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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 1998

OR

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

For the transition period from to

Commission file number 001-14287

USEC INC.
(Exact name of registrant as specified in its charter)

DELAWARE	52-2107911
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2 DEMOCRACY CENTER, 6903 ROCKLEDGE DRIVE, BETHESDA, MD (Address of principal executive offices)	20817 (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (301) 564-3200

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

TITLE OF EACH CLASS	NAME OF EXCHANGE ON WHICH REGISTERED
Common Stock, par value $.10 per share	New York Stock Exchange

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

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _____ No X (The Company became subject to the filing requirements under the Securities Exchange Act of 1934 on July 22, 1998).

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of August 31, 1998, the market value of the Common Stock held by non-affiliates of the registrant calculated by reference to the closing price of the registrant's Common Stock as reported on the New York Stock Exchange was $1,450.0 million. As of August 31, 1998, there were 100 million shares of Common

Stock, par value $.10 per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

None

USEC INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

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THIS ANNUAL REPORT ON FORM 10-K INCLUDES CERTAIN FORWARD-LOOKING INFORMATION (WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995) THAT INVOLVE RISK AND UNCERTAINTY, INCLUDING CERTAIN ASSUMPTIONS REGARDING THE FUTURE PERFORMANCE OF THE COMPANY. ACTUAL RESULTS AND TRENDS MAY DIFFER MATERIALLY DEPENDING UPON A VARIETY OF FACTORS, INCLUDING, WITHOUT LIMITATION, MARKET DEMAND FOR THE COMPANY'S SERVICES, PRICING TRENDS IN THE MARKETS IN WHICH THE COMPANY OPERATES, THE COMPANY'S ABILITY TO SUCCESSFULLY EXECUTE ITS INTERNAL PERFORMANCE PLANS, THE CYCLICAL NATURE OF THE COMPANY'S BUSINESS AND THE IMPACT OF ANY GOVERNMENT REGULATION. FURTHER, CUSTOMER COMMITMENTS UNDER THEIR CONTRACTS WITH THE COMPANY ARE BASED ON CUSTOMERS' ESTIMATES OF THEIR FUTURE REQUIREMENTS.

PART I

ITEM 1. BUSINESS

OVERVIEW

USEC Inc. ("USEC" or the "Company") is the world leader in the production and sale of uranium fuel enrichment services for commercial nuclear power plants. The Company, including its wholly owned subsidiaries, was organized under Delaware law in May 1998 in connection with the privatization of the United States Enrichment Corporation, a federally-chartered corporation then wholly owned by the U.S. Government. The federal corporation had been created under the Energy Policy Act of 1992 to take over the uranium enrichment enterprise of the U.S. Government that had been operated by the U.S. Department of Energy ("DOE") and its predecessor agencies for nearly forty years. In accordance with the 1996 USEC Privatization Act ("Privatization Act"), the assets and obligations of the federal corporation were transferred to subsidiaries of the Company, and the Company completed its initial public offering of common stock in July 1998 ("Offering"), thereby transferring all of the U.S. Government's interest in the business to the private sector and completing the privatization. References herein to the "Company" or "USEC" include the Company's wholly owned subsidiaries as well as the federally-chartered predecessor to the Company unless the context requires otherwise.

SERVICES AND PRODUCTS

The Company supplies uranium enrichment services to approximately 60 electric utilities for use in about 170 nuclear reactors located in 14 countries throughout the world. As found in nature, uranium consists of three isotopes, the two principal ones being uranium-235 (U(235)) and uranium-238 (U(238)).

U(238) is the more abundant isotope, but is not fissionable. U(235) is the fissionable isotope, but its concentration in natural uranium is only about .711% by weight. Light water nuclear reactors, which are operated by most nuclear utilities in the world today, require low enriched uranium fuel, or LEU, with a U(235) concentration in the range of 3% to 5% by weight. Uranium enrichment is the process by which the concentration of U(235) is increased to that level. The standard of measure of service in the uranium enrichment industry is separative work units or SWU. A SWU is the amount of effort that is required to transform a given amount of natural uranium into two streams of uranium, one enriched in the U(235) isotope and the other depleted in the U(235) isotope.

Substantially all of the Company's revenue is derived from the sale of uranium enrichment services with customers supplying the natural uranium feed stock to be enriched. The Company also derives a relatively small amount of revenue from sales of enriched uranium product or EUP. With respect to sales of EUP, the Company supplies the natural uranium feed stock and enriches it for customers. The Company has a significant inventory of natural uranium which it may sell to customers as natural uranium or in the form of EUP.

The Company's contracts with its customers are multi-year "requirements" contracts pursuant to which the customer is obligated to purchase a specified percentage of its requirements for enrichment services from the Company. Consequently, the Company's annual sales are dependent upon the customers' requirements for the Company's services, which are driven by nuclear reactor refueling schedules, reactor maintenance schedules, customers' considerations of costs, and regulatory actions. Transactions are small in number but large in size, with a typical order averaging $14.0 million in value. Additional information regarding the Company's contracts with customers is included in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Domestic customer purchases accounted for 63% of the Company's fiscal 1998 revenue and foreign customers represented 37%. No one customer accounted for more than 10% of revenue in fiscal years 1998 or 1997. Information with respect to the Company's export sales for fiscal years 1998, 1997 and 1996 is included in the Financial Statements included in this Annual Report on Form 10-K. The Company has provided extended payment terms to an Asian customer with respect to an overdue trade receivable of $36.0 million at June 30, 1998.

The Company has been designated by the U.S. Government to act as its Executive Agent in connection with a government-to-government agreement between the United States and the Russian Federation relating to the acquisition of enriched uranium recovered from dismantled nuclear weapons from the former Soviet Union. In January 1994, the Company signed a commercial agreement (the "Russian HEU Contract") with AO Techsnabexport ("Tenex"), Executive Agent for the Russian Federation. Under the contract, USEC expects to purchase up to approximately 92 million SWU over a 20-year period according to a specified schedule.

Pursuant to the Russian HEU Contract, USEC ordered 4.4 million SWU in calendar 1998, of which .8 million SWU had been delivered as of June 30, 1998, and 5.5 million SWU have been ordered for calendar 1999. USEC has committed to order up to 5.5 million SWU in each of the calendar years 2000 and 2001. The quantities and the mechanism for establishing prices for SWU purchases under the Russian HEU Contract through 2001 have been set, although prices for SWU delivered in 1999, 2000 and 2001 are subject to price adjustments based on U.S. inflation.

In April 1997, the Company entered into a memorandum of agreement (the "Executive Agent MOA") with the United States Department of State and DOE whereby the Company agreed to continue to serve as the U.S. Executive Agent following the Offering. Under the terms of the Executive Agent MOA, the Company can be terminated, or resign, as U.S. Executive Agent upon the provision of 30

days' notice. In the event of termination or resignation, the Company would have the right and the obligation to purchase SWU that is to be delivered during the calendar year of the date of termination and the following calendar year. The Executive Agent MOA also provides that the U.S. Government can appoint alternate or additional Executive Agents to carry out the government-to-government agreement.

Transportation of natural uranium and EUP to and from the Company's two enrichment facilities is the responsibility of the Company's customers in all but a few cases. The Company transports uranium between the two enrichment facilities by rail and by truck and is responsible for transportation of the Russian LEU from St. Petersburg, Russia. The uranium material is packaged in cylinders which are placed in protective overpacks and shipped on container ships and carried by trucks using special trailers.

BACKLOG

Under the Company's contracts, customers are required to provide non-binding estimates of their SWU requirements to facilitate the Company's ability to forecast production requirements and revenue. Backlog is the aggregate dollar amount of enrichment services that the Company expects to sell pursuant to its multi-year requirements contracts with utilities. Based on customers' estimates of their requirements as of July 31, 1998, the Company had long-term requirements contracts with utilities to provide uranium enrichment services aggregating $3.8 billion through fiscal 2001 and $7.2 billion through fiscal 2009 compared with $8.0 billion at July 31, 1997.

VARIABILITY OF REVENUE AND OPERATING RESULTS

The Company's revenue and operating results can fluctuate significantly from quarter-to-quarter, and in some cases, year-to-year. Customer requirements are determined by refueling schedules for nuclear reactors, which generally range from 12 to 18 months (or in some cases up to 24 months), and are in turn affected by, among other things, the seasonal nature of electricity demand, reactor maintenance, and reactors beginning or terminating operations. Utilities typically schedule the shutdown of their reactors for refueling to coincide with the low electricity demand periods of spring and fall. Thus, some reactors are scheduled for fall refueling, spring refueling or for 18-month cycles alternating between both seasons. In addition, USEC provides customers a window ranging from 10 to 30 days to take delivery of ordered product. Refueling orders typically average $14.0 million per customer order for the Company's uranium enrichment services. The Company plans its cash outlays for power and other production costs, a significant portion of which is fixed in the short term, on the basis of meeting customer orders and achieving revenue targets for the year. As a result,

a relatively small change in the timing of customer orders may cause earnings and cash flow results to be substantially above or below expectations.

GDP OPERATIONS; MATERIALS AND SUPPLIES

The Company enriches uranium at two gaseous diffusion plants (the "GDPs") located at Paducah, Kentucky and near Portsmouth, Ohio. The gaseous diffusion process involves the passage of uranium hexafluoride or UF(6) in a gaseous form through a series of filters (or porous barriers) such that the UF(6) is continuously enriched in U(235) as it moves through the process. Because U(235) is lighter, it passes through the barrier more readily than does U(238), resulting in a gaseous uranium that is enriched in U(235), the fissionable isotope.

The GDPs require substantial amounts of electricity to enrich uranium. The Company acquires most of its electric power from two corporations, Ohio Valley Electric Corporation ("OVEC") and Electric Energy, Inc. ("EEI"), that were formed in the 1950s to supply power to the GDPs. Pursuant to power purchase

agreements between DOE and OVEC and EEI, most of the electricity produced at the two power plants owned by OVEC and one such plant owned by EEI serves the GDPs. Under an agreement between DOE and the Company (the "Electricity MOA"), DOE has transferred the benefits of these power purchase arrangements to the Company. The Company also acquires electric power under an agreement with the Tennessee Valley Authority. Historically, the Company has purchased approximately two-thirds of its electric power requirements as firm energy and the remaining one-third as non-firm energy.

The process equipment at the GDPs has historically had low failure rates. Failed components (such as compressors, coolers, motors and valves) are removed from the process and repaired or rebuilt on site at each of the GDPs. Common industrial components, such as the breakers, condensers and transformers in the electrical system, are procured as needed. In light of the fact that the GDPs were initially constructed in the 1950s, some components and systems may no longer be produced, and spares for such parts may not be readily available. In these situations, replacement components or systems are identified, tested, and procured from existing commercial sources, or the plants' technical and fabrication capabilities are utilized to design and build replacements. Another source of replacement equipment has been DOE's Oak Ridge, Tennessee, enrichment facility, which has been shut down.

The GDPs use freon as the primary process coolant. The production of freon in the United States was terminated December 31, 1995. In order to ensure that the Company continues to have enough freon to meet its needs, the Company is actively working to reduce leakage from pipe joints, sight glasses and condensers. Leakage from the GDPs is at about a 6% rate, resulting in leakage of 750,000 pounds of freon per year. The Company believes that its efforts to reduce freon losses and its strategic inventory of 2.7 million pounds of freon should be adequate to allow the GDPs to continue to utilize freon through at least the year 2001. A program is underway to identify and validate an alternative coolant to be used once the freon inventory is depleted.

The Company has an operations and maintenance contract with Lockheed Martin Utility Services, Inc. ("LMUS"), a subsidiary of Lockheed Martin Corporation under which LMUS provides the labor, services, materials and supplies required to operate and maintain the GDPs, other than natural uranium and power. The Company pays LMUS for its costs, subject to strict budget controls and various caps on liability. LMUS is paid a base fee and has the ability to earn incentive fees by demonstrated improvements in production capability, regulatory performance, cost reduction, safety and customer responsiveness. There is also a provision for an independent additional one-time bonus at the end of the initial three-year contract on September 30, 1998. The LMUS Contract expires October 2000, and may be terminated by the Company without penalty at any time upon six-months' notice.

In fiscal 1998, the Company received 3,800 metric tons of natural uranium and 45 metric tons of LEU from DOE to satisfy certain obligations of DOE to the Company. The Company cannot deliver such uranium for commercial use in the United States over less than a four-year period. In addition, as directed by the Privatization Act, in fiscal 1998 DOE transferred 7,000 metric tons of natural uranium to the Company and will deliver 50 metric tons of highly enriched uranium (representing 3.4 million SWU and 5,000 metric tons of

natural uranium) to the Company over the period September 1998 to September 2003. The Privatization Act places certain limits on the Company's ability to deliver this material for commercial use in the United States.

ADVANCED LASER-BASED TECHNOLOGY

AVLIS

USEC is developing an advanced uranium enrichment technology known as Atomic Vapor Laser Isotope Separation ("AVLIS") technology at facilities at Lawrence Livermore National Laboratory ("LLNL") in California. The AVLIS

technology involves processing a uranium metal alloy feedstock, through the use of lasers and an enriched uranium collection system. The lasers selectively ionize the U(235) isotopes, which become attracted to charged collector plates. Under AVLIS, a large percentage of the U(235) isotopes can be selectively ionized and separated from the U(238) isotopes in one pass -- as compared to the gaseous diffusion or centrifuge processes where isotope selectivity is several orders of magnitude less and requires many more repetitions to achieve the desired enrichment. Based on engineering studies and demonstrated systems performance capability, the Company believes that an AVLIS facility would use 5% to 10% of the power currently used by the GDPs to produce each SWU, require significantly less capital investment than new centrifuge plants, and use about 20% to 30% less natural uranium to produce comparable amounts of enriched uranium. In addition, the ability to use modular architecture in designing a laser-based system allows for flexible deployment, enabling capacity to be added as market demand so warrants.

AVLIS deployment is expected to be accomplished in two phases with commercial deployment anticipated to begin in 2005. During the first phase, the Company will complete performance demonstration and design activities, and site and license the AVLIS plant. During the second phase, the Company will procure equipment, construct the plant and begin operations. In fiscal 1998, the Company continued development and demonstration of plant-scale components and focused on the integrated operation of the laser and separator systems to produce significant amounts of enriched uranium. The Company also began interactions with the Nuclear Regulatory Commission ("NRC") in preparation for submittal of a license application. The Company spent $134.7 million on AVLIS project development costs in fiscal 1998 and $133.7 million and $102.0 million in fiscal years 1997 and 1996, respectively.

SILEX

In fiscal 1997, USEC entered into an exclusive agreement to explore another advanced laser-based enrichment technology, called SILEX. USEC is currently evaluating whether the SILEX technology has the potential to be deployable as an economic source of enrichment production in the early 21st century. The Company's spending on SILEX development activities amounted to $7.8 million in fiscal 1997 and $2.0 million in fiscal 1998.

PATENTS

The enrichment technology currently employed at the GDPs has been in use by the Company and its predecessors for over forty years and remains classified under federal law. Consequently, with respect to gaseous diffusion technology, the Company believes that patents have little or no importance to its operations or the industry. The Company holds a large number of patents covering the AVLIS technology and is aware of patents issued to third parties which cover certain technology used in laser-based products. The Company generally considers its patents and the rights it may be required to obtain under third-party patents important to the planned development and deployment of the AVLIS technology.

COMPETITION

The highly competitive global uranium enrichment industry has four major producers -- USEC; Tenex, a Russian government entity; Eurodif, a multinational consortium controlled by the French government; and Urenco, a consortium of British and Dutch governments and private German utilities. There are also smaller suppliers in China and Japan that primarily serve only a portion of their respective domestic markets. While there are only a few primary suppliers, there is an excess of production capacity as well as an additional supply

of enriched uranium which is available for commercial use from the dismantlement of nuclear weapons in the former Soviet Union and the United States. Most of this excess capacity is held by Tenex, which is subject to certain trade restrictions. USEC also holds significant excess capacity.

Tenex, Urenco and Japan Nuclear Fuels Limited ("JNFL") use centrifuge technology that requires a higher initial capital investment but has lower operating costs than current gaseous diffusion technology. Urenco and JNFL have both announced expansion plans, which together could increase capacity by 2.0 million SWU after the year 2000. Eurodif and JNFL have announced that they are exploring new enrichment technologies.

The Company believes that it is well positioned to compete successfully in the industry. Global enrichment suppliers compete primarily in terms of price, and to a lesser degree on reliability of supply and customer service. The Company believes that its prices are competitive. Further, the Company is committed to delivering superior customer service. The Company believes that customers are attracted to its reputation as a reliable long-term supplier of enriched uranium, and the Company intends to continue strengthening this reputation.

NRC REGULATION

The GDPs are certified and regulated extensively by the NRC. The NRC issued Certificates of Compliance to the Company for the operation of the GDPs in November 1996 and began regulatory oversight of the Company's operations at the GDPs in March 1997. The NRC found the GDPs to be generally in compliance with NRC regulations, but exceptions were noted in certain Compliance Plans which set forth binding commitments for actions and schedules to achieve full compliance. Over 90% of the Compliance Plan actions were completed as of July 15, 1998.

Among the actions and schedules in the Compliance Plans, the Company is required to complete seismic upgrading of the two main process buildings at the Paducah GDP to reduce the risk of release of radioactive and hazardous material (UF(6)) in the event of a significant earthquake. The Paducah GDP is located near the New Madrid fault line. In March 1998, the NRC issued direction to complete this upgrade project by June 30, 1999, which originally was estimated to cost $23.0 million, all of which was reimbursed to the Company by transfers of uranium from DOE prior to the Offering. The Company currently believes it will need additional time to complete this project at an additional cost in excess of $30.0 million, a significant portion of which will be capitalized as permanent improvements to the facilities. Until the modifications are completed, the Company continues to maintain strict limits on operations in those buildings so as to minimize the amount of material that could be released in the unlikely event of an earthquake. The Company also was required to complete seismic upgrades on certain equipment at the Paducah GDP by September 30, 1998, which the Company recently completed. These equipment upgrades have effectively mitigated the dominant seismic risk at the plant. The Compliance Plans required the Company to update a DOE analysis to determine what the appropriate earthquake level should be for the evaluation of equipment and structures at the Paducah GDP. The Company has submitted this updated analysis and it is currently being reviewed by the NRC. Depending on the results of this updated analysis and the application of NRC's requirements, additional seismic upgrades may need to be implemented.

The NRC has the authority to issue Notices of Violation ("NOVs") for violations of the Atomic Energy Act of 1954, NRC regulations, or conditions of a Certificate of Compliance, a Compliance Plan, or Order, and to impose civil penalties for certain violations of NRC regulations. In fiscal 1998, the Company received NOVs for certain violations of these regulations and certificate conditions, none of which resulted in a fine exceeding $55,000. The Company does not expect that any notices it has received will have a material adverse effect on the Company's financial position. In each case, the Company took prompt corrective action to bring the facilities back into compliance with NRC regulations and identified long-term improvements as well.

The term of the initial NRC certification of the GDPs expires on December 31, 1998. The Company has submitted an application for renewal of the Certificates of Compliance for the GDPs and anticipates renewal by the NRC prior to the end of calendar 1998. The renewal term is expected to be 5 years.

ENVIRONMENTAL

The Company's operations are subject to various federal, state and local requirements regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. The Company's operations generate low-level radioactive waste that is stored on-site or is shipped off-site for disposal at a commercial facility. In addition, the Company's operations generate hazardous waste and mixed waste (i.e., waste having both a radioactive and hazardous component), most of which is shipped off-site for treatment and disposal. Because of limited treatment and disposal capacity, however, some mixed waste is being temporarily stored at DOE's permitted storage facilities at the GDPs. The Company has entered into consent decrees with the States of Kentucky and Ohio which permit the continued storage of mixed waste at DOE's permitted storage facilities at the GDPs and provide for a schedule for sending the waste to off-site treatment and disposal facilities, generally by the year 2000.

The Company's operations generate depleted UF(6), which is currently being stored at the GDPs. All liabilities arising out of the disposal of depleted UF(6) generated before the Offering are direct liabilities of DOE. Additionally, the Privatization Act requires DOE, upon the Company's request, to accept for disposal the depleted UF(6) generated after the Offering if it is determined to be a low-level radioactive waste, provided the Company reimburses DOE for its costs. In June 1998, the Company paid DOE $50.0 million in consideration for DOE assuming responsibility for a certain amount of depleted UF(6) generated by the Company over the period from October 1998 up to 2005.

Reference is made to Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 8 of the Notes to Financial Statements included in this Annual Report on Form 10-K for information on operating costs and capital expenditures relating to environmental matters.

The GDPs were operated by DOE and its predecessor agencies for approximately 40 years prior to July 1, 1993 (the "Transition Date"). As a result of such operation of the GDPs, there is contamination and other potential environmental liabilities. The Paducah GDP has been designated as a Superfund site, and both GDPs are undergoing investigations under the Resource Conservation and Recovery Act. The Privatization Act provides that the U.S. Government or DOE remains responsible for all liabilities arising from operation of the GDPs before the Offering, except for liabilities relating to the disposal of certain identified wastes generated by the Company and stored at the GDPs. The Privatization Act and the Lease Agreement (as defined below) provide that DOE remains responsible for decontamination and decommissioning of the GDPs.

FOREIGN TRADE MATTERS

The Company's exports to utilities located in countries comprising the European Union take place within the framework of an agreement (the "EURATOM Agreement") for cooperation between the United States and the European Atomic Energy Community, which permits USEC to export LEU to the European Union for as long as the EURATOM Agreement is in effect.

The Company exports to utilities in other countries under similar agreements for cooperation. If any such agreements lapse, terminate or are amended such that the Company could not make sales or deliver enriched uranium to such jurisdictions, it could have a material adverse effect on the Company's financial position and results of operations.

CERTAIN ARRANGEMENTS INVOLVING THE U.S. GOVERNMENT

The Company is a party to certain arrangements with the U.S. Government, including the Executive Agent MOA, the Lease Agreement and the Electricity MOA. In addition, in July 1998 the Company entered into an agreement with the U.S. Treasury Department pursuant to which the Company has committed to operate both GDPs until at least January 1, 2005, subject only to limited exceptions,

including events beyond the Company's control.

In connection with the privatization of the Company, the U.S. Government established an enrichment oversight committee to monitor and coordinate the U.S. Government's efforts with respect to USEC in

furtherance of (i) the full implementation of the government-to-government agreement relating to the disposition of Russian HEU, (ii) the application of statutory, regulatory and contractual restrictions on foreign ownership, control or influence of USEC, (iii) the development and implementation of U.S. Government policy regarding uranium enrichment and related technologies, processes and data, and (iv) the collection and dissemination of information within the U.S. Government relevant to the foregoing objectives. The Company entered into a memorandum of agreement with DOE which establishes annual and quarterly reporting requirements for the Company in support of the Oversight Committee's purposes.

EMPLOYEES

As of June 30, 1998, the Company employed 162 people including 141 at Company headquarters in Bethesda, Maryland, 12 at LLNL and 9 at the GDPs. As of June 30, 1998, LMUS employed approximately 4,250 people at the GDPs: 3,550 involved in enrichment operations and construction activities, and the remainder involved primarily in DOE-funded activities. Additional information regarding DOE-funded activities is included in Note 15 of the Notes to the Financial Statements. Of the GDP workforce, 2,200 are located at the Portsmouth GDP, 1,800 at the Paducah GDP and 250 at LMUS administrative headquarters. Two labor unions represent approximately 48% of the employees at the GDPs. In addition, the Company directs the activities of several contractors which employ 700 people at LLNL in California.

ITEM 2. PROPERTIES

The Paducah and Portsmouth GDPs are among the largest industrial facilities in the world, and are approximately 45 years old. The process buildings at the two GDPs have a total floor area of 330 acres and a ground coverage of 167 acres. The GDPs are designed so that cells or groups of equipment can be taken off line with little or no interruption in the process.

The Paducah GDP is located in McCracken County in western Kentucky and has been in continuous operation since September 1952. The Paducah GDP has been certified by the NRC to produce LEU up to 2.75% U(235) and has a design capacity of 11.3 million SWU per year. Uranium enriched at the Paducah GDP is shipped to the Portsmouth GDP for further enrichment.

The Portsmouth GDP is located in Pike County in south central Ohio and has been in continuous operation since 1956. The plant has been certified by the NRC to produce LEU to a maximum of 10% U(235) and has a design capacity of 7.4 million SWU per year.

Depending on costs for electric power, production cost per SWU is lowest when the GDPs are operated at a production level of 13 million SWU per year, which is lower than the design capacity of the GDPs. As the volume of purchased SWU under the Russian HEU Contract has increased, the Company has operated the GDPs at lower production levels. Under the Russian HEU Contract, purchased SWU will peak in calendar 1999 at 5.5 million SWU.

The Company is continuously upgrading the GDPs. In fiscal 1998, the Company spent $36.5 million for capital expenditures, primarily relating to GDP improvements.

The Company leases the GDPs from DOE pursuant to a lease agreement dated as of July 1, 1993 (the "Lease Agreement"). The Company has the right to extend the Lease Agreement indefinitely, with respect to either or both GDPs, for successive renewal periods. In June 1997, the Company renewed the Lease

Agreement for both GDPs for an additional five-year term expiring on June 30, 2004. The Company may terminate the Lease Agreement, with respect to one or both GDPs, by providing two years' prior notice to DOE. The Company leases most, but not all, of the buildings and facilities at the GDP sites. The Company may increase or decrease the property under the Lease Agreement to meet its changing requirements. Within the contiguous tracts, certain buildings, facilities and areas related to environmental restoration and waste management have been retained by DOE and are not leased to the Company.

Lease Agreement payments include a base rent representing DOE's costs in administering the Lease Agreement, including costs relating to administration of the electric power contracts and costs relating to DOE's regulatory oversight of the GDPs. The cost of the Lease Agreement was $2.9 million in fiscal 1998.

At termination of the Lease Agreement, the Company may leave the property in "as is" condition, but must remove all waste generated by the Company, which is subject to offsite removal, and must place the GDPs in a safe shutdown condition. DOE is responsible for the costs of decontamination and decommissioning of the GDPs. If removal of any of the Company's capital improvements increases DOE's decontamination and decommissioning costs, the Company is required to pay such increases. Title to capital improvements not removed by the Company will automatically be transferred to DOE at the end of the Lease Agreement term.

Under the Lease Agreement, DOE is required to indemnify the Company for costs and expenses related to claims asserted against or incurred by the Company arising out of DOE's operation, occupation or use of the GDPs after the Transition Date. DOE activities at the GDPs since the Transition Date have been focused primarily on environmental restoration and waste management and management of depleted UF(6). DOE is required to indemnify the Company against claims for public liability (i) arising out of or in connection with activities under the Lease Agreement, including transportation and (ii) arising out of or resulting from a nuclear incident or precautionary evacuation. DOE's obligations are capped at the $8.96 billion statutory limit set forth in the Price-Anderson Act for each nuclear incident or precautionary evacuation occurring inside the United States.

In addition to the GDPs, the Company leases its corporate headquarters office space in Bethesda, Maryland, under a lease expiring November 2008. The Company also leases office space in the District of Columbia.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on the Company's results of operations or financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock has been publicly traded on the New York Stock Exchange ("NYSE") under the symbol "USU" since July 23, 1998. The closing price of the Company's common stock on August 31, 1998, as reported on the NYSE, was $14.50 per share. The high and low price of the Company's common stock as of August 31, 1998 was $15.375 and $13.00 per share, respectively.

The Company has authorized 250 million shares of common stock and 25 million shares of preferred stock. At August 31, 1998, 100 million shares of

common stock were issued and outstanding. No preferred shares have been issued. The Company had approximately 42,000 beneficial holders of its common stock as of September 8, 1998.

Pursuant to the provisions of the Energy Policy Act, the Company paid dividends to the U.S. Treasury of $120.0 million in each of the fiscal years 1997 and 1998. At the time of the Offering, the Company paid the U.S. Treasury an exit dividend of $1,709.4 million.

The Company intends to pay annual cash dividends on outstanding shares of common stock at an initial rate of $1.10 per share. The initial quarterly dividend is anticipated to be $.275 per share, payable in the quarter ended December 31, 1998, subject to the Company's earnings, financial condition and cash requirements at the time such dividend is considered. Any declaration of dividends will be subject to the discretion of the Board of Directors of the Company and will depend, among other things, on the Company's

results of operations, financial condition, cash requirements, any restrictions imposed by financing arrangements and any other factors deemed relevant by the Board of Directors at that time.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for the Company should be read in conjunction with the Financial Statements and related notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations. Selected financial data as of and for each of the fiscal years in the five-year period ended June 30, 1998, have been derived from the Financial Statements of the Company which have been audited by Arthur Andersen LLP, independent public accountants.

	YEARS ENDED JUNE 30,					
	1994	1995	1996	1997	1998	1998
	(MILLIONS, EXCEPT PER SHARE DATA)					PRO FORMA(1)
STATEMENT OF INCOME DATA						
Revenue:						
Domestic	$ 831.8	$1,001.9	$ 901.6	$ 950.8	$ 896.2	$ 896.2
Asia	489.0	485.5	441.3	487.5	442.8	442.8
Europe and other	82.5	123.3	69.9	139.5	82.2	82.2
	1,403.3	1,610.7	1,412.8	1,577.8	1,421.2	1,421.2
Cost of sales	983.3	1,088.1	973.0	1,162.3	1,062.1	1,062.1
Gross profit	420.0	522.6	439.8	415.5	359.1	359.1
Special charges for workforce reductions and privatization costs	--	--	--	--	46.6(2)	46.6(2)
Project development costs	44.9	49.0	103.6	141.5	136.7	136.7
Selling, general and administrative	21.4	27.6	36.0	31.8	34.7	34.7
Operating income	353.7	446.0	300.2	242.2	141.1	141.1
Interest expense	--	--	--	--	--	36.0(3)
Other (income) expense, net	3.3	(1.5)	(3.9)	(7.9)	(5.2)	(5.2)
Income before income taxes	350.4	447.5	304.1	250.1	146.3	110.3
Provision for income taxes	--	--	--	--	--	41.9(4)
Net income	$ 350.4	$ 447.5	$ 304.1	$ 250.1	$ 146.3	$ 68.4(5)
Net income per share -- basic and diluted						$ .68(5)
Average number of shares outstanding						100.0

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(1) Gives effect to the Offering, interest expense on borrowings of $550.0 million incurred at the time of the Offering, and the Company's transition to taxable status, as if the Offering transactions had occurred at the beginning of fiscal 1998. See Note 4 of the Notes to Financial Statements for additional information regarding the pro forma financial information.

(2) Special charges amounted to $46.6 million ($28.9 million net of income taxes on a pro forma basis) for fiscal 1998 for costs related to the privatization and certain severance and transition benefits to be paid to GDP workers in connection with workforce reductions over the next two years.

(3) Pro forma interest expense of $36.0 million is based on a weighted average interest rate of 6.55% on $550.0 million of borrowings incurred at the time of the Offering, as if such borrowings had occurred at the beginning of fiscal 1998.

(4) The Company was exempt from federal, state and local income taxes until the Offering. The pro forma provision for income taxes of $41.9 million is based on an effective income tax rate of 38% and assumes the Offering had occurred at the beginning of fiscal 1998.

(5) On a pro forma basis, net income before special charges was $97.3 million or $.97 per share.

	AS OF JUNE 30,					
	1994	1995	1996	1997	1998	1998
	(MILLIONS)					PRO FORMA
BALANCE SHEET DATA						
Cash	$ 735.0	$1,227.0	$1,125.0	$1,261.0	$1,177.8	$ 50.0(1)
Inventories:						
Current assets:						
SWU	$ 500.6	$ 517.7	$ 586.8	$ 573.8	$ 687.0	$ 687.0
Uranium(2)	158.6	165.5	150.3	131.5	184.5	184.5
Materials and supplies	17.0	19.8	15.7	12.4	24.8	24.8
Long-term assets -- uranium	103.6	115.5	199.7	103.6	561.0	561.0
Inventories, net	$ 779.8	$ 818.5	$ 952.5	$ 821.3	$1,457.3	$1,457.3
Total assets	$2,798.9	$3,216.8	$3,356.0	$3,456.6	$3,471.3	$2,392.9
Long-term obligations(3)	191.4	383.2	427.4	451.8	503.3	430.7
Stockholders' equity	1,545.0	1,937.5	2,121.6	2,091.3	2,420.5	1,164.7(4)

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(1) Gives effect to $550.0 million in borrowings at the time of the Offering, a pro forma exit dividend, and the Company's retention of $50.0 million in cash, as if such transactions had occurred at June 30, 1998. See Note 4 of the Notes to Financial Statements for additional information regarding the pro forma financial information.

