Agreement, Northrop Grumman may make the claim directly to the insurer. We will be responsible for paying all amounts.
necessary to exhaust or otherwise satisfy all applicable self-insured retentions, deductibles, and retrospective premium adjustments and similar amounts.

Northrop Grumman will retain the rights and obligations to all other insurance policies. Northrop Grumman will provide us the benefit of such retained insurance policies, until such policies are exhausted by us or Northrop Grumman, for occurrences prior to the distribution. We will have no rights under such policies for occurrences after the distribution.

**Intellectual Property License Agreement**

We, through NGSB, intend to enter into an Intellectual Property License Agreement with NGSC pursuant to which we will license certain of our intellectual property to NGSC and its affiliates and NGSC and its affiliates will license certain of its intellectual property to us.

The licenses granted by us and NGSC under the Intellectual Property License Agreement will permit the licensed party and its affiliates to use certain licensed intellectual property for uses such party has made of the licensed intellectual property in the ordinary course of such party’s business generally in the twelve-month period prior to the distribution, including the general manner and scope of such use in the licensed party’s line of business for which the licensed intellectual property has been used during such period.

We and NGSB each may assign the Intellectual Property License Agreement and the rights granted thereunder, whether in whole or in part, without the other party’s consent if such assignment takes place in an acquisition context, including in connection with the sale of a business unit or a product line. An assignment by either of us to an unaffiliated third party outside of an acquisition context will require the other party’s consent. Any assignee of an assigning party’s license rights is subject to the limitations and restrictions imposed under the Intellectual Property License Agreement, including the restrictions regarding the general manner, scope and line of business for which and by whom the licensed intellectual property will be used.

**Tax Matters Agreement**

We intend to enter into a Tax Matters Agreement with Northrop Grumman that will govern rights and obligations after the spin-off with respect to matters regarding U.S. Federal, state, local and foreign income taxes and other taxes, including tax liabilities and benefits, attributes, returns and contests.

Under the Tax Matters Agreement, taxes for periods before the spin-off will be allocated as follows:

- We are severally liable with Northrop Grumman for its U.S. Federal income taxes for periods before the spin-off, and this several liability will continue after the spin-off. Current NGC will continue to act as tax agent for New NGC for U.S. Federal tax matters for periods before the spin-off and New NGC will pay all costs and expenses associated with Current NGC retaining a tax officer for this purpose. Under the Tax Matters Agreement, Northrop Grumman will indemnify us for any portion of such taxes that we pay, subject to our obligation relating to audit adjustments, described below.

- We will be obligated to indemnify Northrop Grumman for audit adjustments that increase our U.S. Federal taxable income for periods before the spin-off and are of a nature that could result in correlative reductions to our taxable income for periods after the spin-off. This indemnity will apply only to the extent such adjustments increase our U.S. Federal income tax liability for periods before the spin-off by a total of more $2,000,000.

- Northrop Grumman generally will be responsible for our state, local and foreign income taxes for periods before the spin-off. We will, however, be obligated to indemnify Northrop Grumman for audit adjustments that increase such taxes, in accordance with the provisions of the Separation and Distribution Agreement relating to government contract matters.

- Northrop Grumman generally will be responsible for our taxes other than income taxes for periods before the spin-off. We will not indemnify Northrop Grumman for audit adjustments relating to non-income taxes.

The Tax Matters Agreement will contain special provisions to allocate tax liabilities resulting from the spin-off or related transactions not being tax-free (notwithstanding the IRS ruling and tax opinion stating that such transactions are tax-free). Under the Tax Matters Agreement, if our actions could be reasonably likely to cause the spin-off, the internal reorganization or any such related transactions not to be tax-free, we will be obligated to indemnify Northrop Grumman for the resulting taxes, professional fees and other expenses. The amount of any such indemnification could be substantial.

The Tax Matters Agreement will contain covenants intended to protect the tax-free status of the spin-off, the internal reorganization and related transactions. These covenants may restrict our ability to pursue strategic or other transactions that otherwise could maximize the value of our business and may discourage or delay a change of control that you may consider favorable. In general, we will covenant that, during the two-year period immediately after the spin-off.
• We will not take any action inconsistent with continuation of the shipbuilding business. The winding down of our operations at Avondale will not be considered inconsistent with continuation of the shipbuilding business.

• We will not sell, transfer or otherwise dispose of more than 30% of our gross assets in one or more transactions. Specified transactions, however, including the winding down of our operations at Avondale, will not count against the 30% limitation. These will include sales in the ordinary course of business, payments of interest and principal on indebtedness and stock repurchases to the extent described below.

• We will not repurchase more than 20% of our stock.

• We will not take any action (or permit actions by other persons if we can prevent them) that would result in one or more persons, in one or more transactions, selling more than 20% of our stock (including but not limited to stock repurchases).

• We will not take any action (or permit actions by other persons if we can prevent them) that would result in one or more persons, in one or more transactions, acquiring 40% or more of our stock (by vote or value) or of the stock of a successor in a merger or consolidation (or, in either case, rights to acquire such stock). Such transactions include mergers and acquisitions, sales of stock between shareholders, issuances of new stock, repurchases of stock, recapitalizations and amendments to our certificate of incorporation affecting shareholder voting rights. Specified transactions, however, will not count against the 40% limitation. These include public trading by persons owning less than 5% of our stock and compensatory grants of stock or stock options to directors or employees or exercises of such stock options.

We will covenant not to take any of the above actions unless either (i) Northrop Grumman requests and obtains from IRS a supplemental ruling, satisfactory in form and substance to Northrop Grumman, that the contemplated action will not adversely affect the tax-free status of the transactions, or (ii) we obtain, from a nationally recognized law firm, an unqualified opinion to such effect. Both the law firm and the form and substance of the opinion must be satisfactory to Northrop Grumman.

Although valid as between the parties, the Tax Matters Agreement will not be binding on the IRS.

**Transition Services Agreement**

We intend to enter into a Transition Services Agreement with Northrop Grumman, under which Northrop Grumman or certain of its subsidiaries will provide us with certain services for a limited time to help ensure an orderly transition following the distribution.

**Services.** We anticipate that under the Transition Services Agreement, Northrop Grumman will provide certain enterprise shared services (including information technology, resource planning, financial, procurement and human resource services), benefits support services and other specified services to us. We expect that these services will be provided at cost, as determined by Northrop Grumman in a manner consistent with its cost accounting practices.

**Indemnification.** Under the Transition Services Agreement, we will release and indemnify Northrop Grumman and its affiliates for losses arising from or relating to the provision or use of any service or product provided under the Transition Services Agreement.

**Term.** We expect that the Transition Services Agreement will become effective on the distribution date, and will remain in effect until the expiration of the last time period for the performance of services thereunder, which we expect generally to be no longer than 12 months from the distribution date.

**Termination.** Each party will be permitted to terminate the Transition Services Agreement if the other party breaches any of its significant obligations under the agreement and does not cure such breach within 30 days of receiving written notice from the other party.

**Other Agreements**

**NGSC Guaranty Performance, Indemnity and Termination Agreement.** We intend to enter into the Guaranty Performance Agreement with NGSC, pursuant to which we will agree to comply on behalf of NGSC with all of its guarantee obligations in relation to the $83.7 million of Revenue Bonds, which were issued for our benefit, to indemnify NGSC for all costs arising out of or related to its guarantee obligations of the Revenue Bonds and to cause NGSC’s guarantee obligations to terminate or to cause credit support to be provided in the event of a change of control of HII. For any period of time between a change of control and the termination of NGSC’s guarantee obligations, we will be required to cause credit support to be provided for NGSC’s guarantee obligations in the form of one or more letters of credit in an amount reasonably satisfactory to NGSC to support the payment of all principal, interest and any premiums under the Revenue Bonds. In addition, so long as NGSC has any liability under the guaranty, we will be required to pay a fee equal to 1% per annum of the aggregate principal amount of the Revenue Bonds outstanding unless we are providing credit support.
Related Party Transactions

Policy and Procedures Governing Related Person Transactions

Our board of directors will adopt a written policy and procedures for the review, approval and ratification of transactions to which we are a party and the aggregate amount involved in the transaction will or may be expected to exceed $100,000 in any year if any director, director nominee, executive officer, greater-than-5% beneficial owner or their respective immediate family members have or will have a direct or indirect interest.

The policy will provide that the Governance Committee reviews transactions subject to the policy and determines whether or not to approve or ratify those transactions. In doing so, the Governance Committee takes into account, among other factors it deems appropriate, whether the transaction is on terms that are no less favorable to the company than terms generally available to an unaffiliated third party under the same or similar circumstances, the extent of the related person’s interest in the transaction, the materiality of the proposed related person transaction, the actual or perceived conflict of interest between us and the related person, the relationship of the proposed related person transaction to applicable state corporation and fiduciary obligation laws and rules, disclosure standards, our Corporate Governance Guidelines and Standards of Business Conduct, and the best interests of us and our stockholders.

The Governance Committee will adopt standing pre-approvals under the policy for transactions with related persons. Pre-approved transactions include, but are not limited to: (a) employment of executive officers where (i) the officer’s compensation is required to be reported in the Proxy Statement or (ii) the executive officer is not an immediate family member of another executive officer or director, the related compensation would have been reported in the Proxy Statement if the officer was a “named executive officer” and the Compensation Committee approved such compensation; (b) director compensation where such compensation is required to be reported in the Proxy Statement and the arrangements have been approved by the board of directors; (c) certain transactions with other companies where the related person’s only relationship with the other company is as a director, employee or beneficial owner of less than 10% of that company’s shares and the aggregate amount involved does not exceed the greater of $1 million or 2% of that company’s total annual revenues; (d) certain of our charitable contributions where the related person’s only relationship is as an employee or director of the charitable entity and where the aggregate amount does not exceed the lesser of $1 million or 2% of the charitable entity’s total annual receipts; (e) transactions where the related person’s interest derives solely from his or her ownership of common stock of the company and all stockholders receive proportional benefits; (f) transactions involving competitive bids; (g) regulated transactions; and (h) certain banking-related services.

The policy requires each director and executive officer to complete an annual questionnaire to identify his or her related interests and persons, and to notify the Office of the General Counsel of changes in that information. Based on that information, the Office of the General Counsel will maintain a master list of related persons for purposes of tracking and reporting related person transactions.
DESCRIPTION OF MATERIAL INDEBTEDNESS

From and after the spin-off, we and Northrop Grumman will, in general, each be responsible for the debts, liabilities and obligations related to the business or businesses that it owns and operates following consummation of the spin-off, except as set forth below. See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off.”

In connection with the internal reorganization and prior to the spin-off, the outstanding intercompany notes, plus accrued and unpaid interest, will be contributed to our capital. These notes are payable on demand and include $537 million of principal with an annual interest rate of 5% and $178 million of principal with an annual interest rate of 4.55%.

In addition to new debt incurred prior to the spin-off, our obligations to the MBFC under two loan agreements in connection with certain economic development revenue bonds and industrial revenue bonds issued by the MBFC for our benefit will continue following the spin-off, as described below. We have summarized selected provisions of the loan agreements, indentures and guaranties below. The summary is not complete and does not describe every aspect of the loan agreements, indentures or guaranties. Copies of the loan agreements, indentures and guaranties, as defined below, have been filed as exhibits to the registration statement of which this information statement is a part. You should read the more detailed provisions of the loan agreements, indentures and the guaranties, including the defined terms, for provisions that may be important to you.

HII Debt

In connection with the anticipated spin-off, we issued $600 million aggregate principal amount of 6.875% Senior Notes due March 15, 2018 (the “2018 notes”), and $600 million aggregate principal amount of 7.125% Senior Notes due March 15, 2021 (the “2021 notes,” and, collectively, the “notes”) under an indenture, dated March 11, 2011, between us and The Bank of New York Mellon, as trustee. Proceeds from this offering will be placed in an escrow account pending completion of certain steps of the internal reorganization.

Optional Redemption. We may redeem some or all of the 2018 notes at any time prior to March 15, 2015 and some or all of the 2021 notes at any time prior to March 15, 2016 at a price equal to 100% of the principal amount of such notes plus accrued and unpaid interest plus a “make-whole” premium. We may redeem any of the 2018 notes beginning on March 15, 2015 and any of the 2021 notes beginning on March 15, 2016 at specified redemption prices. If, before March 15, 2014, 65% of the aggregate principal amount of the 2018 notes originally issued remains outstanding, we may redeem up to 35% of such series with the proceedings of certain offerings of our common stock at 106.875% of the principal amount plus accrued interest. If, before March 15, 2014, 65% of the aggregate principal amount of the 2021 notes originally issued remains outstanding, we may redeem up to 35% of such series with the proceedings of certain offerings of our common stock at 107.125% of the principal amount plus accrued interest.

Mandatory Redemption. In the event that by June 30, 2011, any of the conditions for the release of the escrowed proceeds of the notes offering has not occurred, or in the event the board earlier determines that such conditions will not be satisfied by such date, we will be required to redeem the notes five business days thereafter at a price equal to the issue price of the notes, together with accrued yield and accrued interest on the notes from the issue date to but excluding the date of redemption.

In addition, in the event that the spin-off is not consummated within five business days after the date that the proceeds from the notes offering are released from escrow, we will be required to redeem the notes on the date that is five business days thereafter, at a cash redemption price equal to the issue price of the notes, plus the accrued yield and accrued interest to the date of redemption.

Covenants. The terms of the notes restrict our ability and the ability of certain of our subsidiaries to: incur additional indebtedness, create liens, pay dividends or make distributions in respect of capital stock, purchase or redeem capital stock, make investments or certain other restricted payments, sell assets, enter into transactions with stockholders or affiliates and effect a consolidation or merger. However, these limitations will be subject to a number of important qualifications and exceptions.

Guarantees. The performance of our obligations pursuant to the notes, including any repurchase obligations resulting from a change of control, are unconditionally guaranteed, jointly and severally, on an unsecured basis, by each of our existing and future domestic restricted subsidiaries that guarantees debt under the HII Credit Agreement. The guarantees will rank equally with all other unsecured and unsubordinated indebtedness of the guarantors.

Events of Default. The indenture provides that an “Event of Default” occurs with respect to notes of a series if: (a) failure by us to pay when due the principal required to be paid; (b) failure by us to pay within 30 days of the date due the interest required to be paid; (c) failure by us, after 45 days of written notice to us by the trustee or to us and the trustee by
holders of 25% or more in aggregate principal amount of notes of such series, to make an Offer to Purchase (as defined by the indenture), or to thereafter pay for notes tendered; (d) failure by us to perform or breach by us of any other of the covenants or agreements under the indenture for a period of 60 days after written notice to us by the trustee or to us and the trustee by holders of 25% or more in aggregate principal amount of notes of such series specifying such failure and requesting that it be remedied; (e) there occurs, with respect to our debt or that of any of our restricted subsidiaries with an aggregate of at least $50 million of debt, an event of default with respect to such debt, or failure to make a principal payment that is not made, waived or extended within the applicable grace period; (f) one or more final judgments rendered against us or any of our restricted subsidiaries are not paid or discharged, and there is a period of 60 consecutive days in which final judgments or orders outstanding and not paid or discharged exceed $50 million; (g) certain bankruptcy defaults with respect to us or any significant subsidiary; (h) any note guaranty of a significant subsidiary ceases to be in full force and effect; and (i) at any time prior to the Completion Date, we default under the escrow agreement.

HII Credit Facility

In connection with the spin-off, we entered into the HII Credit Facility with third-party lenders. The HII Credit Facility comprises (i) a five-year term loan facility of $575 million, to be funded substantially contemporaneously with the completion of the internal reorganization, and (ii) a revolving credit facility of $650 million, which, subject to the satisfaction of certain funding conditions, may be drawn upon during a period of five years from the date of the funding pursuant to clause (i) above, and which includes a commitment fee equal to 0.5% on the average daily unused portion of the facility. The revolving credit facility includes a letter of credit subfacility of $350 million, and a swingline loan subfacility of $100 million. The revolving credit facility will have a variable interest rate based on LIBOR plus a spread based upon leverage ratio, which spread at the current leverage ratio is 2.5% and which may vary between 2.0% and 3.0%. At the time of the spin-off, approximately $137 million of letters of credit are expected to be outstanding, and the remainder will be undrawn.

The term loan facility is subject to amortization in 3-month intervals from the funding date, expected to be in an aggregate amount equal to (i) 5% during the first year and the second year, (ii) 10% during the third year, (iii) 15% during the fourth year and (iv) 65% payable during the fifth year (of which 5% shall be payable on each of the first 3 quarterly payment dates during such year, and the balance shall be payable on the term maturity date). Loans will bear interest at a rate equal to LIBOR plus a spread of 2.50% (or the base rate plus 1.50%), which spread is expected to vary between 2.0% and 3.0% based upon changes to our leverage ratio.

Security. The HII Credit Facility is secured by a perfected first priority security interest in substantially all of our assets, and substantially all assets of the guarantors, subject to certain exceptions.

Covenants. The loan agreement contains customary affirmative covenants, including, but not limited to, those related to our maintaining our corporate existence, complying with applicable laws, payment of taxes, and ownership of property; and customary negative covenants, including but not limited to limitations on (a) sales of assets, (b) mergers, consolidations, liquidations and dissolutions, (c) indebtedness, (d) liens, (e) dividends, (f) acquisitions, (g) investments, (h) prepayments and modifications of subordinated debt and unsecured bonds, (i) transactions with affiliates, (j) sale-leasebacks, (k) negative pledges and (l) changes of lines of business.

Financial Covenants. The loan agreement contains certain financial covenants, which include (a) a maximum total leverage ratio, defined as the ratio of total indebtedness to EBITDA of 4.50:1 as of the first quarterly period following the spinoff, incrementally decreasing to 2.75:1 as of March 31, 2015 and thereafter, (b) a minimum interest coverage ratio, defined as the ratio of EBITDA to total interest expense, net of interest income of 3.50:1 as of the first quarterly period following the spinoff, incrementally increasing to 4.50:1 as of March 31, 2015 and thereafter and (c) a limitation on capital expenditures of $350 million for the year 2011, incrementally decreasing to $200 million as of 2015 and thereafter.

Guarantees. Each of our direct and indirect, existing and future, domestic wholly-owned subsidiaries, except for those which are specifically designated as unrestricted subsidiaries, will be guarantors under the HII Credit Facility. Current NGC is designated as unrestricted and is not a guarantor under the HII Credit Facility.

Mandatory Prepayment. Mandatory prepayments of the term loan will be required from the net cash proceeds from any sale or other disposition of our assets or those of our subsidiaries (subject to certain exceptions and reinvestment rights), the net cash proceeds from issuances or incurrences of debt by us or our subsidiaries (other than permitted indebtedness), and a portion of any excess cash flow, as such term is defined in the loan agreement, of us or our subsidiaries (subject to certain agreed upon reductions).

Events of Default. The loan agreement provides that the happening of one or more of the following events will constitute an “Event of Default” (subject to certain thresholds and exceptions): (a) nonpayment of principal when due; (b) nonpayment of interest, fees or other amounts when due; (c) material inaccuracy of representations and warranties at the time made or reaffirmed; (d) violation of a covenant; (e) cross-default on material indebtedness; (f) bankruptcy events; (g)
certain ERISA events; (h) material judgments which, absent a stay due to appeal or otherwise, remain unpaid more than thirty days following execution of the judgment; (i) actual or asserted invalidity of any HII Credit Facility guarantee, security document or subordination provisions or non-perfection of any security interest; (j) a change of control; and (k) failure of the spin-off to occur within five business days of the funding date.

**Gulf Opportunity Zone Industrial Revenue Bonds**

Under a loan agreement, dated December 1, 2006, between NGSS and the MBFC, we borrowed the proceeds of the MBFC’s issuance of $200 million of GO Zone IRBs at an interest rate of 4.55% due 2028.

**Optional Redemption.** The GO Zone IRBs may be redeemed by the issuer or at any time, after December 1, 2016, in whole or in part, at a price of 100% of the principal amount thereof plus accrued interest to the date of redemption.

**Optional Mandatory Tender for Purchase.** The GO Zone IRBs are subject to a mandatory tender for purchase on or after December 1, 2016, as requested by us, at 100% of the principal outstanding. If any GO Zone IRBs are purchased by us, such GO Zone IRBs will remain outstanding and may be offered for sale in a different interest rate mode.

In connection with the potential spin-off, on November 30, 2010, NGSB purchased $178.4 million of the outstanding principal amount of GO Zone IRBs pursuant to a tender offer. NGSB used cash on hand provided by Northrop Grumman to purchase the GO Zone IRBs and submitted the purchased bonds to the trustee for cancellation. The remaining $21.6 million of GO Zone Bonds mature in 2028 and accrue interest at a fixed rate of 4.55% (payable semi-annually).

**Covenants.** The loan agreement contains customary affirmative and negative covenants, including those related to NGSS (a) maintaining its corporate existence, (b) maintaining and properly insuring certain buildings and immovable equipment at our shipbuilding complex located in Pascagoula and Gulfport, Mississippi (collectively, the “GO Zone Project”), (c) promptly paying, as the same become due, all taxes and assessments related to the GO Zone Project, and (d) operating the GO Zone Project for its designated purposes until the date on which no GO Zone IRBs are outstanding.

**Guaranty.** The performance of our payment obligations in connection with the GO Zone IRBs, including payment of any and all amounts which may come due under the indenture, the GO Zone IRBs, or the loan agreement, is guaranteed by Current NGC.

After the spin-off, the payment obligations, under the guaranty, will remain with Current NGC, which will be a wholly owned subsidiary of HII. We intend to enter into a Performance and Indemnity Agreement with Current NGC, pursuant to which we will agree to comply with all of Current NGC’s obligations under this guaranty and to indemnify Current NGC for any costs, losses or damages arising out of, or related to, this guaranty.

**Events of Default.** The loan agreement provides that the happening of one or more of the following events will constitute an “Event of Default”: (a) failure by us to pay when due the amounts required to be paid; (b) failure by us to pay within 30 days of the date due any other amounts required to be paid pursuant to the loan agreement; (c) failure by us to observe and perform any other of the covenants, conditions or agreements under the loan agreement for a period of 90 days after written notice specifying such failure and requesting that it be remedied from the issuer or the trustee, unless extended; and (d) certain events of bankruptcy, insolvency, dissolution, liquidation, winding-up, reorganization or other similar events of Northrop Grumman Ship Systems, Inc.

**Economic Development Revenue Bonds**

Under a loan agreement, dated May 1, 1999, between Ingalls and the MBFC, we borrowed the proceeds of the MBFC’s issuance of $83.7 million of Revenue Bonds at an interest rate of 7.81% due 2024.

**Optional Redemption.** The Revenue Bonds are redeemable, in whole or in part, at the option of the issuer, at any time at a redemption price equal to the greater of (a) 100% of the principal amount of the Revenue Bonds or (b) as determined by an independent banker, the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the date of redemption on a semiannual basis, plus, in each case, accrued interest thereon to the date of redemption. The discount rate is based upon a comparable Treasury yield plus 0.25%.

**Covenants.** The loan agreement contains customary affirmative and negative covenants, including those related to Ingalls (a) maintaining its corporate existence, (b) maintaining and properly insuring certain port facilities at our shipbuilding complex located in Jackson County, Mississippi (collectively, the “Ingalls Project”), (c) promptly paying, as the same become due, all taxes and assessments related to the Ingalls Project, and (d) operating the Ingalls Project for its designated purposes until the date on which no Revenue Bonds are outstanding.

**Guaranty.** The performance of the payment obligations in connection with the Revenue Bonds, including our payment for the principal and interest under the Revenue Bonds, which were issued for our benefit, and all other amounts
due under the loan agreement, is guaranteed by NGSC, a subsidiary of Northrop Grumman. We intend to enter into the Guaranty Performance Agreement with NGSC, pursuant to which we will agree, among other things, to comply with all of NGSC’s obligations under this guaranty, to indemnify NGSC for any costs, losses or damages arising out of or related to this guaranty and to terminate NGSC’s guaranty obligations or cause credit support to be provided in the event we experience a change of control. For a description of the Guaranty Performance Agreement, see “Certain Relationships and Related Party Transactions—Other Agreements.”

Events of Default. The loan agreement provides that the happening of one or more of the following events will constitute an “Event of Default” under the loan agreement: (a) failure by us to pay any loan repayment installment required to be paid with respect to the principal of or premium, if any, on any bond on the date and at the time specified in the loan agreement; (b) failure by us to pay any amount required to be paid with respect to interest on any bond on the date and at the time specified in the loan agreement; (c) failure by us to observe and perform any other of its covenants, conditions or agreements under the loan agreement for a period of 30 days after written notice specifying such failure and requesting that it be remedied from the issuer or the trustee, unless extended; (d) certain events of bankruptcy, insolvency, dissolution, liquidation, winding-up, reorganization or other similar events of Ingalls; or (e) the occurrence of an “Event of Default” under the indenture. Additionally, failure by NGSC to comply with its covenants under the guaranty will be a default under the guaranty and under the indenture, which, if not cured within the applicable period, could potentially result in the trustee taking action against us. We will not be indemnified by NGSC for any actions it takes that lead to a breach of the guaranty and will not obtain any contractual undertaking by NGSC to comply with such covenants.
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of the date of this information statement, all of the outstanding shares of our common stock are beneficially owned by Northrop Grumman. After the spin-off, Northrop Grumman will not own any shares of our common stock.

The following table provides information with respect to the anticipated beneficial ownership of our common stock by:

- each of our stockholders who we believe (based on the assumptions described below) will beneficially own more than 5% of HII’s outstanding common stock;
- each of our current directors and its directors following the spin-off;
- each officer named in the summary compensation table; and
- all of our directors and executive officers following the spin-off as a group.

Except as otherwise noted below, we based the share amounts on each person’s beneficial ownership of Northrop Grumman common stock on March 11, 2011, giving effect to a distribution ratio of one share of our common stock for every six shares of Northrop Grumman common stock held by such person.

To the extent our directors and executive officers own Northrop Grumman common stock at the record date of the spin-off, they will participate in the distribution on the same terms as other holders of Northrop Grumman common stock.

Except as otherwise noted in the footnotes below, each person or entity identified in the tables below has sole voting and investment power with respect to the securities owned by such person or entity.

Immediately following the spin-off, we estimate that approximately 48.8 million shares of our common stock will be issued and outstanding, based on the number of shares of Northrop Grumman common stock expected to be outstanding as of the record date. The actual number of shares of our common stock outstanding following the spin-off will be determined on March 30, 2011, the record date.

Stock Ownership of Certain Beneficial Owners

We anticipate, based on information to our knowledge as of December 31, 2010, that the following entities will beneficially own more than 5% of our common stock after the spin-off:

<table>
<thead>
<tr>
<th>Name and Address of Beneficial Owner</th>
<th>Amount and Nature of Beneficial Ownership</th>
<th>Percent of Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Street Bank and Trust Company, One Lincoln Street, Boston, MA 02111</td>
<td>5,489,233 shares</td>
<td>11.30% (a)</td>
</tr>
<tr>
<td>Capital World Investors, 333 South Hope Street, Los Angeles, CA 90071</td>
<td>3,906,291 shares</td>
<td>8.00% (b)</td>
</tr>
<tr>
<td>BlackRock Inc., 40 East 52nd Street, New York, NY 10022</td>
<td>3,324,427 shares</td>
<td>7.94% (c)</td>
</tr>
<tr>
<td>AllianceBernstein LP, 1245 Avenue of the Americas, New York, NY 10105</td>
<td>3,864,638 shares</td>
<td>6.80% (d)</td>
</tr>
</tbody>
</table>

(a) This information is derived from information regarding Northrop Grumman stock in a Schedule 13G filed with the SEC by State Street Bank and Trust Company (“State Street”) on February 14, 2011. According to State Street, as of December 31, 2010, State Street had shared voting power over 32,935,400 shares of Northrop Grumman Stock and shared dispositive power over 32,837,370 shares of Northrop Grumman Stock. This total includes 21,711,393 shares of Northrop Grumman stock held in the Defined Contributions Master Trust for the Northrop Grumman Savings Plan for which State Street acts as a trustee.

(b) This information is derived from information regarding Northrop Grumman stock in a Schedule 13G/A filed with the SEC by Capital World Investors, a division of Capital Research and Management Company, on February 14, 2011. According to Capital World Investors, as of December 31, 2010, Capital World Investors had sole voting power over 9,787,743 shares of Northrop Grumman stock and sole dispositive power over 23,437,743 shares of Northrop Grumman stock.

(c) This information is derived from information regarding Northrop Grumman stock in a Schedule 13G/A filed with the SEC by AllianceBernstein LP, a division of Alliance Capital Management, LLP, on February 14, 2011. According to AllianceBernstein LP, as of December 31, 2010, AllianceBernstein LP had sole voting power over 9,787,743 shares of Northrop Grumman stock and sole dispositive power over 23,437,743 shares of Northrop Grumman stock.

(d) This information is derived from information regarding Northrop Grumman stock in a Schedule 13G/A filed with the SEC by AllianceBernstein LP on February 9, 2011. According to AllianceBernstein LP, as of December 31, 2010, AllianceBernstein LP had sole voting power over 15,989,780 shares of Northrop Grumman stock, sole dispositive power over 19,931,887 shares of Northrop Grumman stock and shared dispositive power over 14,675 shares of Northrop Grumman stock.
## Stock Ownership of Officers and Directors

<table>
<thead>
<tr>
<th>Non-Employee 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>Thomas B. Fargo</td>
<td></td>
<td></td>
<td></td>
<td>978</td>
</tr>
<tr>
<td>Robert Bruner</td>
<td></td>
<td></td>
<td></td>
<td>978</td>
</tr>
<tr>
<td>Artur Davis</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anastasia Kelly</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paul D. Miller</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tom Schievelbein</td>
<td>481</td>
<td></td>
<td></td>
<td>481</td>
</tr>
<tr>
<td>Karl von der Heyden</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Named Executive Officers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C. Michael Petters</td>
<td>12,069</td>
<td>71,217</td>
<td>121</td>
<td>83,407</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>2,221</td>
<td></td>
<td></td>
<td>2,221</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>1,171</td>
<td>1,245</td>
<td>213</td>
<td>2,630</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>3,419</td>
<td>4,078</td>
<td>85</td>
<td>7,582</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>772</td>
<td></td>
<td></td>
<td>1,211</td>
</tr>
<tr>
<td><strong>Directors and Executive Officers as a Group (12 persons)</strong></td>
<td>20,134</td>
<td>76,540</td>
<td>1,836</td>
<td>98,510</td>
</tr>
</tbody>
</table>

(1) These shares subject to option are either currently exercisable or exercisable within 60 days as of March 11, 2011.

(2) Share equivalents for directors represent non-voting deferred stock units acquired under the 1993 Directors Plan some of which are paid out in shares of common stock at the conclusion of a director-specified deferral period, and others are paid out upon termination of the director’s service on the Board of Directors. The HII NEOs hold share equivalents with pass-through voting rights in the Northrop Grumman Savings Plan.
DESCRIPTION OF CAPITAL STOCK

Authorized Capital Stock

Prior to the distribution date, our board of directors and Northrop Grumman, as our sole stockholder, will approve and adopt the Restated Certificate of Incorporation, and our board of directors will approve and adopt the Restated Bylaws. Under the Restated Certificate of Incorporation, authorized capital stock will consist of 150 million shares of our common stock, par value $.01 per share, and 10 million shares of our preferred stock, par value $.01 per share.

Common Stock

Immediately following the spin-off, we estimate that approximately 48.8 million shares of our common stock will be issued and outstanding, based on the number of shares of Northrop Grumman common stock expected to be outstanding as of the record date. The actual number of shares of our common stock outstanding following the spin-off will be determined on March 30, 2011, the record date.

Dividend Rights. Dividends may be paid on our common stock and on any class or series of stock entitled to participate with our common stock as to dividends, but only when and as declared by our board of directors and only if full dividends on all then-outstanding series of our preferred stock for the then current and prior dividend periods have been paid or provided for.

Voting Rights. Each holder of our common stock is generally entitled to one vote per share on all matters submitted to a vote of stockholders and does not have cumulative voting rights for the election of directors.

Liquidation. If we liquidate, holders of our common stock are entitled to receive all remaining assets available for distribution to stockholders after satisfaction of our liabilities and the preferential rights of any our preferred stock that may be outstanding at that time.

Other Rights. The outstanding shares of our common stock are fully paid and nonassessable. The holders of our common stock do not have any preemptive, conversion or redemption rights.

Preferred Stock

Under the Restated Certificate of Incorporation, our board of directors is authorized to issue our preferred stock from time to time, in one or more series, and to fix the number of shares constituting such series and the designation of such series, the voting powers (if any) of the shares of such series, and the preference and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series. See “—Anti-Takeover Effects of Provisions of Our Certificate of Incorporation and Bylaws.”

Our preferred stock will, when issued, be fully paid and nonassessable and have no preemptive rights. Our preferred stock will have the dividend, liquidation, and voting rights described below, unless we indicate otherwise in the applicable certificate of designation relating to a particular series of our preferred stock.

Dividend Rights. Holders of our preferred stock will receive, when, as and if declared by our board of directors, dividends at rates and on the dates described in the applicable certificate of designations. Each dividend will be payable to the holders of record as they appear on our stock record books. Dividends on any series of our preferred stock may be cumulative or noncumulative.

Voting Rights. Unless indicated otherwise in the applicable certificate of designation relating to a particular series of our preferred stock or expressly required by law, the holders of our preferred stock will not have any voting rights.

Liquidation. If we liquidate, dissolve or wind up our affairs, either voluntarily or involuntarily, the holders of each series of our preferred stock will be entitled to receive liquidation distributions. These will be in the amounts set forth in the applicable certificate of designation, plus accrued and unpaid dividends and, if the series of our preferred stock is cumulative, accrued and unpaid dividends for all prior dividend periods. If we do not pay in full all amounts payable on any series of our preferred stock, the holders of our preferred stock will share proportionately with any equally ranked securities in any distribution of our assets. After the holders of any series of our preferred stock are paid in full, they will not have any further claim to any of our remaining assets.

Redemption. A series of our preferred stock may be redeemable, in whole or in part, at our option or at the option of the holder of the stock, and may be subject to mandatory redemption pursuant to a sinking fund, under the terms described in any applicable certificate of designation.
In the event of partial redemptions of our preferred stock, our board of directors or its committee will determine the method for selecting the shares to be redeemed, which may be by lot or pro rata or by any other method our board of directors or its committee determines to be equitable.

On and after a redemption date, unless we default in the payment of the redemption price, dividends will cease to accrue on shares of our preferred stock which were called for redemption. In addition, all rights of holders of the shares of our preferred stock will terminate except for the right to receive the redemption price.

Conversion and Exchange. The applicable certificate of designation for any series of our preferred stock will state the terms and conditions, if any, on which shares of that series are convertible into or exchangeable for our common stock or other securities.

Anti-Takeover Effects of Provisions of Our Certificate of Incorporation and Bylaws

The Restated Certificate of Incorporation, the Restated Bylaws and Delaware statutory law contain certain provisions that could make the acquisition of our company by means of a tender offer, a proxy contest or otherwise more difficult. The description set forth below is intended as a summary only and is qualified in its entirety by reference to the Restated Certificate of Incorporation and the Restated Bylaws which are attached as exhibits to our Registration Statement on Form 10 under the Exchange Act relating to our common stock.

Classified Board of Directors. The Restated Certificate of Incorporation provides for a classified board of directors consisting of three classes of directors. Directors of each class are chosen for three-year terms upon the expiration of their current terms and each year one class of our directors will be elected by our stockholders. The terms of the first, second and third classes will expire in 2012, 2013 and 2014, respectively.

Number of Directors; Filling Vacancies; Removal. The Restated Certificate of Incorporation and the Restated Bylaws provide that that our business and affairs will be managed by and under our board of directors. The Restated Certificate of Incorporation and the Restated Bylaws provide that the board of directors shall consist of not less than five or more than fifteen members, the exact number of which will be fixed from time to time exclusively by a resolution duly adopted by the board of directors. In addition, the Restated Certificate of Incorporation and the Restated Bylaws provide that any vacancy on our board of directors that results from any increase in the number of directors, or any other vacancies, may be filled solely by the affirmative vote of a majority of the remaining directors then in office and entitled to vote thereon, even though less than a quorum of the board of directors. The Restated Certificate of Incorporation also provides that any director, or the entire board of directors, may be removed from office at any time, but only for cause and by the affirmative vote of the holders of at least 66 2/3% of the total voting power of the outstanding shares of capital stock of our company entitled to vote thereon, voting as a single class.

Notwithstanding the foregoing, the Restated Certificate of Incorporation and the Restated Bylaws provide that whenever the holders of any class or series of our preferred stock have the right to elect additional directors under specified circumstances, the election, removal, term of office, filling of vacancies and other features of 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 special meetings of the stockholders may be called at any time only by the board of directors (or an authorized committee thereof) or by the chairperson of the board of directors.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals. The Restated Bylaws establish an advance notice procedure for stockholders to make nominations of candidates for election to the board of directors, or to bring other business before an annual meeting of stockholders (the “Stockholder Notice Procedure”).

The Stockholder Notice Procedure provides that nominations of persons for election to the board of directors and the proposal of business to be transacted by the stockholders may be made at an annual meeting of stockholders (i) pursuant to the company’s proxy materials with respect to such meeting, (ii) by or at the direction of our board of directors or (iii) by any stockholder of record of our company (a “Record Stockholder”) at the time of the giving of the notice required, who is entitled to vote at the meeting and who has complied with the proper notice procedures. Under the Stockholder Notice Procedure, for a stockholder notice in respect of the annual meeting of stockholders to be timely, such notice must be received by our Secretary at our principal executive offices not less than 90 or more than 120 days prior to the one-year anniversary of the date on which the company first mailed its proxy materials; provided, however, that if the annual meeting is convened more than 30 days prior to or delayed by more than 30 days after the one-year anniversary of the preceding year’s annual meeting, or if no annual meeting was held in the preceding year, notice by the Record Stockholder to be timely must be so received not later than the close of the business on the later of (x) the 135th day prior to such annual meeting or (y) the 10th day following the day on which the public announcement of the date of such meeting is first made by the company. Notwithstanding anything in the preceding sentence to the contrary, in the event that the number of
directors to be elected to the board of directors is increased and we do not make a public announcement naming all of the nominees for director or specifying the size of the increased board of directors at least 10 days before the last day a Record Stockholder may deliver a notice of nomination in accordance with the preceding sentence, a Record Stockholder’s notice will also be considered timely, but only with respect to nominees for any new positions created by such increase, if it is received by our Secretary at our principal executive offices not later than the close of business on the 10th day following the day on which we first make such public announcement.

Under the Stockholder Notice Procedure, a Record Stockholder’s notice proposing to nominate a person for election as a director or bring other business before an annual meeting of stockholders must contain certain information, as set forth in the Restated Bylaws. Only persons who are nominated in accordance with the Stockholder Notice Procedures will be eligible to serve as directors and only such business which has been brought before the meeting in accordance with these Stockholder Notice Procedures will be conducted at an annual meeting of stockholders.