(2) Excludes uranium provided by and owed to customers.

(3) Long-term obligations include accrued liabilities for depleted UF(6) disposition costs in the amounts of $93.0 million, $212.4 million, $303.0 million, $336.4 million and $372.6 million at June 30, 1994, 1995, 1996, 1997 and 1998, respectively.

Pro forma long-term obligations of $430.7 million at June 30, 1998, give effect to $300.0 million representing the long-term portion of borrowings of

$550.0 million at the time of the Offering and a reduction of $372.6 million for the transfer to DOE of depleted UF(6) generated by the Company.

(4) Pro forma stockholders' equity of $1,164.7 million reflects a pro forma exit dividend of $1,677.8 million, a charge of $5.3 million for expenses of the Offering, and increases to stockholders' equity for the transfer of the liability of $372.6 million for depleted UF(6) disposition costs and deferred income tax benefits of $54.7 million resulting from the Company's transition to taxable status, as if such transactions had occurred June 30, 1998.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, the financial statements and related notes thereto.

USEC, a global energy company, is the world leader in the production and sale of uranium fuel enrichment services for commercial nuclear power plants, with approximately 75% of the North America market and 40% of the world market. Uranium enrichment is a critical step in transforming natural uranium into fuel for nuclear reactors to produce electricity. Based on customers' estimates of their requirements, at July 31, 1998, the Company had long-term requirements contracts with utilities to provide uranium enrichment services aggregating $7.2 billion through fiscal 2009.

The Company is the Executive Agent of the U.S. Government under a government-to-government agreement to purchase SWU recovered from dismantled nuclear weapons from the former Soviet Union for use in commercial electricity production. The Company's cost of sales has been, and will continue to be, adversely affected by amounts paid to purchase SWU under the Russian HEU Contract at prices that are substantially higher than its marginal production cost at the GDPs. As the volume of Russian SWU purchases has increased, the Company has operated the GDPs at lower production levels resulting in higher unit production costs. Pursuant to the Russian HEU Contract, Russian SWU purchases will peak in calendar year 1999 at 5.5 million SWU per year and are expected to remain at that level thereafter.

The Company's agreements with electric utilities are generally long-term requirements contracts under which customers are obligated to purchase a specified percentage of their requirements for uranium enrichment services. Customers, however, are not obligated to make purchases or payments if they do not have any requirements. The stated term of contracts transferred by DOE to the Company on the Transition Date is 30 years, although future purchase obligations thereunder may be terminated by, among other things, giving 10 years' notice, although the Company has allowed shorter notice periods. The terms of new contracts entered into by the Company since the Transition Date range from 3 to 11 years and do not typically provide for advance termination rights. Revenue from sales of SWU under new contracts represented 68% of total revenue in fiscal 1998. The Company believes that the trend for contracts with shorter terms will continue, with the newer contracts generally containing terms in the range of 3 to 7 years.

The Company's revenue and operating results can fluctuate significantly from quarter-to-quarter, and in some cases, year-to-year. Customer requirements are determined by refueling schedules for nuclear reactors, which generally range from 12 to 18 months (or in some cases up to 24 months), and are in turn affected by, among other things, the seasonal nature of electricity demand, reactor maintenance, and reactors beginning or terminating operations. Utilities typically schedule the shutdown of their reactors for refueling to coincide with the low electricity demand periods of spring and fall. Thus, some reactors are

scheduled for fall refueling, spring refueling or for 18-month cycles alternating between both seasons. In addition, USEC provides customers a window ranging from 10 to 30 days to take delivery of ordered product. The timing of larger orders for initial core requirements for new nuclear reactors also can affect operating results. Refueling orders typically average $14.0 million per customer order for the Company's uranium enrichment services. The Company plans its cash outlays for power and other production costs, a significant portion of which is fixed in the short term, on the basis of meeting customer orders and achieving revenue targets for the year. As a result, a relatively small change in the timing of customer orders may cause earnings and cash flow results to be substantially above or below expectations. Notwithstanding this variability, the Company has significant backlog based on customers' estimates of their requirements for uranium enrichment services.

The financial statements, discussed below, are not necessarily indicative of the results of operations and financial position in the future or what the results of operations and financial position would have been had the Company been a private sector stand-alone entity during the periods presented.

Revenue. Substantially all of the Company's revenue is derived from the sale of uranium enrichment services, denominated in SWU. Although customers may buy enriched uranium product without having to supply uranium, virtually all of the Company's contracts are for enriching uranium provided by customers.

Because orders for enrichment to refuel customer reactors (i) occur once in 12, 18 or 24 months, and (ii) are large in amount averaging $14.0 million per order, the percentage of revenue attributable to any customer or group of customers from a particular geographic region can vary significantly quarter-by-quarter or year-by-year. However, customer requirements and orders over the longer term are more predictable. The Company estimates that about two-thirds of the nuclear reactors under contract operate on refueling cycles of 18 months or less, and the remaining one-third operate on refueling cycles greater than 18 months.

Revenue could be negatively impacted by NRC actions suspending operations at domestic reactors under contract with the Company. In addition, business decisions by utilities that take into account economic factors, such as the price and availability of alternate fossil fuels, the need for generating capacity and the cost of maintenance could result in suspended operations or early shutdowns of some reactors under contract with the Company.

The Company's enrichment contracts are denominated in U.S. dollars, and while the Company's revenue is not directly affected by changes in the foreign exchange rate of the U.S. dollar, the Company may have a competitive price disadvantage or advantage depending upon the strength or weakness of the U.S. dollar. This is because the Company's primary competitors' costs are in the major European currencies.

The Company's financial performance over time can also be significantly affected by changes in the market price for SWU. SWU prices have been declining reflecting the trend toward lower prices and shorter contracts in the highly competitive uranium enrichment market and the impact of changes in foreign currency exchange rates. The Company believes that its willingness to provide flexible contract terms has been instrumental in its ability to successfully compete for and capture open demand. The Company also believes that the advent of shorter contract terms is an industry-wide phenomenon; utilities have been experiencing rapid changes in their industry and have been less willing to enter into extended obligations. This trend toward shorter contract terms requires that the Company, as well as its competitors, pursue new sales with greater frequency. The general effect of this is to increase the level of competition among uranium enrichment suppliers for new SWU commitments.

Cost of Sales. Cost of sales is based on the quantity of SWU sold during the period and is dependent upon production costs at the GDPs and SWU purchase costs (the latter mainly under the Russian HEU Contract). Production costs at

the GDPs for fiscal 1998 include purchased electric power (53% of production costs, of which 29% represents non-firm power and 71% represents firm power), labor and benefits (30% of production costs), depleted UF(6) disposition costs (7% of production costs), materials, maintenance and repairs, and other costs (10% of production costs). Since the Company uses the monthly moving average inventory cost method, an increase or decrease in production or purchase costs would have an effect on cost of sales over several periods. The Company's purchases of SWU under the Russian HEU Contract are recorded at acquisition cost plus related shipping costs.

Under its electric power supply arrangements, the Company purchases a significant portion of its electric power at or below market rates based on long-term contracts with dedicated power generating facilities. In fiscal 1998, the Company's average price of electricity was $19.66 per MWh. Power costs vary seasonally with rates being higher during winter and summer and as a function of the extremity of the weather and as a function of demand during peak and off-peak times.

Under the LMUS contract, LMUS provides labor, services, and materials and supplies to operate and maintain the GDPs, for which the Company pays LMUS for its actual costs and contract fees. The LMUS contract expires on October 1, 2000, and may be terminated by the Company without penalty upon six months' notice.

The Company accrues estimated costs for the future disposition of depleted UF(6) generated as a result of its operations. Costs are dependent upon the volume of depleted UF(6) generated and estimated conversion and disposal costs. The Company stores depleted UF(6) at the GDPs and continues to evaluate various proposals for its disposition. Pursuant to the Privatization Act and an agreement with DOE dated May 18, 1998, depleted UF(6) generated by the Company through the date of the Offering was transferred to DOE. In June 1998, the

Company paid $50.0 million to DOE, and DOE assumed responsibility for disposal of a certain amount of depleted UF(6) generated by the Company from its operations at the GDPs from October 1998 to 2005.

The Company leases the GDPs and process-related machinery and equipment at attractive, below-market terms from DOE. Upon termination of the Lease Agreement, USEC is responsible for certain lease turnover activities at the GDPs. Lease turnover costs are accrued over the estimated term of the Lease Agreement which is estimated to extend until 2005. Pursuant to the Energy Policy Act and the Privatization Act, with certain exceptions, the U.S. Government is responsible for all environmental liabilities associated with the operation of the GDPs prior to the time of the Offering and decontamination and decommissioning of the GDPs at the end of their operating lives.

The Company expects to incur additional production costs of $14.8 million per year subsequent to the Offering for taxes other than income taxes and commercial property insurance premiums.

As Executive Agent under the Russian HEU Contract, the Company has committed to purchase 4.4 million SWU in calendar 1998, of which 3.6 million SWU in the amount of $308.8 million is scheduled to be purchased in the six months ended December 31, 1998. In each of calendar years 1999 to 2001, the Company has committed to purchase 5.5 million SWU at the annual amount of $475.8 million, subject to certain purchase price adjustments for U.S. inflation. The Russian HEU Contract has a 20-year term; the Company expects its purchases after 2001 to remain at the 5.5 million SWU per year level.

Project Development Costs. The Company is managing the development and engineering necessary to commercialize AVLIS, including activities relating to: (i) NRC licensing, (ii) uranium feed and product technology, (iii) AVLIS demonstration facilities, and (iv) development and design of plant production facilities. AVLIS project development costs are charged against income as

incurred. The Company intends to capitalize AVLIS development costs associated with facilities and equipment designed for commercial production activities.

In addition, the Company has been evaluating a potential new advanced enrichment technology called "SILEX" and plans to continue evaluating the SILEX technology during fiscal 1999.

Selling, General and Administrative. Selling, general and administrative expenses include salaries and related overhead for corporate personnel, legal and consulting fees and other administrative costs.

Income Taxes. The Company is exempt from federal, state and local income taxes. With the completion of the Offering, the Company has become subject to federal and state income taxes at a combined effective tax rate of 38%.

RESULTS OF OPERATIONS

The following table sets forth certain items as a percentage of revenue:

	FISCAL YEARS ENDED JUNE 30,			
	1996	1997	1998	1998 PRO FORMA
Revenue				
Domestic	64%	60%	63%	63%
Asia	31	31	31	31
Europe and other	5	9	6	6
Total Revenue	100%	100%	100%	100%
Cost of sales	69	74	75	75
Gross profit	31	26	25	25
Special charges for workforce reductions and privatization costs	--	--	3	3
Project development costs	7	9	10	10
Selling, general and administrative	2	2	2	2
Operating income	22	15	10	10
Interest expense	--	--	--	2
Other (income) expense, net	--	(1)	--	--
Income before income taxes	22	16	10	8
Provision for income taxes	--	--	--	3
Net income	22%	16%	10%	5%

RESULTS OF OPERATIONS -- FISCAL YEARS ENDED JUNE 30, 1997 AND 1998

Revenue. Revenue amounted to $1,421.2 million in fiscal 1998, a decline of $156.6 million (or 10%) from $1,577.8 million in fiscal 1997. The decline in revenue was attributable primarily to changes in the timing of customer nuclear reactor refueling resulting in a 12% decline in sales of SWU in fiscal 1998, following a 14% increase in fiscal 1997. During fiscal 1998, the Company provided enrichment services for 100 reactors as compared with 110 in fiscal 1997. The average SWU price billed to customers was $116, an increase of approximately 1% compared with fiscal 1997, notwithstanding the overall trend toward lower prices for contracts negotiated since July 1993 in the highly competitive uranium enrichment market. Sales of uranium to electric utility customers increased to $40.8 million, compared with $25.9 million in fiscal 1997.

Revenue from domestic customers declined $54.6 million (or 6%), revenue from customers in Asia declined $44.7 million (or 9%) and revenue from customers in Europe and other areas declined $57.3 million (or 41%). Changes in geographic mix of revenue in fiscal 1998 resulted primarily from changes in the timing of customers' orders. The decline in domestic revenue also reflects lower commitment levels from two customers, partly offset by higher sales of uranium and a first time sale of SWU for one reactor under a new contract signed by the Company.

Cost of Sales. Cost of sales amounted to $1,062.1 million in fiscal 1998, a decline of $100.2 million (or 9%) from $1,162.3 million in fiscal 1997. The decline in cost of sales was attributable to the 12% decline in sales in SWU from changes in the timing of customers' orders, partially offset by the effects of lower production volume and higher unit costs at the GDPs and an increase in purchased SWU under the Russian HEU Contract. As a percentage of revenue, cost of sales amounted to 75% in fiscal 1998, compared with 74% in fiscal 1997.

SWU unit production costs in fiscal years 1998 and 1997 were adversely affected by lower production facility capability, and the Company incurred additional costs because uneconomic overfeeding of uranium

was necessary at the Portsmouth GDP to compensate for the production lost due to the unavailability of cells in order to ensure that customer requirements would be met.

Electric power costs amounted to $413.8 million (representing 53% of production costs) in fiscal 1998, compared with $530.4 million (representing 59% of production costs) in fiscal 1997, a decline of $116.6 million (or 22%). The decline reflected lower power consumption resulting from lower SWU production and improved power utilization efficiency or SWU production compared with the amount of electric power consumed.

Costs for labor and benefits amounted to $237.7 million in fiscal 1998, an increase of $7.6 million (or 3%) from $230.1 million in fiscal 1997. The increase reflected general inflation.

Costs for the future disposition of depleted UF(6) amounted to $55.7 million in fiscal 1998, a decline of $16.3 million (or 23%) from $72.0 million in fiscal 1997. The decline resulted from lower SWU production overall and, at the Paducah GDP, more efficient operations and economic underfeeding of uranium which in turn resulted in a significant reduction in the generation of depleted UF(6). At June 30, 1998, the Company had accrued a total liability of $372.6 million for the future disposal of depleted UF(6).

SWU purchased under the Russian HEU Contract and other purchase contracts represented 38% of the combined produced and purchased supply mix, compared with 23% for fiscal 1997. Unit costs of SWU purchased under the Russian HEU Contract are substantially higher than the Company's marginal cost of production. The Company purchased SWU derived from HEU, as follows: 3.6 million SWU at a cost of $315.8 million and 1.8 million SWU at a cost of $157.3 million for the fiscal years 1998 and 1997, respectively.

Gross Profit. Gross profit amounted to $359.1 million in fiscal 1998, a decline of $56.4 million (or 14%) from $415.5 million in fiscal 1997. The decline resulted from lower sales of SWU from changes in the timing of customers' orders, lower production volume and higher unit costs at the GDPs, and an increase in purchased SWU under the Russian HEU Contract.

Special Charges. Special charges amounted to $46.6 million for fiscal 1998 for costs related to the privatization and certain severance and transition benefits to be paid to GDP workers in connection with workforce reductions over the next two years.

Project Development Costs. Project development costs, primarily for the

AVLIS project, amounted to $136.7 million for fiscal 1998, a decline of $4.8 million (or 3%) from $141.5 million in fiscal 1997. Engineering and development costs for the future commercialization of the AVLIS uranium enrichment process in fiscal 1998 primarily reflected continuing demonstration of plant-scale components with emphasis shifting toward integrated operation of the laser and separator systems to verify enrichment production economics. Project development costs include costs of $2.0 million in fiscal 1998 and $7.8 million in fiscal 1997 incurred in the evaluation of the SILEX advanced enrichment technology.

Selling, General and Administrative Expenses. Selling, general and administrative expenses amounted to $34.7 million in fiscal 1998, an increase of $2.9 million (or 9%) from $31.8 million in fiscal 1997. As a percentage of revenue, selling, general and administrative expenses amounted to 2.4% in fiscal 1998, compared with 2.0% in fiscal 1997. The increase resulted from higher expenses associated with privatization activities.

Net Income. Net income before special charges amounted to $192.9 million in fiscal 1998, a decline of $57.2 million (or 23%) from $250.1 million in fiscal 1997. As a percentage of revenue, net income before special charges amounted to 13% in fiscal 1998, compared with 16% in fiscal 1997. The decline resulted primarily from lower sales of SWU from changes in the timing of customers' orders and lower gross profit margins. Including special charges, net income in fiscal 1998 amounted to $146.3 million.

On a pro forma basis, as if the Offering had occurred at the beginning of fiscal 1998, net income before special charges for fiscal 1998, adjusted to reflect interest expense on borrowings of $550.0 million at the time of the Offering and a provision for income taxes, was $97.3 million or $.97 per share. Including special charges, net income on a pro forma basis was $68.4 million or $.68 per share.

RESULTS OF OPERATIONS -- FISCAL YEARS ENDED JUNE 30, 1996 AND 1997

Revenue. Revenue amounted to $1,577.8 million in fiscal 1997, an increase of $165.0 million (or 12%) from revenue of $1,412.8 million in fiscal 1996. The increase in revenue for fiscal 1997 resulted principally from: (i) the timing of customer nuclear reactor refuelings; (ii) sales to new customers; and (iii) increased sales to existing customers. Sales of SWU increased 14% in fiscal 1997 following a decline of 14% in fiscal 1996. During fiscal 1997, the Company provided enrichment services for 110 reactors as compared with 101 in fiscal 1996. Revenue for fiscal 1997 included first time sales of SWU for five reactors under Utility Services contracts entered into in earlier years and first time sales for four reactors under new contracts. The average SWU price billed to customers in fiscal 1997 was $115, a decline of approximately 1% compared to fiscal 1996, reflecting the trend toward lower prices for new contracts in the highly competitive uranium enrichment market.

Revenue in fiscal 1997 increased from fiscal 1996 in all geographic areas in which the Company markets enrichment services. Domestic revenue increased $49.2 million or 5%, Asian revenue increased $46.2 million or 10%, and European and other revenue increased $69.6 million, almost double the fiscal 1996 level. In addition to changes in the timing of customer orders, revenue benefitted from initial sales by the Company for six reactors in the United States, one in Asia, and two in Europe. Revenue in fiscal 1997 was somewhat affected by the slowdown of refueling orders for certain reactors in the United States that, for a substantial portion of the fiscal year, had suspended operations pursuant to NRC safety directives or extended outages.

Cost of Sales. Cost of sales amounted to $1,162.3 million in fiscal 1997, an increase of $189.3 million (or 19%) from $973.0 million in fiscal 1996. As a percentage of revenue, cost of sales amounted to 74% and 69% for fiscal years 1997 and 1996, respectively. The increase in cost of sales in fiscal 1997 was attributable mainly to the 14% increase in sales of SWU, higher unit production costs at the GDPs and increased purchases under the Russian HEU Contract. SWU

production costs were higher due to unplanned equipment downtime and increased preventive maintenance activities.

SWU production and related unit production costs in fiscal 1996 were adversely affected by lower gaseous diffusion production capability and increased maintenance activities reflecting efforts to restore GDP production to desired levels. Additional costs were incurred in fiscal 1997 from overfeeding of uranium in the enrichment process at the Portsmouth GDP to partially mitigate lower production capability. In fiscal 1996, production capability at the Paducah GDP was adversely affected by a reduction in electric power from the power supplier in response to an extended period of extremely hot weather.

Electric power costs amounted to $530.4 million (representing 59% of production costs) in fiscal 1997, compared with $486.9 million (representing 55% of production costs) in fiscal 1996, an increase of $43.5 million (or 9%). The increase reflects increased power consumption and, at the Portsmouth GDP, a significant decline in power utilization efficiency along with higher demand charges for firm power. Power utilization efficiency was adversely affected by production equipment difficulties.

Costs for labor and benefits amounted to $230.1 million in fiscal 1997, an increase of $20.3 million (or 10%) from $209.8 million in fiscal 1996. The increase reflects general inflation and higher employment levels.

Costs for the future disposition of depleted UF(6) amounted to $72.0 million in fiscal 1997, a decline of $18.6 million (or 21%) from $90.6 million in fiscal 1996. Costs were lower in fiscal 1997 as the estimated future disposal rate per kilogram of depleted UF(6) was reduced as a result of revised estimates based on new proposals from potential disposal companies.

Increased SWU purchases under the Russian HEU Contract and other purchase contracts also contributed to the higher costs of sales in fiscal 1997. Purchased SWU represented 23% of the combined produced and purchased supply mix in fiscal 1997, compared with 16% in fiscal 1996. Unit costs of SWU purchased under the Russian HEU Contract are substantially higher than the Company's marginal cost of production. The Company purchased SWU derived from HEU, as follows: 1.8 million SWU at a cost of $157.3 million and 1.7 million SWU at a cost of $144.1 million for the fiscal years 1997 and 1996, respectively. In September 1996, in accordance with the Privatization Act, the Company and Tenex amended the Russian HEU Contract to eliminate the Company's obligation to purchase the natural uranium component after calendar year 1996.

Gross Profit. Gross profit amounted to $415.5 million in fiscal 1997, a decline of $24.3 million (or 6%) from $439.8 million in fiscal 1996. Although revenue increased in fiscal 1997, gross profit was adversely affected by higher unit production costs at the GDPs caused mainly by unplanned equipment downtime and increased preventive maintenance activities and increased purchases of SWU under the Russian HEU Contract. Gross profit in fiscal years 1997 and 1996 was also adversely affected by declines in average prices billed to customers.

Project Development Costs. Project development costs, primarily for the AVLIS project, amounted to $141.5 million in fiscal 1997, an increase of $37.9 million (or 37%) from $103.6 million in fiscal 1996. The increase reflects planned engineering and development spending for the future commercialization of the AVLIS uranium enrichment process and, in fiscal 1997, initial costs incurred in the evaluation of SILEX. Increased AVLIS spending was attributable to the demonstration of laser and separator systems and preliminary plant design.

Selling, General and Administrative Expenses. Selling, general and administrative expenses amounted to $31.8 million in fiscal 1997, a decline of $4.2 million (or 12%) from $36.0 million in fiscal 1996. As a percentage of revenue, selling, general and administrative expenses amounted to 2.0% and 2.5% in fiscal years 1997 and 1996, respectively. The decline in fiscal 1997 resulted from a reduction in expenses associated with privatization activities and lower

consulting and other fees.

Other Income. Other income, net of expenses, amounted to $7.9 million in fiscal 1997, an increase of $4.0 million (or 103%) from $3.9 million in fiscal 1996. The increase in fiscal 1997 was attributable to interest earned on payments under the Russian HEU Contract to be applied against future SWU deliveries and fees earned on delivery optimization and other customer-oriented distribution programs.

Net Income. Net income amounted to $250.1 million in fiscal 1997, a decline of $54.0 million (or 18%) from $304.1 million in fiscal 1996. As a percentage of revenue, net income amounted to 16% and 22% for fiscal years 1997 and 1996, respectively. The decline in fiscal 1997 resulted primarily from an increase of $37.9 million in AVLIS development spending and a lower gross profit margin on sales of SWU.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Cash Flow. The Company's principal source of liquidity has been cash flow provided by operating activities. Net cash flows provided by operating activities amounted to $73.3 million in fiscal 1998, compared with $356.1 million in fiscal 1997. Cash flow in fiscal 1998 was reduced by an increase of $142.5 million in inventories, the decline of $103.8 million in net income compared with fiscal 1997, and payments of $66.0 million in fiscal 1998 to DOE relating to the disposition of depleted UF(6), partly offset by an increase of $64.4 million in payables to the Russian Federation for purchases of SWU. In fiscal 1997, the net increase of $50.1 million in payments under the Russian HEU Contract reflects a payment of $100.0 million in December 1996 under the Russian HEU Contract for future deliveries of SWU in calendar years 1998 and 1999.

Net cash flows provided by operating activities amounted to $356.1 million in fiscal 1997, a significant increase over $119.7 million in fiscal 1996. The increase resulted primarily from a reduction of $97.6 million in customer trade receivables in fiscal 1997 from changes in the timing of customer collections and the collection of $29.4 million from DOE for reimbursable regulatory compliance activities, partially offset by the decline of $54.0 million in net income compared with fiscal 1996. As a supplementary activity in support of the Russian HEU Contract, the Company paid $100.0 million in each of fiscal years 1997 and 1996 as credits for future deliveries of SWU under the Russian HEU Contract.

Capital expenditures relating primarily to GDP improvements amounted to $36.5 million, $25.8 million and $15.6 million in fiscal years 1998, 1997 and 1996, respectively. Capital expenditures in fiscal 1998 consist principally of replacement equipment and upgrades to the steam plant and cooling towers. Capital expenditures in fiscal years 1997 and 1996, consisted principally of upgrades to the steam plant and cooling towers, improvements to the enriched product withdrawal facilities, process inventory control systems, cylinder storage facilities and purchases of capital equipment.

Dividends paid to the U.S. Treasury amounted to $120.0 million in each of the fiscal years 1998, 1997 and 1996. Pursuant to the Privatization Act, in December 1996, the Company transferred to DOE the natural uranium component of LEU from HEU purchased under the Russian HEU Contract at a cost of $86.1 million in fiscal 1996 and $74.3 million in fiscal 1997. As a result of the transfer, the total purchase cost of $160.4 million, including related shipping charges, was recorded as a return of capital.

Net working capital amounted to $2,180.9 million and $2,278.0 million at June 30, 1998 and 1997, respectively, and, on a pro forma basis, adjusted to reflect short-term borrowings and the pro forma exit dividend at the time of the Offering, amounted to $797.8 million at June 30, 1998. The Company has provided extended payment terms to an Asian customer with respect to an overdue trade

receivable of $36.0 million at June 30, 1998.

AVLIS Project Expenditures. AVLIS deployment is estimated to cost approximately $2.2 billion from fiscal 1998 through fiscal 2005, of which $550.0 million is expected to be spent during the performance demonstration, design and licensing phase and $1.7 billion during the procurement, construction and startup phase. The Company periodically re-evaluates its AVLIS estimated costs and currently believes this estimate could vary by up to 20%.

Actual AVLIS expenditures may vary from this estimate based on the results of development and demonstration activities or on account of changes in business conditions, regulatory requirements and the timing of NRC licensing, costs of construction labor and materials, the market for uranium enrichment services, and the Company's cost of capital.

Capital Structure and Financial Resources. The Company expects that its cash, internally generated funds from operating activities, and available financing sources including borrowings under the Credit Facility (described below), will be sufficient to meet its obligations as they become due and to fund operating requirements of the GDPs, purchases of SWU under the Russian HEU Contract, capital expenditures and discretionary investments, and AVLIS expenditures in the near term.

The Company borrowed $550.0 million at the time of the Offering, pursuant to a credit facility comprised of three tranches (the "Credit Facility"). Tranche A is a 364-day revolving credit facility for $400.0 million. Tranche B is a 364-day revolving credit facility for $150.0 million which is convertible, at the Company's option, into a one-year term loan. The Company borrowed $550.0 million under Tranche A and Tranche B, transferred $500.0 million of such proceeds to the U.S. Treasury as part of the Exit Dividend of $1,709.4 million and retained $50.0 million in cash. The third tranche, Tranche C, is a five-year revolving credit facility for $150.0 million for working capital and general corporate purposes. Borrowings under the Credit Facility bear interest at a rate equal to, at the Company's option (i) the London Interbank Offered Rate ("LIBOR") plus an "Applicable Eurodollar Margin," or (ii) the Base Rate (as defined). The Applicable Eurodollar Margin is based on the Company's credit rating.

The Credit Facility requires the Company to comply with certain financial covenants, including a minimum net worth and a debt to total capitalization ratio, as well as other customary conditions and covenants, including restrictions on borrowings by subsidiaries. The failure to satisfy any of the covenants would constitute an event of default. The Credit Facility also includes other customary events of default, including without limitation, nonpayment, misrepresentation in a material respect, cross-default to other indebtedness, bankruptcy, and change of control.

On a pro forma basis, as adjusted for the $550.0 million of borrowings under the Credit Facility, the Company's debt-to-capitalization ratio was 32%, as adjusted to include short-term debt, at June 30, 1998. In fiscal 1999, the Company may refinance all or a portion of the borrowings under the Credit Facility with funds raised in the public or private securities markets.

ENVIRONMENTAL MATTERS

In addition to costs for the future disposition of depleted UF(6), the Company incurs operating costs and capital expenditures for matters relating to compliance with environmental laws and regulations, including the handling, treatment and disposal of hazardous, low-level radioactive and mixed wastes generated as a result of

its operations. Operating costs relating to such environmental compliance were $25.4 million, $24.9 million, and $30.4 million, and capital expenditures were $4.4 million, $1.8 million and $3.5 million for fiscal years 1998, 1997 and

1996, respectively. In fiscal years 1999 and 2000, the Company expects its operating costs and capital expenditures for such compliance to remain at about the same levels as in fiscal 1998. The Company expects that costs relating to the future disposal of depleted UF(6) produced from its operations will be lower in fiscal 1999.

The Company paid $50.0 million to DOE in June 1998 in consideration for DOE assuming responsibility for a certain amount of depleted UF(6) generated by the Company from October 1998 to 2005.

Environmental liabilities associated with the GDP operations prior to the date of the Offering are the responsibility of DOE or the U.S. Government, except for liabilities relating to certain identified wastes stored at the GDPs. Environmental liabilities associated with the decontamination and decommissioning of the GDPs are generally the responsibility of DOE, except for additional costs, if any, as a result of the Company's operations.

IMPACT OF YEAR 2000 ISSUE

As a result of certain computer programs and systems using two rather than four digits to define the applicable year, certain of the Company's activities with date-sensitive software and systems may not recognize the year 2000. This could potentially result in system failures or miscalculations causing disruptions of operations or an inability to process transactions.

The Company has been upgrading software programs and systems affected by the year 2000 issues and believes that with modifications to existing software and systems and migration to new software and systems, the year 2000 issues can be substantially mitigated. The Company is in the process of implementing the necessary modifications that are expected to be completed by April 1999. There can be no assurance that such programs will identify and cure all software problems, or that entities on whom the Company relies for certain services integral to its business, such as the electric power suppliers, will successfully address all of their software and systems problems in order to operate without disruption in 2000.

The Company expects its incremental costs for software modifications and systems upgrades to resolve the year 2000 issues will range from $10.0 million to $13.0 million. Pursuant to the Company's financial accounting and reporting policies, purchased hardware and software costs are capitalized, and implementation costs, including consultants' fees, are charged against income as incurred.

CHANGING PRICES AND INFLATION

The GDPs require substantial amounts of electricity to enrich uranium. The Company purchases firm and non-firm power to meet its production needs. Production costs would increase to the extent that the market prices of non-firm power, which represented 29% of the fiscal 1998 power needs, were to rise. In addition, the prices that the Company pays for firm power could increase if there were additional regulatory costs or unanticipated equipment failures at the power plants supplying the firm power to the GDPs.

A majority of the Company's contracts with customers generally provide for prices that are subject to adjustment for inflation. In recent years, inflation has not had a significant impact on the Company's operations, and unless inflation increases substantially, it is not expected to have a material effect.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial instruments are reported on the balance sheet as of June 30, 1998, and include cash, accounts receivable and payable, certain accrued liabilities, and payables under the Russian HEU Contract, the carrying amounts for which approximate fair value. In July 1998, the Company's financial

instruments include debt of $550.0 million borrowed at the time of the Offering.

Information relating to the Company's sensitivity to market prices for SWU, prices of non-firm power, foreign currency exchange rates, and variable rate debt borrowed at the time of the Offering is included in Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements appear at pages F-1 to F-18.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

BOARD OF DIRECTORS

Set forth below are the names, ages, offices, principal occupations and business experience during the past five years of the directors of the Company. Each of the directors has served since July 28, 1998, the closing of the Offering. Each director will hold office until the next Annual Meeting of Shareholders and his or her successor is elected and qualified. There are no family relationships between any of the directors or between any director and any executive officer, nor any arrangement or understanding between any director and any person pursuant to which the director was elected.