By requiring advance notice of nominations by stockholders, the Stockholder Notice Procedure will afford our board of directors an opportunity to consider the qualifications of the proposed nominees and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders about such qualifications. By requiring advance notice of other proposed business, the Stockholder Notice Procedure will also provide a more orderly procedure for conducting annual meetings of stockholders and, to the extent deemed necessary or desirable by our board of directors, will provide our board of directors with an opportunity to inform stockholders, prior to such meetings, of any business proposed to be conducted at such meetings, together with any recommendations as to our board of directors’ position regarding action to be taken with respect to such business, so that stockholders can better decide whether to attend such a meeting or to grant a proxy regarding the disposition of any such business.

Contests for the election of directors or the consideration of stockholder proposals will be precluded if the proper procedures are not followed. Third parties may therefore be discouraged from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal.

Stockholder Action by Written Consent with Board Authorization. The Restated Certificate of Incorporation and the Restated Bylaws require authorization of our board of directors (or an authorized committee thereof) for action by written consent of the holders of the outstanding shares of stock having not less than the minimum voting power that would be necessary to authorize or take such action at a meeting of stockholders at which all shares entitled to vote thereon were present and voted, provided all other requirements of applicable law and the Restated Certificate of Incorporation have been satisfied.

Amendments to Certificate of Incorporation and Bylaws. The Restated Certificate of Incorporation provides that, in addition to any requirements of law and notwithstanding any other provision of the Restated Certificate of Incorporation or the Restated Bylaws of our company, the affirmative vote of at least 662/3% in voting power of the issued and outstanding stock entitled to vote thereon, voting as a single class, will be required for our stockholders to amend or repeal, or adopt any provision inconsistent with, the provisions in the Restated Certificate of Incorporation or the Bylaws relating to the number, term and election of directors, vacancies on our board of directors, removal of directors, stockholder action by written consent, calling of special meetings, advance notice of stockholder proposals, liability of directors, indemnification, amendments to the Restated Certificate of Incorporation and amendments to the Restated Bylaws.

Stockholder Meetings. The Restated Bylaws provide that all meetings of stockholders will be conducted in accordance with such rules and procedures as our board of directors may determine subject to the requirements of applicable law and, as to matters not governed by such rules and procedures, as the chairperson of such meeting will determine. Such rules and procedures may include the establishment of an agenda, rules and procedures for maintaining order, limitations on attendance and participation relating to presence at the meeting of persons other than stockholders, restrictions on entry at the meeting after commencement thereof and the imposition of time limitations for questions by participants at the meeting.

Our Preferred Stock. The Restated Certificate of Incorporation authorizes our board of directors to provide for series of our preferred stock and, with respect to each such series, to fix the number of shares constituting such series and the designation of such series, the voting powers (if any) of the shares of such series, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series.

We believe that the ability of our board of directors to issue one or more series of our preferred stock will provide us with flexibility in structuring possible future financings and acquisitions, and in meeting other corporate needs which might arise. The authorized shares of our preferred stock, as well as shares of common stock, will be available for issuance without further action by our stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. The NYSE currently requires
stockholder approval as a prerequisite to listing shares in several instances, including where the present or potential issuance of shares could result in a 20% increase in the number of shares of common stock outstanding or in the amount of voting securities outstanding. If the approval of our stockholders is not required for the issuance of shares of our preferred stock or our common stock, our board of directors may determine not to seek stockholder approval.

Although our board of directors has no intention at the present time of doing so, it could issue a series of our preferred stock that could, depending on the terms of such series, impede the completion of a merger, tender offer or other takeover attempt. Our board of directors will make any determination to issue such shares based on its judgment as to the best interests of the company and our stockholders. Our board of directors, in so acting, could issue our preferred stock having terms that could discourage an acquisition attempt through which an acquirer may be able to change the composition of our board of directors, including a tender offer or other transaction that some, or a majority, of our stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then current market price of such stock.

Section 203 of the Delaware General Corporation Law

Section 203 of the Delaware General Corporation Law (the “DGCL”) provides that, subject to certain exceptions specified therein, a corporation shall not engage in any “business combination” with any “interested stockholder” for a three-year period following the time that such stockholder becomes an interested stockholder unless (i) prior to such time, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder, (ii) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding certain shares) or (iii) on or subsequent to such time, the business combination is approved by the board of directors of the corporation and by the affirmative vote of at least 66 \(\frac{2}{3}\)% of the outstanding voting stock which is not owned by the interested stockholder. Section 203 of the DGCL generally defines an “interested stockholder” to include (x) any person that is the owner of 15% or more of the outstanding voting stock of the corporation, or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within three years immediately prior to the relevant date and (y) the affiliates and associates of any such person. Section 203 of the DGCL generally defines a “business combination” to include (1) mergers and sales or other dispositions of 10% or more of the assets of the corporation with or to an interested stockholder, (2) certain transactions resulting in the issuance or transfer to the interested stockholder of any stock of the corporation or its subsidiaries, (3) certain transactions which would result in increasing the proportionate share of the stock of the corporation or its subsidiaries owned by the interested stockholder and (4) receipt by the interested stockholder of the benefit (except proportionately as a stockholder) of any loans, advances, guarantees, pledges or other financial benefits.

Under certain circumstances, Section 203 of the DGCL makes it more difficult for a person who would be an “interested stockholder” to effect various business combinations with a corporation for a three-year period, although the certificate of incorporation or stockholder-adopted bylaws may exclude a corporation from the restrictions imposed thereunder. Neither the Restated Certificate of Incorporation nor the Restated Bylaws exclude HII from the restrictions imposed under Section 203 of the DGCL. It is anticipated that the provisions of Section 203 of the DGCL may encourage companies interested in acquiring us to negotiate in advance with our board of directors since the stockholder approval requirement would be avoided if our board of directors approves, prior to the time the stockholder becomes an interested stockholder, either the business combination or the transaction which results in the stockholder becoming an interested stockholder.

Transfer Agent and Registrar

The registrar and transfer agent for our common stock is Computershare Trust Company, N.A.

Listing

Following the spin-off, we expect to have our common stock listed on the NYSE under the ticker symbol “HII.”
Liability and Indemnification of Directors and Officers

Elimination of Liability of Directors. The Restated Certificate of Incorporation provides that a director of our company will not be liable to the company or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the company or our stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL (which concerns unlawful payments of dividends, stock purchases or redemptions), or (iv) for any transaction from which the director derives an improper personal benefit. If the DGCL is amended to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the company shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

While the Restated Certificate of Incorporation provides directors with protection from awards for monetary damages for breaches of their duty of care, it does not eliminate such duty. Accordingly, the Restated Certificate of Incorporation will have no effect on the availability of equitable remedies such as an injunction or rescission based on a director's breach of his or her duty of care. The provisions of the Restated Certificate of Incorporation described above apply to an officer of HII only if he or she is a director of HII and is acting in his or her capacity as director, and do not apply to officers of HII who are not directors.

Indemnification of Directors, Officers, Employees and Agents. The Restated Bylaws provide that we will indemnify and hold harmless, to the fullest extent authorized by the DGCL as it presently exists or may thereafter be amended, any person (an “Indemnitee”) who was or is made a party to any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative (a “proceeding”), by reason of the fact that he or she is or was a director, officer, employee or agent of our company or while he or she is or was serving at the request of the board of directors or an executive officer of our company as a director, officer, employee, agent or trustee of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan, against all expense, liability and loss (including attorneys’ fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) actually and reasonably incurred or suffered by such Indemnitee in connection therewith. The Restated Bylaws also provide that, notwithstanding the foregoing, but except as described in the second following paragraph, we will be required to indemnify an Indemnitee in connection with a proceeding, or part thereof, initiated by such Indemnitee only if such proceeding, or part thereof, was authorized by our board of directors.

The Restated Bylaws further provide that we will pay the expenses incurred by an Indemnitee in defending or preparing for any proceeding in advance of its final disposition, provided however, that if the DGCL requires, such payment of expenses in advance of the final disposition of the proceeding will be made only upon delivery to our company of an undertaking containing such terms and conditions, including the requirement of security, as our board of directors deems appropriate, by or on behalf of such Indemnitee, to repay all amounts so advanced if it is ultimately determined by final judicial decision from which there is no further right to appeal that the Indemnitee is not entitled to be indemnified under the relevant section of the Restated Bylaws or otherwise.

The Restated Bylaws also expressly state that we may grant additional rights to indemnification and to the advancement of expenses to any of our employees or agents to the fullest extent permitted by law.
WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a Form 10 with respect to the shares of common stock that Northrop Grumman stockholders will receive in the distribution. This information statement does not contain all of the information contained in the Form 10 and the exhibits and schedules to the Form 10. Some items are omitted in accordance with the rules and regulations of the SEC. For additional information relating to us and the spin-off, reference is made to the Form 10 and the exhibits to the Form 10, which are on file at the offices of the SEC. Statements contained in this information statement as to the contents of any contract or other document referred to are not necessarily complete and in each instance, if the contract or document is filed as an exhibit, reference is made to the copy of the contract or other documents filed as an exhibit to the Form 10. Each statement is qualified in all respects by the relevant reference.

You may inspect and copy the Form 10 and the exhibits to the Form 10 that we have filed with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information on the Public Reference Room. In addition, the SEC maintains an Internet site at www.sec.gov, from which you can electronically access the Form 10, including the exhibits and schedules to the Form 10.

We 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.
## INDEX TO FINANCIAL STATEMENTS

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### HUNTINGTON INGALLS INDUSTRIES, INC.

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F-1
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, 2010 and 2009, and the related consolidated statements of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Northrop Grumman Shipbuilding and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the accompanying consolidated financial statements have been derived from the consolidated financial statements and accounting records of the Corporation. The consolidated financial statements also include expense allocations for certain corporate functions historically provided by the Corporation. These allocations may not be reflective of the actual expense which would have been incurred had the Company operated as a separate entity apart from the Corporation.

DELOITTE & TOUCHE LLP
Virginia Beach, Virginia
February 8, 2011
(February 21, 2011 as to Note 13)
### NORTHRUP GRUMMAN SHIPBUILDING

#### CONSOLIDATED STATEMENTS OF OPERATIONS

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales and Service Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product sales</td>
<td>$5,798</td>
<td>$5,046</td>
<td>$5,207</td>
</tr>
<tr>
<td>Service revenues</td>
<td>925</td>
<td>1,246</td>
<td>982</td>
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<tr>
<td><strong>Total sales and service revenues</strong></td>
<td>6,723</td>
<td>6,292</td>
<td>6,189</td>
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<tr>
<td><strong>Cost of Sales and Service Revenues</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Cost of product sales</td>
<td>5,042</td>
<td>4,415</td>
<td>4,672</td>
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<tr>
<td>Cost of service revenues</td>
<td>770</td>
<td>1,027</td>
<td>817</td>
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<tr>
<td>Corporate home office and other general and administrative costs</td>
<td>663</td>
<td>639</td>
<td>564</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td></td>
<td></td>
<td>2,490</td>
</tr>
<tr>
<td><strong>Operating income (loss)</strong></td>
<td>248</td>
<td>211</td>
<td>(2,354)</td>
</tr>
<tr>
<td><strong>Interest expense</strong></td>
<td>(40)</td>
<td>(36)</td>
<td>(40)</td>
</tr>
<tr>
<td><strong>Other, net</strong></td>
<td>(2)</td>
<td>1</td>
<td>—</td>
</tr>
<tr>
<td><strong>Earnings (loss) before income taxes</strong></td>
<td>206</td>
<td>176</td>
<td>(2,394)</td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>71</td>
<td>52</td>
<td>26</td>
</tr>
<tr>
<td><strong>Net earnings (loss)</strong></td>
<td>$135</td>
<td>$124</td>
<td>$(2,420)</td>
</tr>
<tr>
<td><strong>Net earnings (loss) from above</strong></td>
<td>$135</td>
<td>$124</td>
<td>$(2,420)</td>
</tr>
<tr>
<td><strong>Other comprehensive income (loss)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in unamortized benefit plan costs</td>
<td>11</td>
<td>142</td>
<td>(677)</td>
</tr>
<tr>
<td>Tax (expense) benefit on change in unamortized benefit plan costs</td>
<td>5</td>
<td>(56)</td>
<td>264</td>
</tr>
<tr>
<td><strong>Other comprehensive income (loss), net of tax</strong></td>
<td>16</td>
<td>86</td>
<td>(413)</td>
</tr>
<tr>
<td><strong>Comprehensive income (loss)</strong></td>
<td>$151</td>
<td>$210</td>
<td>$(2,833)</td>
</tr>
</tbody>
</table>

*The accompanying notes are an integral part of these consolidated financial statements.*
## NORTHROP GRUMMAN SHIPBUILDING

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
<th>December 31</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2010</td>
<td>2009</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>$728</td>
<td>$728</td>
<td>$537</td>
</tr>
<tr>
<td>Inventoried costs, net</td>
<td>293</td>
<td>293</td>
<td>298</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>284</td>
<td>284</td>
<td>326</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>8</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>1,313</strong></td>
<td><strong>1,313</strong></td>
<td><strong>1,171</strong></td>
</tr>
<tr>
<td><strong>Property, Plant, and Equipment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and land improvements</td>
<td>303</td>
<td>303</td>
<td>287</td>
</tr>
<tr>
<td>Buildings and leasehold improvements</td>
<td>1,357</td>
<td>1,357</td>
<td>1,296</td>
</tr>
<tr>
<td>Machinery and other equipment</td>
<td>1,162</td>
<td>1,162</td>
<td>1,104</td>
</tr>
<tr>
<td>Capitalized software costs</td>
<td>185</td>
<td>185</td>
<td>160</td>
</tr>
<tr>
<td><strong>Property, plant, and equipment, net</strong></td>
<td><strong>3,007</strong></td>
<td><strong>3,007</strong></td>
<td><strong>2,847</strong></td>
</tr>
<tr>
<td>Accumulated depreciation and amortization</td>
<td>(1,010)</td>
<td>(1,010)</td>
<td>(870)</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>1,134</td>
<td>1,134</td>
</tr>
<tr>
<td>Other purchased intangibles, net of accumulated amortization of $352 in 2010 and $329 in 2009</td>
<td>587</td>
<td>587</td>
<td>610</td>
</tr>
<tr>
<td>Pension plan asset</td>
<td>131</td>
<td>131</td>
<td>116</td>
</tr>
<tr>
<td>Miscellaneous other assets</td>
<td>41</td>
<td>41</td>
<td>28</td>
</tr>
<tr>
<td><strong>Total other assets</strong></td>
<td><strong>1,893</strong></td>
<td><strong>1,893</strong></td>
<td><strong>1,888</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>5,203</strong></td>
<td><strong>5,203</strong></td>
<td><strong>5,036</strong></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><strong>$715</strong></td>
<td><strong>$537</strong></td>
</tr>
<tr>
<td>Trade accounts payable</td>
<td></td>
<td><strong>$274</strong></td>
<td><strong>$314</strong></td>
</tr>
<tr>
<td>Current portion of workers’ compensation liabilities</td>
<td>197</td>
<td>197</td>
<td>255</td>
</tr>
<tr>
<td>Accrued interest on notes payable to parent</td>
<td></td>
<td>239</td>
<td>212</td>
</tr>
<tr>
<td>Current portion of post-retirement plan liabilities</td>
<td>146</td>
<td>146</td>
<td>175</td>
</tr>
<tr>
<td>Accrued employees’ compensation</td>
<td>203</td>
<td>203</td>
<td>173</td>
</tr>
<tr>
<td>Advance payments and billings in excess of costs incurred</td>
<td>107</td>
<td>107</td>
<td>81</td>
</tr>
<tr>
<td>Provision for contract losses</td>
<td>80</td>
<td>80</td>
<td>53</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>265</td>
<td>265</td>
<td>154</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>1,272</strong></td>
<td><strong>2,226</strong></td>
<td><strong>1,954</strong></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>105</td>
<td>105</td>
<td>283</td>
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<tr>
<td>Contribution payable to parent</td>
<td></td>
<td></td>
<td>1,429</td>
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<tr>
<td>Other post-retirement plan liabilities</td>
<td>567</td>
<td>567</td>
<td>502</td>
</tr>
<tr>
<td>Pension plan liabilities</td>
<td>381</td>
<td>381</td>
<td>379</td>
</tr>
<tr>
<td>Workers’ compensation liabilities</td>
<td>351</td>
<td>351</td>
<td>265</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>99</td>
<td>99</td>
<td>156</td>
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<tr>
<td>Other long-term liabilities</td>
<td>56</td>
<td>56</td>
<td>60</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>4,260</strong></td>
<td><strong>3,785</strong></td>
<td><strong>3,599</strong></td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common Stock, $.01 par value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>1,458</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parent’s equity in unit</td>
<td></td>
<td><strong>1,933</strong></td>
<td><strong>1,968</strong></td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(515)</td>
<td>(515)</td>
<td>(531)</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td><strong>943</strong></td>
<td><strong>1,418</strong></td>
<td><strong>1,437</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td><strong>$5,203</strong></td>
<td><strong>$5,203</strong></td>
<td><strong>$5,036</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
### NORTHROP GRUMMAN SHIPBUILDING

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Earnings (Loss)</td>
<td>$135</td>
<td>$124</td>
<td>$(2,420)</td>
</tr>
<tr>
<td>Adjustments to reconcile to net cash provided by (used in) operating activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>160</td>
<td>156</td>
<td>137</td>
</tr>
<tr>
<td>Amortization of purchased intangibles</td>
<td>23</td>
<td>30</td>
<td>56</td>
</tr>
<tr>
<td>Impairment of goodwill</td>
<td></td>
<td></td>
<td>2,490</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(19)</td>
<td>(98)</td>
<td>10</td>
</tr>
<tr>
<td>Decrease (increase) in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(190)</td>
<td>(56)</td>
<td>(103)</td>
</tr>
<tr>
<td>Inventoried costs</td>
<td>5</td>
<td>(101)</td>
<td>52</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>2</td>
<td>(1)</td>
<td>2</td>
</tr>
<tr>
<td>Increase (decrease) in</td>
<td></td>
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<tr>
<td>Accounts payable and accruals</td>
<td>205</td>
<td>(111)</td>
<td>145</td>
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<tr>
<td>Retiree benefits</td>
<td>33</td>
<td>(28)</td>
<td>(28)</td>
</tr>
<tr>
<td>Other non-cash transactions, net</td>
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<td>(3)</td>
<td>(2)</td>
</tr>
<tr>
<td>Net cash provided by (used in) operations</td>
<td>359</td>
<td>(88)</td>
<td>339</td>
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<td><strong>Investing Activities</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Additions to property, plant, and equipment</td>
<td>(191)</td>
<td>(181)</td>
<td>(218)</td>
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<tr>
<td>Decrease in restricted cash</td>
<td></td>
<td></td>
<td>61</td>
</tr>
<tr>
<td>Other investing activities, net</td>
<td>2</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(189)</td>
<td>(178)</td>
<td>(152)</td>
</tr>
<tr>
<td><strong>Financing Activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of long-term debt</td>
<td>(178)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from issuance of note payable to parent</td>
<td></td>
<td>178</td>
<td></td>
</tr>
<tr>
<td>Net transfers from (to) parent</td>
<td>(170)</td>
<td>266</td>
<td>(187)</td>
</tr>
<tr>
<td>Net cash (used in) provided by financing activities</td>
<td>(170)</td>
<td>266</td>
<td>(187)</td>
</tr>
<tr>
<td>Increase (decrease) in cash and cash equivalents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
</tr>
</tbody>
</table>

**Supplemental Cash Flow Disclosure**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash paid for interest</td>
<td>$16</td>
<td>$16</td>
<td>$16</td>
</tr>
</tbody>
</table>

**Non-Cash Investing and Financing Activities**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditures accrued in accounts payable</td>
<td>$44</td>
<td>$47</td>
<td>$42</td>
</tr>
</tbody>
</table>

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

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## NORTHROP GRUMMAN SHIPBUILDING

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Parent’s Equity in Unit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At beginning of year</td>
<td>$1,968</td>
<td>$1,578</td>
<td>$4,185</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>135</td>
<td>124</td>
<td>(2,420)</td>
</tr>
<tr>
<td>Net transfers from (to) parent</td>
<td>(170)</td>
<td>266</td>
<td>(187)</td>
</tr>
<tr>
<td>At end of year</td>
<td>1,933</td>
<td>1,968</td>
<td>1,578</td>
</tr>
<tr>
<td><strong>Accumulated Other Comprehensive Loss</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At beginning of year</td>
<td>(531)</td>
<td>(617)</td>
<td>(204)</td>
</tr>
<tr>
<td>Other comprehensive income (loss), net of tax</td>
<td>16</td>
<td>86</td>
<td>(413)</td>
</tr>
<tr>
<td>At end of year</td>
<td>(515)</td>
<td>(531)</td>
<td>(617)</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>$1,418</td>
<td>$1,437</td>
<td>$961</td>
</tr>
</tbody>
</table>

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

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NORTHROP GRUMMAN SHIPBUILDING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Northrop Grumman Shipbuilding and its subsidiaries (NGSB or the company) is a wholly owned subsidiary of Northrop Grumman Corporation (Northrop Grumman). The company currently operates three major shipyards located in Newport News, Virginia, Pascagoula, Mississippi and Avondale, Louisiana but plans to wind down its shipbuilding operations at the Avondale, Louisiana facility in 2013 (see Note 4).

The company’s business is organized into two operating segments, Gulf Coast and Newport News. Through its Gulf Coast shipyards, the company currently is the sole supplier and builder of amphibious assault and expeditionary ships to the U.S. Navy, currently the sole builder of National Security Cutters for the U.S. Coast Guard, one of only two companies that currently builds the U.S. Navy’s current fleet of DDG-51 Arleigh Burke-class destroyers, and one of the nation’s leading service providers of life cycle support of major surface ship programs for the U.S. Navy and U.S. Coast Guard. Through its Newport News shipyard, the company is the nation’s sole industrial designer, builder, and refueler of nuclear-powered aircraft carriers, and one of only two companies currently capable of designing and building nuclear-powered submarines for the U.S. Navy. As prime contractor, principal subcontractor, or partner, NGSB participates in many high-priority defense technology programs in the U.S. The company conducts most of its business with the U.S. Government, principally the Department of Defense (DoD).

Strategic Actions — Northrop Grumman announced in July 2010 that it will evaluate whether a separation of NGSB would be in the best interests of Northrop Grumman shareholders, customers, and employees. Strategic alternatives for NGSB include, but are not limited to, a spin-off to Northrop Grumman shareholders. Northrop Grumman believes that separating NGSB from Northrop Grumman will benefit both Northrop Grumman and the shipbuilding business by better aligning management’s attention and investment resources to pursue opportunities in their respective markets and more actively manage their cost structures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The consolidated financial statements of NGSB have been derived from the consolidated financial statements and accounting records of Northrop Grumman and were prepared in conformity with accounting principles generally accepted in the United States (GAAP).

The consolidated statements of operations include expense allocations for certain corporate functions historically provided to NGSB by Northrop Grumman, including, but not limited to, human resources, employee benefits administration, treasury, risk management, audit, finance, tax, legal, information technology support, procurement, and other shared services. These allocations are reflected in the consolidated statements of operations within the expense categories to which they relate. The allocations were made on a direct usage basis when identifiable, with the remainder allocated on various bases that are further discussed in Note 19. Management of NGSB and Northrop Grumman consider these allocations to be a reasonable reflection of the utilization of services by, or benefits provided to, NGSB. Management believes that the allocations are substantially consistent with NGSB’s estimates of the costs it would incur as a stand-alone company. However, these estimates are based on management’s judgment regarding its future stand-alone company costs and not the actual costs incurred.

Transactions between NGSB and Northrop Grumman are reflected as effectively settled for cash at the time of the transaction and are included in financing activities in the consolidated statements of cash flows. The net effect of these transactions is reflected in the parent’s equity in unit in the consolidated statements of financial position.

The consolidated financial statements also include certain Northrop Grumman assets and liabilities that are specifically identifiable or otherwise allocable to the company. The NGSB consolidated financial statements may not be indicative of NGSB’s future performance and do not necessarily reflect what the results of operations, financial position and cash flows would have been had NGSB operated as a stand-alone company during the periods presented.

Unaudited Pro Forma Statement of Financial Position — The unaudited pro forma statement of financial position presents NGSB’s pro forma capitalization at December 31, 2010. The statement reflects the impacts of the transactions to be completed in conjunction with the spin-off of Huntington Ingalls Industries, Inc. (“HII”), which will become the parent of NGSB, including: (i) the distribution of HII common stock by Northrop Grumman to its shareholders; and (ii) the accrual of the contribution of $1,429 million by HII to Northrop Grumman Systems Corporation, a subsidiary of Northrop Grumman (the “Contribution”). The Contribution is presented as a long-term obligation because it will be paid using the proceeds from the incurrence of $1,775 million of debt prior to the completion of the spin-off by HII (the “HII Debt”). HII will record the net proceeds of the HII Debt after funding the Contribution as cash and cash equivalents on its Consolidated Statement of Financial Position.
The distribution of HII common stock to Northrop Grumman’s stockholders includes adjustments for the recapitalization transactions. In connection with this recapitalization, the amount of Northrop Grumman’s net investment in HII, including intercompany debt and accrued interest thereon which was recorded as notes payable to parent in the consolidated statement of financial position, net of the contribution, will be contributed to additional paid-in capital. Northrop Grumman stockholders will receive one share of HII common stock for every six shares of Northrop Grumman stock owned. The unaudited pro forma statement of financial position reflects a distribution of 48,492,792 shares of HII common stock based on the 290,956,752 shares of Northrop Grumman stock outstanding as of December 31, 2010.

The unaudited pro forma statement of financial position was prepared as if the transactions and events described above had occurred on December 31, 2010.

Parent’s Equity in Unit — Parent’s Equity in Unit in the consolidated statements of financial position represents Northrop Grumman’s historical investment in NGSB, the net effect of cost allocations from and transactions with Northrop Grumman, net cash activity, and NGSB’s accumulated earnings. See Basis of Presentation in Note 2 and Note 19.

Financial Statement Reclassification — Certain amounts in the prior year financial statements and related notes have been reclassified to conform to the current presentation as described in Note 10. In addition, the company reclassified $22 million of accrued liabilities from non-current to current liabilities in the 2009 consolidated statements of financial position to conform to the current presentation.

Principles of Consolidation — The consolidated financial statements presented herein represent the stand-alone results of operations, financial position and cash flows of NGSB and its subsidiaries. All intercompany transactions and accounts of NGSB have been eliminated.

Accounting Estimates — The preparation of the financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information; actual results could differ materially from those estimates.

Revenue Recognition — As a defense contractor engaging in long-term contracts (both as prime contractor and subcontractor), the majority of the company’s business is derived from long-term contracts for the construction of naval vessels, production of goods, and services provided to the federal government, principally the U.S. Navy. In accounting for these contracts, the company extensively utilizes the cost-to-cost measures of the percentage-of-completion method of accounting, principally based upon direct labor dollars or total costs incurred. Under this method, sales, including estimated earned fees or profits, are recorded as costs are incurred. Contract sales are calculated either based on the percentage that direct labor costs incurred bear to total estimated direct labor costs or based on the percentage that total costs incurred bear to total estimated costs at completion. Certain contracts contain provisions for price redetermination or for cost and/or performance incentives. Such redetermined amounts or incentives are included in sales when the amounts can reasonably be determined and estimated. Amounts representing contract change orders, claims, requests for equitable adjustment, or limitations in funding are included in sales only when they can be reliably estimated and realization is probable. The company estimates profit as the difference between total estimated revenue and total estimated cost of a contract and recognizes that profit over the life of the contract based on progress towards completion. The company classifies contract revenues as product sales or service revenues depending upon the predominant attributes of the relevant underlying contracts. In the period in which it is determined that a loss will result from the performance of a contract, the entire amount of the estimated ultimate loss is charged against income. Loss provisions are first offset against costs that are included in unbilled accounts receivable or inventoried costs, with any remaining amount reflected in other current liabilities. Changes in estimates of contract sales, costs, and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Hence, the effect of the changes on future periods of contract performance is recognized as if the revised estimate had been the original estimate. A significant change in an estimate on one or more contracts could have a material effect on the company’s consolidated financial position or results of operations, and where such changes occur, separate disclosure is made of the nature, underlying conditions, and the amount of the financial impact from the change in estimate (see Notes 4 and 6).

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

General and administrative expenses also include certain Northrop Grumman corporate and other costs, primarily consisting of the net pension and post-retirement benefits adjustment, the provision for deferred state income taxes and certain other expenses that are generally not currently allowable under the Federal Acquisition Regulations (FAR). The net pension and post-retirement benefits adjustment reflects the difference between pension and post-retirement benefits expenses determined in accordance with GAAP and
The company provides certain product warranties that require repair or replacement of non-conforming items for a specified period of time often subject to a specified monetary coverage limit. The company’s product warranties are provided under government contracts, the costs of which are immaterial and are accounted for using the percentage-of-completion method of accounting.

**Environmental Costs** — Environmental liabilities are accrued when the company determines it is responsible for remediation costs and such amounts are reasonably estimable. When only a range of amounts is established and no amount within the range is more probable than another, the minimum amount in the range is recorded. Environmental liabilities are recorded on an undiscounted basis. Environmental expenditures are expensed or capitalized as appropriate. Capitalized expenditures, if any, relate to long-lived improvements in currently operating facilities. The company does not record insurance recoveries before collection is probable. At December 31, 2010, and 2009, the company did not have any accrued receivables related to insurance reimbursements or recoveries for environmental matters.

**Fair Value of Financial Instruments** — The valuation techniques utilized to determine the fair value of financial instruments are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. These two types of inputs create the following fair value hierarchy:

- **Level 1** — Quoted prices for identical instruments in active markets.
- **Level 2** — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- **Level 3** — Significant inputs to the valuation model are unobservable.

Except for long-term debt, the carrying amounts of the company’s other financial instruments are measured at fair value or approximate fair value due to the short-term nature of these other items.

**Asset Retirement Obligations** — The company records all known asset retirement obligations for which the liability’s fair value can be reasonably estimated, including certain asbestos removal, asset decommissioning and contractual lease restoration obligations. Recorded amounts as of December 31, 2010 are $20 million and consist primarily of obligations associated with the wind down of the company’s shipbuilding operations at the Avondale facility (see Note 4). Amounts as of December 31, 2009 were not material.

The company also has known conditional asset retirement obligations related to assets currently in use, such as certain asbestos remediation and asset decommissioning activities to be performed in the future, that are not reasonably estimable as of December 31, 2010 and 2009 due to insufficient information about the timing and method of settlement of the obligation. Accordingly, the fair value of these obligations has not been recorded in the consolidated financial statements. Environmental remediation and/or asset decommissioning of these facilities may be required when the company ceases to utilize these facilities but no such plans are currently contemplated as of December 31, 2010. In addition, there may be conditional environmental asset retirement obligations that the company has not yet discovered (e.g. asbestos may exist in certain buildings which the company has not become aware of through its normal business operations), and therefore, these obligations also have not been included in the consolidated financial statements.

**Income Taxes** — The results of the company’s operations are included in the federal income and state income and franchise tax returns of Northrop Grumman. Income tax expense and other income tax-related information contained in these financial statements are presented as if the company filed its own tax returns on a stand-alone basis and are based on the prevailing statutory rates for U.S. federal income taxes and the composite state income tax rate for the company for each period presented. State and local income and franchise tax provisions are allocable to contracts in process and, accordingly, are included in cost of product sales, cost of service revenues and corporate home office and other general and administrative expenses.

The company makes a comprehensive review of its portfolio of uncertain tax positions regularly. In this regard, an uncertain tax
position represents the company’s expected treatment of a tax position taken in Northrop Grumman’s consolidated tax return, or planned to be taken in a future tax return or claim that has not been reflected in measuring income tax expense for financial reporting purposes. Until these positions are sustained or otherwise resolved by the taxing authorities, the company does not recognize the tax benefits resulting from such positions, if any, and reports the tax effects as a liability for uncertain tax positions in its consolidated statements of financial position.

Determinations of the expected realizability of deferred tax assets and the need for any valuation allowances against these deferred tax assets were evaluated based upon the stand-alone tax attributes of the company, and no valuation allowances were deemed necessary as of December 31, 2010, and 2009.

Current federal income tax liabilities are assumed to be immediately settled by Northrop Grumman and are relieved through the parent’s equity in unit account. Federal income taxes have been recorded within income tax expense. The company recognizes interest accrued related to unrecognized tax benefits in income tax expense. Penalties, if probable and reasonably estimable, are also recognized as a component of income tax expense.

Cash and Cash Equivalents — Northrop Grumman utilizes a centralized cash management system. Cash and cash equivalents balances are held at the Northrop Grumman level and have not been allocated to NGSB. Historically, cash received by the company has been transferred to Northrop Grumman, and Northrop Grumman has funded the company’s disbursement accounts on an as-needed basis. The net effect of transfers of cash to and from the Northrop Grumman cash management accounts is reflected in the parent’s equity in unit account in the consolidated statements of financial position.

Accounts Receivable — Accounts receivable include amounts billed and currently due from customers, amounts currently due but unbilled, certain estimated contract change amounts, claims or requests for equitable adjustment in negotiation that are probable of recovery, and amounts retained by the customer pending contract completion.

Inventoried Costs — Inventoried costs primarily relate to work in process under contracts that recognize revenue using labor dollars as the basis of the percentage-of-completion calculation. These costs represent accumulated contract costs less cost of sales, as calculated using the percentage-of-completion method. Accumulated contract costs include direct production costs, factory and engineering overhead, production tooling costs, and, for government contracts, allowable general and administrative expenses. According to the provisions of U.S. Government contracts, the customer asserts title to, or a security interest in, inventories related to such contracts as a result of contract advances, performance-based payments, and progress payments. In accordance with industry practice, inventoried costs are classified as a current asset and include amounts related to contracts having production cycles longer than one year. Inventoried costs also include company owned raw materials, which are stated at the lower of cost or market, generally using the average cost method.

Depreciable Properties — Property, plant, and equipment owned by the company are recorded at cost and depreciated over the estimated useful lives of individual assets. Costs incurred for computer software developed or obtained for internal use are capitalized and amortized over the expected useful life of the software, not to exceed nine years. Leasehold improvements are amortized over the shorter of their useful lives or the term of the lease.

The remaining assets are depreciated using the straight-line method, with the following lives:

<table>
<thead>
<tr>
<th>Depreciable Property</th>
<th>Useful Life</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
NORTHROP GRUMMAN SHIPBUILDING

The company uses the date of initial possession as the commencement date, which is generally, when the company is given the right of access to the space and begins to make improvements in preparation for intended use.

Goodwill and Other Purchased Intangible Assets — The company performs impairment tests for goodwill as of November 30th of each year, or when evidence of potential impairment exists. When it is determined that impairment has occurred, a charge to operations is recorded. Purchased intangible assets are amortized on a straight-line basis over their estimated useful lives and the carrying value of these assets is reviewed for impairment when events indicate that a potential impairment may have occurred (see Notes 4 and 9).

Self-Insured Group Medical Insurance — The company participates in a Northrop Grumman-sponsored self-insured group medical insurance plan and these financial statements include an allocation of the expenses and accruals attributable to NGSB employees participating in the plan. The plan is designed to provide a specified level of coverage for employees and their dependents. Northrop Grumman estimates expenses and the required liability of such claims utilizing actuarial methods based on various assumptions, which include, but are not limited to, 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 3.31% and 3.47% at December 31, 2010, and 2009, respectively, which discount rates were determined using a risk-free rate based on future payment streams. Workers’ compensation benefit obligations on an undiscounted basis were $726 million and $686 million as of December 31, 2010 and 2009, respectively.

Litigation, Commitments, and Contingencies — Amounts associated with litigation, commitments, and contingencies are recorded as charges to earnings when management, after taking into consideration the facts and circumstances of each matter, including any settlement offers, has determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

Retirement Benefits — A substantial portion of the company’s employees are covered by Northrop Grumman-sponsored defined benefit pension plans under which they are eligible for benefits generally at age 65 or on a reduced basis for qualifying early retirement. Certain employees are also covered by Northrop Grumman-sponsored post-retirement health care plans. For the Northrop Grumman sponsored pension and post-retirement plans 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, 2010 and 2009 for such plans where allocations were required were calculated based on the present values of the accrued benefit determined under Employee Retirement Income Security Act (ERISA) and Internal Revenue Service (IRS) regulations. The CAS costs have been separately calculated for NGSB in accordance with the relevant standards. For funded plans, Northrop Grumman’s funding policy is to contribute, at a minimum, the statutorily required amount to an irrevocable trust. For unfunded plans, Northrop Grumman makes contributions equal to the amount of benefit payments made to plan participants. Northrop Grumman also sponsors 401(k) defined contribution plans in which most of the company’s employees are eligible to participate. Northrop Grumman contributions for most plans are based on a cash matching of company employee contributions up to 4 percent of compensation. In addition to the Northrop Grumman-sponsored 401(k) defined contribution plan, company employees hired after June 30, 2008 are eligible to participate in a Northrop Grumman-sponsored defined contribution pension plan in lieu of a defined benefit pension plan.

Stock Compensation — Certain key employees of the company participate in stock-based compensation plans of Northrop Grumman. All of Northrop Grumman’s stock-based compensation plans are considered equity plans and compensation expense recognized is net of estimated forfeitures over the vesting period. Northrop Grumman issues stock options and stock awards, in the form of restricted performance stock rights and restricted stock rights, under its existing plans. The fair value of stock option grants is estimated on the date of grant using a Black-Scholes option-pricing model and expensed on a straight-line basis over the vesting period of the options, which is generally three to four years. The fair value of stock awards is determined based on the closing market price of Northrop Grumman’s common stock on the grant date and at each reporting date, the amount of shares is adjusted to equal the amount ultimately expected to vest. Compensation expense for stock awards is allocated to NGSB by Northrop Grumman and expensed over the vesting period, usually three to five years.

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Accumulated Other Comprehensive Loss — The accumulated other comprehensive loss as of December 31, 2010 and 2009, was comprised of unamortized benefit plan costs of $515 million (net of tax benefit of $343 million) and $531 million (net of tax benefit of $338 million), respectively.

3. ACCOUNTING STANDARDS UPDATES

Accounting Standards Updates not effective until after December 31, 2010 are not expected to have a significant effect on the company’s consolidated financial position, results of operations or cash flows.