NAME	AGE AT JUNE 30, 1998	PRINCIPAL OCCUPATION
James R. Mellor, Chairman.....	68	Retired Chairman and Chief Executive Officer of General Dynamics Corporation
Joyce F. Brown, Ph.D.	51	President of the Fashion Institute of Technology of the State University of New York
Frank V. Cahouet.....	66	Chairman, President and Chief Executive Officer of Mellon Bank Corporation
John R. Hall.....	65	Retired Chairman and Chief Executive Officer of Ashland, Inc.
Dan T. Moore, III.....	58	President of Dan T. Moore Company, Inc.
William H. Timbers, Jr.	48	President and Chief Executive Officer of USEC Inc. and its subsidiaries
William H. White.....	44	President and Chief Executive Officer of WEDGE Group Incorporated

James R. Mellor served as Chairman and Chief Executive Officer of General Dynamics Corporation from 1994 to 1997, and served as President and Chief Executive Officer from 1993 to 1994. He was previously General Dynamics' President and Chief Operating Officer. He also serves on the Board of Directors of Bergen Brunswig Corporation, Computer Sciences Corporation, General Dynamics Corporation, Pinkertons Inc. and United States Surgical Corporation.

Joyce F. Brown is the President of the Fashion Institute of Technology of the State University of New York. From 1994 to 1997 Ms. Brown was a professor of graduate studies at the City University of New York, where she previously held several Vice Chancellor positions. From 1993 to 1994 she served as the Deputy Mayor for Public and Community Affairs in the Office of the Mayor of the City of New York. Ms. Brown also serves on the Board of Directors of Transderm

Laboratories Corporation and Unity Mutual Life Insurance Company.

Frank V. Cahouet has been Chairman and Chief Executive Officer of Mellon Bank Corporation since 1987 and President since 1990. Mr. Cahouet is also a director of Avery Dennison Corporation, Saint-Gobain Corporation, and Allegheny Teledyne Incorporated.

John R. Hall served as Chairman of the Board of Directors of Ashland, Inc. from 1981 to 1997, and served as Chief Executive Officer from 1981 to 1996. He has been Chairman of the Board of Directors of Arch Coal, Inc. since 1997. Mr. Hall is also a director of Banc One Corporation, The Canada Life Assurance Company, CSX Corporation, Humana Inc., LaRoche Industries, Inc., Reynolds Metals Company and UCAR International Inc.

Dan T. Moore, III has been the founder, owner and President since 1969 of Dan T. Moore Company, Inc., a developer of a number of advanced materials companies and technologies. Mr. Moore has also been Chairman of the Board of Directors of the Advanced Ceramics Corporation since 1993. He also serves on the Board of Directors of the Hawk Corporation, Invacare Corporation, and the Cleveland Clinic Foundation.

William H. Timbers, Jr. has been President and Chief Executive Officer of the Company since 1994. He was appointed USEC Transition Manager in March 1993 by President Clinton. Prior to this appointment, Mr. Timbers was President of The Timbers Corporation, an investment banking firm based in Stamford, Connecticut, from 1991 to 1993. Before that, he was a Managing Director of the investment banking firm of Smith Barney, Harris Upham & Co., Inc. in New York and San Francisco.

William H. White has been President and Chief Executive Officer of WEDGE Group Incorporated since 1997. Mr. White founded and has been the Chairman of the Board of Directors of Frontera Resources Corporation and its predecessor, a privately held international energy company, since 1995, and served as President and Chief Executive Officer from 1995 to 1996. From 1993 to 1995, he served as Deputy Secretary and Chief Operating Officer of the United States Department of Energy. Mr. White also serves on the Board of Directors of Edge Petroleum Corporation.

EXECUTIVE OFFICERS

Set forth below are the names, ages, offices, period served and business experience of the executive officers of the Company. All of the executive officers serve at the pleasure of the Board of Directors. There are no family relationships between any of the executive officers or between any director and any executive officer, nor any arrangement or understanding between any executive officer and any person pursuant to which the executive officer was selected.

NAME	AGE AT JUNE 30, 1998	POSITION
William H. Timbers, Jr.	48	President and Chief Executive Officer
George P. Rifakes	64	Executive Vice President, Operations
Henry Z Shelton, Jr.	54	Vice President and Chief Financial Officer
Robert J. Moore	41	Vice President, General Counsel and Secretary
J. William Bennett	51	Vice President, Advanced Technology
Richard O. Kingdon	43	Vice President, Marketing and Sales
James H. Miller	49	Vice President, Production
Philip G. Sewell	52	Vice President, Corporate Development and International Trade
Darryl A. Simon	41	Vice President, Human Resources and Administration

Charles B. Yulish.....	61	Vice President, Corporate Communications

William H. Timbers, Jr. -- See above.

George P. Rifakes has been Executive Vice President, Operations of the Company since 1993. Prior to joining the Company, Mr. Rifakes was Vice President of Commonwealth Edison Company in Chicago, Illinois, where he was employed since 1957 with responsibilities in corporate planning, purchasing, fuel, economic analysis, and least-cost planning and marketing. He also served as President of the Cotter Corporation, a wholly-owned uranium subsidiary of Commonwealth Edison, from 1976 to 1992.

Henry Z Shelton, Jr. has been Vice President, Finance and Chief Financial Officer of the Company since 1993. From 1989 to 1993, Mr. Shelton served as a Board member and Vice President, Finance for Sun International Exploration and Production Company, a subsidiary of the Sun Company, Inc., headquartered in London, England. Previously, Mr. Shelton worked for the Sun Company organization for 23 years.

Robert J. Moore has been General Counsel and Secretary of the Company since 1993 and Vice President, General Counsel and Secretary since 1994. Prior to joining USEC, Mr. Moore was appointed to numerous senior legal and policy positions, serving as Director of the California Governor's Office in Washington, D.C. and as General Counsel to two Presidential and Congressional Commissions.

J. William Bennett has been Vice President, Advanced Technology since 1994. From 1993 to 1994 he served as Vice President, Production of the Company. Immediately before joining the Company, he served as Director of DOE's Office of Uranium Enrichment Operations. Prior to that, he was Director of DOE's Office of Geologic Repositories and Director of DOE's Office of Light Water Reactor Technology. Mr. Bennett has served in the United States Government for 30 years in various positions of increasing responsibility.

Richard O. Kingdon has been Vice President, Marketing and Sales of the Company since 1993. Prior to joining the Company, Mr. Kingdon was Director, Strategic Planning, at Otis Elevator Company, a division of the United Technologies Corporation. From 1990 to 1993, he was Director, Sales and Marketing, for the Otis United Kingdom operation. Prior to 1990, Mr. Kingdon was a Manager in the consulting firm of Bain & Company.

James H. Miller has been Vice President, Production of the Company since September 1995. Before joining the Company, Mr. Miller was President of ABB Environmental Systems, Inc. From 1993 to 1994 he served as President of U.C. Operating Services, a joint venture between Louisville Gas & Electric and Baltimore Gas & Electric Company. From 1986 to 1993 he worked for ABB Resource Recovery Systems, serving as President from 1990 to 1993.

Philip G. Sewell has been Vice President, Corporate Development and International Trade since April 1998, and Vice President, Corporate Development of the Company since 1993. From 1988 to 1993, Mr. Sewell served as Deputy Assistant Secretary of DOE responsible for the overall management of the uranium enrichment program. Mr. Sewell has served in the United States Government for 28 years in various positions of increasing responsibility.

Darryl A. Simon joined USEC as Vice President, Human Resources and Administration in August 1997. Prior to this appointment, Mr. Simon spent seven years with ManorCare Health Services based in Gaithersburg, Maryland, most recently serving as Vice President, Human Resources Planning and Leadership Development. Prior to ManorCare, he held assignments of increasing responsibility within various industries and organizations.

Charles B. Yulish has been Vice President, Corporate Communications of the

Company since 1995. Immediately before joining the Company, Mr. Yulish was Executive Vice President and Managing Director of E. Bruce Harrison Co. Prior to joining E. Bruce Harrison Co. in 1993, he served as partner of Holt, Ross and Yulish. Both companies are energy and environmental public relations firms.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION OF DIRECTORS

Each non-employee director of the Company currently receives an annual retainer of $20,000 for service on the Board of Directors.

COMPENSATION OF NAMED EXECUTIVE OFFICERS

The following table sets forth information regarding the compensation of the Chief Executive Officer and the four most highly paid executive officers of the Company in fiscal years 1998, 1997 and 1996. Since its inception, the Company has not granted any stock awards or stock appreciation rights or made any long-term incentive plan awards or payouts.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION		
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	ALL OTHER COMPENSATION(1)
William H. Timbers, Jr.	1998	$331,400	$25,000	$ 7,540
Chief Executive Officer	1997	325,000	25,000	7,240
	1996	325,000	25,000	6,950
George P. Rifakes	1998	$290,600	$25,000	$ 6,400
Executive Vice President	1997	285,000	25,000	6,200
	1996	285,000	25,000	6,000
Henry Z Shelton, Jr.	1998	$249,800	$25,000	$ 6,400
Vice President and Chief Financial Officer	1997	245,000	25,000	6,200
	1996	245,000	25,000	6,000
Robert J. Moore	1998	$215,200	$25,000	$ 9,328
Vice President, General Counsel and Secretary	1997	211,000	25,000	9,198
	1996	211,000	25,000	10,492
James H. Miller	1998	$203,900	$25,000	$ 6,400
Vice President, Production	1997	200,000	25,000	5,115
	1996	153,800	--	--

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(1) Represents the Company's 401(k) matching contributions and certain life insurance premiums.

PENSION PLAN

The Company maintains a tax-qualified defined benefit pension plan (the "Company's Retirement Plan") for employees not currently enrolled in either the Civil Service Retirement System or the Federal Employees' Retirement System ("FERS"). The following table provides examples of benefits for the Company's Retirement Plan at the normal retirement age of 65 payable as a life annuity. These benefits are not subject to deductions for Social Security.

	YEARS OF PARTICIPATION AT AGE 65 ESTIMATED ANNUAL RETIREMENT BENEFITS				
FINAL AVERAGE COMPENSATION	15	20	25	30	35
-	--	--	--	--	--

$ 50,000....	$ 9,375	$11,250	$13,125	$15,000	$16,875
100,000....	18,750	22,500	26,250	30,000	33,750
150,000....	28,125	33,750	39,375	45,000	50,625
200,000....	30,000	36,000	42,000	48,000	54,000
250,000....	30,000	36,000	42,000	48,000	54,000
300,000....	30,000	36,000	42,000	48,000	54,000
350,000....	30,000	36,000	42,000	48,000	54,000

Earnings are averaged over the five consecutive calendar years during which a participant's earnings were highest. Earnings include salary, overtime, bonuses and commission. Credited Service is based on the number of plan years (January 1 through December 31) commencing January 1, 1994 during which a participant completes at least 1,000 hours of service.

As of June 30, 1998, the years of credited service under the Retirement Plan for Messrs. Timbers, Rifakes, Shelton and Miller were 4.5, 4.5, 4.5 and 2.5, respectively, and 5.0 under FERS for Mr. Moore.

SUPPLEMENTAL EMPLOYEE RETIREMENT PLAN

The Company maintains a supplemental retirement plan (the "SERP") in which Mr. Timbers currently participates. Under the SERP, the participant is entitled to receive a total retirement benefit of 60% of final average salary, commencing at age 62. The value of the benefits from the SERP is offset by the benefits from the Retirement Plan and social security benefits.

EMPLOYMENT AND SEVERANCE AGREEMENTS

The Company is not a party to any employment or severance agreements.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

None of the officers or directors of the Company currently owns any shares of the Company's common stock. Pursuant to an agreement with the U.S. Treasury Department, the officers and directors of the Company have agreed not to, and to use their best efforts to cause their family members not to, acquire any shares or other securities convertible into or exchangeable for shares of the Company's common stock for 180 days following consummation of the Offering.

As of September 18, 1998, based solely upon a review of filings made by third parties pursuant to Sections 13(d) and 13(g) of the Securities Exchange Act of 1934, there are no persons who beneficially own more than 5% of the outstanding shares of common stock of the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In August 1998, the Company entered into an agreement with James Mellor, the Chairman of the Board of Directors, under which Mr. Mellor will provide certain consulting services to the Company. For the period from July 28, 1998 through July 27, 1999, Mr. Mellor will be paid $255,000 for his services under the agreement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) Financial Statements

Financial Statements of the Company are set forth under Item 8 of this Annual Report on Form 10-K.

(a)(2) Financial Statement Schedules

No financial statement schedules are required to be filed.

(a)(3) Exhibits

The following exhibits are filed as part of this Annual Report on Form 10-K:

EXHIBIT NO.	DESCRIPTION
3.1	Certificate of Incorporation of USEC Inc.
3.2	Bylaws of USEC Inc.

EXHIBIT NO.	DESCRIPTION
10.1	Lease Agreement between the United States Department of Energy and the United States Enrichment Corporation dated as of July 1, 1993, including notice of exercise of option to renew.*
10.2	Gaseous Diffusion Plant Operation and Maintenance Contract between Lockheed Martin Utility Services, Inc. and USEC, dated October 1, 1995, including notice of exercise of option to renew.*
10.3	Lockheed Martin Guaranty for Lockheed Martin Utility Services, Inc. with the United States Enrichment Corporation, dated October 1, 1995.*
10.4	Memorandum of Agreement dated December 15, 1994 between the United States Department of Energy and USEC regarding the transfer of functions and activities, as amended.*
10.5	Memorandum of Agreement dated April 27, 1995 between the United States Department of Energy and USEC regarding the transfer and funding of AVLIS, as amended.*
10.6	Composite Copy of Power Agreement, dated October 15, 1952, between Ohio Valley Electric Corporation and the United States of America acting by and through the United States Atomic Energy Commission and, subsequent to January 18, 1975, the Administrator of Energy Research and Development and, subsequent to September 30, 1977, the Secretary of the Department of Energy.*
10.7	Modification No. 16 to power agreement between Ohio Valley Electric Corporation and United States of America acting by and through the Secretary of the Department of Energy, dated January 1, 1998.*
10.8	Modification No. 12, dated September 2, 1987 by and between Electric Energy, Inc., and the United States of America acting by and through the Secretary of the Department of Energy amending and restating the power agreement dated May 4, 1951, together with all previous modifications.*
10.9	Modification Nos. 13, 14 and 15 to power agreement between Electric Energy, Inc., and the United States of America acting by and through the Secretary of the Department of Energy, dated January 18, 1989, March 6, 1991 and October 1, 1992, respectively.*
10.10	Power Contract between Tennessee Valley Authority and USEC,

dated October 12, 1995.*

10.11 Memorandum of Agreement between the United States Department of Energy and the United States Enrichment Corporation for electric power, entered into as of July 1, 1993.*

10.12 Contract between Lockheed Martin Utility Services, Inc., Paducah gaseous diffusion plant and Oil, Chemical and Atomic Workers International Union AFL-CIO and its local no. 3-550, July 31, 1996 - July 31, 2001.*

10.13 Contract between Lockheed Martin Utility Services, Inc., Portsmouth gaseous diffusion plant, and Oil, Chemical and Atomic Workers International Union and its local no. 3-689, April 1, 1996 - May 2, 2000.*

10.14 Contract between Lockheed Martin Utility Services, Inc., Paducah gaseous diffusion plant and International Union, United Plant Guard Workers of America and its amalgamated plant guards local no. 111, January 31, 1997 - March 1, 2002.*

10.15 Contract between Lockheed Martin Utility Services, Inc., Portsmouth gaseous diffusion plant and International Union, United Plant Guard Workers of America and its amalgamated local no. 66, August 3, 1997 - August 4, 2002.*

10.16 Joint Development, Demonstration and Deployment Agreement between Cameco Corporation and USEC, dated July 26, 1996.*

10.17 Contract between USEC, Executive Agent of the United States of America, and Techsnabexport, Executive Agent of the Ministry of Atomic Energy, Executive Agent of the Russian Federation, dated January 14, 1994, as amended.*

10.18 Memorandum of Agreement, dated April 6, 1998, between the Office of Management and Budget and USEC relating to post-privatization liabilities.*

EXHIBIT NO.	DESCRIPTION
10.19	Memorandum of Agreement, dated May 18, 1998, between the United States Department of Energy and USEC relating to depleted uranium generated prior to the privatization date.*
10.20	Memorandum of Agreement, dated April 20, 1998, between the United States Department of Energy and USEC for transfer of natural uranium and highly enriched uranium and for blending down of highly enriched uranium.*
10.21	Agreement, dated as of July 14, 1998, between USEC and the U.S. Department of the Treasury regarding post-closing conduct.*
10.22	Agreement between USEC and DOE regarding provision by USEC of information to the U.S. Government's Enrichment Oversight Committee, dated June 19, 1998.*
10.23	Revolving Loan Agreement, dated July 28, 1998, among Bank of America National Trust and Savings Association, First Union National Bank, Nationsbank, N.A., BancAmerica Robertson Stephens, and USEC Inc.
10.24	Form of Director and Officer Indemnification Agreement.*
10.25	Memorandum of Agreement entered into as of April 18, 1997 between the United States, acting by and through the United States Department of State and the United States Department of Energy, and USEC for USEC to serve as the United States Government's Executive Agent under the Agreement between the United States and the Russian Federation concerning the disposal of highly enriched uranium extracted from nuclear

	weapons.*
10.26	Memorandum of Agreement, entered into as of June 30, 1998, between the United States Department of Energy and USEC regarding disposal of depleted UF(6.)*
10.27	Memorandum of Agreement, entered into as of June 30, 1998, between the United States Department of Energy and USEC regarding certain worker benefits.*
10.28	Agreement dated August 19, 1998 between USEC Inc. and James R. Mellor.
21.1	Subsidiaries of the Registrant.*
27	Financial Data Schedule.

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* Incorporated herein by reference to the Company's Registration Statement on Form S-1, No. 333-57955, filed with the Securities and Exchange Commission on June 29, 1998, and Amendment No. 1 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 20, 1998.

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

USEC INC.

By: /s/ WILLIAM H. TIMBERS, JR.

William H. Timbers, Jr.
President and Chief Executive Officer

September 28, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

SIGNATURE	TITLE	DATE
/s/ WILLIAM H. TIMBERS, JR. William H. Timbers, Jr.	President and Chief Executive Officer (Principal Executive Officer)	September 28, 1998
/s/ HENRY Z SHELTON, JR. Henry Z Shelton, Jr.	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	September 28, 1998
/s/ JAMES R. MELLOR James R. Mellor	Chairman of the Board	September 28, 1998
/s/ JOYCE F. BROWN Joyce F. Brown	Director	September 28, 1998
/s/ FRANK V. CAHOUET	Director	September 28, 1998

Frank V. Cahouet		
/s/ JOHN R. HALL John R. Hall	Director	September 28, 1998
/s/ DAN T. MOORE, III Dan T. Moore, III	Director	September 28, 1998
/s/ WILLIAM H. WHITE William H. White	Director	September 28, 1998

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USEC INC.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of USEC Inc.:

We have audited the accompanying balance sheets of USEC Inc., a Delaware corporation, (formerly United States Enrichment Corporation) as of June 30, 1997 and 1998, and the related statements of income and cash flows for each of the three years in the period ended June 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the financial statements referred to above present fairly, in all material respects, the financial position of USEC Inc. as of June 30, 1997 and 1998, and the results of its operations and its cash flows for each of

the years in the three year period ended June 30, 1998, in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

Washington, D.C.,
July 31, 1998

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of USEC Inc.:

We have examined the pro forma adjustments (not separately presented) reflecting the Offering Transactions as described in Note 4 and the application of those adjustments to the historical amounts in the assembly of the accompanying pro forma balance sheet of USEC Inc. (the "Company") as of June 30, 1998, and the pro forma statement of income for the year then ended. The pro forma financial information presented are derived from the audited historical financial statements of USEC Inc. appearing herein. Such pro forma adjustments are based upon management's assumptions described in Note 4. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary in the circumstances.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the Offering Transactions occurred at an earlier date. However, the pro forma financial information is not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the Offering Transactions actually occurred earlier.

In our opinion, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the Offering Transactions, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma financial information reflects the proper application of those adjustments to the historical financial statement amounts in the pro forma balance sheet as of June 30, 1998, and the pro forma statement of income for the year then ended.

/s/ Arthur Andersen LLP

Washington, D.C.,
July 31, 1998

USEC INC.

BALANCE SHEETS
(MILLIONS, EXCEPT SHARE AND PER SHARE DATA)

	JUNE 30, 1997	JUNE 30, 1998	JUNE 30, 1998 PRO FORMA
ASSETS			
Current Assets			
Cash	$1,261.0	$1,177.8	$ 50.0
Accounts receivable -- customers	249.3	218.5	218.5
Receivables from Department of Energy	134.4	17.9	17.9

Inventories:			
Separative Work Units	573.8	687.0	687.0
Uranium	131.5	184.5	184.5
Uranium provided by customers	726.2	315.0	315.0
Materials and supplies	12.4	24.8	24.8
Total Inventories	1,443.9	1,211.3	1,211.3
Payments for future deliveries under Russian HEU Contract	79.6	63.4	63.4
Other	23.3	39.5	34.2
Total Current Assets	3,191.5	2,728.4	1,595.3
Property, Plant and Equipment, net	111.5	131.9	131.9
Other Assets			
Deferred income taxes	--	--	54.7
Deferred costs for depleted UF(6)	--	50.0	50.0
Uranium inventories	103.6	561.0	561.0
Payment for future deliveries under Russian HEU Contract	50.0	--	--
Total Other Assets	153.6	611.0	665.7
Total Assets	$3,456.6	$3,471.3	$2,392.9
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Short-term debt	$ --	$ --	$ 250.0
Accounts payable and accrued liabilities	159.7	168.0	168.0
Payables to Department of Energy	17.4	14.9	14.9
Uranium owed to customers	726.2	315.0	315.0
Payables under Russian HEU Contract	10.2	8.4	8.4
Nuclear safety upgrade costs	--	41.2	41.2
Total Current Liabilities	913.5	547.5	797.5
Long-term debt	--	--	300.0
Other Liabilities			
Advances from customers	34.9	34.3	34.3
Depleted UF(6) disposition	336.4	372.6	--
Other liabilities	80.5	96.4	96.4
Total Other Liabilities	451.8	503.3	130.7
Commitments and Contingencies (Notes 6, 9 and 10)			
Stockholders' Equity			
Preferred stock, par value $1.00 per share, 25,000,000 shares authorized, none issued	--	--	--
Common stock, par value $.10 per share, 250,000,000 shares authorized, 100,000,000 shares issued and outstanding	10.0	10.0	10.0
Excess of capital over par value	1,054.2	1,357.1	1,154.7
Retained earnings	1,027.1	1,053.4	--
Total Stockholders' Equity	2,091.3	2,420.5	1,164.7
Total Liabilities and Stockholders' Equity	$3,456.6	$3,471.3	$2,392.9

See notes to financial statements.

USEC INC.

STATEMENTS OF INCOME
(MILLIONS, EXCEPT PER SHARE DATA)

YEARS ENDED JUNE 30,			
1996	1997	1998	1998 PRO FORMA

Revenue				
Domestic	$ 901.6	$ 950.8	$ 896.2	$ 896.2
Asia	441.3	487.5	442.8	442.8
Europe and other	69.9	139.5	82.2	82.2
	1,412.8	1,577.8	1,421.2	1,421.2
Cost of sales	973.0	1,162.3	1,062.1	1,062.1
Gross profit	439.8	415.5	359.1	359.1
Special charges for workforce reductions and privatization costs	--	--	46.6	46.6
Project development costs	103.6	141.5	136.7	136.7
Selling, general and administrative	36.0	31.8	34.7	34.7
Operating income	300.2	242.2	141.1	141.1
Interest expense	--	--	--	36.0
Other (income) expense, net	(3.9)	(7.9)	(5.2)	(5.2)
Income before income taxes	304.1	250.1	146.3	110.3
Provision for income taxes	--	--	--	41.9
Net income	$ 304.1	$ 250.1	$ 146.3	$ 68.4
Net income per share -- basic and diluted				$ .68
Average number of shares outstanding				100.0

See notes to financial statements.

USEC INC.

STATEMENTS OF CASH FLOWS
(MILLIONS)

	YEARS ENDED JUNE 30,		
	1996	1997	1998
Cash Flows from Operating Activities			
Net income	$ 304.1	$ 250.1	$ 146.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13.7	14.6	16.1
Depleted UF(6) disposition costs	90.6	72.0	55.7
Payments to DOE for disposition of depleted UF(6)	--	--	(66.0)
Advances from customers -- (decrease)	(4.4)	(20.1)	(.6)
Changes in operating assets and liabilities:			
Accounts receivable -- (increase) decrease	(84.3)	97.6	30.8
Net receivables from Department of Energy -- (increase) decrease	(68.9)	5.5	(35.4)
Inventories -- (increase)	(49.8)	(3.5)	(142.5)
Payments under Russian HEU Contract, net	(66.0)	(50.1)	64.4
Accounts payable and accrued liabilities -- increase (decrease)	(7.2)	(17.3)	13.4
Other	(8.1)	7.3	(8.9)
Net Cash Provided by Operating Activities	119.7	356.1	73.3
Cash Flows Used in Investing Activities			
Capital expenditures	(15.6)	(25.8)	(36.5)
Cash Flows from Financing Activities			
Dividends paid	(120.0)	(120.0)	(120.0)
Payments under Russian HEU Contract for purchase of natural uranium transferred to Department of Energy	(86.1)	(74.3)	--
Net Cash Used in Financing Activities	(206.1)	(194.3)	(120.0)
Net Increase (Decrease)	(102.0)	136.0	(83.2)
Cash at Beginning of Year	1,227.0	1,125.0	1,261.0
Cash at End of Year	$1,125.0	$1,261.0	$1,177.8

See notes to financial statements.

1. NATURE OF OPERATIONS

USEC Inc., a Delaware-chartered corporation (the "Company" or "USEC"), formerly United States Enrichment Corporation (a federal-chartered U.S. Government-owned corporation), is a global energy company and the world's leading producer and marketer of uranium enrichment services. The Company provides uranium enrichment services to electric utilities operating nuclear reactors in 14 countries, including the United States. The Company has been designated by the U.S. Government as the Executive Agent under a government-to-government agreement and as such entered into an agreement with the executive agent for the Russian Federation (the "Russian HEU Contract") under which the Company purchases Separative Work Units ("SWU") derived from highly enriched uranium ("HEU") recovered from dismantled nuclear weapons of the Russian Federation for use in commercial electricity production.

The Company uses the gaseous diffusion process to enrich uranium, separating and concentrating the lighter uranium isotope U(235) from its slightly heavier counterpart U(238). The process relies on the slight difference in mass between the isotopes for separation. At the leased gaseous diffusion plants ("GDPs") located near Portsmouth, Ohio, and in Paducah, Kentucky, the concentration of the isotope U(235) is raised from less than 1% to up to 5%. A substantial portion of the purchased power used by the GDPs is supplied under power contracts between the U.S. Department of Energy ("DOE") and Ohio Valley Electric Corporation ("OVEC") and Electric Energy, Inc. ("EEI"). Lockheed Martin Utility Services, Inc. ("LMUS"), a subsidiary of Lockheed Martin Corporation, operates the GDPs under the Company's direct supervision and management.

In November 1996, the Nuclear Regulatory Commission ("NRC") granted initial certificates of compliance to the Company for operation of the GDPs. Regulatory authority over the operations of the GDPs was transferred from DOE to NRC in March 1997. The initial NRC certification expires December 31, 1998, and subsequent certification will be for periods of up to five years.

Customers typically deliver uranium to the enrichment facilities to be processed or enriched under enrichment contracts. Customers are billed for SWU used at the enrichment facilities to separate specific quantities of uranium containing .711% of U(235) into two components: enriched uranium having a higher percentage of U(235) and depleted UF(6) having a lower percentage of U(235).

The Company has exclusive commercial rights to deploy the Atomic Vapor Laser Isotope Separation ("AVLIS") technology, an advanced laser based enrichment process that is expected to significantly reduce production costs. USEC anticipates deploying an AVLIS plant by 2005.

2. INITIAL PUBLIC OFFERING

On July 28, 1998, the sale of the Company's common stock in connection with an initial public offering (the "Offering") was completed, resulting in net proceeds to the U.S. Government aggregating $3,092.1 million, including $1,382.7 million from the Offering and $1,709.4 million from the exit dividend paid to the U.S. Treasury (the "Exit Dividend"). The U.S. Government, the selling shareholder, sold its entire interest. The Company did not receive any proceeds from the Offering.

The Exit Dividend of $1,709.4 million paid to the U.S. Treasury represented the remaining balance of cash held in the Company's account at the U.S. Treasury and $500.0 million of $550.0 million in borrowings at the time of the Offering. The Company retained $50.0 million in cash from the $550.0 million in

borrowings. The amount of the Exit Dividend in excess of the Company's retained earnings was recorded in July 1998 as a reduction of excess of capital over par value.

Pursuant to the USEC Privatization Act, depleted uranium hexafloride ("UF(6)") generated by the Company through the date of the Offering was transferred to DOE in July 1998; liabilities and contingencies incurred through the date of the Offering were allocated between the Company and the U.S. Government;

50 metric tons of HEU and 7,000 metric tons of natural uranium from DOE's excess inventories were transferred to the Company in May 1998; certain employee benefit protections were established for workers at the GDPs; certain limitations were established on the ability of a person to acquire more than 10% of the Company's voting securities for a three-year period after the Offering; and certain foreign ownership limitations were established.

The U.S. Government will continue to exercise oversight of the Company's activities affecting matters of national security and other interests of the U.S. Government, including its role as Executive Agent in connection with the Russian HEU Contract.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH

Cash at June 30, 1997 and 1998 consists of non-interest bearing funds on deposit with the U.S. Treasury.

INVENTORIES

Inventories of uranium and SWU are valued at the lower of cost or market. SWU inventory costs are determined using the monthly moving average cost method and are based on production costs at the GDPs and SWU purchase costs, mainly under the Russian HEU Contract. Production costs at the GDPs include purchased electric power, labor and benefits, depleted UF(6) disposition costs, materials, major overhauls, maintenance and repairs, and other costs. Purchased SWU is recorded at acquisition cost plus related shipping costs.

PROPERTY, PLANT AND EQUIPMENT

Construction work in progress is recorded at acquisition or construction cost. Upon being placed into service, costs are transferred to leasehold improvements or machinery and equipment at which time depreciation commences. Leasehold improvements and machinery and equipment are recorded at acquisition cost and depreciated on a straight line basis over the shorter of their useful lives which range from three to ten years or the GDP lease period which is estimated to extend through 2005. The Company leases the GDPs and process-related machinery and equipment from DOE. At the end of the lease term, ownership and responsibility for decontamination and decommissioning of the Company's property, plant and equipment that the Company leaves at the GDPs transfer to DOE.

Property, plant and equipment at June 30 consists of the following (in millions):

	1997	1998

Construction work in progress	$ 15.6	$ 27.1
Leasehold improvements	17.2	21.7
Machinery and equipment	125.4	145.9
	158.2	194.7
Accumulated depreciation and amortization	(46.7)	(62.8)
	$111.5	$131.9

REVENUE

Revenue is recognized at the time enriched uranium is shipped under the terms of long-term requirements contracts with domestic and foreign electric utility customers. Under the Company's delivery optimization and other customer oriented programs, the Company advance ships enriched uranium to nuclear fuel fabricators for scheduled or anticipated orders from utility customers. Revenue from sales of SWU under

such programs is recognized as title to enriched uranium is transferred to customers. Under certain power-for-SWU barter contracts, the Company exchanges its enrichment services for electric power supplied to the GDPs. Revenue is recognized by the Company at the time enriched uranium is shipped with selling prices for SWU based on the fair market value of electric power received.

No customer accounted for more than 10% of revenue during the years ended June 30, 1996, 1997 or 1998. Revenue attributed to domestic and international customers follows:

	YEARS ENDED JUNE 30,		
	1996	1997	1998
Domestic	64%	60%	63%
Asia	31	31	31
Europe and other	5	9	6
	100%	100%	100%

Under the terms of certain enrichment contracts, customers make partial or full payment in advance of delivery. Advances from customers are reported as liabilities, and, as customers take delivery, advances are recorded as revenue.

ENVIRONMENTAL COSTS

Environmental costs relating to operations are charged to production costs as incurred. Estimated future environmental costs, including depleted UF(6) disposition and waste disposal, resulting from operations where environmental assessments indicate that storage, treatment or disposal is probable and costs can be reasonably estimated, are accrued and charged to production costs.

PROJECT DEVELOPMENT COSTS

Project development costs relate principally to the AVLIS project. AVLIS

development costs are charged to expense as incurred and include activities relating to the design and testing of process equipment and the design and preparation of the AVLIS demonstration facility. The Company intends to capitalize AVLIS development costs associated with facilities and equipment designed for commercial production activities.