4. CONSOLIDATION OF GULF COAST OPERATIONS

In July 2010, Northrop Grumman announced plans to consolidate NGSB’s Gulf Coast operations by winding down its shipbuilding operations at the Avondale, Louisiana facility in 2013 after completing LPD-class ships currently under construction there. Future LPD-class ships will be built in a single production line at the company’s Pascagoula, Mississippi facility. The consolidation is intended to reduce costs, increase efficiency, and address shipbuilding overcapacity. Due to the consolidation, NGSB expects higher costs to complete ships currently under construction in Avondale due to anticipated reductions in productivity and increased the estimates to complete LPDs 23 and 25 by approximately $210 million. The company recognized a $113 million charge to operating income for the cumulative effect of these incremental costs on the LPD 23 and 25 contracts in the second quarter of 2010.

In connection with and as a result of the decision to wind down its shipbuilding operations at the Avondale, Louisiana facility, the company determined it would not meet certain requirements under its co-operative agreement with the State of Louisiana. Accordingly, the company recorded liabilities of $51 million in June 2010 to recognize this obligation as well as certain asset retirement obligations, which were necessitated as a result of the Avondale facility decision. In addition to the cost of the assets to be acquired from the State of Louisiana upon payment of the obligation to the state, the company anticipates that it will incur substantial other restructuring and facilities shut-down related costs, including but not limited to, severance, relocation expense, and asset write-downs related to the Avondale facilities. These costs are expected to be allowable expenses under government accounting standards and thus will be recoverable in future years’ overhead costs. These future costs could approximate $310 million and such costs should be allocable to existing flexibly priced contracts or future negotiated contracts at the Gulf Coast operations in accordance with FAR provisions relating to the treatment of restructuring and shutdown related costs.

In its initial audit report on the company’s cost proposal for the restructuring and shutdown related costs, the Defense Contract Audit Agency (DCAA) stated that, in general, the proposal was not adequately supported in order for it to reach a conclusion. The DCAA also questioned about $25 million (approximately 8%) of the costs submitted. The DCAA stated that it could not reach a final conclusion on the cost submission due to the potential spin transaction relating to the Shipbuilding business. Accordingly, the DCAA did not accept the cost proposal as submitted, and the company intends to resubmit its proposal to address the concerns expressed by the DCAA. Ultimately, the company anticipates that this process will result in an agreement with the U.S. Navy that is substantially in accord with management’s cost allowability expectations. Accordingly, the company has treated these costs as allowable costs in determining the cost and earnings performance on its contracts in process. If there is a formal challenge to the company’s treatment of its restructuring costs, there are prescribed dispute resolution alternatives to resolve such a challenge and the company would likely pursue a dispute resolution process.

As a result of the announcement to wind down its shipbuilding operations at the Avondale, Louisiana facility and the Gulf Coast segment’s 2010 operating losses, the company performed an impairment test for the Gulf Coast segment’s other long-lived assets and each reportable segment’s goodwill as of June 30, 2010. The company’s testing approach for goodwill impairment utilizes a discounted cash flow analysis corroborated by comparative market multiples to determine the fair value of its businesses for comparison to their corresponding book values. NGSB determined that no impairment existed as of June 30, 2010. See Note 9 for the results of the annual impairment test.

Northrop Grumman’s decision to wind down its shipbuilding operations at the Avondale, Louisiana facility also led to a curtailment adjustment reducing the pension benefit obligation on the benefit plans in which NGSB employees participate by $14 million. The effect of this curtailment on the company’s consolidated results of operations or cash flows was not material.

NGSB is currently exploring alternative uses of the Avondale facility by potential new owners, including alternative opportunities for the workforce.

5. SEGMENT INFORMATION

At December 31, 2010, the company was aligned into two reportable segments: Gulf Coast and Newport News.

U.S. Government Sales — Revenue from the U.S. Government includes revenue from contracts for which NGSB is the prime contractor as well as those for which the company is a subcontractor and the ultimate customer is the U.S. Government. The company
NORTHROP GRUMMAN SHIPBUILDING

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></th>
<th>Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Sales and Service Revenues</td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>$3,027</td>
</tr>
<tr>
<td>Newport News</td>
<td>3,775</td>
</tr>
<tr>
<td>Intersegment eliminations</td>
<td>(79)</td>
</tr>
<tr>
<td>Total sales and service revenues</td>
<td>6,723</td>
</tr>
<tr>
<td>Operating Income (Loss)</td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>(61)</td>
</tr>
<tr>
<td>Newport News</td>
<td>355</td>
</tr>
<tr>
<td>Total Segment Operating Income (Loss)</td>
<td>294</td>
</tr>
<tr>
<td>Non-segment factors affecting operating income (loss)</td>
<td></td>
</tr>
<tr>
<td>Net pension and post-retirement benefits adjustment</td>
<td>(49)</td>
</tr>
<tr>
<td>Deferred State Income Taxes</td>
<td>3</td>
</tr>
<tr>
<td>Total operating income (loss)</td>
<td>$248</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></th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Assets</td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>$2,044</td>
</tr>
<tr>
<td>Newport News</td>
<td>2,744</td>
</tr>
<tr>
<td>Corporate</td>
<td>415</td>
</tr>
<tr>
<td>Total assets</td>
<td>$5,203</td>
</tr>
</tbody>
</table>

The Corporate assets included in the table above consist only of pension and other-post retirement plan assets and deferred tax assets.

<table>
<thead>
<tr>
<th></th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>$52</td>
</tr>
<tr>
<td>Newport News</td>
<td>139</td>
</tr>
<tr>
<td>Total capital expenditures</td>
<td>$191</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>$96</td>
</tr>
<tr>
<td>Newport News</td>
<td>87</td>
</tr>
<tr>
<td>Total depreciation and amortization</td>
<td>$183</td>
</tr>
</tbody>
</table>

6. CONTRACT CHARGES
Earnings Charge Relating to LHD 8 Contract Performance — LHD 8 is an amphibious assault ship that was delivered in the second quarter of 2009. LHD 8 features significant enhancements compared with earlier ships of the class, including a gas turbine engine propulsion system, a new electrical generation and distribution system, and a centralized machinery control system administered over a fiber optic network. LHD 8 was constructed under a fixed-price incentive contract. Lack of progress in LHD 8 on-board testing preparatory to sea trials prompted the company to undertake a comprehensive review of the program, including a detailed physical audit of the ship, resulting in a pre-tax charge of $272 million in the first quarter of 2008 for anticipated cost growth related to the identified need for substantial re-work on the ship. In addition to the LHD 8 charge, an additional $54 million of charges were recognized in the first quarter of 2008, primarily for schedule impacts on other ships and impairment of purchased intangibles at the Gulf Coast shipyards. Subsequent to recognizing the LHD 8 charge, the company delivered the ship at costs that were lower than the amounts previously anticipated primarily due to efficiencies from improved operating practices, mitigation of performance risk and increased recovery of cost escalation adjustments. As a result, $63 million of the loss provision was reversed in 2008, and an additional $54 million was reversed in 2009 upon delivery of the ship. In 2010, NGSB determined that costs to complete post-delivery work on LHD 8 exceeded original estimates resulting in a charge of $30 million.

Earnings Charge Relating to LPD 22-25 Contract Performance — The LPD 22-25 contract is a four-ship fixed-price incentive contract for the construction of amphibious landing platform ships that are a follow-on of the LPD 17 Class program with five ships previously built and delivered. The program’s construction has been adversely impacted by operating performance factors, resulting in unfavorable cost growth that led to pre-tax charges totaling $171 million in 2009. In 2010, the company recorded net performance adjustments of $132 million primarily for additional cost growth on the LPD 22-25 contract, including the effect of a $113 million charge for the cumulative effect of the $210 million of incremental costs expected due to the company’s decision to wind down its shipbuilding operations at the Avondale facility in 2013. Note 4 provides additional information related to the consolidation of Gulf Coast operations.

7. ACCOUNTS RECEIVABLE, NET

Unbilled amounts represent sales for which billings have not been presented to customers at year-end. These amounts are usually billed and collected within one year. Accounts receivable at December 31, 2010, are expected to be collected in 2011, except for approximately $72 million due in 2012 and $6 million due in 2013 and later.

Because the company’s accounts receivable are primarily with the U.S. Government, the company does not have material exposure to credit risk.

Accounts receivable were composed of the following:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due From U.S. Government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts billed</td>
<td>194</td>
<td>240</td>
</tr>
<tr>
<td>Recoverable costs and accrued profit on progress completed — unbilled</td>
<td>524</td>
<td>288</td>
</tr>
<tr>
<td></td>
<td>718</td>
<td>528</td>
</tr>
<tr>
<td>Due From Other Customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts billed</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>Recoverable costs and accrued profit on progress completed — unbilled</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Total accounts receivable</td>
<td>731</td>
<td>540</td>
</tr>
<tr>
<td>Allowances for doubtful accounts</td>
<td>(3)</td>
<td>(3)</td>
</tr>
<tr>
<td>Total accounts receivable, net</td>
<td>$728</td>
<td>$537</td>
</tr>
</tbody>
</table>

8. INVENTORIED COSTS, NET

Inventoried costs were composed of the following:

F-14
9. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

Goodwill

NGSB performs its annual impairment test for goodwill as of November 30th each year, or more often as circumstances require. The company’s testing approach utilizes a discounted cash flow analysis corroborated by comparative market multiples to determine the fair value of its businesses for comparison to their corresponding book values. If the book value exceeds the estimated fair value of the business, a potential impairment is indicated and GAAP prescribes the approach for determining the impairment amount, if any. The company performed its annual impairment test as of November 30, 2010, with no indication of impairment.

In the fourth quarter of 2008, the company recorded a non-cash charge totaling $2,490 million for the impairment of goodwill. The impairment was primarily driven by adverse equity market conditions that caused a decrease in current market multiples and Northrop Grumman’s stock price as of November 30, 2008. The charge reduced goodwill recorded in connection with Northrop Grumman’s 2001 acquisition of Newport News Shipbuilding and the shipbuilding operations of Litton Industries. The company’s accumulated goodwill impairment losses at December 31, 2010, and 2009, amounted to $2,490 million. The accumulated goodwill impairment losses at December 31, 2010 and 2009 for Gulf Coast and Newport News were $1,278 million and $1,212 million, respectively. The goodwill has no tax basis, and accordingly, there was no tax benefit to be derived from recording the impairment charge.

The carrying amount of goodwill as of December 31, 2010, was $1,134 million there were no changes to goodwill during 2009 and 2010. The carrying amounts of goodwill as of December 31, 2010 and 2009 for Gulf Coast and Newport News were $488 million and $646 million, respectively.

Prior to recording the goodwill impairment charge, NGSB tested its purchased intangible assets and other long-lived assets for impairment, and the carrying values of these assets were determined not to be impaired.

Purchased Intangible Assets

The table below summarizes the company’s aggregate purchased intangible assets, all of which are contract or program related intangible assets:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross carrying amount</td>
<td>$ 939</td>
<td>$ 939</td>
</tr>
<tr>
<td>Accumulated amortization</td>
<td>(352)</td>
<td>(329)</td>
</tr>
<tr>
<td>Net carrying amount</td>
<td>$ 587</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 programs. Aggregate amortization expense for 2010, 2009, and 2008, was $23 million, $30 million, and $56 million, respectively. The 2008 amount includes $19 million of additional amortization recorded in the first quarter of 2008 associated with the events impacting LHD 8 and other Gulf Coast shipbuilding programs as described in Note 6.

Expected amortization for purchased intangibles as of December 31, 2010, is $20 million for each of the next five years.

10. INCOME TAXES

The company’s earnings are entirely domestic and its effective tax rate for the year ended December 31, 2010, was 34.5 percent as
compared with 29.5 percent and 27.1 percent (excluding the non-cash, non-deductible goodwill impairment charge of $2.5 billion) in 2009 and 2008, respectively. In 2010, the company’s effective tax rate reflects the unfavorable impact of the elimination of certain Medicare Part D tax benefits with the passage of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, a decrease in the manufacturer’s deduction and the expiration of wage credit benefits, partially offset by the favorable impact of the settlement of the IRS’ examination of Northrop Grumman’s tax returns for the years 2004-2006. The company’s effective tax rates also reflect tax credits and manufacturing deductions for all periods presented. As described in Note 2, current federal income tax liabilities are assumed to be immediately settled by Northrop Grumman and are relieved through the parent’s equity in unit account. For current state income tax purposes, the standalone tax amounts have been computed as if they were allowable costs under the terms of the company’s existing contracts in the applicable period, and, accordingly, are included in cost of product sales, cost of service revenues and corporate home office and other general and administrative expenses.

Federal income tax expense for the years ended December 31, 2010, 2009, and 2008, consisted of the following:

### Federal Income Tax Expense

<table>
<thead>
<tr>
<th>Year ended December 31</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income Taxes on Operations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal income taxes currently payable</td>
<td>$89</td>
<td>$135</td>
<td>$22</td>
</tr>
<tr>
<td>Change in deferred federal income taxes</td>
<td>(18)</td>
<td>(83)</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total federal income taxes</strong></td>
<td>$71</td>
<td>$52</td>
<td>$26</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>Year ended December 31</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income tax expense (benefit) on operations at statutory rate</strong></td>
<td>$72</td>
<td>$61</td>
<td>$838</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>872</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing deduction</td>
<td>(1)</td>
<td>(6)</td>
<td>(2)</td>
</tr>
<tr>
<td>Research tax credit</td>
<td>(3)</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Medicare Part D law change</td>
<td>7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wage credit</td>
<td>(2)</td>
<td>(2)</td>
<td></td>
</tr>
<tr>
<td>IRS settlement</td>
<td></td>
<td>(8)</td>
<td></td>
</tr>
<tr>
<td>Other, net</td>
<td>4</td>
<td></td>
<td>(3)</td>
</tr>
<tr>
<td><strong>Total federal income taxes</strong></td>
<td>$71</td>
<td>$52</td>
<td>$26</td>
</tr>
</tbody>
</table>

Uncertain Tax Positions — During 2010, Northrop Grumman reached final approval from the IRS and the U. S. Congressional Joint Committee on Taxation of the IRS’ examination of Northrop Grumman’s tax returns for the years 2004-2006. As a result of this settlement, the company recognized tax benefits of $8 million as a reduction to the provision for income taxes. In connection with the settlement, the company also recorded a reduction of $10 million to its liability for uncertain tax positions, including previously accrued interest, of $2 million.

As of December 31, 2010, the estimated value of the company’s uncertain tax positions, which are more-likely-than-not to be sustained on examination, was a liability of $17 million, including accrued interest of $3 million. This liability is included in other long-term liabilities in the consolidated statements of financial position. Assuming sustainment of these positions, the reversal of the amounts accrued would reduce the company’s effective tax rate.

Unrecognized Tax Benefits — Unrecognized tax benefits represent the gross value of the company’s tax positions that have not been reflected in the consolidated statements of operations, and include the value of the company’s recorded uncertain tax positions. If the income tax benefits from federal tax positions are ultimately realized, such realization would affect the company’s effective tax rate whereas the realization of state tax benefits would be recorded in cost of product sales, cost of service revenues and corporate home office and other general and administrative expenses. The changes in unrecognized tax benefits (exclusive of interest) during 2010, 2009 and 2008 are summarized in the table below:
Although the company believes it has adequately provided for all tax positions, amounts asserted by taxing authorities could be greater than the company’s accrued position. Accordingly, additional provisions on federal and state tax related matters could be recorded in the future as revised estimates are made or the underlying matters are effectively settled or otherwise resolved.

Deferred Income Taxes — Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and income tax purposes. Such amounts are classified in the consolidated statements of financial position as current or noncurrent assets or liabilities based upon the classification of the related assets and liabilities.

The tax effects of significant temporary differences and carryforwards that gave rise to year-end deferred federal and state tax balances, as presented in the consolidated statements of financial position, are as follows:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>December 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net deferred tax assets</td>
<td>$185</td>
<td>$170</td>
</tr>
</tbody>
</table>

During 2010, the company performed a comprehensive review of the classification treatment of its deferred tax assets and liabilities and identified certain reclassifications that changed the 2009 presentation of deferred tax assets, primarily for retirement benefits and workers’ compensation liabilities. Such reclassifications also increased the net current deferred tax assets and net noncurrent deferred tax liabilities previously presented as of December 31, 2009 by $35 million.

Net deferred tax assets (liabilities) as presented in the consolidated statements of financial position are as follows:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>December 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net current deferred tax assets</td>
<td>$284</td>
<td>$326</td>
</tr>
<tr>
<td>Net non-current deferred tax liabilities</td>
<td>(99)</td>
<td>(156)</td>
</tr>
<tr>
<td>Total net deferred tax assets</td>
<td>$185</td>
<td>$170</td>
</tr>
</tbody>
</table>
11. LONG-TERM DEBT

Mississippi Economic Development Revenue Bonds — As of December 31, 2010, and 2009, the company had $83.7 million outstanding from the issuance of Industrial Revenue Bonds issued by the Mississippi Business Finance Corporation. These bonds accrue interest at a fixed rate of 7.81 percent per annum (payable semi-annually), and mature in 2024. Repayment of principal and interest is guaranteed by Northrop Grumman Systems Corporation (a wholly owned subsidiary of Northrop Grumman). In accordance with the terms of the bonds, the proceeds have been used to finance the construction, reconstruction, and renovation of the company’s interest in certain ship manufacturing and repair facilities, or portions thereof, located in the state of Mississippi.

Gulf Opportunity Zone Industrial Development Revenue Bonds — As of December 31, 2010, the company had $22 million outstanding from the issuance of Gulf Opportunity Zone Industrial Development Revenue Bonds (GO Zone IRBs) issued by the Mississippi Business Finance Corporation. The initial issuance of the GO Zone IRBs was for $200 million of principal value, and in November 2010, in connection with the anticipated spin-off, NGSB purchased $178 million of the bonds using the proceeds from a $178 million intercompany loan with Northrop Grumman (see Note 19). The remaining bonds accrue interest at a fixed rate of 4.55 percent per annum (payable semi-annually), and mature in 2028. Repayment of principal and interest is guaranteed by Northrop Grumman. In accordance with the terms of the bonds, the proceeds have been used to finance the construction, reconstruction, and renovation of the company’s interest in certain ship manufacturing and repair facilities, or portions thereof, located in the state of Mississippi.

Repayment of principal for the bonds listed in the table below is contractually obligated when the bonds mature in 2024 and 2028.

The carrying amounts and the related estimated fair values of the company’s long-term debt at December 31, 2010, and 2009, are shown below. The fair value of the long-term debt was calculated based on recent trades, if available, or interest rates prevailing on debt with terms and maturities similar to the company’s existing debt arrangements.

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying Amount</td>
<td>Fair Value</td>
<td>Carrying Amount</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>$ 105</td>
<td>$128</td>
</tr>
</tbody>
</table>

12. BUSINESS ARRANGEMENTS

NGSB periodically enters into business arrangements with non-affiliated entities. These arrangements generally consist of joint ventures designed to deliver collective capabilities that would not have been available to the venture’s participants individually, and also provide a single point of contact during contract performance to the entity’s principal customer. In some arrangements, each equity participant receives a subcontract from the joint venture for a predetermined scope of work. In other cases, the arrangements rely primarily on the assignment of key personnel to the venture from each equity participant rather than subcontracts for a specific work scope. Based on the terms of these arrangements and the relevant GAAP related to consolidation accounting for such entities, the company does not consolidate the financial position, results of operations and cash flows of these entities into its consolidated financial statements, but accounts for them under the equity method. NGSB has recorded operating income related to earnings from equity method investments of $19 million, $10 million and $1 million in its results of operations within the cost of service revenues for the years ended December 31, 2010, 2009, and 2008, respectively. To the extent subcontracts are used in these arrangements, NGSB’s subcontract activities are recorded in the same manner as sales to non-affiliated entities. The assets, liabilities, results of operations and cash flows of these collaborative entities were not material to the company’s consolidated financial position, results of operations and cash flows for any period presented.