INCOME TAXES

The Company was exempt from federal, state and local income taxes until the Offering.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and costs and expenses during the periods presented such as, but not limited to, accrued costs for the disposition of depleted UF(6) and the operating lease period of the GDPs. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain amounts in the financial statements have been reclassified to conform with the current presentation.

4. PRO FORMA FINANCIAL INFORMATION

Pro forma financial information consists of the pro forma balance sheet as of June 30, 1998, and the pro forma statement of income for the year ended June 30, 1998, reflecting the sale of 100 million shares of Common Stock in connection with the Company's initial public offering on July 28, 1998, borrowings from banks, pro forma exit dividend, transfer of depleted UF(6) to DOE, and the Company's transition to taxable status at the time of the Offering (the "Offering Transactions"). The objective of the pro forma financial information is to show the significant effects of the Offering Transactions on the balance sheet as if the Offering had occurred June 30, 1998, and the statement of income as if the Offering had occurred at the beginning of the year ended June 30, 1998.

PRO FORMA BALANCE SHEET

The pro forma cash balance of $50.0 million, short-term debt of $250.0 million, and long-term debt of $300.0 million at June 30, 1998, give effect to borrowings at the time of the Offering under a credit facility comprised of three tranches (the "Credit Facility"). Tranche A is a 364-day revolving credit facility for $400.0 million. Tranche B is a 364-day revolving credit facility for $150.0 million which is convertible, at the Company's option, into a one-year term loan. At the time of the Offering, the Company borrowed $550.0 million under Tranche A and Tranche B, transferred $500.0 million of such proceeds to the U.S. Treasury, and retained $50.0 million in cash. The third tranche, Tranche C, is a five-year revolving credit facility for $150.0 million for working capital and general corporate purposes. Borrowings under the Credit Facility bear interest at a rate equal to, at the Company's option (i) the London Interbank Offered Rate ("LIBOR") plus an "Applicable Eurodollar Margin" or (ii) the Base Rate (as defined). The Applicable Eurodollar Margin is based on the Company's credit rating.

The Credit Facility requires the Company to comply with certain financial covenants, including a minimum net worth and a debt to total capitalization

ratio, as well as other customary conditions and covenants, including restrictions on borrowings by subsidiaries. The failure to satisfy any of the covenants would constitute an event of default. The Credit Facility also includes other customary events of default, including without limitation, nonpayment, misrepresentation in a material respect, cross-default to other indebtedness, bankruptcy, and change of control.

The Company transitioned to taxable status at the time of the Offering. Future tax consequences of temporary differences between the carrying amounts for financial reporting purposes and the Company's estimate of the tax bases of its assets and liabilities result in pro forma deferred income tax benefits of $54.7 million at June 30, 1998, primarily due to the accrual of certain costs included in other liabilities.

Under the Privatization Act and the Depleted UF(6) Memorandum of Agreement, depleted UF(6) generated by the Company from July 1, 1993, up to the Offering, was transferred to DOE. Giving effect to the transfer on a pro forma basis, there is no accrued liability for depleted UF(6) disposition costs as of June 30, 1998.

Pro forma stockholders' equity of $1,164.7 million at June 30, 1998, reflects a pro forma exit dividend of $1,677.8 million, a charge of $5.3 million for expenses of the Offering, and increases to stockholders' equity for the transfer of the liability of $372.6 million for depleted UF(6) disposition costs and deferred income tax benefits of $54.7 million resulting from the Company's transition to taxable status.

PRO FORMA STATEMENT OF INCOME

Pro forma interest expense of $36.0 million is based on a weighted average interest rate of 6.55% on $550.0 million of borrowings incurred at the time of the Offering, as if such borrowings had occurred at the beginning of the fiscal year ended June 30, 1998.

The Company was exempt from federal, state and local income taxes until the time of the Offering. The pro forma provision for income taxes of $41.9 million is based on an effective income tax rate of 38% and assumes the Offering had occurred at the beginning of the fiscal year ended June 30, 1998.

The Company expects that a deferred income tax benefit will be recorded in connection with its transition to taxable status as a nonrecurring reduction to the provision for income taxes at the time of the Offering. The deferred tax benefit arising from the Company's transition to taxable status is not reflected in pro forma net income for the year ended June 30, 1998.

Pro forma basic net income per share is based on 100 million shares of common stock sold in the Offering. The U.S. Government sold its entire interest in the Company. At the time of the Offering, there were no stock options, warrants or convertible securities, and, accordingly, pro forma basic and diluted net income per share are the same.

5. INVENTORIES

Inventories and related balance sheet accounts follow (in millions):

	JUNE 30,	
	1997	1998

CURRENT ASSETS		
Separative Work Units	$ 573.8	$ 687.0
Uranium	131.5	184.5
Uranium provided by customers	726.2	315.0
Materials and supplies	12.4	24.8
	1,443.9	1,211.3
LONG-TERM ASSETS		
Uranium	103.6	561.0
CURRENT LIABILITIES		
Uranium owed to customers	(726.2)	(315.0)
INVENTORIES, REDUCED BY URANIUM OWED TO CUSTOMERS	$ 821.3	$1,457.3

Inventories included in current assets represent amounts required to meet working capital needs, preproduce enriched uranium and balance the natural uranium and electric power requirements of the GDPs, and include $157.9 million and $187.6 million at June 30, 1997 and 1998, respectively, for enriched uranium held at fabricators and other locations and scheduled to be used to fill customer orders.

Uranium inventories reported as long-term assets represent quantities not expected to be used or consumed within one year of the balance sheet date.

Uranium provided by customers for enrichment purposes, for which title passes to the Company, is recorded at estimated fair values of $726.2 million and $315.0 million at June 30, 1997 and 1998, with a corresponding liability in the same amount representing uranium owed to customers. In addition, the Company holds uranium provided by customers for enrichment purposes for which title does not pass to the Company (title remains with customers) in the amounts of $110.5 million and $761.9 million based on estimated fair values at June 30, 1997 and 1998, respectively.

6. PURCHASE OF SEPARATIVE WORK UNITS UNDER RUSSIAN HEU CONTRACT

In January 1994, the Company signed the 20-year Russian HEU Contract with Techsnabexport Co., Ltd. (TENEX), the Executive Agent for the Russian Federation, under which the Company purchases SWU derived from up to 500 metric tons of HEU recovered from dismantled Soviet nuclear weapons. HEU is

blended down in Russia and delivered to the Company, F.O.B. St. Petersburg, Russia, for sale and use in commercial nuclear reactors.

From inception of the Russian HEU Contract to June 30, 1998, the Company purchased 7.4 million SWU derived from 40 metric tons of HEU at an aggregate cost of $639.9 million, including related shipping charges, as follows:

	SWU	COST
	(MILLIONS)	
YEARS ENDED JUNE 30,		
1995	.3	$ 22.7
1996	1.7	144.1

1997	1.8	157.3
1998	3.6	315.8
	7.4	$639.9

Subject to certain purchase price adjustments for U.S. inflation, as of June 30, 1998, the Company has committed to purchase SWU derived from HEU through 2001 as follows:

CALENDAR YEAR	SWU	DERIVED FROM METRIC TONS OF HEU	AMOUNT
	(MILLIONS)		(MILLIONS)
Six Months Ended December 31, 1998	3.6	20	$ 308.8
1999	5.5	30	475.8
2000	5.5	30	475.8
2001	5.5	30	475.8
			$1,736.2

Over the life of the Russian HEU Contract, the Company expects to purchase 92 million SWU derived from 500 metric tons of HEU. Assuming actual prices in effect at June 30, 1998, were to prevail over the remaining life of the contract, the cost of SWU purchased and expected to be purchased from TENEX would amount to approximately $8 billion.

As of June 30, 1998, the Company had made payments aggregating $260.0 million to TENEX as credits for future SWU deliveries. As of June 30, 1998, $196.6 million had been applied against purchases of SWU, and the remaining balance of $63.4 million is scheduled to be applied as follows: $13.4 million by December 31, 1998, and $50.0 million in calendar year 1999.

7. PROJECT DEVELOPMENT COSTS

AVLIS is a uranium enrichment process which uses lasers to separate uranium isotopes. The AVLIS process was developed under a contract with DOE by the Lawrence Livermore National Laboratory ("LLNL") located in Livermore, California.

In April 1995, the Company entered into an agreement with DOE (the "AVLIS Transfer Agreement") providing for, among other things, the transfer to the Company by DOE of its intellectual and physical property pertaining to the AVLIS technology. Also under the AVLIS Transfer Agreement, DOE conducts AVLIS research, development and demonstration at LLNL as requested by the Company. The Company reimburses DOE for its costs in conducting AVLIS work, and the Company is liable for any incremental increase in DOE's costs of decontamination and decommissioning the AVLIS facilities at LLNL as a result of the work performed for the Company. The AVLIS research and development work is performed primarily by

the University of California under DOE's management and operations contract for LLNL. Patents, technology, and other intellectual property that result from this research and development effort will be owned by the Company.

The Company has entered into joint development agreements with Cameco Corporation ("Cameco") for AVLIS feed conversion services and General Electric

Company ("GE") for AVLIS product conversion services, both of which are necessary because AVLIS requires a metallic form of uranium for processing rather than UF(6). Both joint development agreements obligate USEC to reimburse costs and expenses incurred by its partners if USEC elects not to proceed to the deployment phase under certain circumstances. The Company's maximum liability under both agreements is $9.0 million, subject to certain provisions for cost overruns. The contracts also provide that if USEC proceeds with AVLIS deployment but elects to do so without entering into agreements with Cameco and GE, USEC must pay certain royalty payments. In such event, in the case of Cameco, these payments would not exceed $50.0 million in the aggregate. In the case of GE, the payment would include a fixed payment of $5.0 million plus an annual royalty of $1.0 million until certain GE patents related to the product conversion expire.

Project development costs relating to AVLIS activities amounted to $102.0 million, $133.7 million, and $134.7 million for the years ended June 30, 1996, 1997 and 1998, respectively, and were charged to expense as incurred.

During the year ended June 30, 1997, the Company began to evaluate SILEX, a potential new advanced enrichment technology to separate U(235) from U(238). The Company plans to continue evaluating SILEX technology during fiscal 1999.

8. ENVIRONMENTAL MATTERS

Environmental compliance costs include the handling, treatment and disposal of hazardous substances and wastes. Pursuant to the Privatization Act, all environmental liabilities associated with the operation of the GDPs prior to July 1, 1993, are the responsibility of DOE, and with certain limited exceptions DOE is responsible for decontamination and decommissioning of the GDPs at the end of their operating lives. Except for certain liabilities relating to disposal of certain wastes generated after July 1, 1993, all environmental liabilities of the Company through the date of the Offering remain obligations of the U.S. Government.

DEPLETED UF(6)

Depleted UF(6) is stored in cylinders at the GDPs as a solid. The Company accrues estimated costs for the future disposition of depleted UF(6), based upon estimates for transportation, conversion and disposition. The accrued liability amounted to $372.6 million at June 30, 1998. Pursuant to the USEC Privatization Act, in July 1998, depleted UF(6) generated by the Company through the time of the Offering was transferred to DOE. Depleted UF(6) generated after the Offering is the responsibility of the Company.

OTHER ENVIRONMENTAL MATTERS

USEC's operations generate hazardous, low-level radioactive and mixed wastes. The storage, treatment, and disposal of wastes are regulated by federal and state laws. The Company utilizes offsite treatment and disposal facilities and stores wastes at the GDPs pursuant to permits, orders and agreements with DOE and various state agencies.

The accrued liability for the treatment and disposal of stored wastes generated by USEC's operations included in other liabilities amounted to $8.3 million at June 30, 1998. All liabilities related to the disposal of stored wastes generated prior to July 1, 1993, are the responsibility of DOE.

NUCLEAR INDEMNIFICATION

Pursuant to the Energy Policy Act and under the terms of the lease agreement with DOE, the Company is indemnified by DOE under the Price-Anderson Act for third-party liability claims arising from nuclear incidents with respect

to activities at the GDPs, including transportation of uranium to and from the GDPs.

9. LEGAL PROCEEDINGS

In 1995, 15 of the Company's customers filed four substantially similar lawsuits in the U.S. Court of Federal Claims challenging the Company's prices under their Utility Services Contracts. Five of the 15 customers thereafter negotiated new contracts with the Company and withdrew from the litigation. In August 1996, the trial court granted the United States' motion for summary judgment dismissing one of the suits; in July 1997, the Court of Appeals for the Federal Circuit affirmed that decision. In December 1997, the trial court granted the United States' motions to dismiss the remaining suits; the plaintiffs did not seek to appeal those decisions.

10. COMMITMENTS AND CONTINGENCIES

POWER COMMITMENTS

Under the terms of the GDP lease, the Company purchases electric power at amounts equivalent to actual cost incurred under DOE's power contracts with OVEC and EEI that extend through December 2005. The Company has the right to have DOE terminate the power contracts with notice ranging from three to five years and is obligated to make minimum annual payments for demand charges, whether or not it takes delivery of power, estimated as follows (in millions):

YEARS ENDED JUNE 30,	
1999	$122.7
2000	119.8
2001	121.3
2002	99.5
2003	42.2
	$505.5

Under the power contracts with DOE, in July 1993 the Company assumed responsibility for DOE's guarantee of OVEC's senior secured notes with a remaining balance of $62.0 million at June 30, 1998, for expenditures related to compliance with the Clean Air Act Amendments of 1990, including facilities for fuel switching and the installation of continuous emission monitors. The minimum demand charges under the OVEC contract include annual debt service of $10.5 million to fully amortize the notes by the scheduled maturity in December 2005.

Upon termination of the power contracts, the Company is responsible for its pro rata share of costs of future decommissioning and shutdown activities at dedicated coal-fired power generating facilities owned and operated by OVEC and EEI. Estimated costs are accrued and charged to production costs over the contract period, and the accrued cost included in other liabilities amounted to $18.1 million at June 30, 1998.

LEASE COMMITMENTS

Total costs incurred under the GDP lease with DOE and leases for office space and equipment aggregated $18.7 million, $23.2 million, and $11.5 million for the years ended June 30, 1996, 1997 and 1998, respectively, and include costs relating to DOE's regulatory oversight of the GDPs. In March 1997, the NRC

assumed regulatory oversight. Minimum lease payments for the GDP lease and leases for office space and equipment is estimated at $5.0 million for each of the years ending June 30, 1999 to 2003.

The Company has the right to extend the GDP lease indefinitely at its sole option, and the Company may terminate the lease in its entirety or with respect to one of the GDPs at any time upon two years' notice. Upon termination of the lease, the Company is responsible for certain lease turnover activities at the GDPs, including documentation of the condition of the GDPs and termination of facility operations. Lease turnover costs are accrued and charged to production costs over the lease period, which is estimated to extend through 2005, and the accrued cost included in other liabilities amounted to $23.2 million at June 30, 1998.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

Financial instruments are reported on the balance sheets and include cash, accounts receivable and payable, certain accrued liabilities, and payables under Russian HEU Contract, the carrying amounts for which approximate fair value. In July 1998, the Company's financial instruments include debt of $550.0 million borrowed at the time of the Offering.

At June 30, 1998, trade receivables from sales of SWU to electric utility customers located in the United States, Asia and Europe amounted to $149.9 million, $62.7 million, and $5.9 million, respectively. The Company has provided extended payment terms to an Asian customer with respect to an overdue trade receivable of $36.0 million at June 30, 1998. Interest accrues on the unpaid balance.

Credit risk could result from the possibility of a utility customer failing to perform according to the terms of a long-term requirements contract. Extension of credit is based on an evaluation of each customer's financial condition. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of such exposure resulting in a loss. Based on experience and outlook, an allowance for bad debts has not been established for customer trade receivables.

12. STOCKHOLDERS' EQUITY

Changes in stockholders' equity follow (in millions):

	COMMON STOCK, PAR VALUE $.10 PER SHARE	EXCESS OF CAPITAL OVER PAR VALUE	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
Balance at June 30, 1995	$10.0	$1,214.6	$ 712.9	$ 1,937.5
Dividend paid to U.S. Treasury	--	--	(120.0)	(120.0)
Net income	--	--	304.1	304.1
Balance at June 30, 1996	10.0	1,214.6	897.0	2,121.6
Dividend paid to U.S. Treasury	--	--	(120.0)	(120.0)
Transfer to DOE of uranium purchased under the Russian HEU Contract	--	(160.4)	--	(160.4)
Net income	--	--	250.1	250.1
Balance at June 30, 1997	10.0	1,054.2	1,027.1	2,091.3
Dividend paid to U.S. Treasury	--	--	(120.0)	(120.0)
Net income	--	--	146.3	146.3

Transfers of uranium from DOE.....	--	302.9	--	302.9
Balance at June 30, 1998.....	10.0	1,357.1	1,053.4	2,420.5
Pro forma adjustments:				
Deferred income tax benefit.....	--	--	54.7	54.7
Pro forma exit dividend.....	--	(569.7)	(1,108.1)	(1,677.8)
Transfer of depleted UF(6) to DOE.....	--	372.6	--	372.6
Costs related to the Offering.....	--	(5.3)	--	(5.3)
PRO FORMA BALANCE AT JUNE 30, 1998.....	$10.0	$1,154.7	$ --	$ 1,164.7

The Energy Policy Act required that the Company issue capital stock to the U.S. Government, held on its behalf by the Secretary of the U.S. Treasury. Since assets and liabilities were transferred between agencies of the U.S. Government (DOE and USEC) pursuant to a Determination Order, they were recorded at DOE's historical cost.

In connection with the Offering, the par value of the common stock was changed to $.10 per share, and 100 million shares are issued and outstanding.

Under the USEC Privatization Act, in April 1998, DOE transferred to the Company 50 metric tons of HEU and 7,000 metric tons of natural uranium. The Company is responsible for costs related to the blending of the HEU into LEU, as well as certain transportation, safeguards and security costs. As a result of the transfer, long-term uranium inventories and stockholders' equity were increased by $302.9 million based on DOE's historical costs for the uranium.

Pursuant to the USEC Privatization Act, in December 1996, the Company transferred to DOE the natural uranium component of low enriched uranium ("LEU") from HEU purchased under the Russian HEU Contract in calendar years 1995 and 1996. As a result of the transfer, the purchase cost of $160.4 million, including related shipping charges, was recorded as a return of capital.

13. EMPLOYEE BENEFIT PLANS

Effective January 1994, a non-contributory defined benefit pension plan was established by the Company to provide retirement benefits to its employees based on salary and years of service. Certain employees who transferred from other government agencies elected to continue participation in the federal retirement

programs. Pension costs, including costs for the Company's 401(k) plan, amounted to $1.0 million for each of the years ended June 30, 1996, 1997 and 1998. At June 30, 1998, based on an assumed discount rate of 7.5%, an assumed compensation rate of 5% and an assumed rate of return on plan assets of 8%, the actuarial value of projected benefit obligations was $1.0 million, none of which was vested, the fair value of plan assets was $1.1 million, and the amount of unfunded accrued pension costs included in current liabilities was $.1 million.

14. OPERATIONS AND MAINTENANCE CONTRACT

Under an operations and maintenance contract with the Company (the "LMUS Contract"), LMUS provides labor, services, and materials and supplies to operate and maintain the GDPs, for which the Company funds LMUS for its actual costs and pays contracted fees. The LMUS Contract expires October 2000 and may be terminated by the Company without penalty at any time upon six-months' notice. If LMUS meets certain specified operating and safety criteria and demonstrates cost savings that exceed certain targets, LMUS can earn an annual incentive fee.

Under the operations and maintenance contract, USEC is responsible for and accrues for its pro rata share of pension and other postretirement health and life insurance costs relating to LMUS employee benefit plans. All costs related to years of service prior to July 1, 1993, are the responsibility of DOE. The

Company's responsibility for funding its pro rata share of LMUS pension and other postretirement benefit costs is determined based on actuarial estimates and amounted to $21.8 million, $20.8 million, and $22.4 million for the years ended June 30, 1996, 1997 and 1998, respectively.

Special charges amounted to $46.6 million for the year ended June 30, 1998, for costs related to the privatization and certain severance and transition benefits to be paid to GDP workers in connection with workforce reductions over the next two years.

15. TRANSACTIONS WITH THE DEPARTMENT OF ENERGY

In June 1998, the Company paid $50.0 million to DOE, and DOE assumed responsibility for disposal of a certain amount of depleted UF(6) generated by the Company from its operations at the GDPs from October 1998 to 2005. The prepaid asset will be amortized as a charge against production costs over the life of the agreement.

Services are provided to DOE by the Company for environmental restoration, waste management and other activities based on actual costs incurred at the GDPs. Reimbursements by DOE to the Company for actual costs incurred amounted to $68.5 million, $53.4 million, and $51.6 million for the years ended June 30, 1996, 1997 and 1998, respectively. Amounts receivable from DOE for actual costs incurred for services amounted to $10.0 million and $17.9 million at June 30, 1997 and 1998, respectively.

Receivables from DOE of $104.8 million at June 30, 1997, relate to costs associated with modifications to bring the GDPs into compliance with NRC certification standards and nuclear safeguard requirements incurred by the Company and reimbursable by DOE. The reimbursement was satisfied in May 1998 by the transfer from DOE of 13 metric tons of HEU blended into the GDP production stream, and transfers of natural uranium and LEU that were recorded in May 1998 at DOE's historical cost. The Company estimates its remaining cash outlays for completion of such upgrades, included in current liabilities at June 30, 1998, amount to $41.2 million, the reimbursement for which was completed by the transfers of uranium and LEU in May 1998.

Receivables from DOE at June 30, 1997, include the balance of $19.6 million representing amounts receivable from DOE relating to the Determination Order, dated July 1, 1993, payment of which was satisfied by the transfers of uranium and LEU in May 1998.

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table summarizes the Company's quarterly results of operations (in millions):

	SEPT. 30	DEC. 31	MARCH 31	JUNE 30	TOTAL
Year Ended June 30, 1998					
Revenue(1)	$440.4	$322.3	$294.0	$364.5	$1,421.2
Cost of sales	342.1	235.7	214.4	269.9	1,062.1
Gross profit	98.3	86.6	79.6	94.6	359.1
Special charges for workforce reductions and privatization costs(2)	--	--	--	46.6	46.6
Project development costs(3)	32.2	35.4	35.4	33.7	136.7
Selling, general and administrative	8.1	8.9	7.8	9.9	34.7
Other (income) expense, net	(2.0)	0.6	(3.9)	0.1	(5.2)
Net income(4)	$ 60.0	$ 41.7	$ 40.3	$ 4.3	$ 146.3

Year Ended June 30, 1997					
Revenue(1)	$422.9	$485.1	$216.4	$453.4	$1,577.8
Cost of sales	307.9	364.2	161.3	328.9	1,162.3
Gross profit	115.0	120.9	55.1	124.5	415.5
Project development costs(3)	35.7	39.2	32.6	34.0	141.5
Selling, general and administrative	8.6	8.6	8.5	6.1	31.8
Other (income) expense, net	(2.3)	(.9)	(1.1)	(3.6)	(7.9)
Net income(4)	$ 73.0	$ 74.0	$ 15.1	$ 88.0	$ 250.1

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(1) The Company's revenue and financial performance are substantially influenced by the timing of customer nuclear reactor refuelings that are affected by, among other things, the seasonal nature of electricity demand and production. The timing of customer reactor fuel reloads, which generally occur every 12 to 24 months, tends to be fairly predictable over the long run, but may vary quarter-to-quarter and can affect financial comparisons. Utilities typically schedule the shutdown of their reactors for refueling during low demand periods of spring and fall to reduce costs associated with reactor downtime. The Company estimates that about two-thirds of the nuclear reactors under contract operate on refueling cycles of 18 months or less, and the remaining one-third operate on refueling cycles greater than 18 months.

(2) Special charges amounted to $46.6 million for costs related to the privatization and certain severance and transition benefits to be paid to GDP workers in connection with workforce reductions over the next two years.

(3) Project development costs primarily represent planned development and engineering spending for the future commercialization of the AVLIS uranium enrichment process.

(4) The Company was exempt from federal, state and local income taxes until the time of the Offering.

EXHIBIT 3.1

CERTIFICATE OF INCORPORATION

OF

USEC INC.

FIRST: The name of the corporation is USEC Inc. (hereinafter the "Corporation").

SECOND: The address of the registered office of the Corporation in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, 19801. The name of its registered agent at that address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may now or hereafter be organized under the Delaware General Corporation Law as set forth in Title 8 of the Delaware Code (the "DGCL").

FOURTH: A. The total number of shares of stock of all classes that the Corporation shall have authority to issue is 275,000,000 shares. The authorized capital stock is divided into 25,000,000 shares of preferred stock, each having a par value of $1.00 (the "Preferred Stock"), and 250,000,000 shares of common stock, each having a par value of $.10 (the "Common Stock").

B. The shares of Preferred Stock of the Corporation may be issued from time to time in one or more classes or series thereof, the shares of each class or series thereof to have such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as are stated and expressed herein or in the resolution or resolutions providing for the issue of such class or series, adopted by the Board of Directors as hereinafter provided.

Authority is hereby expressly granted to the Board of Directors of the Corporation, subject to the provisions of this Article FOURTH and to the limitations prescribed by the DGCL, to authorize the issue of one or more classes, or series thereof, of Preferred Stock and with respect to each such class or series to fix by resolution or resolutions providing for the issue of such class or series the voting powers, full or limited, if any, of the shares of such class or series and the designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof. The authority of the Board of Directors with respect to each class or series thereof shall include, but not be limited to, the determination or fixing of the following:

(i) the maximum number of shares to constitute such class or series, which may subsequently be increased or decreased by resolution of the Board of Directors unless otherwise provided in the resolution providing for the issue of such class or series, the distinctive designation thereof and the stated value thereof if different than the par value thereof;

(ii) the dividend rate of such class or series, the conditions and dates upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes of stock or any other series of any class of stock of the Corporation, and whether such dividends shall be cumulative or noncumulative;

(iii) whether the shares of such class or series shall be subject to redemption, in whole or in part, and, if made subject to such redemption, the times, prices and other terms and conditions of such redemption, including whether or not such redemption may occur at the option of the Corporation or at the option of the holder or holders thereof or upon the happening of a specified event;

(iv) the terms and amount of any sinking fund established for the purchase or redemption of the shares of such class or series;

(v) whether or not the shares of such class or series shall be convertible into or exchangeable for shares of any other class or classes of any stock or any other series of any class of stock of the Corporation, and, if provision is made for conversion or exchange, the times, prices, rates, adjustments, and other terms and conditions of such conversion or exchange;

(vi) the extent, if any, to which the holders of shares of such class or series shall be entitled to vote with respect to the election of directors or otherwise;

(vii) the restrictions, if any, on the issue or reissue of any additional Preferred Stock;

(viii) the rights of the holders of the shares of such class or series upon the dissolution of, or upon the subsequent distribution of assets of, the Corporation; and

(ix) the manner in which any facts ascertainable outside the resolution or resolutions providing for the issue of such class or series shall operate upon the voting powers, designations, preferences, rights and qualifications, limitations or restrictions of such class or series.

C. The shares of Common Stock of the Corporation shall be of one and the same class. The holders of Common Stock shall have one vote per share of Common Stock on all matters on which holders of Common Stock are entitled to vote.

FIFTH: The name and mailing address of the Sole Incorporator is as follows: Lynn Buckley, P.O. Box 636, Wilmington, DE 19899.

SIXTH: A. The business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors. In furtherance, and not in limitation, of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized to:

(i) adopt, amend, alter, change or repeal the By-Laws of the Corporation; provided, however, that no By-Laws hereafter adopted shall invalidate any prior act of the directors that would have been valid if such new By-Laws had not been adopted;

(ii) determine the rights, powers, duties, rules and procedures that affect the power of the Board of Directors to manage and direct the business and affairs of the Corporation, including the power to designate and empower committees of the Board of Directors, to elect, appoint and empower the officers and other agents of the Corporation, and to determine the time and place of, and the notice requirements for, Board meetings, as well as quorum and voting requirements for, and the manner of taking, Board action; and

(iii) exercise all such powers and do all such acts as may be exercised or done by the Corporation, subject to the provisions of the laws of the State of Delaware, this Certificate of Incorporation, and the By-Laws of the Corporation.

B. The number of directors constituting the Board of Directors shall be as specified in the By-Laws or fixed in the manner provided therein. Whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of this Certificate of Incorporation applicable thereto, and such directors so elected shall not be divided into classes unless expressly provided by such terms.

C. Any vacancies in the Board of Directors for any reason and any newly created directorships resulting by reason of any increase in the number of directors may be filled only by the Board of Directors, acting by a majority of the remaining directors then in office, although less than a quorum, or by a sole remaining director, and any directors so

appointed shall hold office until the next election for which such directors have been chosen and until their successors are elected and qualified or their earlier resignation or removal.

D. Except as may be provided in a resolution or resolutions providing for any class or series of Preferred Stock pursuant to Article FOURTH hereof with respect to any directors elected by the holders of such class or series, any director, or the entire Board of Directors, may be removed from office by the stockholders at any time.

E. In connection with the exercise of its or their judgment in determining what is in the best interests of the Corporation and its stockholders, the Board of Directors of the Corporation, any committee of the Board of Directors or any individual director may, but shall not be required to, in addition to considering the long-term and short-term interests of the stockholders, consider all of the following factors: provision for the protection of the health and safety of the public and the common defense and security of the United States of America, assurance that adequate enrichment capacity will remain available to meet the demands of the domestic electric utility industry, provision for the continuation by the Corporation of the operation of the Department of Energy's gaseous diffusion plants, and provision for the protection of the public interest in maintaining reliable and economical uranium mining, enrichment and conversion services. The provisions of this Section shall be deemed solely to grant discretionary authority to the directors and shall not be deemed to provide to any constituency the right to be considered.

SEVENTH: Except as may be provided in a resolution or resolutions

providing for any class or series of Preferred Stock pursuant to Article FOURTH hereof, any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders. Special meetings of stockholders of the Corporation may be called only by the Chairman, if there be one, or the President, or pursuant to a resolution adopted by (i) the Board of Directors or (ii) a committee of the Board of Directors that has been designated by the Board of Directors and whose power and authority include the power to call such meetings. Elections of directors need not be by written ballot, unless otherwise provided in the By-Laws.

EIGHTH: A. The Corporation shall indemnify its directors and officers to the fullest extent authorized or permitted by the DGCL, as the same exists or may hereafter be amended, and such right to indemnification shall continue as to a person who has ceased to be a director or officer of the Corporation and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except for successful proceedings to enforce rights to indemnification, the Corporation shall not be obligated to indemnify any director or officer (or his or her heirs, executors or administrators) in connection with a proceeding (or part thereof) initiated by such person unless such

proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Corporation. The right to indemnification conferred in this Article EIGHTH shall include the right to be paid by the Corporation the expenses incurred in defending or otherwise participating in any proceeding in advance of its final disposition.

B. The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation who are not directors or officers similar to those conferred in this Article EIGHTH to directors and officers of the Corporation.

C. The rights to indemnification and to the advancement of expenses conferred in this Article EIGHTH shall not be exclusive of any other right which any person may have or hereafter acquire under this Certificate of Incorporation, the By-Laws, any statute, agreement, vote of stockholders or disinterested directors, or otherwise.

D. Any repeal or modification of this Article EIGHTH by the stockholders of the Corporation shall not adversely affect any rights to indemnification and advancement of expenses of a director or officer of the Corporation existing pursuant to this Article EIGHTH with respect to any acts or omissions occurring prior to such repeal or modification.

NINTH: No person shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided, however, that the foregoing shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL, or (iv) for any transaction from which the director derived an improper personal benefit. If the DGCL is amended hereafter to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as

so amended. Any amendment, repeal or modification of this Article NINTH shall not adversely affect any right or protection of a director of the Corporation existing at the time of such amendment, repeal or modification with respect to any act or omission occurring prior to such amendment, repeal or modification.

TENTH: Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the DGCL or on the

application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the DGCL order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

ELEVENTH: A. Statutory Acquisition Restriction. For purposes of this Article ELEVENTH, the term "Statutory Acquisition Restriction" shall mean the acquisition, directly or indirectly, of beneficial ownership by a person or by a number of persons acting together as a group, of securities of the Corporation representing more than ten per cent (10%) of the total votes of all outstanding voting securities of the Corporation after the Privatization Date and prior to the third anniversary thereof; provided, however, such restriction shall not apply to (i) any employee stock ownership plan of the Corporation, (ii) members of the underwriting syndicate purchasing shares of Common Stock of the Corporation in stabilization transactions in connection with the privatization of the Company through an initial public offering consummated on the Privatization Date and (iii) in the case of securities beneficially held in the ordinary course of business for others, any commercial bank, broker-dealer, or clearing agency; provided no person for whom such bank, broker-dealer or clearing agency is holding such securities has violated the Statutory Acquisition Restriction. For purposes of this Article ELEVENTH, the term "Privatization Date" shall mean the date of consummation of the initial public offering undertaken to privatize the United States Enrichment Corporation, the government-owned corporation.