13. LITIGATION

U.S. Government Investigations and Claims — Departments and agencies of the U.S. Government have the authority to investigate various transactions and operations of the company, and the results of such investigations may lead to administrative, civil or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments or compensatory or treble damages. U.S. Government regulations provide that certain findings against a contractor may lead to suspension or debarment from future U.S. Government contracts or the loss of export privileges for a company or an operating division or subdivision. Suspension or debarment could have a material adverse effect on the company because of its reliance on government contracts.

In the second quarter of 2007, the U.S. Coast Guard issued a revocation of acceptance under the Deepwater Modernization Program for eight converted 123-foot patrol boats (the vessels) based on alleged “hull buckling and shaft alignment problems” and alleged “nonconforming topside equipment” on the vessels. The company submitted a written response that argued that the revocation of acceptance was improper. The Coast Guard advised Integrated Coast Guard Systems, LLC (ICGS), which was formed by Northrop Grumman and Lockheed Martin to perform the Deepwater Modernization Program, that it was seeking approximately $96 million
from ICGS as a result of the revocation of acceptance. The majority of the costs associated with the 123-foot conversion effort are associated with the alleged structural deficiencies of the vessels, which were converted under contracts with the company and a subcontractor to the company. In 2008, the Coast Guard advised ICGS that the Coast Guard would support an investigation by the U.S. Department of Justice of ICGS and its subcontractors instead of pursuing its $96 million claim independently. The Department of Justice conducted an investigation of ICGS under a sealed False Claims Act complaint filed in the U.S. District Court for the Northern District of Texas and decided in early 2009 not to intervene at that time. On February 12, 2009, the District Court unsealed the complaint filed by Michael J. DeKort, a former Lockheed Martin employee, against ICGS, Lockheed Martin Corporation and the company relating to the 123-foot conversion effort. Damages under the False Claims Act are subject to trebling. On October 15, 2009, the three defendants moved to dismiss the Fifth Amended complaint. On April 5, 2010, the District Court ruled on the defendants’ motions to dismiss, granting them in part and denying them in part. As to the company, the District Court dismissed conspiracy claims and those pertaining to the C4ISR systems. On October 27, 2010, the District Court entered summary judgment for the company on DeKort’s hull, mechanical and electrical (“HM&E”) claims brought against the company. On November 10, 2010, the DeKort acknowledged that with the dismissal of the HM&E claims, no issues remained against the company for trial and the District Court subsequently vacated the December 1, 2010 trial. On November 12, 2010, DeKort filed a motion for reconsideration regarding the District Court’s denial of his motion to amend the Fifth Amended Complaint. On November 19, 2010, DeKort filed a second motion for reconsideration regarding the District Court’s order granting summary judgment on the HM&E claims. Based upon the information available to the company to date, the company believes that it has substantive defenses to any potential claims but can give no assurance that the company will prevail in this litigation.

Based upon the available information regarding matters that are subject to U.S. Government investigations, the company believes that the outcome of any such matters would not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Asbestos-Related Claims— NGSB and its predecessors in interest are defendants in a long-standing series of cases filed in numerous jurisdictions around the country wherein former and current employees and various third party persons allege exposure to asbestos-containing materials on NGSB premises or while working on vessels constructed or repaired by NGSB. Some cases allege exposure to asbestos-containing materials through contact with company employees and third persons who were on the premises. The cases allege various injuries including those associated with pleural plaque disease, asbestosis, cancer, mesothelioma and other alleged asbestos related conditions. In some cases, in addition to the company, several of its former executive officers are also named defendants. In some instances, partial or full insurance coverage is available to the company for its liability and that of its former executive officers. Because of the varying nature of these actions, and based upon the information available to the company to date, the company believes it has substantive defenses in many of these cases but can give no assurance that it will prevail on all claims in each of these cases. The company believes that the ultimate resolution of these cases will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Litigation — Various claims and legal proceedings arise in the ordinary course of business and are pending against the company and its properties. Based upon the information available, the company believes that the resolution of any of these various claims and legal proceedings would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Subsequent Event — On January 31, 2011, the U. S. Department of Justice first informed Northrop Grumman and the company of a False Claims Act complaint that the company believes was filed under seal by a relator (the plaintiff) in mid-2010 in the United States District Court for the District of Columbia. The redacted copy of the complaint that the company received (“Complaint”) alleges that through largely unspecified fraudulent means Northrop Grumman and the company obtained federal funds that were restricted by law for the consequences of Hurricane Katrina (“Katrina”), and used those funds to cover costs under certain shipbuilding contracts that were unrelated to Katrina and for which Northrop Grumman and the company were not entitled to recovery under the contracts. The Complaint seeks monetary damages of at least $835 million, plus penalties, attorney’s fees and other costs of suit. Damages under the False Claims Act may be trebled upon a finding of liability.

For several years, Northrop Grumman has pursued recovery under its insurance policies for Katrina related property damage and business interruption losses. One of the insurers involved in those actions has made allegations that overlap significantly with certain of the issues raised in the Complaint, including allegations that Northrop and the company used certain Katrina related funds for losses under the contracts unrelated to the hurricane. Northrop Grumman and the company believe that the insurer’s defenses, including those related to the use of Katrina funding, are without merit.

The company has agreed to cooperate with the government investigation relating to the False Claims Act Complaint. The company has been advised that the Department of Justice has not made a decision whether to intervene. Based upon a review to date of the information available to the company, the company believes that it has substantive defenses to the allegations in the Complaint. The company believes that the claims as set forth in the Complaint evidence a fundamental lack of understanding of the terms and conditions in the company’s shipbuilding contracts, including the post-Katrina modifications to those contracts, and the manner in
which the parties performed in connection with the contracts. Based upon a review to date of the information available to the company, the company believes that the claims as set forth in the Complaint lack merit and are not likely to result in a material adverse effect on its consolidated financial position. The company intends vigorously to defend the matter, but the company cannot predict what new or revised claims might be asserted or what information might come to light so can give no assurances regarding the ultimate outcome.

14. COMMITMENTS AND CONTINGENCIES

Contract Performance Contingencies — Contract profit margins may include estimates of revenues not contractually agreed to between the customer and the company for matters such as settlements in the process of negotiation, contract changes, claims and requests for equitable adjustment for previously unanticipated contract costs. These estimates are based upon management’s best assessment of the underlying causal events and circumstances, and are included in determining contract profit margins to the extent of expected recovery based on contractual entitlements and the probability of successful negotiation with the customer. As of December 31, 2010, the recognized amounts related to claims and requests for equitable adjustment are not material individually or in the aggregate.

Guarantees of Performance Obligations — From time to time in the ordinary course of business, Northrop Grumman guaranteed performance obligations of NGSB under certain contracts. NGSB may enter into joint ventures, teaming and other business arrangements (Business Arrangements) to support the company’s products and services. NGSB generally strives to limit its exposure under these arrangements to its investment in the Business Arrangement, or to the extent of obligations under the applicable contract. In some cases, however, Northrop Grumman may be required to guarantee performance of the Business Arrangement and, in such cases, generally obtains cross-indemnification from the other members of the Business Arrangement. At December 31, 2010, the company is not aware of any existing event of default that would require Northrop Grumman to satisfy any of these guarantees.

NGSB Quality Issues — In conjunction with a second quarter 2009 review of design, engineering and production processes at the Gulf Coast undertaken as a result of leaks discovered in the USS San Antonio’s (LPD 17) lube oil system, the company became aware of quality issues relating to certain pipe welds on ships under production as well as those that had previously been delivered. Since that discovery, the company has been working with the U.S. Navy to determine the nature and extent of the pipe weld issue and its possible impact on related shipboard systems. This effort has resulted in the preparation of a technical analysis of the problem, additional inspections on the ships, a rework plan for ships previously delivered and in various stages of production, and modifications to the work plans for ships being placed into production, all of which has been done with the knowledge and support of the U.S. Navy. NGSB responsible incremental costs associated with the anticipated resolution of these matters have been reflected in the financial performance analysis and contract booking rates beginning with the second quarter of 2009.

In the fourth quarter of 2009, certain bearing wear and debris were found in the lubrication system of the main propulsion diesel engines (MPDE) installed on LPD 21. NGSB is participating with the U.S. Navy and other industry participants involved with the MPDEs in a review panel established by the U.S. Navy to examine the MPDE lubrication system’s design, construction, operation and maintenance for the LPD 17 class of ships. The team is focusing on identification and understanding of the root causes of the MPDE diesel bearing wear and the debris in the lubrication system and potential future impacts on maintenance costs. To date the review has identified several potential system improvements for increasing the system reliability. Certain changes are being implemented on ships under construction at this time and the U.S. Navy is implementing some changes on in-service ships in the class at the earliest opportunity. The U.S. Navy has requested a special MPDE flush procedure be used on LPDs 22 through 25 under construction at the Gulf Coast shipyards. The company has informed the U.S. Navy of its position that should the U.S. Navy direct use of this new flush procedure, the company believes such direction would be a change to the contracts for all LPDs under construction, and that such a change would entitle the company to an equitable adjustment to cover the cost and schedule impacts. However, the company can give no assurance that the U.S. Navy will agree that any such direction would constitute a contract change.

In July 2010, the Navy released its report documenting the results of a Judge Advocate General’s manual (JAGMAN) investigation of the failure of MPDE bearings on LPD 17 subsequent to the Navy’s Planned Maintenance Availability (PMA), which was completed in October 2009. During sea trials following the completion of the Navy conducted PMA, one of the ship’s MPDEs suffered a casualty as the result of a bearing failure. The JAGMAN investigation determined that the bearing failure could be attributed to a number of possible factors, including deficiencies in the acquisition process, maintenance, training, and execution of shipboard programs, as well as debris from the construction process. NGSB’s technical personnel reviewed the JAGMAN report and provided feedback to the Navy on the report recommending that the company and the Navy perform a comprehensive review of the LPD 17 Class propulsion system design and its associated operation and maintenance procedure in order to enhance reliability. Discussions between the company and the Navy on this recommendation are ongoing.

The company and the U.S. Navy continue to work in partnership to investigate and identify any additional corrective actions to address quality issues associated with ships manufactured in the company’s Gulf Coast shipyards and the company will implement appropriate corrective actions. The company does not believe that the ultimate resolution of the matters described above will have a
NORTHROP GRUMMAN SHIPBUILDING

material adverse effect upon its consolidated financial position, results of operations or cash flows.

The company has also encountered various quality issues on its Aircraft Carrier construction and overhaul programs and its Virginia Class Submarine construction program at its Newport News location. These primarily involve matters related to filler metal used in pipe welds identified in 2007, and in 2009, issues associated with non-nuclear weld inspection and the installation of weapons handling equipment on certain submarines, and certain purchased material quality issues. The company does not believe that resolution of these issues will have a material adverse effect upon its consolidated financial position, results of operations or cash flows.

Environmental Matters — The estimated cost to complete remediation has been accrued where it is probable that the company will incur such costs in the future to address environmental impacts at currently or formerly owned or leased operating facilities, or at sites where it has been named a Potentially Responsible Party (PRP) by the Environmental Protection Agency, or similarly designated by other environmental agencies. These accruals do not include any litigation costs related to environmental matters, nor do they include amounts recorded as asset retirement obligations. To assess the potential impact on the company’s consolidated financial statements, management estimates the reasonably possible remediation costs that could be incurred by the company, taking into account currently available facts on each site as well as the current state of technology and prior experience in remediating contaminated sites. These estimates are reviewed periodically and adjusted to reflect changes in facts and technical and legal circumstances. Management estimates that as of December 31, 2010, the probable future costs for environmental remediation sites is $3 million, which is accrued in other current liabilities. Factors that could result in changes to the company’s estimates include: modification of planned remedial actions, increases or decreases in the estimated time required to remediate, changes to the determination of legally responsible parties, discovery of more extensive contamination than anticipated, changes in laws and regulations affecting remediation requirements, and improvements in remediation technology. Should other PRPs not pay their allocable share of remediation costs, the company may have to incur costs in addition to those already estimated and accrued. In addition, there are some potential remediation sites where the costs of remediation cannot be reasonably estimated. Although management cannot predict whether new information gained as projects progress will materially affect the estimated liability accrued, management does not anticipate that future remediation expenditures will have a material adverse effect on the company’s consolidated financial position, results of operations, or cash flows.

Collective Bargaining Agreements — The company believes that it maintains good relations with its 39,000 employees, of which approximately 50 percent are covered by 10 collective bargaining agreements. The company successfully negotiated a two-year extension to the collective bargaining agreements at its Gulf Coast locations that were to expire in 2010. It is not expected that the results of these negotiations will, either individually or in the aggregate, have a material adverse effect on the company’s consolidated results of operations.

Financial Arrangements — In the ordinary course of business, Northrop Grumman uses standby letters of credit issued by commercial banks and surety bonds issued by insurance companies principally to guarantee the performance on certain contracts and to support the company’s self-insured workers’ compensation plans. At December 31, 2010, there were $125 million of unused stand-by letters of credit and $296 million of surety bonds outstanding related to NGSB.

U.S. Government Claims — From time to time, customers advise the company of claims and penalties concerning certain potential disallowed costs. When such findings are presented, Northrop Grumman, the company and the U.S. Government representatives engage in discussions to enable Northrop Grumman and NGSB to evaluate the merits of these claims as well as to assess the amounts being claimed. Where appropriate, provisions are made to reflect the expected exposure to the matters raised by the U.S. Government representatives and such provisions are reviewed on a quarterly basis for sufficiency based on the most recent information available. Northrop Grumman and the company do not believe that the outcome of any such matters would have a material adverse effect on the company’s consolidated financial position, results of operations, or cash flows.

Operating Leases — Rental expense for operating leases was $44 million in 2010, $48 million in 2009, and $41 million in 2008. These amounts are net of immaterial amounts of sublease rental income. Minimum rental commitments under long-term noncancelable operating leases as of December 31, 2010, total approximately $137 million, which are payable as follows: 2011 — $21 million; 2012 — $20 million; 2013 — $16 million; 2014 — $14 million; 2015 — $11 million; and thereafter — $55 million.

15. IMPACTS FROM HURRICANES

In 2008, a subcontractor’s operations in Texas were severely impacted by Hurricane Ike. The subcontractor produces compartments for two of the LPD amphibious transport dock ships under construction at the Gulf Coast shipyards. As a result of the delays and cost growth caused by the subcontractor’s production delays, NGSB’s operating income was reduced by approximately $16 million during 2008. In the first quarter of 2010, the company received $17 million in final settlement of its claim, which was recorded as a reduction to cost of product sales.
NORTHROP GRUMMAN SHIPBUILDING

In August 2005, the company’s Gulf Coast operations were significantly impacted by Katrina and the company’s shipyards in Louisiana and Mississippi sustained significant windstorm damage from the hurricane. As a result of the storm, the company incurred costs to replace or repair destroyed or damaged assets, suffered losses under its contracts, and incurred substantial costs to clean up and recover its operations. As of the date of the storm, the company had a comprehensive insurance program that provided coverage for, among other things, property damage, business interruption impact on net profitability, and costs associated with clean-up and recovery. The company expects that its remaining claim will be resolved separately with the two remaining insurers, Factory Mutual Insurance Company (FM Global) and Munich-American Risk Partners (Munich Re) (see Note 16).

The company has full entitlement to any insurance recoveries related to business interruption impacts on net profitability resulting from these hurricanes. However, because of uncertainties concerning the ultimate determination of recoveries related to business interruption claims, no such amounts are recognized until they are resolved with the insurers. Furthermore, due to the uncertainties with respect to the company’s disagreement with FM Global in relation to the Katrina claim, no receivables have been recognized by the company in the accompanying consolidated financial statements for insurance recoveries from FM Global. In accordance with U.S. Government cost accounting regulations affecting the majority of the company’s contracts, the cost of insurance premiums for property damage and business interruption coverage, other than “coverage of profit,” is an allowable expense that may be charged to contracts. Because a substantial portion of long-term contracts at the shipyards is flexibly-priced, the U.S. Navy would benefit from a portion of insurance recoveries in excess of the net book value of damaged assets. When such insurance recoveries occur, the company is obligated to provide the benefit of a portion of these amounts to the government. In recent discussions, the U.S. Navy has expressed its intention to challenge the allowability of certain post-Katrina depreciation costs charged or expected to be charged on contracts under construction in the Gulf Coast shipyards. It is premature to estimate the amount, if any, that the U.S. Navy will ultimately challenge. The company believes all of the replacement costs should be recoverable under its insurance coverage and the amounts that may be challenged are included in the insurance claim. However, if NGSB is unsuccessful in its insurance recovery, the company believes there are specific rules in the CAS and FAR that should still render the depreciation on those assets allowable and recoverable through its contracts with the U.S. Navy as these replacement costs provide benefit to the government. The company believes that its depreciation practices are in conformity with the FAR, and that, if the U.S. Navy were to challenge the allowability of such costs, the company should be able to successfully resolve this matter with no material adverse effect to the company’s consolidated financial position, results of operations or cash flows.

16. HURRICANE KATRINA INSURANCE RECOVERIES

The company is pursuing legal action against an insurance provider, FM Global, arising out of a disagreement concerning the coverage of certain losses related to Katrina (see Note 15). Legal action commenced against FM Global on November 4, 2005, which is now pending in the U.S. District Court for the Central District of California, Western Division. In August 2007, the District Court issued an order finding that the excess insurance policy provided coverage for the company’s Katrina-related loss. FM Global appealed the District Court’s order and on August 14, 2008, the U.S. Court of Appeals for the Ninth Circuit reversed the earlier summary judgment order in favor of the Northrop Grumman’s interest, holding that the FM Global excess policy unambiguously excludes damage from the storm surge caused by Katrina under its “Flood” exclusion. The Ninth Circuit remanded the case to the District Court to determine whether the California efficient proximate cause doctrine affords Northrop Grumman coverage under the policy even if the Flood exclusion of the policy is unambiguous. On April 2, 2009, the Ninth Circuit denied Northrop Grumman’s Petition for Rehearing and remanded the case to the District Court. On June 10, 2009, Northrop Grumman filed a motion seeking leave of court to file a complaint adding Aon Risk Services, Inc. of Southern California (Aon) as a defendant. On July 1, 2009, FM Global filed a motion for partial summary judgment seeking a determination that the California efficient proximate cause doctrine is not applicable or that it affords no coverage under the policy. On August 26, 2010, the District Court denied Northrop Grumman’s motion to add Aon as a defendant to the case pending in the District Court, finding that Northrop Grumman has a viable option to bring suit against Aon in state court. Also on August 26, the District Court granted FM Global’s motion for summary judgment based upon California’s doctrine of efficient proximate cause, and denied FM Global’s motion for summary judgment based upon breach of contract, finding that triable issues of fact remained as to whether and to what extent the company sustained wind damage apart from the storm surge. Northrop Grumman believes that it is entitled to full reimbursement of its covered losses under the excess policy. The District Court has scheduled trial on the merits for April 3, 2012. On January 27, 2011, Northrop Grumman filed an action against Aon Insurance Services West, Inc., formerly known as Aon Risk Services, Inc. of Southern California, in Superior Court in California alleging breach of contract, professional negligence, and negligent misrepresentation. Based on the current status of the litigation, no assurances can be made as to the ultimate outcome of these matters. However, if either of the claims are successful, the potential effect to the company’s consolidated financial position, results of operations or cash flows would be favorable.