B. Foreign Ownership Restrictions. For purposes of this Article ELEVENTH, the term "Foreign Ownership Restrictions" shall mean any one or more of the following: (i) the beneficial ownership of more than ten percent (10%) of the aggregate number of issued and outstanding shares of Common Stock of the Corporation by or for the account of a foreign person or persons; (ii) the beneficial ownership of any shares of Common Stock of the Corporation by or for the account of a Contravening Person (as defined below); (iii) the acquisition of control (direct or indirect) of the Company by a person or group of persons acting together in any transaction or series of transactions in which the arrangements for financing such person's or persons' acquisition of the

Corporation involve or will involve receipt of money, from borrowing or otherwise, from one or more foreign persons in an amount in excess of ten percent (10%) of the purchase price of the Corporation's securities

purchased by such person or group of persons, whether such funds are to be used for temporary or permanent financing; or (iv) any ownership of or exercise of rights with respect to shares of Common Stock of the Corporation or other exercise or attempt to exercise control of the Corporation that the Board of Directors determines is inconsistent with or in violation of the regulations, rules or restrictions of a governmental entity or agency which exercises regulatory power over the Corporation, its business, operations or assets or could jeopardize the continued operations of the Corporation's facilities.

C. Information Request. If the Corporation has reason to believe that the ownership or proposed ownership of, or exercise of rights with respect to, securities of the Corporation by any person, including record holders, beneficial owners and any person presenting any securities of the Corporation for transfer into its name (a "Proposed Transferee") may be inconsistent with, or in violation of the Statutory Acquisition Restriction or the Foreign Ownership Restrictions, the Corporation may request of such person and such person shall furnish promptly to the Corporation such information (including, without limitation, information with respect to citizenship, other ownership interests and affiliations) as the Corporation shall reasonably request to determine whether the ownership of, or the exercise of any rights with respect to, securities of the Corporation by such person is inconsistent with, or in violation of, the Statutory Acquisition Restriction or the Foreign Ownership Restrictions. Any person who is or proposes to be a registered holder of securities of the Corporation shall be obliged to disclose to the Corporation, at the Corporation's request, the name and address of the beneficial owner of the securities of the Corporation.

Any person that has filed a Schedule 13D or a Schedule 14D-1 (or in either case, a successor form thereto required by the U.S. Securities and Exchange Commission (the "SEC")) with respect to the Corporation's securities and, in the case of the Schedule 13D, which filing indicates any plans or proposals which relate to or would result in the occurrence of any of the events described in Item 4 of Schedule 13D (or its equivalent, if and to the extent that such Item is amended, modified or superseded by another Item or another form of the SEC then in effect) may be requested by the Corporation to provide to the Corporation such information as the Board of Directors may require to confirm that such person's plans or proposals will not result in a violation of the Statutory Acquisition Restriction or the Foreign Ownership Restrictions.

The Corporation may require that any information sought under this Section C of Article ELEVENTH be given under oath. The Board of Directors shall be entitled to rely and to act in reliance on any declaration and the information contained therein.

D. Suspension of Voting Rights; Refusal to Transfer. If any person, including a Proposed Transferee, from whom information is requested should fail to respond to the Corporation's request pursuant to Section C of this Article ELEVENTH or if the Corpora-

tion shall conclude that the ownership of, or the exercise of any rights of ownership with respect to, securities of the Corporation by any person, including a Proposed Transferee, could result in any inconsistency with, or violation of, the Statutory Acquisition Restriction or the Foreign Ownership Restrictions, the Corporation may (i) refuse to permit the transfer of securities of the Corporation to such Proposed Transferee; and/or (ii) suspend or limit voting rights associated with stock ownership by such person or Proposed Transferee if the Board of Directors in good faith believes that the exercise of such voting rights would result in any inconsistency with, or violation of, the Statutory Acquisition Restriction or the Foreign Ownership Restrictions. If the Board of Directors determines that the foregoing measures are not sufficient to ensure compliance with the Statutory Acquisition Restriction or the Foreign Ownership Restrictions, the Corporation may take such action as may be authorized under this Article ELEVENTH. Any action by the Corporation pursuant to the foregoing with respect to the Statutory Acquisition Restriction or the Foreign Ownership Restrictions may remain in effect for as long as the Corporation determines is necessary to comply with the Statutory Acquisition Restriction or the Foreign Ownership Restrictions.

E. Legends. The Corporation may note on the certificates of its securities that the shares represented by such certificates are subject to the restrictions set forth in this Article TWELFTH.

F. Joint Ownership. For purposes of this Article ELEVENTH, where the same shares of Common Stock of the Corporation are held or beneficially owned by one or more persons, and any one of such persons is a foreign person or a Contravening Person, then such shares of Common Stock shall be deemed to be held or beneficially owned by a foreign person or Contravening Person, as applicable.

G. Additional Provisions. The Corporation is hereby authorized to take any other action it may deem necessary or appropriate to ensure compliance with the provisions of this Article ELEVENTH, including, without limitation, suspending or limiting any and all rights of stock ownership which may violate or be inconsistent with the Statutory Acquisition Restriction or the applicable Foreign Ownership Restrictions (other than the right to transfer stock ownership in a transaction consistent with the Statutory Acquisition Restriction and the Foreign Ownership Restrictions). Further, the Corporation may exercise any and all appropriate remedies, at law or in equity in any court of competent jurisdiction, against any holder of its securities or rights with respect thereto or any Proposed Transferee, with a view towards obtaining the information set forth in Section C or preventing or curing any situation which would cause any inconsistency with, or violation of, the Statutory Acquisition Restriction or the Foreign Ownership Restrictions.

H. Redemption and Exchange. Without limiting the generality of the foregoing and notwithstanding any other provision of this Certificate of Incorporation to the

contrary, any shares held or beneficially owned by a foreign person or a Contravening Person shall always be subject to redemption or exchange by the Corporation by action of the Board of Directors, pursuant to Section 151 of the DGCL or any other applicable provision of law, to the extent necessary in the judgment of the Board of Directors to comply with the Foreign Ownership

Restrictions. As used in this Certificate of Incorporation, "redemption" and "exchange" are hereinafter collectively referred to as "redemption", references to shares being "redeemed" shall be deemed to include shares which are being "exchanged", and references to "redemption price" shall be deemed to include the amount and kind of securities for which any such shares are exchanged. The terms and conditions of such redemption shall be as follows:

(a) the redemption price of the shares to be redeemed pursuant to this Article ELEVENTH shall be equal to the fair market value of the shares to be redeemed, as determined by the Board of Directors in good faith unless the Board determines in good faith that the holder of such shares knew or should have known its ownership or beneficial ownership would constitute a violation of the Foreign Ownership Restrictions, in which case the redemption price shall be equal to the lower of (i) the fair market value of the shares to be redeemed and (ii) such foreign person's or Contravening Person's purchase price for such shares;

(b) the redemption price of such shares may be paid in cash, securities or any combination thereof and the value of any securities constituting all or any part of the redemption price shall be determined by the Board in good faith;

(c) if less than all the shares held or beneficially owned by foreign persons are to be redeemed, the shares to be redeemed shall be selected in any manner determined by the Board of Directors to be fair and equitable;

(d) at least 30 days' written notice of the redemption date shall be given to the record holders of the shares selected to be redeemed (unless waived in writing by any such holder), provided that the redemption date may be the date on which written notice shall be given to record holders if the cash or redemption securities necessary to effect the redemption shall have been deposited in trust for the benefit of such record holders and subject to immediate withdrawal by them upon surrender of the stock certificates for their shares to be redeemed, duly endorsed in blank or accompanied by duly executed proper instruments of transfer;

(e) from and after the redemption date, the shares to be redeemed shall cease to be regarded as outstanding and any and all rights attaching to such shares of whatever nature (including without limitation any rights to vote or participate in dividends declared on stock of the same class or series as such shares) shall cease and terminate, and the holders thereof thenceforth shall be entitled only to receive the cash or securities payable upon redemption; and

(f) the redemption shall be subject to such other terms and conditions as the Board of Directors shall determine.

I. Board Action. The Board of Directors shall have the exclusive right to interpret all issues arising under this Article ELEVENTH (including but not limited to determining whether a person is a foreign person or a Contravening Person, whether a person is an Affiliate of another person, whether a person controls or is controlled by another person and whether a person is the beneficial owner of the securities of the Corporation) and the determination of

the Board under this Article shall be final and binding. The Bylaws of the Corporation may make appropriate provisions to effectuate the requirements of this Article ELEVENTH to the extent set forth herein and the Board may, at any time and from time to time, adopt such other or additional reasonable procedures as the Board may deem desirable or necessary to comply with the Statutory Acquisition Restriction or the Foreign Ownership Restrictions or to carry out the provisions of this Article ELEVENTH.

J. Certain Definitions. For purposes of this Article ELEVENTH,

"Affiliate" and "Affiliated" shall have the meaning set forth in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended.

"Contravening Person" shall mean (i) a person having a significant commercial relationship with a Foreign Enrichment Provider with respect to uranium or uranium products or (ii) a Foreign Competitor.

"Foreign Competitor" shall mean a Foreign Enrichment Provider or a person Affiliated with a Foreign Enrichment Provider in such a manner as to warrant application of the Foreign Ownership Restrictions to such person.

"Foreign Enrichment Provider" shall mean any person incorporated, organized or having its principal place of business outside of the United States which is in the business of enriching uranium for use by nuclear reactors or any person incorporated, organized or having its principal place of business outside of the United States which is in the business of

creating a fissile product capable of use as a fuel source for nuclear reactors in lieu of enriched uranium.

"foreign person" shall mean (i) an individual who is not a citizen of the United States of America; (ii) a partnership in which any general partner is a foreign person or the partner or partners having a majority interest in partnership profits are foreign persons; (iii) a foreign government or representative thereof; (iv) a corporation, partnership, trust, company, association or other entity organized or incorporated under the laws of a jurisdiction outside of the United States and (v) a corporation, partnership, trust, company, association or other entity that is controlled directly or indirectly by any one or more of the foregoing.

"person" shall include natural persons, corporations, partnerships, companies, associations, trusts, joint ventures and other entities.

K. Amendment. Any amendment, alteration, change or repeal of this Article ELEVENTH shall require the affirmative vote of both (a) a majority of the members of the Board of Directors then in office and (b) the affirmative vote of holders of at least two-thirds of the voting power of all the shares of capital stock of the Corporation entitled to vote generally in the election of directors voting together as a single class.

TWELFTH: The Corporation hereby reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation. Except as may be provided in a resolution or resolutions providing for any class or series of Preferred Stock pursuant to Article FOURTH hereof and which relate to such class or series of Preferred Stock, any such amendment, alteration, change or repeal shall require the affirmative vote of both (a) a majority of the members of the Board of Directors then in office and (b) a majority of the voting power of all of the shares of capital stock of the Corporation entitled

to vote generally in the election of directors, voting together as a single class.

THIRTEENTH: In the event that any of the provisions of this Certificate of Incorporation (including any provision within a single Section, paragraph or sentence) is held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, the remaining provisions are severable and shall remain enforceable to the full extent permitted by law.

I, THE UNDERSIGNED, being the Sole Incorporator hereinbefore named, for the purpose of forming a corporation pursuant to the DGCL do make this Certificate, hereby declaring and certifying that this is my act and deed and the facts herein stated are true, and accordingly have hereunto set my hand this 29th day of June, 1998.

Lynn Buckley
Sole Incorporator

EXHIBIT 3.2

BY-LAWS

OF

USEC INC.

(hereinafter called the "Corporation")

ARTICLE I

OFFICES

Section 1. Registered Office. The registered office of the Corporation shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 2. Other Offices. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. Place of Meetings. Meetings of the stockholders for the election of directors or for any other purpose shall be held at such time and place, either within or without the State of Delaware as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Annual Meetings. The Annual Meeting of Stockholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting, at which meetings the stockholders shall elect by a plurality vote members of a Board of Directors, and transact such other business as may properly be brought before the meeting. Unless otherwise required by law, written notice of the Annual Meeting stating the place, date and hour of the meeting shall be given to each stockholder

entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting.

Section 3. Special Meetings. Unless otherwise prescribed by law or by the Certificate of Incorporation, special meetings ("Special Meetings") of Stockholders, for any purpose or purposes, may be called by either the Chairman, if there be one, or the President, and shall be called by any such officer at the request in writing of (i) the Board of Directors or (ii) a committee of the Board of Directors that has been designated by the Board of Directors and whose power and authority include the power to call such meetings. Such request shall state the purpose or purposes of the proposed meeting. Unless otherwise required by law, written notice of a Special Meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called shall be given not less than ten nor more than sixty days before the date of the meeting to each stock holder entitled to vote at such meeting. At a Special Meeting of Stockholders only such business shall be conducted as shall be specified in the

notice of meeting (or any supplement thereto).

Section 4. Quorum. Unless otherwise required by law or by the Certificate of Incorporation, the holders of a majority of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business. A quorum, once established, shall not be broken by the with drawal of enough votes to leave less than a quorum. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stock holders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder entitled to vote at the meeting.

Section 5. Voting. Unless otherwise required by law, the Certificate of Incorporation or these By-Laws, any question brought before any meeting of stockholders, other than the election of directors, shall be decided by the vote of the holders of a majority of the stock represented and entitled to vote thereat. Each

stockholder represented at a meeting of stockholders shall be entitled to cast one vote for each share of the capital stock entitled to vote thereat held by such stock holder. Such votes may be cast in person or by proxy but no proxy shall be voted on or after three years from its date, unless such proxy provides for a longer period. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of stockholders, in his or her discretion, may require that any votes cast at such meeting shall be cast by written ballot.

Section 6. List of Stockholders Entitled to Vote. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder of the Corporation who is present.

Section 7. Stock Ledger. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 6 of this Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

Section 8. Nomination of Directors. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Corporation. Nominations of persons for election to the Board of Directors may be made at any annual meeting of stockholders (a) by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (b) by any stockholder of the Corporation (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 8 and on the record date for the determination of stockholders entitled to vote at such annual meeting and (ii) who complies with the notice procedures set forth in

this Section 8.

In addition to any other applicable requirements, for a nomination to be made by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the date of the annual meeting of stockholders; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs.

To be in proper written form, a stockholder's notice to the Secretary must set forth (a) as to each person whom the stockholder proposes to nominate for election as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class or series and number of shares of capital stock of the Corporation that are owned beneficially or of record by the person and (iv) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder; and (b) as to the stockholder giving the notice (i) the name and record address of such stockholder, (ii) the class or series and number of shares of capital stock of the Corporation that are owned beneficially or of record by such stockholder, (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (iv) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice, (v) a statement, signed under oath and in such reasonable detail as the Board of Directors may require, that such stockholder is not a foreign person (as defined in the Corporation's Certificate of Incorporation) or under the control of a foreign person and that such stockholder is not a Contravening Person (as defined in the Corporation's Certificate of Incorporation) or under the control of a Contravening Person, (vi) an undertaking to notify the Corporation if the statement specified in clause (v) becomes untrue in any

respect from the date such statement is given up to and including the date and time of the vote for the proposed nominee and (vii) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 8. If the Chairman of the meeting determines (a) that a nomination was not made in accordance with the foregoing procedures, (b) that at the date and time of the vote for the proposed nominee the stockholder who nominated such nominee is a

foreign person or under the control of a foreign person or (c) that at the date and time of the vote for the proposed nominee the stockholder who nominated such nominee is a Contravening Person or under the control of a Contravening Person, the Chairman shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded.

Section 9. Business at Annual Meetings. No business may be transacted at an Annual Meeting of Stockholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the Annual Meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (c) otherwise properly brought before the Annual Meeting by any stockholder of the Corporation (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 9 and on the record date for the determination of stockholders entitled to vote at such Annual Meeting and (ii) who complies with the notice procedures set forth in this Section 9.

In addition to any other applicable requirements, for business to be properly brought before an Annual Meeting by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the

Corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the date of the Annual Meeting of Stockholders; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the Annual Meeting was mailed or such public disclosure of the date of the Annual Meeting was made, whichever first occurs.

To be in proper written form, a stockholder's notice to the Secretary must set forth as to each matter such stockholder proposes to bring before the Annual Meeting (i) a brief description of the business desired to be brought before the Annual Meeting and the reasons for conducting such business at the Annual Meeting, (ii) the name and record address of such stockholder, (iii) the class or series and number of shares of capital stock of the Corporation that are owned beneficially or of record by such stockholder, (iv) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business and (v) a representation that such stockholder intends to appear in person or by proxy at the Annual Meeting to bring such business before the meeting.

No business shall be conducted at the Annual Meeting of Stockholders except business brought before the Annual Meeting in accordance with the procedures set forth in this Section 9, provided, however, that, once business has been properly brought before the Annual Meeting in accordance with such procedures, nothing in this Section 9 shall be deemed to preclude discussion by any stockholder of any such business. If the Chairman of an Annual Meeting deter mines that business was not properly brought before the Annual Meeting in accordance with the foregoing procedures, the Chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

Section 10. Conduct of Meetings. The Board of Directors of the Corporation may adopt by resolution such rules and regulations for the conduct of the meeting of the stockholders as it shall deem appropriate. Except to the extent

inconsistent with such rules and regulations as adopted by the Board of Directors, the Chairman of any meeting of the stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the

judgment of such Chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the Chairman of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) the determination of when the polls shall open and close for any given matter to be voted on at the meeting; (iii) rules and procedures for maintaining order at the meeting and the safety of those present; (iv) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the Chairman of the meeting shall determine; (v) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (vi) limitations on the time allotted to questions or comments by participants.

ARTICLE III

DIRECTORS

Section 1. Number and Election of Directors. The Board of Directors shall consist of not less than three nor more than twenty members, the exact number of which shall initially be fixed by the Incorporator and thereafter from time to time by the Board of Directors. Except as provided in the Certificate of Incorporation, directors shall be elected by a plurality of the votes cast at Annual Meetings of Stockholders. Any director may resign at any time upon written notice to the Corporation. Directors need not be stockholders. Directors must be citizens of the United States of America.

Section 2. Duties and Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-Laws directed or required to be exercised or done by the stockholders.

Section 3. Meetings. The Board of Directors may hold meetings, both regular and special, either within or without the State of Delaware. Regular meetings of the Board of Directors may be held without notice at such time and at such place as may from time to time be determined by the Board of Directors. Special meetings of the Board of Directors may be called by the Chairman, if there be one, the President, or by a majority of directors then in office. Notice thereof

stating the place, date and hour of the meeting shall be given to each director either by mail not less than forty-eight (48) hours before the date of the meeting, by telephone or telegram on twenty-four (24) hours' notice, or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate in the circumstances.

Section 4. Quorum. Except as otherwise required by law, the Certificate of Incorporation or these By-Laws, at all meetings of the Board of Directors, a majority of the entire Board of Directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of

Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting of the time and place of the adjourned meeting, until a quorum shall be present.

Section 5. Actions by Written Consent. Unless otherwise provided by the Certificate of Incorporation or these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all the members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

Section 6. Meetings by Means of Conference Telephone. Unless otherwise provided by the Certificate of Incorporation or these By-Laws, members of the Board of Directors, or any committee thereof, may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 6 shall constitute presence in person at such meeting.

Section 7. Committees. The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. In the absence or disqualification of a member of a committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the

member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any absent or disqualified member. Any committee, to the extent allowed by law and provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation. Each committee shall keep regular minutes and report to the Board of Directors when required.

Section 8. Compensation. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 9. Interested Directors. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his, her or their votes are counted for such purpose if (i) the material facts as to his, her or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his, her or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith

by vote of the stock holders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

ARTICLE IV

OFFICERS

Section 1. General. The Board of Directors shall elect a Chairman of the Board of Directors (who must be a director) or a President, or both, and a Secretary and a Treasurer and may elect one or more Vice Chairmen of the Board of Directors (who must be directors) and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers, as the Board may determine. Any number of offices may be held by the same person, unless otherwise prohibited by law, the Certificate of Incorporation or these By-Laws. Except as may be stipulated by a resolution of the Board of Directors, the officers of the Corporation may, but need not be stockholders of the Corporation nor, except in the case of the Chairman of the Board of Directors or Vice Chairman of the Board of Directors, need such officers be directors of the Corporation.

Section 2. Election. The Board of Directors at its first meeting held after each Annual Meeting of Stockholders shall elect the officers of the Corporation who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors; and all officers of the Corporation shall hold office until their successors are chosen and qualified, or until their earlier resignation or removal. Any officer elected by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors. The salaries of all officers of the Corporation shall be fixed by the Board of Directors.

Section 3. Voting Securities Owned by the Corporation. Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of the Corporation by the President or any Vice President and any such officer may, in the name of and on behalf of the Corporation, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and power incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

Section 4. Chairman of the Board of Directors; Vice Chairmen of the Board of Directors. The Chairman of the Board of Directors, if there be one, shall preside at all meetings of the stockholders and of the Board of Directors. The Chairman of the Board of Directors shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him or her by these By-Laws or by the Board of Directors. The Board of Directors may, by resolution, from time to time confer like powers upon one or more Vice Chairmen of the Board of Directors to serve in the absence or disability of the Chairman

of the Board of Directors. If there shall be more than one Vice Chairman of the Board of Directors, they shall act as Chairman by order of their seniority on the Board of Directors or as otherwise determined by the Board of Directors.

Section 5. President. The President, subject to the control of the Board of Directors, shall have general charge and supervision and authority over all operations of the Corporation and shall have such powers and perform such duties as are incident to his or her office or as may be properly granted to or required by him or her by the Board of Directors, by the Chairman of the Board of Directors or by these By-laws. The President shall be the Chief Executive Officer of the Corporation. The President shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him or her by these By-Laws or the Board of Directors.

Section 6. Vice Presidents. At the request of the President or in his or her absence or in the event of his or her inability or refusal to act (and if there be no Chairman or Vice Chairman of the Board of Directors), the Vice President or the Vice Presidents if there is more than one (in the order designated by the Board of Directors) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Each Vice President shall perform such other duties and have such other powers as the Board of Directors or the Chief Executive Officer from time to time may prescribe. If there be no Chairman or Vice Chairman of the Board of Directors and no Vice President, the Board of Directors shall designate the officer of the Corporation who, in the absence of the President or in the event of the inability or refusal of the President to act, shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President.

Section 7. Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and record all the proceedings

thereat in a book or books to be kept for that purpose; the Secretary shall also perform like duties for the committees of the Board of Directors when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or the Chief Executive Officer, under whose supervision he or she shall be. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the stockholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then either the Board of Directors or the Chief Executive Officer may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his or her signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be.

Section 8. Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors or the Chief Executive Officer. The Treasurer shall perform such other duties as may be prescribed by the Board of Directors or the Chief Executive Officer, under whose supervision he or she shall be.

Section 9. Assistant Secretaries. Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be

assigned to them by the Board of Directors, the Chief Executive Officer, the President, any Vice President, if there be one, or the Secretary, and in the absence of the Secretary or in the event of his or her disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

Section 10. Assistant Treasurers. Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the Chief Executive Officer, the

President, any Vice President, if there be one, or the Treasurer, and in the absence of the Treasurer or in the event of his or her disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer. If required by the Board of Directors, an Assistant Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his or her office and for the restoration to the Corporation, in case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his or her possession or under his or her control belonging to the Corporation.

Section 11. Other Officers. Such other officers as the Board of Directors may choose shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors or the Chief Executive Officer. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

ARTICLE V

STOCK

Section 1. Form of Certificates. Every holder of stock in the Corporation shall be entitled to have a certificate signed, in the name of the Corporation (i) by the Chairman of the Board of Directors, the President or a Vice President and (ii) by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him or her in the Corporation.

Section 2. Signatures. Any or all of the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

Section 3. Lost Certificates. The Board of Directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his or her legal representative, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a

bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed or the issuance of such new certificate.

Section 4. Transfers. Stock of the Corporation shall be transferable in the manner prescribed by law and in these By-Laws. Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate or by his or her attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be cancelled before a new certificate shall be issued. No transfers shall be valid as against the Corporation for any purpose until it shall have been entered in the stock records of the Corporation by an entry showing from and to whom transferred.

Section 5. Record Date.

(a) In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty nor less than ten days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

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

Section 6. Record Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise required by law.

ARTICLE VI

NOTICES

Section 1. Notices. Whenever written notice is required by law, the Certificate of Incorporation or these By-Laws, to be given to any director, member of a committee or stockholder, such notice may be given by mail, addressed to such director, member of a committee or stockholder, at his or her address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Written notice may also be given personally or by telegram, telex or cable.

Section 2. Waivers of Notice. Whenever any notice is required by law, the Certificate of Incorporation or these By-Laws, to be given to any director, member of a committee or stockholder, a waiver thereof in writing, signed, by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

ARTICLE VII

GENERAL PROVISIONS

Section 1. Dividends. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, and may be paid in cash, in property, or in shares of the capital stock. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

Section 2. Disbursements. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 3. Fiscal Year. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 4. Corporate Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

Section 5. Legend on Indebtedness. The Corporation shall include a plainly stated legend on its financial obligations as required by and in accordance with the USEC Privatization Act (P.L. 104-134) that its financial obligations are not obligations of, or guaranteed as to principal or interest by, the United States.

ARTICLE VIII

INDEMNIFICATION

Section 1. Power to Indemnify in Actions, Suits or Proceedings other Than Those by or in the Right of the Corporation. Subject to Section 3 of

this Article VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he or she is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director or officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in

connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

Section 2. Power to Indemnify in Actions, Suits or Proceedings by or in the Right of the Corporation. Subject to Section 3 of this Article VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he or she is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indem-

nity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 3. Authorization of Indemnification. Any indemnification under this Article VIII (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because he or she has met the applicable standard of conduct set forth in Section 1 or Section 2 of this Article VIII, as the case may be. Such determination shall be made, with respect to a person who is a director or officer at the time of such determination, (i) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (ii) by a committee of such directors designated by a majority vote of such directors, even though less than a quorum, or (iii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (iv) by the stockholders. Such determination shall be made, with respect to former directors and officers, by any person or persons having the authority to act on the matter on behalf of the Corporation. To the extent, however, that a present or former director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith, without the necessity of authorization in the specific case.

Section 4. Good Faith Defined. For purposes of any determination under Section 3 of this Article VIII, a person shall be deemed to have acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe his or her conduct was unlawful, if his or her action is based on the records or books of account

of the Corporation or another enterprise, or on information supplied to him or her by the officers of the Corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the Corporation or another enterprise or on information or records given or reports made to the Corporation or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Corporation or another enterprise. The term "another enterprise" as used in this Section 4 shall mean any other corporation or any partnership, joint venture, trust, employee benefit plan or other enterprise of which such person is or was serving at the request of the Corporation as a director,

officer, employee or agent. The provisions of this Section 4 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth in Sections 1 or 2 of this Article VIII, as the case may be.

Section 5. Indemnification by a Court. Notwithstanding any contrary determination in the specific case under Section 3 of this Article VIII, and notwithstanding the absence of any determination thereunder, any director or officer may apply to any court of competent jurisdiction in the State of Delaware for indemnification to the extent otherwise permissible under Sections 1 and 2 of this Article VIII. The basis of such indemnification by a court shall be a determination by such court that indemnification of the director or officer is proper in the circumstances because he or she has met the applicable standards of conduct set forth in Sections 1 or 2 of this Article VIII, as the case may be. Neither a contrary determination in the specific case under Section 3 of this Article VIII nor the absence of any determination thereunder shall be a defense to such application or create a presumption that the director or officer seeking indemnification has not met any applicable standard of conduct. Notice of any application for indemnification pursuant to this Section 5 shall be given to the Corporation promptly upon the filing of such application. If successful, in whole or in part, the director or officer seeking indemnification shall also be entitled to be paid the expense of prosecuting such application.

Section 6. Expenses Payable in Advance. Expenses incurred by a director or officer in defending any civil, criminal, administrative or investigative action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the Corporation as authorized in this Article VIII.

Section 7. Nonexclusivity of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by or granted pursuant to this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any By-Law, statute, agreement, contract, vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of the persons specified in Sections 1 and 2

of this Article VIII shall be made to the fullest extent permitted by law. The provisions of this Article VIII shall not be deemed to preclude the indemnification of any person who is not specified in Sections 1 or 2 of this Article VIII but whom the Corporation has the power or obligation to indemnify under the provisions of the General Corporation Law of the State of Delaware, or otherwise.

Section 8. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was or shall be a director, officer or employee of the Corporation, or is or was or shall be a director, officer or employee of the Corporation serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Corporation would have the power or the obligation to indemnify him or her against such liability under the provisions of this Article VIII.

Section 9. Certain Definitions. For purposes of this Article VIII, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers or employees, so that any person who is or was a director, officer or employee of such constituent corporation, or is or was a director, officer or employee of such constituent corporation serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Article VIII with respect to the resulting or surviving corporation as he or she would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article VIII, references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he or she reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article VIII.

Section 10. Survival of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VIII shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer or employee and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 11. Limitation on Indemnification. Notwithstanding anything contained in this Article VIII to the contrary, except for proceedings to enforce rights to indemnification (which shall be governed by Section 5 hereof), the Corporation shall not be obligated to indemnify any director, officer or employee in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Corporation.

Section 12. Indemnification of Employees and Agents. The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this Article VIII to directors and officers of the Corporation.

ARTICLE IX

AMENDMENTS

Section 1. Amendments. These By-Laws may be altered, amended or repealed, in whole or in part, or new By-Laws may be adopted by the stockholders or by the Board of Directors, provided, however, that notice of such alteration, amendment, repeal or adoption of new By-Laws be contained in the notice of such meeting of stockholders or Board of Directors as the case may be. Subject to the requirements of the Certificate of Incorporation, all such amendments must be approved by either the affirmative vote of the holders of at least 50% of the voting power of all the shares of capital stock of the Corporation then entitled to vote generally in the election of directors, voting together as a single class or by a majority of the entire Board of Directors then in office.

Section 2. Entire Board of Directors. As used in this Article IX and in these By-Laws generally, the term "entire Board of Directors" means the

total number of directors which the Corporation would have if there were no vacancies.

THE OBLIGATIONS OF USEC INC. UNDER THIS REVOLVING LOAN AGREEMENT ARE NOT OBLIGATIONS OF, AND ARE NOT GUARANTEED AS TO PRINCIPAL, INTEREST OR ANY OTHER AMOUNT BY, THE UNITED STATES OF AMERICA.

REVOLVING LOAN AGREEMENT

Dated as of July 28, 1998

among

USEC INC.

THE LENDERS HEREIN NAMED

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION
as Documentation Agent and Administrative Agent

FIRST UNION NATIONAL BANK
and
NATIONSBANK, N.A.
as Syndication Agents

and

BANCAMERICA ROBERTSON STEPHENS,
as Lead Arranger

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Exhibits

Schedules

THE OBLIGATIONS OF USEC INC. UNDER THIS REVOLVING LOAN AGREEMENT ARE NOT OBLIGATIONS OF, AND ARE NOT GUARANTEED AS TO PRINCIPAL, INTEREST OR ANY OTHER AMOUNT BY, THE UNITED STATES OF AMERICA.

REVOLVING LOAN AGREEMENT

Dated as of July 28, 1998

This REVOLVING LOAN AGREEMENT ("Agreement") is entered into by and among USEC Inc., a Delaware corporation ("Borrower"), each lender whose name is set forth on the signature pages of this Agreement and each lender which may hereafter become a party to this Agreement pursuant to Section 11.8 (collectively, the "Lenders" and individually, a "Lender"), Bank of America National Trust and Savings Association, as Documentation Agent and Administrative Agent, First Union National Bank and NationsBank, N.A., as Syndication Agents and BancAmerica Robertson Stephens, as Lead Arranger.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

Article 1
DEFINITIONS AND ACCOUNTING TERMS

1.1 Defined Terms. As used in this Agreement, the following terms shall have the meanings set forth below:

"Administrative Agent" means Bank of America National Trust and Savings Association when acting in its capacity as the Administrative Agent under any of the Loan Documents, or any successor Administrative Agent.