During 2008, notification from Munich Re, the only remaining insurer within the primary layer of insurance coverage with which a resolution has not been reached, was received noting that it will pursue arbitration proceedings against Northrop Grumman related to approximately $19 million owed by Munich Re to Northrop Grumman Risk Management Inc. (NGRMI), a wholly owned subsidiary of Northrop Grumman, for certain losses related to Katrina. An arbitration was later invoked by Munich Re in the United Kingdom under the reinsurance contract. Northrop Grumman was subsequently notified that Munich Re is seeking reimbursement of
The cost to the company of its retirement benefit plans in each of the three years ended December 31 is shown in the following table:

<table>
<thead>
<tr>
<th>Summary Plan Results</th>
</tr>
</thead>
</table>

17. RETIREMENT BENEFITS

Plan Descriptions

*Defined Benefit Pension Plans* — The company participates in several defined benefit pension plans of Northrop Grumman covering the majority of its employees. Pension benefits for most employees are based on the employee’s years of service and compensation. It is the policy of Northrop Grumman to fund at least the minimum amount required for all the sponsored plans, using actuarial cost methods and assumptions acceptable under U.S. Government regulations, by making payments into benefit trusts separate from Northrop Grumman. The pension benefit for most employees is based upon criteria whereby employees earn age and service points over their employment period.

*Defined Contribution Plans* — The company also participates in Northrop Grumman-sponsored 401(k) defined contribution plans in which most employees are eligible to participate, as well as certain union employees. Northrop Grumman contributions for most plans are based on a cash matching of company employee contributions up to 4 percent of compensation. Certain hourly employees are covered under a target benefit plan. In addition to the 401(k) defined contribution benefit, non-union represented company employees hired after June 30, 2008, are eligible to participate in a Northrop Grumman-sponsored defined contribution program in lieu of a defined benefit pension plan. Northrop Grumman’s contributions to these defined contribution plans for company employees for the years ended December 31, 2010, 2009, and 2008, were $51 million, $50 million, and $49 million, respectively.

*Medical and Life Benefits* — The company participates in several health care plans of Northrop Grumman by which the company provides a portion of the costs for certain health and welfare benefits for a significant number of its active and retired employees. Covered employees achieve eligibility to participate in these contributory plans upon retirement from active service if they meet specified age and years of service requirements. Qualifying dependents are also eligible for medical coverage. Northrop Grumman reserves the right to amend or terminate the plans at any time. In November 2006, the company adopted plan amendments and communicated to plan participants that it would cap the amount of its contributions to substantially all of its remaining post retirement medical and life benefit plans that were previously not subject to limits on the company’s contributions.

In addition to a medical inflation cost-sharing feature, the plans also have provisions for deductibles, co-payments, coinsurance percentages, out-of-pocket limits, conformance to a schedule of reasonable fees, the use of managed care providers, and maintenance of benefits with other plans. The plans also provide for a Medicare carve-out, and a maximum lifetime benefit of $2 million per covered individual. Effective January 1, 2011, the company elected to remove the maximum lifetime benefit cap for all company sponsored medical plans due to passage of the new health care legislation described below. Subsequent to July 1, 2003, and January 1, 2004, for Gulf Coast and Virginia operations, respectively, newly hired employees are not eligible for post employment medical and life benefits.

The effect of the Medicare prescription drug subsidy from the Medicare Prescription Drug, Improvement and Modernization Act of 2003 to reduce the company’s net periodic postretirement benefit cost was not material for the periods presented and accumulated postretirement benefit obligation was $26 million and $28 million as of December 31, 2010 and 2009, respectively.

*New Health Care Legislation* — The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act became law during the first quarter of 2010. These new laws will impact the company’s costs of providing health care benefits to its employees beginning in 2011. The initial passage of the laws will eliminate the company’s tax benefits under the Medicare prescription drug subsidies associated with the Medicare Prescription Drug, Improvement and Modernization Act of 2003 beginning in 2013. The impact from the elimination of these tax benefits was recorded in the consolidated financial statements (see Note 10). The company has also begun participation in the Early Retiree Reinsurance Program (ERRP) that became effective on June 1, 2010. The company continues to assess the extent to which the provisions of the new laws will affect its future health care and related employee benefit plan costs.

Summary Plan Results

The cost to the company of its retirement benefit plans in each of the three years ended December 31 is shown in the following table:
### Components of Net Periodic Benefit Cost

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Service cost</strong></td>
<td>$127</td>
<td>$114</td>
<td>$130</td>
<td>$15</td>
<td>$15</td>
<td>$14</td>
</tr>
<tr>
<td><strong>Interest cost</strong></td>
<td>182</td>
<td>169</td>
<td>156</td>
<td>38</td>
<td>40</td>
<td>39</td>
</tr>
<tr>
<td><strong>Expected return on plan assets</strong></td>
<td>(232)</td>
<td>(193)</td>
<td>(231)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Amortization of</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior service cost (credit)</td>
<td>13</td>
<td>13</td>
<td>7</td>
<td>(9)</td>
<td>(9)</td>
<td>(14)</td>
</tr>
<tr>
<td>Net loss from previous years</td>
<td>38</td>
<td>48</td>
<td>2</td>
<td>8</td>
<td>9</td>
<td>15</td>
</tr>
<tr>
<td><strong>Net periodic benefit cost</strong></td>
<td>$128</td>
<td>$151</td>
<td>$64</td>
<td>$52</td>
<td>$55</td>
<td>$54</td>
</tr>
</tbody>
</table>

The table below summarizes the changes in the components of unrecognized benefit plan costs for the years ended December 31, 2010, 2009, and 2008.

### Changes in Unamortized Benefit Plan Costs

<table>
<thead>
<tr>
<th></th>
<th>Pension Benefits</th>
<th>Medical and Life Benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in net actuarial loss</strong></td>
<td>$640</td>
<td>$(41)</td>
<td>$599</td>
</tr>
<tr>
<td><strong>Change in prior service cost</strong></td>
<td>57</td>
<td>31</td>
<td>88</td>
</tr>
<tr>
<td><strong>Amortization of</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior service (cost) credit</td>
<td>(7)</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Net loss from previous years</td>
<td>2</td>
<td>(15)</td>
<td>(17)</td>
</tr>
<tr>
<td><strong>Tax (expense) benefits related to above items</strong></td>
<td>(268)</td>
<td>4</td>
<td>(264)</td>
</tr>
<tr>
<td><strong>Changes in unamortized benefit plan costs — 2008</strong></td>
<td>420</td>
<td>(7)</td>
<td>413</td>
</tr>
<tr>
<td><strong>Change in net actuarial loss</strong></td>
<td>(76)</td>
<td>(5)</td>
<td>(81)</td>
</tr>
<tr>
<td><strong>Change in prior service cost (credit)</strong></td>
<td>1</td>
<td>(1)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Amortization of</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior service (cost) credit</td>
<td>(13)</td>
<td>9</td>
<td>(4)</td>
</tr>
<tr>
<td>Net loss from previous years</td>
<td>(48)</td>
<td>(9)</td>
<td>(57)</td>
</tr>
<tr>
<td><strong>Tax benefits related to above items</strong></td>
<td>54</td>
<td>2</td>
<td>56</td>
</tr>
<tr>
<td><strong>Changes in unamortized benefit plan costs — 2009</strong></td>
<td>(82)</td>
<td>(4)</td>
<td>(86)</td>
</tr>
<tr>
<td><strong>Change in net actuarial loss</strong></td>
<td>17</td>
<td>15</td>
<td>32</td>
</tr>
<tr>
<td><strong>Transfers</strong></td>
<td>6</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td><strong>Amortization of</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior service (cost) credit</td>
<td>(13)</td>
<td>9</td>
<td>(4)</td>
</tr>
<tr>
<td>Net loss from previous years</td>
<td>(38)</td>
<td>(8)</td>
<td>(46)</td>
</tr>
<tr>
<td><strong>Tax benefits (expense) related to above items</strong></td>
<td>11</td>
<td>(15)</td>
<td>(4)</td>
</tr>
<tr>
<td><strong>Changes in unamortized benefit plan costs — 2010</strong></td>
<td>$(17)</td>
<td>$1</td>
<td>$(16)</td>
</tr>
</tbody>
</table>

The changes in the unamortized benefit plan costs, net of tax, are included in other comprehensive income in the consolidated statements of operations. Unamortized benefit plan costs consist primarily of net after-tax actuarial loss amounts totaling $487 million, $489 million, and $573 million as of December 31, 2010, 2009, and 2008, respectively. Net actuarial gains or losses are determined annually and principally arise from gains or losses on plan assets due to variations in the fair market value of the underlying assets, and changes in the benefit obligation due to changes in actuarial assumptions. Net actuarial gains or losses are amortized to expense in future periods when they exceed ten percent of the greater of the plan assets or projected benefit obligations by plan. The excess of gains or losses over the ten percent threshold is subject to amortization over the average future service period of employees of approximately ten years.

The following tables set forth the funded status and amounts recognized in the consolidated statements of financial position for the Northrop Grumman-sponsored defined benefit pension and retiree health care and life insurance benefit plans. Pension benefits data include the qualified plans as well as several unfunded non-qualified plans for benefits provided to directors, officers, and certain employees. The company uses a December 31 measurement date for all of its plans.
NORTHROP GRUMMAN SHIPBUILDING

### Change in Benefit Obligation

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$3,062</td>
<td>$2,756</td>
<td>$677</td>
<td>$660</td>
</tr>
<tr>
<td>Service cost</td>
<td>127</td>
<td>114</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Interest cost</td>
<td>182</td>
<td>169</td>
<td>38</td>
<td>40</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>9</td>
<td>5</td>
<td>16</td>
<td>15</td>
</tr>
<tr>
<td>Plan amendments</td>
<td></td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Actuarial loss (gain)</td>
<td>145</td>
<td>114</td>
<td>15</td>
<td>(5)</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(106)</td>
<td>(98)</td>
<td>(52)</td>
<td>(51)</td>
</tr>
<tr>
<td>Transfers</td>
<td>37</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Curtailment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit obligation at end of year</td>
<td>3,442</td>
<td>3,062</td>
<td>714</td>
<td>677</td>
</tr>
</tbody>
</table>

### Change in Plan Assets

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>2,789</td>
<td>2,297</td>
</tr>
<tr>
<td>Gain on plan assets</td>
<td>347</td>
<td>384</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>105</td>
<td>201</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(106)</td>
<td>(98)</td>
</tr>
<tr>
<td>Transfers</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of plan assets at end of year</td>
<td>3,183</td>
<td>2,789</td>
</tr>
<tr>
<td>Funded status</td>
<td>$ (259)</td>
<td>$ (273)</td>
</tr>
</tbody>
</table>

### Amounts Recognized in the Consolidated Statements of Financial Position

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td>$ 131</td>
<td>$ 116</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liability</td>
<td>(9)</td>
<td>(10)</td>
<td>(146)</td>
<td>(175)</td>
</tr>
<tr>
<td>Non-current liability</td>
<td>(381)</td>
<td>(379)</td>
<td>(567)</td>
<td>(502)</td>
</tr>
</tbody>
</table>

The following table shows those amounts expected to be recognized in net periodic benefit cost in 2011:

### Amounts Expected to be Recognized in 2011 Net Periodic Benefit Cost

<table>
<thead>
<tr>
<th></th>
<th>Pension Benefits</th>
<th>Medical and Life Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>$ 34</td>
<td>$ 9</td>
</tr>
<tr>
<td>Prior service cost (credit)</td>
<td>12</td>
<td>(9)</td>
</tr>
</tbody>
</table>

The accumulated benefit obligation allocated from all of the Northrop Grumman-sponsored defined benefit pension plans in which company employees participate was $3.2 billion and $2.8 billion at December 31, 2010, and 2009, respectively.

### Amounts Recorded in Accumulated Other Comprehensive Loss

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net actuarial loss</td>
<td>$ 640</td>
<td>$ 654</td>
<td>$ 157</td>
<td>$ 150</td>
</tr>
<tr>
<td>Prior service cost</td>
<td>99</td>
<td>111</td>
<td>(38)</td>
<td>(46)</td>
</tr>
<tr>
<td>Income tax benefits related to above items</td>
<td>(287)</td>
<td>(298)</td>
<td>(56)</td>
<td>(40)</td>
</tr>
<tr>
<td>Unamortized benefit plan costs</td>
<td>$ 452</td>
<td>$ 467</td>
<td>$ 63</td>
<td>$ 64</td>
</tr>
</tbody>
</table>
Amounts for pension plans with accumulated benefit obligations in excess of fair value of plan assets associated with company employees are as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Projected benefit obligation</td>
<td>$2,771</td>
</tr>
<tr>
<td>Accumulated benefit obligation</td>
<td>2,531</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>2,381</td>
</tr>
</tbody>
</table>

Plan Assumptions

On a weighted-average basis, the following assumptions were used to determine the benefit obligations and the net periodic benefit cost.

### Assumptions Used to Determine Benefit Obligation at December 31

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>2010</th>
<th>2009</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>5.84%</td>
<td>6.04%</td>
<td>5.58%</td>
<td>5.84%</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>3.43%</td>
<td>3.51%</td>
<td>8.00%</td>
<td>7.00%</td>
</tr>
<tr>
<td>Initial health care cost trend rate assumed for the next year</td>
<td></td>
<td></td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)</td>
<td></td>
<td></td>
<td>2017</td>
<td>2014</td>
</tr>
</tbody>
</table>

### Assumptions Used to Determine Benefit Cost for the Year Ended December 31

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>2010</th>
<th>2009</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>6.04%</td>
<td>6.25%</td>
<td>5.84%</td>
<td>6.25%</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>3.51%</td>
<td>3.77%</td>
<td>7.00%</td>
<td>7.50%</td>
</tr>
<tr>
<td>Initial health care cost trend rate assumed for the next year</td>
<td></td>
<td></td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)</td>
<td></td>
<td></td>
<td>2014</td>
<td>2014</td>
</tr>
</tbody>
</table>

The discount rate is generally based on the yield on high-quality corporate fixed-income investments. At the end of each year, the discount rate is primarily determined using the results of bond yield curve models based on a portfolio of high quality bonds matching the notional cash inflows with the expected benefit payments for each significant benefit plan.

The assumptions used for pension benefits are consistent with those used for retiree medical and life insurance benefits.

Through consultation with investment advisors, expected long-term returns for each of the plans’ strategic asset classes were developed by Northrop Grumman. Several factors were considered, including survey of investment managers’ expectations, current market data such as yields/price-earnings ratios, and historical market returns over long periods. Using policy target allocation percentages and the asset class expected returns, a weighted-average expected return was calculated.

A one-percentage-point change in the initial through the ultimate health care cost trend rates would have the following effects:

<table>
<thead>
<tr>
<th>Increase (Decrease) From Change In Health Care Cost Trend Rates To</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>18</td>
<td>(18)</td>
</tr>
</tbody>
</table>

Plan Assets and Investment Policy

The retirement benefit plans’ assets in the NGSB Master Trust are invested in various asset classes that are expected to produce a sufficient level of diversification and investment return over the long term. The investment goals are to exceed the assumed actuarial rate of return over the long term within reasonable and prudent levels of risk. Liability studies are conducted on a regular basis to
provide guidance in setting investment goals with an objective to balance risk. Risk targets are established and monitored against acceptable ranges.

All investment policies and procedures are designed to ensure that the plans’ investments are in compliance with ERISA. Guidelines are established defining permitted investments within each asset class. Derivatives are used for transitioning assets, asset class rebalancing, managing currency risk, and for management of fixed income and alternative investments. The investment policies for most of the retirement benefit plans were changed effective January 1, 2010 and require that the asset allocation be maintained within the following ranges as of December 31, 2010:

<table>
<thead>
<tr>
<th>Asset Allocation Ranges</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. equity</td>
<td>15 – 35%</td>
</tr>
<tr>
<td>International equity</td>
<td>10 – 30%</td>
</tr>
<tr>
<td>Long bonds</td>
<td>25 – 45%</td>
</tr>
<tr>
<td>2010: Real estate and other</td>
<td>10 – 30%</td>
</tr>
</tbody>
</table>

As of December 31, 2010, the assets of NGSB’s retirement benefit plans were transferred into a separate NGSB Master Trust. The domestic equities, international equities and fixed income securities were transferred in-kind. For the real estate and other category, the NGSB Master Trust holds an interest in private equity, real estate, and hedge funds partnerships held in the Northrop Grumman Master Trust (NGSB Master Trust Partnership Interests). After the asset transfers, the NGSB Master Trust continues to be invested in accordance with the same investment policies and procedures described above. If the anticipated spin-off transaction discussed in Note 1 is completed, the NGSB Master Trust will be transferred to HII. In that event, the NGSB Master Trust Partnership Interests may be transferred in the form of cash. Subsequent to the anticipated spin-off transaction, the fiduciary of the NGSB retirement benefit plans may elect to change the investment policies of the NGSB Master Trust.

The table below represents the fair values of the NGSB Master Trust and the proportionate share of the fair values of NGSB’s retirement benefit plans assets held in the Northrop Grumman Master Trust at December 31, 2010, by asset category. The table that follows represents the proportionate share of the fair values of NGSB’s retirement benefit plan assets held in the Northrop Grumman Master Trust at December 31, 2009, by asset category. The tables also identify the level of inputs used to determine the fair value of assets in each category (see Note 1 for definition of levels). The significant amount of Level 2 investments in the tables results from including in this category investments in pooled funds that contain investments with values based on quoted market prices, but for which the funds are not valued on a quoted market basis, and fixed income securities that are valued using model based pricing services.
## Asset Category

<table>
<thead>
<tr>
<th>NGS B Master Trust:</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic equities</td>
<td>$ 789</td>
<td></td>
<td></td>
<td>$ 789</td>
</tr>
<tr>
<td>International equities</td>
<td></td>
<td>6</td>
<td>$ 590</td>
<td>596</td>
</tr>
<tr>
<td>Fixed income securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash &amp; cash equivalents (1)</td>
<td></td>
<td>34</td>
<td></td>
<td>34</td>
</tr>
<tr>
<td>U.S. Treasuries</td>
<td></td>
<td>268</td>
<td></td>
<td>268</td>
</tr>
<tr>
<td>Other U.S. Government Agency Securities</td>
<td></td>
<td>142</td>
<td></td>
<td>142</td>
</tr>
<tr>
<td>Non-U.S. Government Securities</td>
<td></td>
<td>32</td>
<td></td>
<td>32</td>
</tr>
<tr>
<td>Corporate debt</td>
<td></td>
<td>564</td>
<td></td>
<td>564</td>
</tr>
<tr>
<td>Asset backed</td>
<td></td>
<td>86</td>
<td></td>
<td>86</td>
</tr>
<tr>
<td>High yield debt</td>
<td></td>
<td>11</td>
<td>9</td>
<td>20</td>
</tr>
<tr>
<td>Bank loans</td>
<td></td>
<td>1</td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

| Interest in Northrop Grumman Master Trust:     |         |         |         |       |
| Real estate and other                          |         |         |         |       |
| Hedge funds                                    |         |         | 181     | 181   |
| Private equities                               |         |         | 232     | 232   |
| Real estate                                    |         |         | 165     | 165   |
| Other (2)                                      |         |         | 74      | 74    |

| Fair value of plan assets as of December 31, 2010 | $ 795   | $1,802  | $ 587   | $3,184|

(1) Cash & cash equivalents are predominantly held in money market funds and include a net payable for unsettled trades at year end.

(2) Other includes futures, swaps, options, swaptions, insurance contracts.
## Asset Category

### Interest in Northrop Grumman Master Trust:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic equities</td>
<td>$ 507</td>
<td></td>
<td>$ 507</td>
</tr>
<tr>
<td>International equities</td>
<td>212</td>
<td>$ 218</td>
<td>430</td>
</tr>
<tr>
<td>Fixed income securities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash &amp; cash equivalents (1)</td>
<td>17</td>
<td>272</td>
<td>289</td>
</tr>
<tr>
<td>U.S. Treasuries</td>
<td></td>
<td>156</td>
<td>156</td>
</tr>
<tr>
<td>Other U.S. Government Agency Securities</td>
<td></td>
<td>88</td>
<td>88</td>
</tr>
<tr>
<td>Non-U.S. Government Securities</td>
<td>26</td>
<td></td>
<td>26</td>
</tr>
<tr>
<td>Corporate debt</td>
<td>546</td>
<td></td>
<td>546</td>
</tr>
<tr>
<td>Asset backed</td>
<td></td>
<td>96</td>
<td>96</td>
</tr>
<tr>
<td>High yield debt</td>
<td>67</td>
<td>8</td>
<td>75</td>
</tr>
<tr>
<td>Bank loans</td>
<td>12</td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>Real estate and other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedge funds</td>
<td></td>
<td>188</td>
<td>188</td>
</tr>
<tr>
<td>Private equities</td>
<td>242</td>
<td></td>
<td>242</td>
</tr>
<tr>
<td>Real estate</td>
<td>127</td>
<td></td>
<td>127</td>
</tr>
<tr>
<td>Other (2)</td>
<td></td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

### Fair value of plan assets as of December 31, 2009

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 736</td>
<td>$ 1,488</td>
<td>$ 565</td>
<td>$ 2,789</td>
</tr>
</tbody>
</table>

(1) Cash & cash equivalents are predominantly held in money market funds

(2) Other includes futures, swaps, options, swaptions, insurance contracts and net payable for unsettled trades at year end.

At December 31, 2010 and 2009, the fair value of the plan assets of $3,184 million and $2,789 million, respectively in the tables above consisted entirely of assets for pension benefits.

The table below summarizes the changes in the fair value of the company’s retirement benefit plans’ assets measured using significant unobservable inputs for the years ended December 31, 2010 and 2009.

<table>
<thead>
<tr>
<th></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>(2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases, sales, and settlements</td>
<td>3</td>
<td>18</td>
<td>17</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>Balance as of December 31, 2009</td>
<td>8</td>
<td>188</td>
<td>242</td>
<td>127</td>
<td>565</td>
</tr>
<tr>
<td>Actual return on plan assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets still held at reporting date</td>
<td>2</td>
<td>14</td>
<td>24</td>
<td>12</td>
<td>52</td>
</tr>
<tr>
<td>Assets sold during the period</td>
<td></td>
<td></td>
<td>(1)</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Purchases, sales, and settlements</td>
<td>10</td>
<td>8</td>
<td>48</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td>Change in asset allocation mix</td>
<td>(1)</td>
<td>(31)</td>
<td>(42)</td>
<td>(21)</td>
<td>(95)</td>
</tr>
<tr>
<td>Balance as of December 31, 2010</td>
<td>$ 9</td>
<td>$ 181</td>
<td>$ 232</td>
<td>$ 165</td>
<td>$ 587</td>
</tr>
</tbody>
</table>

Generally, investments are valued based on information in financial publications of general circulation, statistical and valuation services, records of security exchanges, appraisal by qualified persons, transactions and bona fide offers. Domestic and international.

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equities consist primarily of common stocks and institutional common trust funds. Investments in common and preferred shares are valued at the last reported sales price of the stock on the last business day of the reporting period. Units in common trust funds and hedge funds are valued based on the redemption price of units owned by the trusts at year-end. Fair value for real estate and private equity partnerships is primarily based on valuation methodologies that include third party appraisals, comparable transactions, discounted cash flow valuation models, and public market data.

Non-government fixed income securities are invested across various industry sectors and credit quality ratings. Generally, investment guidelines are written to limit securities, for example, to no more than five percent of each trust account, and to exclude the purchase of securities issued by Northrop Grumman.

The number of real estate and private equity partnerships held by the Northrop Grumman Master Trust from which NGSB’s plan assets are allocated is 167 and the unfunded commitments for the trust are $1.2 billion and $1.1 billion as of December 31, 2010, and 2009, respectively. NGSB retirement benefit plans proportionate share of these unfunded commitments is approximately 11% and 13% for December 31, 2010, and 2009, respectively. For alternative investments that cannot be redeemed, such as limited partnerships, the typical investment term is ten years. For alternative investments that permit redemptions, such redemptions are generally made quarterly and require a 90-day notice. The company is generally unable to determine the final redemption amount until the request is processed by the investment fund and therefore categorizes such alternative investments as Level 3 assets.

At December 31, 2010, and 2009, the defined benefit pension trust did not hold any Northrop Grumman common stock.

In 2011, the required minimum funding level is expected to be approximately $2 million to the company’s retirement benefit plans and approximately $37 million to the company’s other post-retirement benefit plans.

It is not expected that any assets will be returned to the company from the benefit plans during 2011.

Benefit Payments

The following table reflects estimated future benefit payments, based upon the same assumptions used to measure the benefit obligation, and includes expected future employee service, as of December 31, 2010:

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th>Pension Plans</th>
<th>Medical and Life Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$116</td>
<td>$37</td>
</tr>
<tr>
<td>2012</td>
<td>129</td>
<td>38</td>
</tr>
<tr>
<td>2013</td>
<td>146</td>
<td>42</td>
</tr>
<tr>
<td>2014</td>
<td>162</td>
<td>46</td>
</tr>
<tr>
<td>2015</td>
<td>177</td>
<td>50</td>
</tr>
<tr>
<td>2016 through 2020</td>
<td>1,138</td>
<td>294</td>
</tr>
</tbody>
</table>

18. STOCK COMPENSATION PLANS

Plan Descriptions

The company participates in certain of Northrop Grumman’s stock-based award plans. At December 31, 2010, company employees had stock-based compensation awards outstanding under the Northrop Grumman-sponsored 2001 Long-Term Incentive Stock Plan (2001 LTISP). This plan was approved by Northrop Grumman’s shareholders. Northrop Grumman has historically issued new shares to satisfy award grants.

The 2001 LTISP plan permit grants to key employees of three general types of stock incentive awards of Northrop Grumman’s common stock: stock options, stock appreciation rights (SARs), and stock awards. Each stock option grant is made with an exercise price at the closing price of Northrop Grumman’s stock on the date of grant (market options). Outstanding stock options granted prior to 2008 generally vest in 25 percent increments over four years from the grant date under the 2001 LTISP, and grants outstanding expire ten years after the grant date. Stock options granted in 2008 and later vest in 33 percent increments over three years from the grant date, and grants outstanding expire seven years after the grant date. No SARs have been granted under the 2001 LTISP. Stock awards, in the form of restricted performance stock rights and restricted stock rights, are granted to key employees without payment to the company.

Under the 2001 LTISP, recipients of restricted performance stock rights earn shares of Northrop Grumman’s stock, based on financial metrics determined by Northrop Grumman’s Board of Directors in accordance with the plan. For grants prior to 2007, if the objectives have not been met at the end of the applicable performance period, a substantial portion of the original grant will be forfeited. If the
NORTHROP GRUMMAN SHIPBUILDING

financial metrics are met or exceeded during the performance period, all recipients can earn up to 150 percent of the original grant. Beginning in 2007, all recipients could earn up to 200 percent of the original 2007 grant if financial metrics are exceeded. Restricted stock rights issued under either plan generally vest after three years. Termination of employment can result in forfeiture of some or all of the benefits extended.

Compensation Expense

Total stock-based compensation allocated to NGSB by Northrop Grumman for the value of such awards granted to company employees for the years ended December 31, 2010, 2009, and 2008, was $16 million, $11 million, and $13 million, respectively, of which $1 million, $1 million, and $1 million related to stock options and $15 million, $10 million, and $11 million, related to stock awards, respectively. Tax benefits recognized in the consolidated statements of operations for stock-based compensation during the years ended December 31, 2010, 2009, and 2008, were $6 million, $5 million, and $5 million, respectively. The amount of Northrop Grumman shares issued to satisfy stock-based compensation awards are recorded by Northrop Grumman and, accordingly, are not reflected in NGSB’s consolidated financial statements.

Unrecognized Compensation Expense

At December 31, 2010, there was $26 million of unrecognized compensation expense related to unvested awards granted under Northrop Grumman’s stock-based compensation plans for company employees, of which $2 million related to stock options and $24 million related to stock awards. These amounts are expected to be charged to expense over a weighted-average period of 1.3 years.

Stock Options

The fair value of each of Northrop Grumman’s stock option awards is estimated on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the table below. The fair value of Northrop Grumman’s stock option awards is expensed on a straight-line basis over the vesting period of the options, which is generally three to four years. Expected volatility is based on an average of (1) historical volatility of Northrop Grumman’s stock and (2) implied volatility from traded options on Northrop Grumman’s stock. The risk-free rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. Northrop Grumman uses historical data to estimate future forfeitures. The expected term of awards granted is derived from historical experience under Northrop Grumman’s stock-based compensation plans and represents the period of time that awards granted are expected to be outstanding.

The significant weighted-average assumptions used by Northrop Grumman relating to the valuation of Northrop Grumman’s stock options for the years ended December 31, 2010, 2009, and 2008, was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend yield</td>
<td>2.9%</td>
<td>3.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Volatility rate</td>
<td>25%</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>Risk-free interest rate</td>
<td>2.3%</td>
<td>1.7%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Expected option life (years)</td>
<td>6</td>
<td>5 &amp; 6</td>
<td>6</td>
</tr>
</tbody>
</table>

Northrop Grumman generally grants stock options exclusively to executives, and the expected term of six years is based on these employees’ historical exercise behavior. In 2009, Northrop Grumman granted options to non-executives and assigned an expected term of five years for valuing these options. Northrop Grumman and the company believe that this stratification of expected terms best represents future expected exercise behavior between the two employee groups.

The weighted-average grant date fair value of Northrop Grumman’s stock options granted during the years ended December 31, 2010, 2009, and 2008, was $11, $7, and $15, per share, respectively.

Stock option activity for the year ended December 31, 2010, was as follows:

F-31
<table>
<thead>
<tr>
<th>Shares Under Option (in thousands)</th>
<th>Weighted-Average Exercise Price</th>
<th>Weighted-Average Remaining Contractual Term</th>
<th>Aggregate Intrinsic Value ($ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding at January 1, 2010</td>
<td>1,139</td>
<td>$ 53</td>
<td>4 years</td>
</tr>
<tr>
<td>Granted</td>
<td>123</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Exercised</td>
<td>(91)</td>
<td>46</td>
<td></td>
</tr>
<tr>
<td>Cancelled and forfeited</td>
<td>(10)</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>Outstanding at December 31, 2010</td>
<td>1,161</td>
<td>$ 54</td>
<td>3.5 years</td>
</tr>
<tr>
<td>Vested and expected to vest in the future at December 31, 2010</td>
<td>1,148</td>
<td>$ 54</td>
<td>3.5 years</td>
</tr>
<tr>
<td>Exercisable at December 31, 2010</td>
<td>891</td>
<td>$ 54</td>
<td>2.9 years</td>
</tr>
</tbody>
</table>

The intrinsic value of options exercised during the years ended December 31, 2010, 2009, and 2008, was $2 million, zero, and $2 million, respectively. Intrinsic value is measured using the fair market value at the date of exercise (for options exercised) or at December 31 for the applicable year (for outstanding options), less the applicable exercise price.

Stock Awards

The fair value of stock awards is determined based on the closing market price of Northrop Grumman’s common stock on the grant date. Compensation expense for stock awards is measured at the grant date based on fair value and recognized over the vesting period. For purposes of measuring compensation expense, the amount of shares ultimately expected to vest is estimated at each reporting date based on management’s expectations regarding the relevant performance criteria.

Stock award activity for the year ended December 31, 2010, is presented in the table below. Vested awards include stock awards fully vested during the year and net adjustments to reflect the final performance measure for issued shares.

<table>
<thead>
<tr>
<th>Stock Awards (in thousands)</th>
<th>Weighted-Average Grant Date Fair Value</th>
<th>Weighted-Average Remaining Contractual Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding at December 31, 2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Granted</td>
<td>436</td>
<td>$ 58</td>
</tr>
<tr>
<td>Vested</td>
<td>272</td>
<td>60</td>
</tr>
<tr>
<td>Forfeited</td>
<td>(142)</td>
<td>82</td>
</tr>
<tr>
<td>(11)</td>
<td></td>
<td>52</td>
</tr>
<tr>
<td>Outstanding at December 31, 2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>555</td>
<td>$ 53</td>
</tr>
</tbody>
</table>

During the year ended December 31, 2010, 136,000 shares of Northrop Grumman’s common stock were issued to company employees in settlement of prior year stock awards that were fully vested, with a total value upon issuance of $8 million and a grant date fair value of $10 million. During the year ended December 31, 2009, 284,000 shares of Northrop Grumman’s common stock were issued to company employees in settlement of prior year stock awards that were fully vested, with a total value upon issuance of $13 million and a grant date fair value of $19 million. During the year ended December 31, 2008 348,000 shares were issued to company employees in settlement of prior year stock awards that were fully vested, with a total value upon issuance of $19 million and a grant date fair value of $28 million. The differences between the fair values at issuance and the grant date fair values reflect the effects of the performance adjustments and changes in the fair market value of the company’s common stock.

In 2011, Northrop Grumman expects, upon approval of the Compensation Committee of the Board of Directors, to issue to company employees an additional 142,000 shares of common stock that vested as of December 31 2010, with a grant date fair value of $11 million.

19. RELATED PARTY TRANSACTIONS AND PARENT COMPANY EQUITY

Allocation of General Corporate Expenses

The consolidated financial statements reflect an allocation of general corporate expenses from Northrop Grumman, including allowable and unallowable costs as defined by the FAR. The allowable portion of these costs have historically been allocated to NGSB’s contracts, unless prohibited by the FAR. These costs generally fall into one of the following categories:

**Northrop Grumman management and support services** — This category includes costs for functions such as human resources, treasury, insurance risk management, internal audit, finance, tax, legal, executive office and other administrative support. Human resources, employee benefits administration, treasury and insurance risk management are generally allocated to the company based on relative
net payroll dollars; internal audit is generally allocated based on audit hours incurred related to the company; and the remaining costs are generally allocated using a three-factor-formula that considers the company’s relative amounts of revenues, payroll and average asset balances as compared to the total value of these factors for all Northrop Grumman entities utilizing these support services (the Three Factor Formula). The consolidated financial statements include Northrop Grumman management and support services allocations totaling $115 million, $82 million, and $95 million for the years ended December 31, 2010, 2009, and 2008, respectively.

**Shared services and infrastructure costs** — This category includes costs for functions such as information technology support, systems maintenance, telecommunications, procurement and other shared services. These costs are generally allocated to the company using the Three Factor Formula or based on usage. The consolidated statement of operations reflects shared services and infrastructure costs allocations totaling $325 million, $325 million and $323 million for the years ended December 31, 2010, 2009 and 2008, respectively.

**Northrop Grumman-provided benefits** — This category includes costs for group medical, dental and vision insurance, 401(k) savings plan, pension and postretirement benefits, incentive compensation and other benefits. These costs are generally allocated to the company based on specific identification of the benefits provided to company employees participating in these benefit plans. The consolidated financial statements include Northrop Grumman-provided benefits allocations totaling $725 million, $680 million and $637 million for the years ended December 31, 2010, 2009, and 2008, respectively.

Management believes that the methods of allocating these costs are reasonable, consistent with past practices, and in conformity with cost allocation requirements of CAS or the FAR.

**Related Party Sales and Cost of Sales**

NGSB purchases and sells products and services from other Northrop Grumman businesses. Purchases of products and services from these affiliated entities, which were recorded at cost, were $97 million, $100 million, and $73 million in 2010, 2009, and 2008, respectively. Sales of products and services to these entities were $8 million, $9 million, and $8 million in 2010, 2009, and 2008, respectively. No intercompany trade receivables or payables were outstanding as of the years ended December 31, 2010, and 2009.

**Notes Payable to Parent**

The company had $715 million and $537 million of promissory notes outstanding with Northrop Grumman as of December 31, 2010 and 2009, respectively. These notes were issued in conjunction with Northrop Grumman’s purchase of Newport News Shipbuilding in 2001 and the tender and purchase of $178 million of the GO Zone IRBs in November 2010 discussed in Note 11. These notes are payable on demand and include $537 million of principal with an annual interest rate of 5% and $178 million of principal with an annual interest rate of 4.55%. None of the notes require periodic payments. Accrued and unpaid interest totaled $239 million and $212 million for the years ended December 31, 2010, and 2009, respectively. Intercompany interest expense of $27 million for each of the years ended December 31, 2010, 2009, and 2008 is included in interest expense in the consolidated statements of operations.

**Parent's Equity in Unit**

Intercompany transactions between NGSB and Northrop Grumman have been included in these consolidated financial statements and are considered to be effectively settled for cash at the time the transaction is recorded. The net effect of the settlement of these transactions is reflected as parent’s equity in unit in the consolidated statements of financial position.

## 20. UNAUDITED SELECTED QUARTERLY DATA

Unaudited quarterly financial results are set forth in the following tables.

### 2010

<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>$1,712</td>
<td>$1,610</td>
<td>$1,665</td>
<td>$1,736</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>87</td>
<td>(20)</td>
<td>77</td>
<td>104</td>
</tr>
<tr>
<td>Earnings (loss) before income taxes</td>
<td>77</td>
<td>(30)</td>
<td>67</td>
<td>92</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>41</td>
<td>(11)</td>
<td>42</td>
<td>63</td>
</tr>
</tbody>
</table>

In the second quarter of 2010, Northrop Grumman announced plans to consolidate NGSB’s Gulf Coast operations by winding down its operations at the Avondale, Louisiana facility in 2013 after completing LPD-class ships currently under construction. As a result of this decision, the company recognized a $113 million pre-tax charge to operating income for the contracts under construction at Avondale.

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In the third quarter of 2010, NGSB determined that costs to complete post-delivery work on LHD 8 exceeded original estimates resulting in a charge of $30 million. Also in the third quarter, the company realized $24 million in unfavorable performance adjustments on LPD-24 Arlington, which was more than offset by $31 million in milestone incentives on the total LPD-22 through LPD-25 contract.

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.

<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>
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Northrop Grumman Corporation
Los Angeles, California

We have audited the accompanying statement of financial position of Huntington Ingalls Industries, Inc. (the “Company”), a wholly owned subsidiary of Northrop Grumman Corporation, as of December 31, 2010. This financial statement is the responsibility of the Company’s management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial position is free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial position, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial position presentation. We believe that our audit of the statement of financial position provides a reasonable basis for our opinion.

In our opinion, such statement of financial position presents fairly, in all material respects, the financial position of Huntington Ingalls Industries, Inc. as of December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
Virginia Beach, Virginia
February 21, 2011

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HUNTINGTON INGALLS INDUSTRIES, INC.

STATEMENT OF FINANCIAL POSITION

<table>
<thead>
<tr>
<th>in whole dollars</th>
<th></th>
<th>December 31, 2010</th>
</tr>
</thead>
</table>

### Assets
- Cash and cash equivalents | $100
- **Total assets** | $100

### Shareholder’s Equity
- Common stock, $1 par value; 100 shares authorized, issued and outstanding at December 31, 2010 | $100
- **Total shareholder’s equity** | $100
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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