"Administrative Agent's Office" means the Administrative Agent's address as set forth on the signature pages of this Agreement, or such other address as the Administrative Agent hereafter may designate by written notice to Borrower and the Lenders.

"Advance" means any advance made or to be made by any Lender to Borrower as provided in Article 2, and includes each Base Rate Advance and Eurodollar Rate Advance.

"Affiliate" means, as to any Person, any other Person which directly or indirectly controls, or is under common control with, or is controlled by, such Person. As used in this definition, "control" (and the correlative terms, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise); provided that, in any event, any Person that owns, directly or indirectly, 10% or more of the securities having ordinary voting power for the election of directors or other governing body of a corporation that has more than 100 record holders of such securities, or 10% or more of the partnership or other ownership interests of any other Person that has more than 100 record holders of such interests, will be deemed to be an

Affiliate of such corporation, partnership or other Person.

"Agreement" means this Revolving Loan Agreement, either as originally executed or as it may from time to time be supplemented, modified, amended, restated or extended.

"Aggregate Effective Amount" means, as of any date of determination and with respect to all Letters of Credit then outstanding, the sum of (a) the aggregate effective face amounts of all such Letters of Credit not then paid by the Fronting Lender plus (b) the aggregate amounts paid by the Fronting Lender under such Letters of Credit not then reimbursed to the Fronting Lender by Borrower pursuant to Section 2.5(d) and not the subject of Advances made pursuant to Section 2.5(e).

"Applicable Eurodollar Margin" means, during the continuance of any Applicable Pricing level and with respect to the Privatization Facilities and the Working Capital Facility, the interest rate margin set forth below (expressed in basis points per annum) under the appropriate caption opposite that Applicable Pricing Level:

	Margins	
Applicable Pricing Level	Privatization Facilities	Working Capital Facility
I	16.5	15.5

II	18.0	16.5
III	24.0	21.5
IV	30.0	27.5
V	35.0	32.5
VI	57.5	55.0

; provided that, if Borrower exercises its election pursuant to Section 3.1(e)(vi), the Applicable Eurodollar Margin for Tranche B Loans subsequent to the Tranche B Conversion Date shall be the sum of the margin set forth above under the caption "Privatization Facilities" plus 15 basis points.

"Applicable Facility Fee Rate" means, during the continuance of any Applicable Pricing Level and with respect to the Privatization Facilities and the Working Capital Facility, the rate set forth below (expressed in basis points per annum) under the appropriate caption opposite that Applicable Pricing Level:

	Rate	
Applicable Pricing Level	Privatization Facilities	Working Capital Facility
I	6.0	7.0
II	7.0	8.5
III	8.5	11.0
IV	10.0	12.5

V	15.0	17.5
VI	17.5	20.0

"Applicable Pricing Level" means the pricing level set forth below opposite the credit rating then given to Borrower's long-term senior unsecured debt which is not the beneficiary of any external credit enhancement by Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.) ("S&P") and Moody's Investors Service, Inc. ("Moody's"):

Applicable Pricing Level	Credit Rating (S&P/Moody's)
I	A/A2 or better
II	A-/A3

III	BBB+/Baa1
IV	BBB/Baa2
V	BBB-/Baa3
VI	BB+/Ba1 or lower

The following conventions shall apply with respect to the foregoing: (a) until such time as both S&P and Moody's issue public credit ratings for Borrower's long-term senior unsecured non-credit-enhanced debt, the Applicable Pricing Level shall be determined based on the indicative credit rating set forth in the letter from S&P to Borrower dated June 12, 1998 and (b) once both S&P and Moody's have issued public credit ratings for such debt, the higher of such credit ratings shall be used to determine the Applicable Pricing Level unless such credit ratings are split by more than one level, in which case the credit rating that is one level higher than the lower of the two credit ratings shall be used to determine the Applicable Pricing Level.

"Applicable Standby Letter of Credit Fee Rate" means, as of any date of determination, the then effective Applicable Eurodollar Rate Margin.

"Bank of America" means Bank of America National Trust and Savings Association, as a Lender.

"Banking Day" means any Monday, Tuesday, Wednesday, Thursday or Friday, other than a day on which banks are authorized or required to be closed in California, New York, or North Carolina.

"Base Rate" means the higher of (a) the rate of interest publicly announced from time to time by Bank of America in San Francisco, California, as its "reference rate," which is a rate set by Bank of America based upon various factors including Bank of America's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate and (b) one-half percent per annum above the Federal Funds Rate. Any change in the reference rate announced by Bank of America shall take effect at the opening of business on the day specified in the public announcement of such change.

"Base Rate Advance" means an Advance made hereunder and specified to

be an Base Rate Advance in accordance with Article 2.

"Base Rate Loan" means a Loan made hereunder and specified to be an Base Rate Loan in accordance with Article 2.

"Bid" means a written bid to provide a Bid Option Advance substantially in the form of Exhibit A, signed by a Responsible Official of a Lender and properly completed to provide all information required to be included therein.

"Bid Option Advance" means an Advance made to Borrower by any Lender not determined by that Lender's Pro Rata Share of any of the Commitments pursuant to Section 2.4.

"Bid Option Advance Note" means the promissory note made by Borrower in favor of a Lender to evidence the Bid Option Advances made by that Lender, substantially in the form of Exhibit B, either as originally executed or as the same may from time to time be supplemented, modified, amended, renewed, extended or supplanted.

"Bid Request" means a written request submitted by Borrower to the Administrative Agent to provide a Bid, substantially in the form of Exhibit C, signed by a Responsible Official of Borrower and properly completed to provide all information required to be included therein.

"Borrower" means USEC Inc., a Delaware corporation, and its successors.

"Capital Lease Obligations" means all monetary obligations of a Person under any leasing or similar arrangement which, in accordance with GAAP, is classified as a capital lease.

"Cash" means, when used in connection with any Person, all monetary and non-monetary items owned by that Person that are treated as cash in accordance with GAAP, consistently applied.

"Cash Equivalents" means, when used in connection with any Person, that Person's Investments in:

(a) Government Securities due within one year after the date of the making of the Investment;

(b) readily marketable direct obligations of any State of the United States of America or any political subdivision of any such State or any public agency or instrumentality thereof given on the date of such Investment a credit rating of at least A3 by Moody's Investors Service, Inc. or A- by Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.), in each case due within one year from the making of the Investment;

(c) certificates of deposit issued by, bank deposits in, Eurodollar deposits through, bankers' acceptances of, and repurchase agreements covering Government Securities executed by any Lender or any bank incorporated under the Laws of the United States of America, any State thereof or the District of Columbia and having on the date of such Investment combined capital, surplus and undivided profits of at least $250,000,000, or total assets of at least $5,000,000,000, in each case due within one year after the date of the making of the Investment;

(d) certificates of deposit issued by, bank deposits in, Eurodollar deposits through, bankers' acceptances of, and repurchase

agreements covering Government Securities executed by any Lender or any branch or office located in the United States of America of a bank incorporated under the Laws of any jurisdiction outside the United States of America having on the date of such Investment combined capital, surplus and undivided profits of at least $500,000,000, or total assets of at least $15,000,000,000, in each case due within one year after the date of the making of the Investment;

(e) repurchase agreements covering Government Securities executed by a broker or dealer registered under Section 15(b) of the Securities Exchange Act of 1934, as amended, having on the date of the Investment capital of at least $50,000,000, due within 90 days after the date of the making of the Investment; provided that the maker of the Investment receives written confirmation of the transfer to it of record ownership of the Government Securities on the books of a "primary dealer" in such Government Securities or on the books of such registered broker or dealer, as soon as practicable after the making of the Investment;

(f) readily marketable commercial paper or other debt securities issued by corporations doing business in and incorporated under the Laws of the United States of America or any State thereof or of any corporation that is the holding company for a bank described in clause (c) or (d) above given on the date of such Investment a credit rating of at least P-2 by Moody's Investors Service, Inc. or A-2 by Standard & Poor's Rating Group (a division of

McGraw-Hill, Inc.), in each case due within one year after the date of the making of the Investment;

(g) "money market preferred stock" issued by a corporation incorporated under the Laws of the United States of America or any State thereof (i) given on the date of such Investment a credit rating of at least A3 by Moody's Investors Service, Inc. and A- by Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.), in each case having an investment period not exceeding 50 days or (ii) to the extent that investors therein have the benefit of a standby letter of credit issued by a Lender or a bank described in clauses (c) or (d) above; provided that (y) the amount of all such Investments issued by the same issuer does not exceed $5,000,000 and (z) the aggregate amount of all such Investments does not exceed $15,000,000;

(h) a readily redeemable "money market mutual fund" sponsored by a bank described in clause (c) or (d) hereof, or a registered broker or dealer described in clause (e) hereof, that has and maintains an investment policy limiting its investments primarily to instruments of the types described in clauses (a) through (g) hereof and given on the date of such Investment a credit rating of at least A3 by Moody's Investors Service, Inc. and A- by Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.); and

(i) corporate notes or bonds having an original term to maturity of not more than one year issued by a corporation incorporated under the Laws of the United States of America, or a participation interest therein; provided that (i) commercial paper issued by such corporation is given on the date of such Investment a credit rating of at least P2 by Moody's Investors Service, Inc. and A2 by Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.), (ii) the amount of all such Investments issued by the same issuer does not exceed $5,000,000 and (iii) the aggregate amount of all such Investments does not exceed $15,000,000.

"Certificate" means a certificate signed by a Senior Officer or Responsible Official (as applicable) of the Person providing the certificate.

"Change in Control" means (a) any transaction or series of related transactions in which any Unrelated Person or two or more Unrelated Persons acting in concert acquire beneficial ownership (within the meaning of Rule 13d-3(a)(1) under the Securities Exchange Act of 1934, as amended), directly or indirectly, of 35% or more of the outstanding Common Stock, (b) Borrower consolidates with or merges into another Person or conveys,

transfers or leases its properties and assets substantially as an entirety to any Person or any Person consolidates with or merges into Borrower, in either event pursuant to a transaction in which the outstanding Common Stock is changed into or exchanged for cash, securities or other property, with the effect that any Unrelated Person becomes the beneficial owner, directly or indirectly, of 35% or more of Common Stock or that the Persons who were the holders of Common Stock immediately prior to the transaction hold less than 65% of the common stock of the surviving corporation after the transaction, (c) during any period of 24 consecutive months, individuals who at the beginning of such period constituted the board of directors of Borrower (together with any new or replacement directors whose election by the board of directors, or whose nomination for election, was approved by a vote of at least a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for reelection was previously so approved) cease for any reason to constitute a majority of the directors then in office or (d) a "change in control" as defined in any document governing Indebtedness of Borrower in excess of $10,000,000 which gives the holders of such Indebtedness the right to accelerate or otherwise require payment of such Indebtedness prior to the maturity date thereof. For purposes of the foregoing, the term "Unrelated Person" means any Person other than (i) a Subsidiary of Borrower or (ii) an employee stock ownership plan or other employee benefit plan covering the employees of Borrower and its Subsidiaries.

"Closing Date" means the time and Banking Day on which the conditions set forth in Section 8.1 are satisfied or waived. The Administrative Agent shall notify Borrower and the Lenders of the date that is the Closing Date.

"Code" means the Internal Revenue Code of 1986, as amended or replaced and as in effect from time to time.

"Commercial Letter of Credit" means each Letter of Credit issued to support the purchase of goods by Borrower which is determined to be a commercial letter of credit by the Fronting Lender.

"Commitments" means, collectively, the Tranche A Commitment, the Tranche B Commitment and the Tranche C Commitment.

"Commitment Assignment and Acceptance" means a commitment assignment and acceptance substantially in the form of Exhibit D.

"Common Stock" means the common stock of Borrower or its successor.

"Compliance Certificate" means a certificate in the form of Exhibit E, properly completed and signed by a Senior Officer of Borrower.

"Contractual Obligation" means, as to any Person, any provision of any outstanding security issued by that Person or of any material agreement, instrument or undertaking to which that Person is a party or by which it or any of its Property is bound.

"Debtor Relief Laws" means the Bankruptcy Code of the United States of

America, as amended from time to time, and all other applicable liquidation, conservatorship, bankruptcy, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws from time to time in effect affecting the rights of creditors generally.

"Default" means any event that, with the giving of any applicable notice or passage of time specified in Section 9.1, or both, would be an Event of Default.

"Default Rate" means the interest rate prescribed in Section 3.9.

"Designated Eurodollar Market" means the Eurodollar Market in London, England.

"Disqualified Stock" means any capital stock, warrants, options or other rights to acquire capital stock (but excluding any debt security which is convertible, or exchangeable, for capital stock), which, 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, matures 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, on or prior to the Maturity Date.

"Disposition" means the sale, transfer or other disposition in any single transaction or series of related transactions of any asset, or group of related assets, of Borrower or any of its Subsidiaries (a) which asset or assets constitute an entire segment of business or substantially all the assets of Borrower or (b) the aggregate amount of the Net Cash Sales Proceeds of such assets is more than $2,000,000, other than (i) Cash, Cash Equivalents, inventory or other assets sold or otherwise disposed of in the ordinary course of business of Borrower or its Subsidiary, (ii) assets sold or otherwise disposed of where substantially similar assets in replacement thereof have theretofore been acquired, or

thereafter within six (6) months are acquired, by Borrower or its Subsidiary and (iii) obsolete assets no longer useful in the business of Borrower and its Subsidiaries.

"Distribution" means, with respect to any shares of capital stock or any warrant or option to purchase an equity security or other equity security issued by a Person, (a) the retirement, redemption, purchase or other acquisition for Cash or for Property by such Person of any such security, (b) the declaration or (without duplication) payment by such Person of any dividend in Cash or in Property on or with respect to any such security, (c) any Investment by such Person in the holder of 5% or more of any such security if a purpose of such Investment is to avoid characterization of the transaction as a Distribution and (d) any other payment in Cash or Property by such Person constituting a distribution under applicable Laws with respect to such security.

"Documentation Agent" means Bank of America National Trust and Savings Association. The Documentation Agent shall have no rights, duties, allegations or responsibilities beyond those of a Lender.

"Dollars" or "$" means United States of America dollars.

"Eligible Assignee" means (a) another Lender, (b) with respect to any Lender, any Affiliate of that Lender, (c) any commercial bank having total assets of $10,000,000,000 or more, (d) any (i) savings bank, savings and loan association or similar financial institution or (ii) insurance company engaged in the business of writing insurance which, in either case (A) has total assets of $10,000,000,000 or more, (B) is engaged in the business of lending money and extending credit under credit facilities substantially similar to those extended under this Agreement and (C) is operationally and

procedurally able to meet the obligations of a Lender hereunder to the same degree as a commercial bank and (e) any other financial institution (including a mutual fund or other fund) having total assets of $10,000,000,000 or more which meets the requirements set forth in subclauses (B) and (C) of clause (d) above; provided that each Eligible Assignee with respect to the Privatization Facilities must be organized under the Laws of the United States of America, any State thereof or the District of Columbia and must not be subject to any Foreign Disqualification Factor and provided further that each Eligible Assignee with respect to the Working Capital Facility must either (aa) be organized under the Laws of the United States of America, any State thereof or the District of Columbia or (bb) be organized under the Laws of the Cayman Islands or any country which is a member of the Organization for Economic Cooperation and Development,

or a political subdivision of such a country, and (i) act hereunder through a branch, agency or funding office located in the United States of America and (ii) be exempt from withholding of tax on interest and deliver the documents related thereto pursuant to Section 11.21. For purposes of the foregoing, the term "Foreign Disqualification Factor" means (a) the presence of any of the factors set forth in Paragraph A of Schedule 1.1B and (b) if so determined by Borrower (which determination shall be exercised reasonably), the presence of any of the factors set forth in Paragraph B of Schedule 1.1B.

"ERISA" means the Employee Retirement Income Security Act of 1974, and any regulations issued pursuant thereto, as amended or replaced and as in effect from time to time.

"ERISA Affiliate" means each Person (whether or not incorporated) which is required to be aggregated with Borrower pursuant to Section 414 of the Code.

"Eurodollar Banking Day" means any Banking Day on which dealings in Dollar deposits are conducted by and among banks in the Designated Eurodollar Market.

"Eurodollar Lending Office" means, as to each Lender, its office or branch so designated by written notice to Borrower and the Administrative Agent as its Eurodollar Lending Office. If no Eurodollar Lending Office is designated by a Lender, its Eurodollar Lending Office shall be its office at its address for purposes of notices hereunder.

"Eurodollar Market" means a regular established market located outside the United States of America by and among banks for the solicitation, offer and acceptance of Dollar deposits in such banks.

"Eurodollar Obligations" means eurocurrency liabilities, as defined in Regulation D or any comparable regulation of any Governmental Agency having jurisdiction over any Lender.

"Eurodollar Period" means, as to each Eurodollar Rate Loan, the period commencing on the date specified by Borrower pursuant to Section 2.1(c) and ending 1, 2, 3 or 6 months thereafter, as specified by Borrower in the applicable Request for Loan; provided that:

(a) The first day of any Eurodollar Period shall be a Eurodollar Banking Day;

(b) Any Eurodollar Period that would otherwise end on a day that

is not a Eurodollar Banking Day shall be extended to the immediately succeeding Eurodollar Banking Day unless such Eurodollar Banking Day falls in another calendar month, in which case such Eurodollar Period shall end on the immediately preceding Eurodollar Banking Day; and

(c) No Eurodollar Period with respect to a Tranche A Loan shall extend beyond the Tranche A Maturity Date, no Eurodollar Period with respect to a Tranche B Loan may extend beyond the Tranche B Maturity Date and no Eurodollar Period with respect to a Tranche C Loan may extend beyond the Tranche C Maturity Date.

"Eurodollar Rate" means, with respect to any Eurodollar Rate Loan, the average of the interest rates per annum (rounded upward, if necessary, to the next 1/16 of 1%) at which deposits in Dollars are offered to the Administrative Agent in the Designated Eurodollar Market at or about 11:00 a.m. local time in the Designated Eurodollar Market, two (2) Eurodollar Banking Days before the first day of the applicable Eurodollar Period in an aggregate amount approximately equal to the amount of the Advance to be made by the Administrative Agent with respect to such Eurodollar Rate Loan and for a period of time comparable to the number of days in the applicable Eurodollar Period.

"Eurodollar Rate Advance" means an Advance made hereunder and specified to be a Eurodollar Rate Advance in accordance with Article 2.

"Eurodollar Rate Loan" means a Loan made hereunder and specified to be a Eurodollar Rate Loan in accordance with Article 2.

"Event of Default" shall have the meaning provided in Section 9.1.

"Facilities" means the credit facilities extended by the Lenders to Borrower under this Agreement.

"Federal Funds Rate" means, as of any date of determination, the rate set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Federal Reserve Board (including any such successor, "H.15(519)") for such date opposite the caption "Federal Funds

(Effective)". If for any relevant date such rate is not yet published in H.15(519), the rate for such date will be the rate set forth in the daily statistical release designated as the Composite 3:30 p.m. Quotations for U.S. Government Securities, or any successor publication, published by the Federal Reserve Lender of New York (including any such successor, the "Composite 3:30 p.m. Quotation") for such date under the caption "Federal Funds Effective Rate". If on any relevant date the appropriate rate for such date is not yet published in either H.15(519) or the Composite 3:30 p.m. Quotations, the rate for such date will be the arithmetic mean of the rates for the last transaction in overnight Federal funds arranged prior to 9:00 a.m. (New York City time) on that date by each of three leading brokers of Federal funds transactions in New York City selected by the Administrative Agent. For purposes of this Agreement, any change in the Base Rate due to a change in the Federal Funds Rate shall be effective as of the opening of business on the effective date of such change.

"Fiscal Quarter" means the fiscal quarter of Borrower ending on each September 30, December 31, March 31 and June 30.

"Fiscal Year" means the fiscal year of Borrower ending on each June 30.

"Fronting Lender" means Bank of America National Trust and Savings Association.

"GAAP" means, as of any date of determination, accounting principles (a) set forth as generally accepted in then currently effective Opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants, (b) set forth as generally accepted in then currently effective Statements of the Financial Accounting Standards Board or (c) that are then approved by such other entity as may be approved by a significant segment of the accounting profession in the United States of America. The term "consistently applied," as used in connection therewith, means that the accounting principles applied are consistent in all material respects with those applied at prior dates or for prior periods.

"Government Securities" means readily marketable (a) direct full faith and credit obligations of the United States of America or obligations guaranteed by the full faith and credit of the United States of America and (b) obligations of an agency or instrumentality of, or corporation owned, controlled or sponsored by, the United States of America that are generally considered in the securities industry to be implicit obligations of the United States of America.

"Governmental Agency" means (a) any international, foreign, federal, state, county or municipal government, or political subdivision thereof, (b) any governmental or quasi-governmental agency, authority, board, bureau, commission, department, instrumentality or public body or (c) any court or administrative tribunal of competent jurisdiction.

"Guaranty Obligation" means, as to any Person, any (a) guarantee by that Person of Indebtedness of any other Person or (b) assurance given by that Person to a creditor of any other Person with respect to the payment of Indebtedness by, or the financial condition of, such other Person, whether direct, indirect or contingent, including any purchase or repurchase agreement covering such obligation or any collateral security therefor, any agreement to provide funds (by means of loans, capital contributions or otherwise) to such other Person, any agreement to support the solvency or level of any balance sheet item of such other Person or any "keep-well" or other arrangement of whatever nature given for the purpose of assuring or holding harmless such obligee against loss with respect to any obligation of such other Person; provided, however, that the term Guaranty Obligation shall not include (a) endorsements of instruments for deposit or collection in the ordinary course of business or (b) obligations of Borrower or any of its Subsidiaries under electric power supply contracts in existence on the Closing Date to make minimum payments to suppliers of electric power in the event that Borrower or its Subsidiary terminates such a power supply contract. The amount of any Guaranty Obligation shall be deemed to be an amount equal to the stated or determinable amount of the related Indebtedness (unless the Guaranty Obligation is limited by its terms to a lesser amount, in which case to the extent of such amount) or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the Person in good faith.

"Hazardous Materials" means substances defined as "hazardous substances" pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. Section 9601 et seq., or as "hazardous", "toxic" or "pollutant" substances or as "solid waste" pursuant to the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or as "friable asbestos" pursuant to the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq. or any other applicable Hazardous Materials Law, in each case as such Laws are amended from time to time.

"Hazardous Materials Laws" means all Laws governing the treatment, transportation or disposal of Hazardous Materials applicable to any of the Real Property.

"Inactive Subsidiary" means a Subsidiary of Borrower that holds total assets of $1,000,000 or less.

"Indebtedness" means, as to any Person (without duplication), (a) indebtedness of such Person for borrowed money or for the deferred purchase price of Property (excluding trade and other accounts payable in the ordinary course of business in accordance with ordinary trade terms), including any Guaranty Obligation for any such indebtedness, (b) indebtedness of such Person of the nature described in clause (a) that is non-recourse to the credit of such Person but is secured by assets of such Person, to the extent of the fair market value of such assets as determined in good faith by such Person, (c) Capital Lease Obligations of such Person, (d) indebtedness of such Person arising under bankers' acceptance facilities or under facilities for the discount of accounts receivable of such Person, (e) any direct or contingent obligations of such Person under letters of credit issued for the account of such Person and (f) the obligations of such Person under any series of Disqualified Stock.

"Initial Public Offering" means the initial public offering of shares of Common Stock covered by the Registration Statement.

"Investment" means, when used in connection with any Person, any investment by or of that Person, whether by means of purchase or other acquisition of stock or other securities of any other Person or by means of a loan, advance creating a debt, capital contribution, guaranty or other debt or equity participation or interest in any other Person, including any partnership and joint venture interests of such Person. The amount of any Investment shall be the amount actually invested (minus any return of capital with respect to such Investment which has actually been received in Cash or has been converted into Cash), without adjustment for subsequent increases or decreases in the value of such Investment.

"Laws" means, collectively, all international, foreign, federal, state and local statutes, treaties, rules, regulations, ordinances, codes and administrative or judicial precedents.

"Lead Arranger" means BancAmerica Robertson Stephens.

"Lender" means each lender whose name is set forth in the signature pages of this Agreement and each lender which may hereafter become a party to this Agreement pursuant to Section 11.8.

"Letters of Credit" means any of the Commercial Letters of Credit or Standby Letters of Credit issued by the Fronting Lender under the Tranche C Commitment pursuant to Section 2.5, either as originally issued or as the same may be supplemented, modified, amended, renewed, extended or supplanted.

"Lien" means any mortgage, deed of trust, pledge, hypothecation, assignment for security, security interest, encumbrance, lien or charge of any kind, whether voluntarily incurred or arising by operation of Law or otherwise, affecting any Property, including any conditional sale or other title retention agreement, any lease in the nature of a security interest, and/or the filing of any financing statement (other than a precautionary financing statement with respect to a lease that is not in the nature of a security interest) under the Uniform Commercial Code or comparable Law of any jurisdiction with respect to any Property.

"Loan" means the aggregate of the Advances made at any one time by the Lenders pursuant to Section 2.1.

"Loan Documents" means, collectively, this Agreement, the Notes, the Subsidiary Guaranty, and any other agreements of any type or nature hereafter executed and delivered by Borrower or any of the Subsidiary Guarantors to the Administrative Agent or to any Lender in any way relating to or in furtherance of this Agreement, in each case either as originally executed or as the same may from time to time be supplemented, modified, amended, restated, extended or supplanted.

"Margin Stock" means "margin stock" as such term is defined in Regulation U.

"Material Adverse Effect" means any set of circumstances or events which (a) has had or could reasonably be expected to have any material adverse effect whatsoever upon the validity or enforceability of any Loan Document, (b) has been or could reasonably be expected to be material and adverse to the business or condition (financial or otherwise) of Borrower and its Subsidiaries, taken as a whole or (c) has materially impaired or could reasonably be expected to materially impair the ability of Borrower to perform the Obligations.

"Maximum Bid Option Advance" means, with respect to any Bid made by a Lender, the amount set forth therein as the maximum Bid Option Advance which the Lender is willing to make in response to the related Bid Request.

"Multiemployer Plan" means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA to which Borrower or any of its ERISA Affiliates contributes or is obligated to contribute.

"Negative Pledge" means a Contractual Obligation which contains a covenant binding on Borrower or any of its Subsidiaries that prohibits Liens on any of its Property, other than (a) any such covenant contained in a Contractual Obligation granting or relating to a particular Lien which affects only the Property that is the subject of such Lien and (b) any such covenant that does not apply to Liens securing the Obligations.

"Net Cash Issuance Proceeds" means, with respect to the issuance of any debt security or equity security by Borrower or any of its Subsidiaries, the Cash proceeds received by or for the account of Borrower or such Subsidiary in consideration of such issuance net of (a) underwriting discounts and commissions actually paid to any Person not an Affiliate of Borrower and (b) professional fees and disbursements actually paid in connection therewith.

"Net Cash Sales Proceeds" means, with respect to any Disposition, the sum of (a) the Cash proceeds received by or for the account of Borrower and its Subsidiaries from such Disposition plus (b) the amount of Cash received by or for the account of Borrower and its Subsidiaries upon the sale, collection or other liquidation of any proceeds that are not Cash from such Disposition, in each case net of (i) any amount required to be paid to any Person owning an interest in the assets disposed of, (ii) any amount applied to the repayment of Indebtedness secured by a Lien permitted under Section 6.7 on the asset disposed of, (iii) any transfer, income or other taxes payable as a result of such Disposition, (iv) professional fees and expenses, fees due to any Governmental Agency, broker's commissions and other out-of-pocket costs of sale actually paid to any Person that is not an Affiliate of Borrower attributable to such Disposition and (v) any reserves established in accordance with GAAP in connection with such Disposition.

"Net Income" means, with respect to any fiscal period, the consolidated net income of Borrower and its Subsidiaries for that period,

determined in accordance with GAAP, consistently applied.

"Note" means any of the Tranche A Notes, Tranche B Notes, Tranche C Notes or Bid Option Advance Notes and "Notes" means the Tranche A Notes, Tranche B Notes, Tranche C Notes and Bid Option Advance Notes.

"Obligations" means all present and future obligations of every kind or nature of Borrower or any of the Subsidiary Guarantors at any time and from time to time owed to the Administrative Agent or the Lenders or any one or more of them, under any one or more of the Loan Documents, whether due or to become due, matured or unmatured, liquidated or unliquidated, or contingent or noncontingent, including obligations of performance as well as obligations of payment, and including interest that accrues after the commencement of any proceeding under any Debtor Relief Law by or against Borrower or any of the Subsidiary Guarantors.

"Opening Amount" means an amount equal to the Agreed Percentage of the Stockholders' Equity of Borrower and its Subsidiaries reflected in the pro-forma balance sheet to be delivered by Borrower to the Lenders pursuant to Section 7.1(b). For purposes of the foregoing, the term "Agreed Percentage" means (a) if the Overallotment Option is exercised in full, 80%, (b) if the Overallotment Option is not exercised at all, 75% and (c) if the Overallotment Option is exercised in part (but not in full), the sum of 75% plus, for every $3,000,000 of exercise price, 1/10 of 1% (rounded up or down to the nearest whole percent or, if there is no nearest, up to the next higher whole percent) up to a maximum of 80%.

"Opinion of Counsel" means the favorable written legal opinion of Skadden, Arps, Slate, Meagher & Flom, LLP, special counsel to Borrower, substantially in the form of Exhibit F, together with copies of all factual certificates and legal opinions delivered to such counsel in connection with such opinion upon which such counsel has relied.

"Overallotment Option" means the overallotment option to purchase shares of Common Stock granted to the underwriters in connection with the Initial Public Offering, as described in the Registration Statement.

"Party" means any Person other than the Administrative Agent and the Lenders, which now or hereafter is a party to any of the Loan Documents.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor thereof established under ERISA.

"Pension Plan" means any "employee pension benefit plan" (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, which is subject to Title IV of ERISA and is maintained by Borrower.

"Permitted Encumbrances" means:

(a) Inchoate Liens incident to construction on or maintenance of Property; or Liens incident to construction on or maintenance of Property now or hereafter filed of record for which adequate reserves have been set aside (or deposits made pursuant to applicable Law) and which are being contested in good faith by appropriate proceedings and have not proceeded to judgment, provided that, by reason of nonpayment of the obligations secured by such Liens, no such Property is subject to a material impending risk of loss or forfeiture;

(b) Liens for taxes and assessments on Property which are not yet past due; or Liens for taxes and assessments on Property for which

adequate reserves have been set aside and are being contested in good faith by appropriate proceedings and have not proceeded to judgment, provided that, by reason of nonpayment of the obligations secured by such Liens, no such Property is subject to a material impending risk of loss or forfeiture;

(c) defects and irregularities in title to any Property which in the aggregate do not materially impair the fair market value or use of the Property for the purposes for which it is or may reasonably be expected to be held;

(d) easements, exceptions, reservations, or other agreements for the purpose of pipelines, conduits, cables, wire communication lines, power lines and substations, streets, trails, walkways, drainage, irrigation, water, and sewerage purposes, dikes, canals, ditches, the removal of oil, gas, coal, or other minerals, and other like purposes affecting Property which in the aggregate do not materially burden or impair the fair market value or use of such Property for the purposes for which it is or may reasonably be expected to be held;

(e) easements, exceptions, reservations, or other agreements for the purpose of facilitating the joint or common use of Property in or adjacent to a shopping center or similar project affecting Property which in the aggregate do not materially burden or impair the fair market value or use of such Property for the purposes for which it is or may reasonably be expected to be held;

(f) rights reserved to or vested in any Governmental Agency to control or regulate, or obligations or duties to any Governmental Agency with respect to, the use of any Property;

(g) rights reserved to or vested in any Governmental Agency to control or regulate, or obligations or duties to any Governmental Agency with respect to, any right, power, franchise, grant, license, or permit;

(h) present or future zoning laws and ordinances or other laws and ordinances restricting the occupancy, use, or enjoyment of Property;

(i) statutory Liens, other than those described in clauses (a) or (b) above, arising in the ordinary course of business with respect to obligations which are not delinquent or are being contested in good faith, provided that, if delinquent, adequate reserves have been set aside with respect thereto and, by reason of nonpayment, no Property is subject to a material impending risk of loss or forfeiture;

(j) covenants, conditions, and restrictions affecting the use of Property which in the aggregate do not materially impair the fair market value or use of the Property for the purposes for which it is or may reasonably be expected to be held;

(k) rights of tenants under leases and rental agreements covering Property entered into in the ordinary course of business of the Person owning such Property;

(l) Liens consisting of pledges or deposits to secure obligations under workers' compensation laws or similar legislation, including Liens of judgments thereunder which are not currently dischargeable;

(m) Liens consisting of pledges or deposits of Property to secure performance in connection with operating leases made in the ordinary course of business, provided the aggregate value of all such pledges and deposits in connection with any such lease does not at any time exceed 20% of the annual fixed rentals payable under such lease;

(n) Liens consisting of deposits of Property to secure bids made with respect to, or performance of, contracts (other than contracts creating or evidencing an extension of credit to the depositor);

(o) Liens consisting of any right of offset, or statutory bankers' lien, on bank deposit accounts maintained in the ordinary course of business so long as such bank deposit accounts are not established or maintained for the purpose of providing such right of offset or bankers' lien;

(p) Liens consisting of deposits of Property to secure statutory obligations of Borrower;

(q) Liens consisting of deposits of Property to secure (or in lieu of) surety, appeal or customs bonds;

(r) Liens created by or resulting from any litigation or legal proceeding in the ordinary course of business which is currently being contested in good faith by appropriate proceedings, provided that, adequate reserves have been set aside and no material Property is subject to a material impending risk of loss or forfeiture; and

(s) other non-consensual Liens incurred in the ordinary course of business but not in connection with the incurrence of any Indebtedness, which do not in the aggregate, when taken together with all other Liens, materially impair the fair market value or use of the Property for the purposes for which it is or may reasonably be expected to be held.

"Permitted Right of Others" means a Right of Others consisting of (a) an interest (other than a legal or equitable co-ownership interest, an option or right to acquire a legal or equitable co-ownership interest and any interest of a ground lessor under a ground lease), that does not materially impair the fair market value or use of Property for the purposes for which it is or may reasonably be expected to be held, (b) an option or right to acquire a Lien that would be a Permitted Encumbrance, (c) the subordination of a lease or sublease in favor of a financing entity and (d) a license, or similar right, of or to Intangible Assets granted in the ordinary course of business.

"Person" means any individual or entity, including a trustee, corporation, limited liability company, general partnership, limited partnership, joint stock company, trust, estate, unincorporated organization, business association, firm, joint venture, Governmental Agency, or other entity.

"Predecessor" means United States Enrichment Corporation, a wholly-owned United States Government corporation.

"Privatization" means the transfer on the Closing Date of ownership of Predecessor from the United States Government to private investors, as described in the Registration Statement, pursuant to the USEC Privatization Act (Public Law 104-134), the Energy Policy Act (Public Law 102-486) and other applicable Laws.

"Privatization Facilities" means the credit facilities extended pursuant to the Tranche A Commitment and the Tranche B Commitment.

"Projections" means the projected financial information dated July 27, 1998 prepared by Borrower and to be contained in the Confidential Offering

Memorandum furnished to the Lenders as part of the syndication process referred to in Section 5.13.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Pro Rata Share" means, with respect to each Lender, the percentage of the respective Commitments set forth opposite the name of that Lender on Schedule 1.1, as such percentage may be increased or decreased pursuant to a Commitment Assignment and Acceptance executed in accordance with Section 11.8.

"Quarterly Payment Date" means each June 30, September 30, December 31 and March 31.

"Real Property" means, as of any date of determination, all real property then or theretofore owned, leased or occupied by any of Borrower.

"Registration Statement" means the registration statement on Form S-1 filed by Borrower on or about June 29, 1998 with the Securities and Exchange Commission, in the form in which it became effective under the Securities Act of 1933, as amended.

"Regulation D" means Regulation D, as at any time amended, of the Board of Governors of the Federal Reserve System, or any other regulation in substance substituted therefor.

"Regulation U" means Regulation U, as at any time amended, of the Board of Governors of the Federal Reserve System, or any other regulation in substance substituted therefor.

"Request for Letter of Credit" means a written request for a Letter of Credit substantially in the form of Exhibit G, signed by a Responsible Official of Borrower and properly completed to provide all information required to be included therein.

"Request for Loan" means a written request for a Loan substantially in the form of Exhibit H, signed by a Responsible Official of Borrower, on behalf of Borrower, and properly completed to provide all information required to be included therein.

"Requirement of Law" means, as to any Person, the articles or certificate of incorporation and by-laws or other organizational or governing documents of such Person, and any Law, or judgment, award, decree, writ or determination of a Governmental Agency, in each case applicable to or binding upon such Person or any of its Property or to which such Person or any of its Property is subject.

"Requisite Lenders" means (a) as of any date of determination if the Commitments are then in effect, Lenders having in the aggregate 51% or more of the Commitments then in effect and (b) as of any date of determination if the Commitments have then been suspended or terminated and there is then any Indebtedness evidenced by the Notes, Lenders holding Notes evidencing in the aggregate 51% or more of the aggregate Indebtedness then evidenced by the Notes.

"Responsible Official" means (a) any Senior Officer of Borrower and (b) any other responsible official of Borrower so designated in a written notice thereof from a Senior Officer to the Administrative Agent. The Lenders shall be entitled to conclusively rely upon any document or certificate that is signed or executed by a Responsible Official of Borrower or any of its Subsidiaries as having been authorized by all necessary corporate, partnership and/or other action on the part of

Borrower or such Subsidiary.

"Right of Others" means, as to any Property in which a Person has an interest, any legal or equitable right, title or other interest (other than a Lien) held by any other Person in that Property, and any option or right held by any other Person to acquire any such right, title or other interest in that Property, including any option or right to acquire a Lien; provided, however, that (a) no covenant restricting the use or disposition of Property of such Person contained in any Contractual Obligation of such Person and (b) no provision contained in a contract creating a right of payment or performance in favor of a Person that

conditions, limits, restricts, diminishes, transfers or terminates such right shall be deemed to constitute a Right of Others.

"Senior Officer" means (a) the chief executive officer, (b) the president, (c) any executive vice president, (d) the chief financial officer or (e) the treasurer, in each case of Borrower.

"Solvent" means, with respect to a Person, that (a) the fair market value of the Person's assets will be in excess of the amount that will be required to be paid on or in respect of the existing debts and other liabilities (including contingent liabilities) of the Person as they mature, (b) the Person does not have unreasonably small capital to carry on its business as conducted or as proposed to be conducted, (c) the Person does not intend to or believe that it will incur debts beyond its ability to pay such debts as they mature, taking into account the timing and amounts of Cash to be received by it and the amounts to be payable on or in respect of its obligations, (d) the Person does not intend to hinder, delay or defraud either present or future creditors and (e) the Person has received fair consideration and reasonably equivalent value in exchange for incurring its Obligations under the Loan Documents.

"Special Eurodollar Circumstance" means the application or adoption after the Closing Date of any Law or interpretation, or any change therein or thereof, or any change in the interpretation or administration thereof by any Governmental Agency, central bank or comparable authority charged with the interpretation or administration thereof, or compliance by any Lender or its Eurodollar Lending Office with any request or directive (whether or not having the force of Law) of any such Governmental Agency, central bank or comparable authority.

"Standby Letter of Credit" means each Letter of Credit that is not a Commercial Letter of Credit.

"Stockholders' Equity" means, as of any date of determination and with respect to any Person, the consolidated stockholders' equity of the Person as of that date determined in accordance with GAAP; provided that there shall be excluded from Stockholders' Equity any amount attributable to Disqualified Stock.

"Subsidiary" means, as of any date of determination and with respect to any Person, any corporation, limited liability company or partnership (whether or not, in any case, characterized as such or as a "joint venture"), whether now

existing or hereafter organized or acquired: (a) in the case of a corporation or limited liability company, of which a majority of the securities having ordinary voting power for the election of directors or other governing body (other than securities having such power only by

reason of the happening of a contingency) are at the time beneficially owned by such Person and/or one or more Subsidiaries of such Person, or (b) in the case of a partnership, of which a majority of the partnership or other ownership interests are at the time beneficially owned by such Person and/or one or more of its Subsidiaries.

"Subsidiary Guarantors" means (a) USEC (Delaware) and (b) each other Subsidiary of Borrower that is not an Inactive Subsidiary.

"Subsidiary Guaranty" means the continuing guaranty of the Obligations to be executed and delivered pursuant to Article 8 by the Subsidiary Guarantors, in the form of Exhibit I, either as originally executed or as it may from time to time be supplemented, modified, amended, extended or supplanted.

"Syndication Agent" means each of First Union National Bank and NationsBank, N.A. Each Syndication Agent shall have no rights, duties, obligations or responsibilities beyond those of a Lender.

"Total Capitalization" means, as of any date of determination, the sum of (a) the Stockholders' Equity of Borrower and its Subsidiaries on that date plus (b) all Indebtedness of Borrower and its Subsidiaries on that date.

"to the best knowledge of" means, when modifying a representation, warranty or other statement of any Person, that the fact or situation described therein is known by the Person (or, in the case of a Person other than a natural Person, known by a Responsible Official of that Person) making the representation, warranty or other statement, or with the exercise of reasonable due diligence under the circumstances (in accordance with the standard of what a reasonable Person in similar circumstances would have done) would have been known by the Person (or, in the case of a Person other than a natural Person, would have been known by a Responsible Official of that Person).

"Tranche A Commitment" means, subject to Sections 2.6 and 2.7, $400,000,000. The respective Pro Rata Shares of the Lenders with respect to the Tranche A Commitment are set forth in Schedule 1.1A.

"Tranche A Loan" means a Loan made under the Tranche A Commitment.

"Tranche A Maturity Date" means the date that is 364 days after the Closing Date.

"Tranche A Note" means any of the promissory notes made by Borrower to a Lender evidencing Advances under that Lender's Pro Rata Share of the Tranche A Commitment, substantially in the form of Exhibit J, either as originally executed or as the same may from time to time be supplemented, modified, amended, renewed, extended or supplanted.

"Tranche B Commitment" means, subject to Section 2.7, $150,000,000. The respective Pro Rata Shares of the Lenders with respect to the Tranche B Commitment are set forth in Schedule 1.1A.

"Tranche B Conversion Date" means the effective date upon which Borrower exercises its election under Section 3.1(d)(vi).

"Tranche B Loan" means a Loan made under the Tranche B Commitment.

"Tranche B Maturity Date" means (a) the date that is 364 days after the Closing Date or (b) if Borrower exercises its election under Section 3.1(d)(vi), the date that is one (1) year and 364 days after the Closing Date.

"Tranche B Note" means any of the promissory notes made by Borrower to a Lender evidencing Advances under that Lender's Pro Rata Share of the Tranche B Commitment, substantially in the form of Exhibit K, either as originally executed or as the same may from time to time be supplemented, modified, amended, renewed, extended or supplanted.

"Tranche C Commitment" means, subject to Section 2.7, $150,000,000. The respective Pro Rata Shares of the Lenders with respect to the Tranche C Commitment are set forth in Schedule 1.1A.

"Tranche C Loan" means a Loan made under the Tranche C Commitment.

"Tranche C Maturity Date" means the fifth anniversary of the Closing Date.

"Tranche C Note" means any of the promissory notes made by Borrower to a Lender evidencing Advances under that Lender's Pro Rata Share of the

Tranche C Commitment, substantially in the form of Exhibit L, either as originally executed or as the same way from time to time be supplemented, modified, amended, renewed, extended or supplanted.

"type", when used with respect to any Loan or Advance, means the designation of whether such Loan or Advance is an Base Rate Loan or Advance, or a Eurodollar Rate Loan or Advance.

"USEC (Delaware)" means United States Enrichment Corporation, a Delaware corporation, which corporation on the Closing Date (a) will become a Wholly-Owned Subsidiary of Borrower and (b) will succeed by merger to all or substantially all of the assets of Predecessor (other than assets to be transferred to the United States Government pursuant to the Privatization). When used with respect to periods prior to the Closing Date, the term "USEC (Delaware)" shall include Predecessor unless the context clearly otherwise requires.

"Wholly-Owned Subsidiary" means a Subsidiary of Borrower, 100% of the capital stock or other equity interest of which is owned, directly or indirectly, by Borrower, except for director's qualifying shares required by applicable Laws.

"Working Capital Facility" means the credit facility extended pursuant to the Tranche C Commitment.

1.2 Use of Defined Terms. Any defined term used in the plural shall refer to all members of the relevant class, and any defined term used in the singular shall refer to any one or more of the members of the relevant class.

1.3 Accounting Terms. All accounting terms not specifically defined in this Agreement shall be construed in conformity with, and all financial data required to be submitted by this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, except as otherwise specifically prescribed herein. In the event that GAAP changes during the term of this Agreement such that the covenants contained in Sections 6.9 and 6.10 would then be calculated in a different manner or with different components, (a) Borrower and the Lenders agree to amend this Agreement in such respects as are necessary to conform those covenants as criteria for evaluating Borrower's financial condition to substantially the same criteria as were effective prior to such change in GAAP and (b) Borrower shall be deemed to be in compliance with the covenants contained in the aforesaid Sections if and to the extent that Borrower would have been in compliance therewith under GAAP as in effect immediately prior to such change, but shall have the obligation to deliver each of the

materials described in Article 7 to the Administrative Agent and the Lenders, on the dates therein specified, with financial data presented in a manner which conforms with GAAP as in effect immediately prior to such change.

1.4 Rounding. Any financial ratios required to be maintained by Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed in this Agreement and rounding the result up or down to the nearest number (with a round-up if there is no nearest number) to the number of places by which such ratio is expressed in this Agreement.

1.5 Exhibits and Schedules. All Exhibits and Schedules to this Agreement, either as originally existing or as the same may from time to time be supplemented, modified or amended, are incorporated herein by this reference. A matter disclosed on any Schedule shall be deemed disclosed on all Schedules.

1.6 References to "Borrower and its Subsidiaries". Any reference herein to "Borrower and its Subsidiaries" or the like shall refer solely to Borrower during such times, if any, as Borrower shall have no Subsidiaries.

1.7 Miscellaneous Terms. The term "or" is disjunctive; the term "and" is conjunctive. The term "shall" is mandatory; the term "may" is permissive. Masculine terms also apply to females; feminine terms also apply to males. The term "including" is by way of example and not limitation.

Article 2
LOANS AND LETTERS OF CREDIT

2.1 Loans-General.

(a) Subject to the terms and conditions set forth in this Agreement, at any time and from time to time commencing on the Closing Date through the Tranche A Maturity Date, each Lender shall, pro rata according to that Lender's Pro Rata Share of the then applicable Tranche A Commitment, make Advances to Borrower under the Tranche A Commitment in such amounts as Borrower may request that do not result in the aggregate principal amount outstanding under the Tranche A Notes to exceed the Tranche A Commitment. Subject to the limitations set forth herein, Borrower may borrow, repay and reborrow under the Tranche A Commitment without premium or penalty.

(b) Subject to the terms and conditions set forth in this Agreement, at any time and from time to time commencing on the Closing Date through the Tranche B Conversion Date, each Lender shall, pro rata according to that Lender's Pro Rata Share of the then applicable Tranche B Commitment, make Advances to Borrower under the Tranche B Commitment in such amounts as Borrower may request that do not result in the aggregate principal amount outstanding under the Tranche B Notes to exceed the Tranche B Commitment. Subject to the limitations set forth herein, Borrower may borrow, repay and reborrow under the Tranche B Commitment without premium or penalty.

(c) Subject to the terms and conditions set forth in this Agreement, at any time and from time to time commencing on the Closing Date through the Tranche C Maturity Date, each Lender shall, pro rata according to that Lender's Pro Rata Share of the then applicable Tranche C Commitment, make Advances to Borrower under the Tranche C Commitment in such amounts as Borrower may request that do not result in the sum of (i) the aggregate principal amount outstanding under the Tranche C Notes plus (ii) the aggregate principal amount outstanding under the Bid Option Advance Notes plus (iii) the Aggregate Effective Amount of all

outstanding Letters of Credit to exceed the Tranche C Commitment. Subject to the limitations set forth herein, Borrower may borrow, repay and reborrow under the Tranche C Commitment without premium or penalty.

(d) Each Loan shall be made pursuant to a Request for Loan which shall specify the requested (i) date of such Loan, (ii) type of Loan,

(iii) amount of such Loan, and (iv) in the case of a Eurodollar Rate Loan, the Eurodollar Period for such Loan.

(e) Promptly following receipt of a Request for Loan, the Administrative Agent shall notify each Lender by telecopier of the date and type of the Loan, the applicable Eurodollar Period, and that Lender's Pro Rata Share of the Loan. Not later than 10:00 a.m., California time, on the date specified for any Loan (which must be a Banking Day), each Lender shall make its Pro Rata Share of the Loan in immediately available funds available to the Administrative Agent at the Administrative Agent's Office. Upon satisfaction or waiver of the applicable conditions set forth in Article 8, all Advances shall be made available to Borrower on that date by such means as it may request in immediately available funds.

(f) Unless the Requisite Lenders otherwise consent, each Base Rate Loan shall be not less than $1,000,000 and in an integral multiple of $1,000,000 and each Eurodollar Rate Loan shall be not less than $5,000,000 and in an integral multiple of $1,000,000.

(g) Notwithstanding Section 2.1(d), during the period commencing on the Closing Date and ending on the earlier of (i) three (3) months after the Closing Date or (ii) the completion of the syndication process referred to in Section 5.13, Borrower may not request a Eurodollar Rate Loan with a Eurodollar Period longer than one (1) month.

(h) The Advances made by each Lender under the Tranche A Commitment shall be evidenced by that Lender's Tranche A Note. The Advances made by each Lender under the Tranche B Commitment shall be evidenced by that Lender's Tranche B Note. The Advances made by each Lender under the Tranche C Commitment shall be evidenced by that Lender's Tranche C Note.

(i) A Request for Loan shall be irrevocable upon the Administrative Agent's first notification thereof.

(j) If no Request for Loan has been made within the requisite notice periods set forth in Section 2.2 or 2.3 prior to the end of the Eurodollar Period for any outstanding Eurodollar Rate Loan, then on the last day of such Eurodollar Period, such Eurodollar Rate Loan shall be automatically converted into a Base Rate Loan in the same amount.

2.2 Base Rate Loans. Each request by Borrower for a Base Rate Loan shall be made pursuant to a Request for Loan received by the Administrative Agent, at the Administrative Agent's Office, not later than 11:00 a.m. California time, on the date (which must be a Banking Day) immediately prior to the date of the requested Base Rate Loan (except in the case of Base Rate Loans made on the Closing Date for which the Request for Loan may be delivered on the Closing Date). All Loans shall constitute Base Rate Loans unless properly designated as a Eurodollar Rate Loan pursuant to Section 2.3.

2.3 Eurodollar Rate Loans.

(a) Each request by Borrower for a Eurodollar Rate Loan shall be

made pursuant to a Request for Loan received by the Administrative Agent, at the Administrative Agent's Office, not later than 9:00 a.m., California time, at least three (3) Eurodollar Banking Days before the first day of the applicable Eurodollar Period.

(b) On the date which is two (2) Eurodollar Banking Days before the first day of the applicable Eurodollar Period, the Administrative Agent shall confirm its determination of the applicable Eurodollar Rate (which determination shall be conclusive in the absence of manifest error) and promptly shall give notice of the same to Borrower and the Lenders by telecopier.

(c) Unless the Administrative Agent and the Requisite Lenders otherwise consent, no more than ten (10) Eurodollar Rate Loans shall be outstanding at any one time.

(d) No Eurodollar Rate Loan may be requested during the continuation of a Default or Event of Default.

(e) Nothing contained herein shall require any Lender to fund any Eurodollar Rate Advance in the Designated Eurodollar Market.

2.4 Bid Option Advances.

(a) Subject to the terms and conditions hereof, at any time and from time to time from the Closing Date through the Tranche C Maturity Date, each Lender may in its sole and absolute discretion make Bid Option Advances to Borrower in such principal amounts as Borrower may request pursuant to a Bid Request that do not result in (i) the aggregate outstanding principal Indebtedness evidenced by the Bid Option Advance Notes being in excess of

$100,000,000 or (ii) the sum of (A) the aggregate principal Indebtedness evidenced by the Bid Option Advance Notes plus (B) the aggregate principal Indebtedness evidenced by the Tranche C Notes plus (C) the Aggregate Effective Amount of all outstanding Letters of Credit being in excess of the then applicable Tranche C Commitment.

(b) Borrower may request Bid Option Advances by submitting a Bid Request to the Administrative Agent, which Bid Request shall specify the relevant date, amount and maturity for the proposed Bid Option Advance and shall state whether a Bid is requested on the basis of a fixed interest rate (an "Absolute Rate Bid") or on the basis of a margin over the Eurodollar Rate (a "Eurodollar Margin Bid"). The Bid Request must be received by the Administrative Agent not later than 9:00 a.m. California time on a Banking Day that is at least one (1) Banking Day prior to the date of the proposed Bid Option Advance if an Absolute Rate Bid is requested; if a Eurodollar Margin Bid is requested, it must be received by the Administrative Agent at least five (5) Banking Days prior to the date of the proposed Bid Option Advance.

(c) Unless the Administrative Agent otherwise agrees, in its sole and absolute discretion, no Bid Request shall be made by Borrower if Borrower has, within the immediately preceding five (5) Banking Days, submitted another Bid Request.

(d) Each Bid Request must be made for a Bid Option Advance of at least $5,000,000 and shall be in an integral multiple of $1,000,000.

(e) No Bid Request shall be made for a Bid Option Advance with a maturity of less than 7 days or more than 180 days, or with a maturity date subsequent to the Tranche C Maturity Date.

(f) The Administrative Agent shall, promptly after receipt of a

Bid Request, notify the Lenders thereof by telephone and provide the Lenders a copy thereof by telecopier. Any Lender may, by written notice to the Administrative Agent, advise the Administrative Agent that it elects not to be so notified of Bid Requests, in which case the Administrative Agent shall not notify such Lender of the Bid Request.

(g) Each Lender receiving a Bid Request may, in its sole and absolute discretion, make or not make a Bid responsive to the Bid Request. Each Bid shall be submitted to the Administrative Agent not later than 7:30 a.m. (or, in the case of Bank of America, submitted directly to Borrower not later

than 7:15 a.m. with a copy to the Administrative Agent) California time, in the case of a Eurodollar Margin Bid, on the date which is four (4) Banking Days prior to the requested Bid Option Advance and, in the case of an Absolute Rate Bid, on the date of the requested Bid Option Advance. Any Bid received by the Administrative Agent after 7:30 a.m. (or 7:15 a.m. in the case of Bank of America) on such date shall be disregarded for purposes of this Agreement.

(h) Each Bid shall specify the fixed interest rate or the margin over the Eurodollar Rate, as applicable, for the offered Maximum Bid Option Advance set forth in the Bid. The Maximum Bid Option Advance offered by a Lender in a Bid may be less than the Bid Option Advance requested by Borrower in the Bid Request, but shall be an integral multiple of $1,000,000. Any Bid which offers an interest rate other than a fixed interest rate or a margin over the Eurodollar Rate, is in a form other than set forth in Exhibit A or which otherwise contains any term, condition or provision not contained in the Bid Request shall be disregarded for purposes of this Agreement. A Bid once submitted to the Administrative Agent shall be irrevocable until 8:30 a.m. California time, in the case of a Eurodollar Margin Bid, on the date which is three (3) Banking Days prior to the requested Bid Option Advance and, in the case of an Absolute Rate Bid, on the date of the proposed Bid Option Advance set forth in the related Bid Request, and shall expire by its terms at such time unless accepted by Borrower prior thereto.

(i) Promptly after 7:30 a.m. California time, in the case of a Eurodollar Margin Loan, on the date which is four (4) Banking Days prior to the date of the proposed Bid Option Advance and, in the case of an Absolute Rate Bid, on the date of the proposed Bid Option Advance, the Administrative Agent shall notify Borrower of the names of the Lenders providing Bids to the Administrative Agent at or before 7:30 a.m. on that date (or 7:15 a.m. in the case of the Bank of America) and the Maximum Bid Option Advance and fixed interest rate or margin over the Eurodollar Rate set forth by each such Lender in its Bid. The Administrative Agent shall promptly confirm such notification in writing delivered in person or by telecopier to Borrower.

(j) Borrower may, in its sole and absolute discretion, reject any or all of the Bids. If Borrower accepts any Bid, the following shall apply: (a) Borrower must accept all Absolute Rate Bids at all lower fixed interest rates before accepting any portion of an Absolute Rate Bid at a higher fixed interest rate, (b) Borrower must accept all Eurodollar Margin Bids at all lower margins over the Eurodollar Rate before accepting any portion of a Eurodollar Margin Bid at a higher margin over the Eurodollar Rate, (c) if two or more Lenders

have submitted a Bid at the same fixed interest rate or margin, then Borrower must accept either all of such Bids or accept such Bids in the

same proportion as the Maximum Bid Option Advance of each Lender bears to the aggregate Maximum Bid Option Advances of all such Lenders, and (d) Borrower may not accept Bids for an aggregate amount in excess of the requested Bid Option Advance set forth in the Bid Request. Acceptance by Borrower of a Eurodollar Margin Rate Bid must be made prior to 8:30 a.m. on the date which is three (3) Banking Days prior to the requested Bid Option Advance and acceptance by Borrower of an Absolute Rate Bid must be made prior to 8:30 a.m. on the date of the requested Bid Option Advance. Acceptance of a Bid by Borrower shall be irrevocable upon communication thereof to the Administrative Agent. The Administrative Agent shall promptly notify each of the Lenders whose Bid has been accepted by Borrower by telecopier to such Lenders. Any Bid not accepted by Borrower by 8:30 a.m., in the case of a Eurodollar Margin Bid, on the date which is three (3) Banking Days prior to the proposed Bid Option Advance or, in the case of an Absolute Rate Bid, on the date of the proposed Bid, shall be deemed rejected.

(k) In the case of a Eurodollar Margin Bid, the Administrative Agent shall determine the Eurodollar Rate on the date which is two (2) Eurodollar Banking Days prior to the date of the proposed Bid Option Advance, and shall promptly thereafter notify Borrower and the Lenders whose Eurodollar Margin Bids were accepted by Borrower of such Eurodollar Rate.

(l) A Lender whose Bid has been accepted by Borrower shall make the Bid Option Advance in accordance with the Bid Request and with its Bid, subject to the applicable conditions set forth in this Agreement, by making funds immediately available to the Administrative Agent at the Administrative Agent's Office in the amount of such Bid Option Advance not later than 12:00 noon, California time, on the date set forth in the Bid Request. The Administrative Agent shall then promptly make the Bid Option Advance available to Borrower by such means as it may request in immediately available funds.

(m) The Administrative Agent shall notify Borrower and the Lenders promptly after any Bid Option Advance is made of the amounts and maturity of such Bid Option Advances and the identity of the Lenders making such Bid Option Advances.

(n) The Bid Option Advances made by a Lender shall be evidenced by that Lender's Bid Option Advance Note.

2.5 Letters of Credit.

(a) Subject to the terms and conditions hereof, at any time and from time to time commencing on the Closing Date through the Tranche C Maturity Date, the Fronting Lender shall issue such Letters of Credit under the Tranche C Commitment as Borrower may request by a Request for Letter of Credit; provided that giving effect to all such Letters of Credit, (i) the sum of (A) the aggregate principal amount outstanding under the Tranche C Notes plus (B) the aggregate principal amount outstanding under the Bid Option Advance Notes plus (C) the Aggregate Effective Amount of all outstanding Letters of Credit, does not exceed the then applicable Tranche C Commitment and (ii) the Aggregate Effective Amount under all outstanding Letters of Credit does not exceed $75,000,000. Each Letter of Credit shall be in a form acceptable to the Fronting Lender. Unless all the Lenders otherwise consent in a writing delivered to the Administrative Agent, the term of any Letter of Credit shall not extend beyond the Tranche C Maturity Date.

(b) Each Request for Letter of Credit shall be submitted to the Fronting Lender, with a copy to the Administrative Agent, at least two (2) Banking Days prior to the date upon which the related Letter of Credit is proposed to be issued. The Administrative Agent shall promptly

notify the Fronting Lender whether such Request for Letter of Credit, and the issuance of a Letter of Credit pursuant thereto, conforms to the requirements of this Agreement. Upon issuance of a Letter of Credit, the Fronting Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify the Lenders, of the amount and terms thereof.

(c) Upon the issuance of a Letter of Credit, each Lender shall be deemed to have purchased a pro rata participation in such Letter of Credit from the Fronting Lender in an amount equal to that Lender's Pro Rata Share of the Tranche C Commitment. Without limiting the scope and nature of each Lender's participation in any Letter of Credit, to the extent that the Fronting Lender has not been reimbursed by Borrower for any payment required to be made by the Fronting Lender under any Letter of Credit, each Lender shall, pro rata according to its Pro Rata Share of the Tranche C Commitment, reimburse the Fronting Lender through the Administrative Agent promptly upon demand for the amount of such payment. The obligation of each Lender to so reimburse the Fronting Lender shall be absolute and unconditional and shall not be affected by the occurrence of an Event of Default or any other occurrence or event. Any such reimbursement shall not relieve or otherwise impair the

obligation of Borrower to reimburse the Fronting Lender for the amount of any payment made by the Fronting Lender under any Letter of Credit together with interest as hereinafter provided.

(d) Borrower agrees to pay to the Fronting Lender through the Administrative Agent an amount equal to any payment made by the Fronting Lender with respect to each Letter of Credit within one (1) Banking Day after demand made by the Fronting Lender therefor, together with interest on such amount from the date of any payment made by the Fronting Lender at the rate applicable to Base Rate Loans for two (2) Banking Days and thereafter at the Default Rate. The principal amount of any such payment shall be used to reimburse the Fronting Lender for the payment made by it under the Letter of Credit and, to the extent that the Lenders have not reimbursed the Fronting Lender pursuant to Section 2.5(c), the interest amount of any such payment shall be for the account of the Fronting Lender. Each Lender that has reimbursed the Fronting Lender pursuant to Section 2.5(c) for its Pro Rata Share of any payment made by the Fronting Lender under a Letter of Credit shall thereupon acquire a pro rata participation, to the extent of such reimbursement, in the claim of the Fronting Lender against Borrower for reimbursement of principal and interest under this Section 2.5(d) and shall share, in accordance with that pro rata participation, in any principal payment made by Borrower with respect to such claim and in any interest payment made by Borrower (but only with respect to periods subsequent to the date such Lender reimbursed the Fronting Lender) with respect to such claim.

(e) Borrower may, pursuant to a Request for Loan, request that Advances be made pursuant to Section 2.1(c) to provide funds for the payment required by Section 2.5(d) and, for this purpose, the conditions precedent set forth in Article 8 shall not apply. The proceeds of such Advances shall be paid directly to the Fronting Lender to reimburse it for the payment made by it under the Letter of Credit.

(f) If Borrower fails to make the payment required by Section 2.5(d) within the time period therein set forth, in lieu of the reimbursement to the Fronting Lender under Section 2.5(c) the Fronting Lender may (but is not required to), without notice to or the consent of Borrower, instruct the Administrative Agent to cause Advances to be made by the Lenders under the Tranche C Commitment in an aggregate amount equal to the amount paid by the Fronting Lender with respect to that Letter of Credit and, for this purpose, the conditions precedent set forth in Article 8 shall not apply. The

proceeds of such Advances shall be paid directly to the Fronting Lender to reimburse it for the payment made by it under the Letter of Credit.

(g) The issuance of any supplement, modification, amendment, renewal, or extension to or of any Letter of Credit shall be treated in all respects (other than for purposes of Section 3.6(a)) the same as the issuance of a new Letter of Credit.

(h) The obligation of Borrower to pay to the Fronting Lender the amount of any payment made by the Fronting Lender under any Letter of Credit shall be absolute, unconditional, and irrevocable, subject only to performance by the Fronting Lender of its obligations to Borrower under Uniform Commercial Code Section 5109. Without limiting the foregoing, Borrower's obligations shall not be affected by any of the following circumstances:

(i) any lack of validity or enforceability prior to its stated expiration date of the Letter of Credit, this Agreement, or any other agreement or instrument relating thereto;

(ii) any amendment or waiver of or any consent to departure from the Letter of Credit, this Agreement, or any other agreement or instrument relating thereto, with the consent of Borrower;

(iii) the existence of any claim, setoff, defense, or other rights which Borrower may have at any time against the Fronting Lender, the Administrative Agent or any Lender, any beneficiary of the Letter of Credit (or any persons or entities for whom any such beneficiary may be acting) or any other Person, whether in connection with the Letter of Credit, this Agreement, or any other agreement or instrument relating thereto, or any unrelated transactions;

(iv) any demand, statement, or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid, or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever so long as any such document appeared substantially to comply with the terms of the Letter of Credit;

(v) payment by the Fronting Lender in good faith under the Letter of Credit against presentation of a draft or any accompanying

document which does not strictly comply with the terms of the Letter of Credit;

(vi) the existence, character, quality, quantity, condition, packing, value or delivery of any Property purported to be represented by documents presented in connection with any Letter of Credit or any difference between any such Property and the character, quality, quantity, condition, or value of such Property as described in such documents;

(vii) the time, place, manner, order or contents of shipments or deliveries of Property as described in documents presented in connection with any Letter of Credit or the existence, nature and extent of any insurance relative thereto;

(viii) the solvency or financial responsibility of any party issuing any documents in connection with a Letter of Credit;

(ix) any failure or delay in notice of shipments or arrival of any Property;

(x) any error in the transmission of any message relating to a Letter of Credit not caused by the Fronting Lender, or any delay or interruption in any such message;

(xi) any error, neglect or default of any correspondent of the Fronting Lender in connection with a Letter of Credit;

(xii) any consequence arising from acts of God, war, insurrection, civil unrest, disturbances, labor disputes, emergency conditions or other causes beyond the control of the Fronting Lender;

(xiii) so long as the Fronting Lender in good faith determines that the document appears substantially to comply with the terms of the Letter of Credit, the form, accuracy, genuineness or legal effect of any document referred to in any document submitted to the Fronting Lender in connection with a Letter of Credit; and

(xiv) where the Fronting Lender has acted in good faith and observed general banking usage, any other circumstances whatsoever.

(i) The Fronting Lender shall be entitled to the protection accorded to the Administrative Agent pursuant to Section 10.6, mutatis mutandis.

(j) The Uniform Customs and Practice for Documentary Credits, as published in its most current version by the International Chamber of Commerce at the time of issuance of a Letter of Credit, shall be deemed a part of this Section and shall apply to such Letter of Credit to the extent not inconsistent with applicable Law.

2.6 Voluntary Reduction of Commitments. Borrower shall have the right, at any time and from time to time, without penalty or charge, upon at least five (5) Banking Days' prior written notice by a Responsible Official of Borrower to the Administrative Agent, voluntarily to reduce, permanently and irrevocably, in aggregate principal amounts in an integral multiple of $1,000,000 but not less than $5,000,000, or to terminate, all or a portion of the then undisbursed portion of any of the Commitments. The Administrative Agent shall promptly notify the Lenders of any reduction or termination of any Commitment under this Section.

2.7 Specified Reductions of Tranche A Commitment. The Tranche A Commitment shall be reduced (a) on the date a prepayment of the Tranche A Notes is required under Section 3.1.(e)(i), by the amount of such required prepayment, (b) on the date a prepayment of the Tranche A Notes is required under Section 3.1.(e)(ii), by the amount of such required prepayment and (c) on the date a prepayment of the Tranche A Notes is required under Sections 3.1.(e)(iii) or 3.1(e)(iv), by the amount of such required prepayment.

2.8 Optional Termination of Commitments. Following the occurrence of a Change in Control, the Requisite Lenders may in their sole and absolute discretion elect, during the thirty (30) day period immediately subsequent to the later of (a) such occurrence or (b) the earlier of (i) receipt of Borrower's written notice to the Administrative Agent of such occurrence or (ii) if no such notice has been received by the Administrative Agent, the date upon which the Administrative Agent has actual knowledge thereof, to terminate the Commitments, in which case the Commitments shall be terminated, and all outstanding Loans shall be repaid, effective on the date which is thirty (30) days subsequent to written notice from the Administrative Agent to Borrower thereof.

2.9 Administrative Agent's Right to Assume Funds Available for

Advances. Unless the Administrative Agent shall have been notified by any Lender no

later than 10:00 a.m. on the Banking Day of the proposed funding by the Administrative Agent of any Loan that such Lender does not intend to make available to the Administrative Agent such Lender's portion of the total amount of such Loan, the Administrative Agent may assume that such Lender has made such amount available to the Administrative Agent on the date of the Loan and the Administrative Agent may, in reliance upon such assumption, make available to Borrower a corresponding amount. If the Administrative Agent has made funds available to Borrower based on such assumption and such corresponding amount is not in fact made available to the Administrative Agent by such Lender, the Administrative Agent shall be entitled to recover such corresponding amount on demand from such Lender. If such Lender does not pay such corresponding amount forthwith upon the Administrative Agent's demand therefor, the Administrative Agent promptly shall notify Borrower and Borrower shall pay such corresponding amount to the Administrative Agent. The Administrative Agent also shall be entitled to recover from such Lender interest on such corresponding amount in respect of each day from the date such corresponding amount was made available by the Administrative Agent to Borrower to the date such corresponding amount is recovered by the Administrative Agent, at a rate per annum equal to the daily Federal Funds Rate. Nothing herein shall be deemed to relieve any Lender from its obligation to fulfill its share of the Commitments or to prejudice any rights which the Administrative Agent or Borrower may have against any Lender as a result of any default by such Lender hereunder.

2.10 Guaranty. The Obligations shall be guaranteed by the Subsidiary Guarantors pursuant to the Subsidiary Guaranty.

Article 3
PAYMENTS AND FEES

3.1 Principal and Interest.

(a) Interest shall be payable on the outstanding daily unpaid principal amount of each Advance from the date thereof until payment in full is made and shall accrue and be payable at the rates set forth or provided for herein before and after Default, before and after maturity, before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law, with interest on overdue interest at the Default Rate to the fullest extent permitted by applicable Laws.

(b) Interest accrued on each Base Rate Loan shall be due and payable on each Quarterly Payment Date. Except as otherwise provided in Sections 3.1(d) and 3.9, the unpaid principal amount of any Base Rate Loan shall bear interest at a fluctuating rate per annum equal to the Base Rate. Each change in the interest rate under this Section 3.1(b) due to a change in the Base Rate shall take effect simultaneously with the corresponding change in the Base Rate.

(c) Interest accrued on each Eurodollar Rate Loan which is for a term of three months or less shall be due and payable on the last day of the related Eurodollar Period. Interest accrued on each other Eurodollar Rate Loan shall be due and payable on the date which is three months after the date such Eurodollar Rate Loan was made and on the last day of the related Eurodollar Period. Except as otherwise provided in Sections 3.1(d) and 3.9, the unpaid principal amount of any Eurodollar Rate Loan shall bear interest at a rate per annum equal to the Eurodollar Rate for that Eurodollar Rate Loan plus the Applicable Eurodollar Margin.

(d) If not sooner paid, the principal Indebtedness evidenced by the Notes shall be payable as follows:

(i) the amount, if any, by which the principal Indebtedness evidenced by the Tranche A Notes at any time exceeds the then applicable Tranche A Commitment shall be payable immediately;

(ii) the amount, if any, by which the principal Indebtedness evidenced by the Tranche B Notes at any time exceeds the then applicable Tranche B Commitment shall be payable immediately;

(iii) the amount, if any, by which the sum of (A) the principal Indebtedness evidenced by the Tranche C Notes plus (B) the principal Indebtedness evidenced by the Bid Option Advance Notes plus (C) the Aggregate Effective Amount of all outstanding Letters of Credit at any time exceeds the then applicable Tranche C Commitment shall be payable immediately;

(iv) the principal Indebtedness evidenced by each Bid Option Advance Note shall be payable, with respect to each Bid Option Advance, on the maturity date applicable thereto set forth in the related Bid;

(v) the principal Indebtedness evidenced by the Tranche A Notes shall in any event be payable on the Tranche A Maturity Date;

(vi) the principal Indebtedness evidenced by the Tranche B Notes shall be payable on the date that is 364 days after the Closing Date, unless Borrower notifies the Administrative Agent that it elects to convert the Tranche B Loan to a term loan due and payable on the date that is one (1) year after such date, and shall in any event be payable on the Tranche B Maturity Date; and

(vii) the principal Indebtedness evidenced by the Tranche C Notes and the Bid Option Advance Notes shall in any event be payable on the Tranche C Maturity Date.

(e) The principal Indebtedness evidenced by the Tranche A Notes shall be prepaid on or before the third Banking Day following the receipt by Borrower or any of its Subsidiaries of (i) Net Cash Sales Proceeds from Dispositions in excess of $5,000,000 in any Fiscal Year, by an amount equal to the amount of such Net Cash Sales Proceeds in excess of $5,000,000, (ii) Net Cash Issuance Proceeds from the issuance of debt securities of Borrower or any of its Subsidiaries (other than an issuance of debt securities to Borrower or to a Wholly-Owned Subsidiary), by an amount equal to 100% of such Net Cash Issuance Proceeds, (iii) Net Cash Issuance Proceeds from the issuance of Common Stock pursuant to the Overallotment Option, but not in excess of

$75,000,000 and (iv) Net Cash Issuance Proceeds from the issuance of equity securities of Borrower or any of its Subsidiaries (other than an issuance of equity securities pursuant to the Overallotment Option or to Borrower or to a Wholly-Owned Subsidiary or to employees or former employees of Borrower pursuant to an employee stock option plan maintained by Borrower), by an amount equal to 100% of such Net Cash Issuance Proceeds.

(f) The principal Indebtedness evidenced by the Notes may, at any time and from time to time, voluntarily be paid or prepaid in whole or in

part without premium or penalty, except that with respect to any voluntary prepayment under this Subsection, (i) any partial prepayment shall be not less than $1,000,000 and shall be an integral multiple of $1,000,000, (ii) the Administrative Agent shall have received written notice of any prepayment by 9:00 a.m. California time on the date that is one (1) Banking Day before the date of prepayment (which must be a Banking Day) in the case of an Base Rate Loan, and, in the case of a Eurodollar Rate Loan, three (3) Banking Days before the date of prepayment, which notice shall identify the date and amount of the prepayment and the Loan(s) being prepaid, (iii) each prepayment of principal on any Eurodollar Rate Loan shall be accompanied by payment of interest accrued to the date of payment on the amount of principal paid and (iv) any payment or prepayment of all or any part of any Eurodollar Rate Loan on a day other than the last day of the applicable Eurodollar Period shall be subject to Section 3.8(e).

3.2 Arranger and Agency Fees. On the Closing Date and on each other date upon which a fee is payable, Borrower shall pay to the Lead Arranger and the Administrative Agent such fees as heretofore agreed upon by letter agreement between Borrower, the Lead Arranger and the Administrative Agent. The fees paid to the Lead Arranger and the Administrative Agent are solely for their own account and are nonrefundable.

3.3 Facility Fee. Borrower shall pay to the Administrative Agent, for the ratable accounts of the Lenders pro rata according to their Pro Rata Share of the Commitments, a facility fee equal to the Applicable Facility Fee Rate per annum times the Commitments in effect on each day during a Fiscal Quarter. The facility fee shall be payable quarterly in arrears on each Quarterly Payment Date.

3.4 Utilization Fee Borrower shall pay to the Administrative Agent, for the ratable accounts of the Lenders pro rata according to their Pro Rata Share of the Commitments, a utilization fee equal to five (5) basis points per annum times the sum of (a) the aggregate Indebtedness evidenced by the Notes plus (b) the Aggregate

Effective Amount of all outstanding Letters of Credit for each day (or portion thereof) that such sum is in excess of 50% of the Commitments. The utilization fee shall be payable quarterly in arrears on each Quarterly Payment Date.

3.5 Refinancing Fee. If the Tranche A Commitment has not been reduced to zero and terminated by the date that is six (6) months after the Closing Date, Borrower shall pay to the Administrative Agent, for the ratable accounts of the Lenders according to their Pro Rata Share of the Tranche A Commitment, a refinancing fee equal to fifteen (15) basis points times the Tranche A Commitment. If the Tranche B Commitment has not been reduced to zero by the date that is six (6) months after the Closing Date, Borrower shall pay to the Administrative Agent, for the ratable accounts of the Lenders according to their Pro Rata Share of the Tranche B Commitment, a refinancing fee equal to fifteen (15) basis points times the Tranche B Commitment. Such fees shall be payable, if applicable, on the date that is six (6) months after the Closing Date.

3.6 Letter of Credit Fees. With respect to each Letter of Credit, Borrower shall pay the following fees:

(a) concurrently with the issuance of each Standby Letter of Credit, a letter of credit fronting fee to the Fronting Lender for the sole account of the Fronting Lender, in an amount equal to 10 basis points per annum times the face amount of such Standby Letter of Credit through the termination or expiration of such Standby Letter of Credit;

(b) concurrently with the issuance of each Standby Letter of

Credit, to the Administrative Agent for the ratable account of the Lenders in accordance with their Pro Rata Share of the Tranche C Commitment, a standby letter of credit fee in an amount equal to the Applicable Standby Letter of Credit Fee Rate as of the date of such issuance times the face amount of such Standby Letter of Credit through the termination or expiration of such Standby Letter of Credit, which the Administrative Agent shall promptly pay to the Lenders; and

(c) concurrently with each issuance, negotiation, drawing or amendment of each Commercial Letter of Credit, to the Fronting Lender for the sole account of the Fronting Lender, issuance, negotiation, drawing and amendment fees in the amounts set forth from time to time as the Fronting Lender's published scheduled fees for such services.

Each of the fees payable with respect to Letters of Credit under this Section is earned when due and is nonrefundable.

3.7 Increased Commitment Costs. If any Lender shall determine in good faith that the introduction after the Closing Date of any applicable law, rule, regulation or guideline regarding capital adequacy, or any change therein or any change in the interpretation or administration thereof by any central bank or other Governmental Agency charged with the interpretation or administration thereof, or compliance by such Lender (or its Eurodollar Lending Office) or any corporation controlling such Lender, with any request, guideline or directive regarding capital adequacy (whether or not having the force of Law) of any such central bank or other authority not imposed as a result of such Lender's or such corporation's failure to comply with any other Laws, affects or would affect the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender and (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy and such Lender's desired return on capital) determines in good faith that the amount of such capital is increased, or the rate of return on capital is reduced, as a consequence of its obligations under this Agreement, then, within five (5) Banking Days after demand of such Lender, Borrower shall pay to such Lender, from time to time as specified in good faith by such Lender, additional amounts sufficient to compensate such Lender in light of such circumstances, to the extent reasonably allocable to such obligations under this Agreement, provided that Borrower shall not be obligated to pay any such amount which arose prior to the date which is ninety (90) days preceding the date of such demand or is attributable to periods prior to the date which is ninety (90) days preceding the date of such demand. Each Lender's determination of such amounts shall be conclusive in the absence of manifest error.

3.8 Eurodollar Costs and Related Matters.

(a) In the event that any Governmental Agency imposes on any Lender any reserve or comparable requirement (including any emergency, supplemental or other reserve) with respect to the Eurodollar Obligations of that Lender, Borrower shall pay that Lender within five (5) Banking Days after demand all amounts necessary to compensate such Lender (determined as though such Lender's Eurodollar Lending Office had funded 100% of its Eurodollar Rate Advance in the Designated Eurodollar Market) in respect of the imposition of such reserve requirements (provided, that Borrower shall not be obligated to pay any such amount which arose prior to the date which is ninety (90) days preceding the date of such demand or is attributable to periods prior to the date which is ninety (90) days preceding the date of such demand). The Lender's determination of such amount shall be conclusive in the absence of manifest error.

(b) If, after the date hereof, the existence or occurrence of any

Special Eurodollar Circumstance:

(1) shall subject any Lender or its Eurodollar Lending Office to any tax, duty or other charge or cost with respect to any Eurodollar Rate Advance, any of its Notes evidencing Eurodollar Rate Loans or its obligation to make Eurodollar Rate Advances, or shall change the basis of taxation of payments to any Lender attributable to the principal of or interest on any Eurodollar Rate Advance or any other amounts due under this Agreement in respect of any Eurodollar Rate Advance, any of its Notes evidencing Eurodollar Rate Loans or its obligation to make Eurodollar Rate Advances, excluding (i) taxes imposed on or measured in whole or in part by its overall net income by (A) any jurisdiction (or political subdivision thereof) in which it is organized or maintains its principal office or Eurodollar Lending Office or (B) any jurisdiction (or political subdivision thereof) in which it is "doing business" and (ii) any withholding taxes or other taxes based on gross income imposed by the United States of America for any period with respect to which it has failed to provide Borrower with the appropriate form or forms required by Section 11.21, to the extent such forms are then required by applicable Laws;

(2) shall impose, modify or deem applicable any reserve not applicable or deemed applicable on the date hereof (including any reserve imposed by the Board of Governors of the Federal Reserve System, special deposit, capital or similar requirements against assets of, deposits with or for the account of, or credit extended by, any Lender or its Eurodollar Lending Office); or

(3) shall impose on any Lender or its Eurodollar Lending Office or the Designated Eurodollar Market any other condition affecting any Eurodollar Rate Advance, any of its Notes evidencing Eurodollar Rate Loans, its obligation to make Eurodollar Rate Advances or this Agreement, or shall otherwise affect any of the same;

and the result of any of the foregoing, as determined in good faith by such Lender, increases the cost to such Lender or its Eurodollar Lending Office of making or maintaining any Eurodollar Rate Advance or in respect of any Eurodollar Rate Advance, any of its Notes evidencing Eurodollar Rate Loans or its obligation to make Eurodollar Rate Advances or reduces the amount of any sum received or receivable by such Lender or its Eurodollar Lending Office

with respect to any Eurodollar Rate Advance, any of its Notes evidencing Eurodollar Rate Loans or its obligation to make Eurodollar Rate Advances (assuming such Lender's Eurodollar Lending Office had funded 100% of its Eurodollar Rate Advance in the Designated Eurodollar Market), then, within five (5) Banking Days after demand by such Lender (with a copy to the Administrative Agent), Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender for such increased cost or reduction (determined as though such Lender's Eurodollar Lending Office had funded 100% of its Eurodollar Rate Advance in the Designated Eurodollar Market); provided, that Borrower shall not be obligated to pay any such amount which arose prior to the date which is ninety (90) days preceding the date of such demand or is attributable to periods prior to the date which is ninety (90) days preceding the date of such demand. A statement of any Lender claiming compensation under this subsection shall be conclusive in the absence of manifest error.

(c) If, after the date hereof, the existence or occurrence of any Special Eurodollar Circumstance shall, in the good faith opinion of any Lender, make it unlawful or impossible for such Lender or its Eurodollar Lending Office to make, maintain or fund its portion of any Eurodollar Rate Loan, or materially restrict the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the Designated

Eurodollar Market, or to determine or charge interest rates based upon the Eurodollar Rate, and such Lender shall so notify the Administrative Agent, then such Lender's obligation to make Eurodollar Rate Advances shall be suspended for the duration of such illegality or impossibility and the Administrative Agent forthwith shall give notice thereof to the other Lenders and Borrower. Upon receipt of such notice, the outstanding principal amount of such Lender's Eurodollar Rate Advances, together with accrued interest thereon, automatically shall be converted to Base Rate Advances on either (1) the last day of the Eurodollar Period(s) applicable to such Eurodollar Rate Advances if such Lender may lawfully continue to maintain and fund such Eurodollar Rate Advances to such day(s) or (2) immediately if such Lender may not lawfully continue to fund and maintain such Eurodollar Rate Advances to such day(s), provided that in such event the conversion shall not be subject to payment of a prepayment fee under Section 3.8(e). Each Lender agrees to endeavor promptly to notify Borrower of any event of which it has actual knowledge, occurring after the Closing Date, which will cause that Lender to notify the Administrative Agent under this Section, and agrees to designate a different Eurodollar Lending Office if such designation will avoid the need for such notice and will not, in the good faith judgment of such Lender, otherwise be materially disadvantageous to such Lender. In the event that any Lender is

unable, for the reasons set forth above, to make, maintain or fund its portion of any Eurodollar Rate Loan, such Lender shall fund such amount as an Base Rate Advance for the same period of time, and such amount shall be treated in all respects as an Base Rate Advance. Any Lender whose obligation to make Eurodollar Rate Advances has been suspended under this Section shall promptly notify the Administrative Agent and Borrower of the cessation of the Special Eurodollar Circumstance which gave rise to such suspension.

(d) If, with respect to any proposed Eurodollar Rate Loan:

(1) the Administrative Agent reasonably determines that, by reason of circumstances affecting the Designated Eurodollar Market generally that are beyond the reasonable control of the Lenders, deposits in Dollars (in the applicable amounts) are not being offered to any Lender in the Designated Eurodollar Market for the applicable Eurodollar Period; or

(2) the Requisite Lenders advise the Administrative Agent that the Eurodollar Rate as determined by the Administrative Agent (i) does not represent the effective pricing to such Lenders for deposits in Dollars in the Designated Eurodollar Market in the relevant amount for the applicable Eurodollar Period, or (ii) will not adequately and fairly reflect the cost to such Lenders of making the applicable Eurodollar Rate Advances;

then the Administrative Agent forthwith shall give notice thereof to Borrower and the Lenders, whereupon until the Administrative Agent notifies Borrower that the circumstances giving rise to such suspension no longer exist, the obligation of the Lenders to make any future Eurodollar Rate Advances shall be suspended.

(e) Upon payment or prepayment of any Eurodollar Rate Advance (other than as the result of a conversion required under Section 3.8(c) on a day other than the last day in the applicable Eurodollar Period (whether voluntarily, involuntarily, by reason of acceleration, or otherwise), or upon the failure of Borrower (for a reason other than the breach by a Lender of its obligation pursuant to Sections 2.1(a), 2.1(b) or 2.1(c) to make an Advance) to borrow on the date or in the amount specified for a Eurodollar Rate Loan in any Request for Loan, Borrower shall pay to the appropriate Lender within five (5) Banking Days after

demand a prepayment fee or failure to borrow fee, as the

case may be (determined as though 100% of the Eurodollar Rate Advance had been funded in the Designated Eurodollar Market) equal to the sum of:

(1) $250; plus

(2) the amount, if any, by which (i) the additional interest would have accrued on the amount prepaid or not borrowed at the Eurodollar Rate plus the Applicable Eurodollar Rate Margin if that amount had remained or been outstanding through the last day of the applicable Eurodollar Period exceeds (ii) the interest that the Lender could recover by placing such amount on deposit in the Designated Eurodollar Market for a period beginning on the date of the prepayment or failure to borrow and ending on the last day of the applicable Eurodollar Period (or, if no deposit rate quotation is available for such period, for the most comparable period for which a deposit rate quotation may be obtained); plus

(3) all out-of-pocket expenses incurred by the Lender reasonably attributable to such payment, prepayment or failure to borrow.

Each Lender's determination of the amount of any prepayment fee payable under this Section shall be conclusive in the absence of manifest error.

(f) Each Lender agrees to endeavor promptly to notify Borrower of any event of which it has actual knowledge, occurring after the Closing Date, which will entitle such Lender to compensation pursuant to clause (a) or clause (b) of this Section, and agrees to designate a different Eurodollar Lending Office if such designation will avoid the need for or reduce the amount of such compensation and will not, in the good faith judgment of such Lender, otherwise be materially disadvantageous to such Lender. Any request for compensation by a Lender under this Section shall set forth the basis upon which it has been determined that such an amount is due from Borrower, a calculation of the amount due, and a certification that the corresponding costs have been incurred by the Lender.

3.9 Late Payments. If any installment of principal or interest or any fee or cost or other amount payable under any Loan Document to the Administrative Agent or any Lender is not paid when due, it shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the sum of the Base Rate plus 2%, to the fullest extent permitted by applicable Laws. Accrued and unpaid interest on

past due amounts (including, without limitation, interest on past due interest) shall be compounded monthly, on the last day of each calendar month, to the fullest extent permitted by applicable Laws.

3.10 Computation of Interest and Fees. Computation of interest on Base Rate Loans under this Agreement shall be calculated on the basis of a year of 365/366 days and the actual number of days elapsed. Computation of interest on Eurodollar Rate Loans and all fees under this Agreement shall be calculated on the basis of a year of 360 days and the actual number of days elapsed. Interest shall accrue on each Loan for the day on which the Loan is made; interest shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid. Any Loan that is repaid on the same day on which it is made shall bear interest for one day. Notwithstanding anything in this Agreement to the contrary, interest in excess of the maximum amount permitted by

applicable Laws shall not accrue or be payable hereunder or under the Notes, and any amount paid as interest hereunder or under the Notes which would otherwise be in excess of such maximum permitted amount shall instead be treated as a payment of principal.

3.11 Non-Banking Days. If any payment to be made by Borrower or any other Party under any Loan Document shall come due on a day other than a Banking Day, payment shall instead be considered due on the next succeeding Banking Day and the extension of time shall be reflected in computing interest and fees.

3.12 Manner and Treatment of Payments.

(a) Each payment hereunder (except payments pursuant to Sections 3.7, 3.8, 11.3, 11.11 and 11.22) or on the Notes or under any other Loan Document shall be made by Borrower to the Administrative Agent without setoff, deduction or counterclaim at the Administrative Agent's Office for the account of each of the Lenders or the Administrative Agent, as the case may be, in immediately available funds not later than 11:00 a.m. California time, on the day of payment (which must be a Banking Day). All payments received after such time, on any Banking Day, shall be deemed received on the next succeeding Banking Day. The amount of all payments received by the Administrative Agent for the account of each Lender shall be immediately paid by the Administrative Agent to the applicable Lender in immediately available funds and, if such payment was received by the Administrative Agent by 11:00 a.m., California time, on a Banking Day and not so made available to the account of a Lender on that Banking Day, the Administrative Agent shall reimburse that Lender for the cost to such Lender of funding the amount of such

payment at the Federal Funds Rate. All payments shall be made in lawful money of the United States of America.

(b) Each payment or prepayment on account of any Loan shall be applied pro rata according to the outstanding Advances made by each Lender comprising such Loan.

(c) Each Lender shall use its best efforts to keep a record (in writing or by an electronic data entry system) of Advances made by it and payments received by it with respect to each of its Notes and, subject to Section 10.6(g), such record shall, as against Borrower, be presumptive evidence of the amounts owing. Notwithstanding the foregoing sentence, the failure by any Lender to keep such a record shall not affect Borrower's obligation to pay the Obligations.

(d)(i) Any and all payments by Borrower under this Agreement shall be made free and clear of and without deduction or withholding for any and all present or future taxes, including those taxes described in Section 11.3, levies, imposts, deductions, charges or withholdings, and all interest, penalties and liabilities with respect thereto, imposed by any Governmental Agency, excluding, in the case of each Lender and the Administrative Agent, net income taxes or branch profits taxes or franchise and excise taxes (to the extent such taxes are imposed in lieu of net income taxes), imposed on any Lender or the Administrative Agent as a result of a connection between such Lender or the Administrative Agent and the jurisdiction of the Governmental Agency imposing such tax (other than any such connection arising solely from such Lender or the Administrative Agent having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement) (all such non-excluded taxes, assessments and charges being hereinafter referred to as "Non-Excluded Taxes"). If Borrower shall be required by law to deduct or withhold any Non-Excluded Taxes from or in respect of any sum payable hereunder to any Lender or the Administrative Agent (A) the amount payable shall be increased as may be necessary so that after making all required deductions or withholdings (including required

deductions or withholdings for Non-Excluded Taxes applicable to additional amounts payable under this Section 3.12(d)) such Lender or the Administrative Agent, as the case may be, receives an amount equal to the amount it would have received had no such deductions or withholdings been made, (B) Borrower shall make such deductions or withholdings and (C) Borrower shall pay the full amount deducted or withheld to the relevant Governmental Agency in accordance with applicable Laws.

(ii) Each Lender organized under the Laws of the United States of America or a State thereof or the District of Columbia on or prior to the execution and delivery of this Agreement (A) shall provide each of the Administrative Agent and Borrower with two original and duly completed United States Internal Revenue Service Forms W-9, or successor applicable form, certifying that such Lender is a United States resident and is exempt from United States backup withholding tax, (B) shall provide the Administrative Agent and Borrower two further copies of any such form or certification from time to time thereafter as requested in writing by Borrower and (C) shall obtain such extensions and renewals thereof as may reasonably be requested in writing by Borrower or the Administrative Agent. Each Person that shall become a participant pursuant to Section 11.8 shall, upon the effectiveness of the related transfer, be required to provide all of the forms and certifications required pursuant to this Section 3.12(d)(ii) as appropriate, as if such participant were a Lender; provided that such participant shall furnish all such required forms and certifications to the Lender from which the related participation was purchased.

(iii) Notwithstanding anything else in this Agreement to the contrary, for any period with respect to which a Lender has failed to comply with the requirements of Section 3.12(d)(ii) or Section 11.21, as the case may be, such Lender shall not be entitled to any payment under this Section 3.12(d) or to indemnification under Section 3.12(e) with respect to Non-Excluded Taxes imposed by reason of such failure; provided, however, that should a Lender become subject to Non-Excluded Taxes because of its failure to deliver a form required hereunder, Borrower shall, at such Lender's expense (including internal costs of Borrower), take such steps as such Lender shall reasonably require to assist the Lender to recover such Non-Excluded Taxes.

(iv) Should any Lender claim a refund, credit or deduction from a Governmental Agency to which such Lender would not be entitled but for the payment by Borrower of Non-Excluded Taxes as required by this Section 3.12(d), such Lender thereupon shall pay the amount of such refund or, in the case of a credit or deduction, the amount equal to the amount by which other taxes of such Lender are actually reduced, together with any interest paid or allowed by the refunding, crediting or deducting Governmental Agency in connection with such refund, credit or deduction.

(e) Borrower shall indemnify each Lender and the Agent for and hold each of them harmless against the full amount of Non-Excluded Taxes (including Non-Excluded Taxes of any kind imposed by a Governmental

Agency on additional amounts required to be paid pursuant to Section 3.12(d)) imposed on or paid by such Lender or the Administrative Agent, as the case may be. Each Lender and the Administrative Agent hereby agrees to give written notice to Borrower, as appropriate, of the assertion of any claim against such Lender or the Agent relating to Non-Excluded Taxes as promptly as practicable after such Lender or the Administrative Agent has been notified in writing of such assertion. This

indemnification shall be made within 30 days from the date such Lender or the Administrative Agent, as the case may be, provides Borrower, as appropriate, with such written notice.

3.13 Funding Sources. Nothing in this Agreement shall be deemed to obligate any Lender to obtain the funds for any Loan or Advance in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan or Advance in any particular place or manner.

3.14 Failure to Charge Not Subsequent Waiver. Any decision by the Administrative Agent or any Lender not to require payment of any interest (including interest arising under Section 3.9), fee, cost or other amount payable under any Loan Document, or to calculate any amount payable by a particular method, on any occasion shall in no way limit or be deemed a waiver of the Administrative Agent's or such Lender's right to require full payment of any interest (including interest arising under Section 3.9), fee, cost or other amount payable under any Loan Document, or to calculate an amount payable by another method that is not inconsistent with this Agreement, on any other or subsequent occasion.

3.15 Administrative Agent's Right to Assume Payments Will be Made. Unless the Administrative Agent shall have been notified by Borrower prior to the date on which any payment to be made by Borrower hereunder is due that Borrower does not intend to remit such payment, the Administrative Agent may, in its discretion, assume that Borrower has remitted such payment when so due and the Administrative Agent may, in its discretion and in reliance upon such assumption, make available to each Lender on such payment date an amount equal to such Lender's share of such assumed payment. If Borrower has not in fact remitted such payment to the Administrative Agent, each Lender shall forthwith on demand repay to the Administrative Agent the amount of such assumed payment made available to such Lender, together with interest thereon in respect of each day from and including the date such amount was made available by the Administrative Agent to such Lender to the date such amount is repaid to the Administrative Agent at the Federal Funds Rate.

3.16 Fee Determination Detail. The Administrative Agent, and any Lender, shall provide reasonable detail to Borrower regarding the manner in which the

amount of any payment to the Administrative Agent and the Lenders, or that Lender, under Article 3 has been determined, concurrently with demand for such payment.

3.17 Survivability. All of Borrower's obligations under Sections 3.7 and 3.8 shall survive for the ninety (90) day period following the date on which the Commitment is terminated and all Loans hereunder are fully paid, and Borrower shall remain obligated thereunder for all claims under such Sections made by any Lender to Borrower prior to the expiration of such period.

3.18 Substitution of Lender. If (a) the obligation of any Lender to make Eurodollar Rate Advances has been suspended for ten (10) Banking Days or more pursuant to Sections 3.8(c) or 3.8(d) or (b) any Lender has demanded and been paid compensation of $5,000 or more under Section 3.7 or 3.8, Borrower shall have the right, with the assistance of the Administrative Agent, to seek a mutually satisfactory substitute lender or lenders (which may be one or more of the Lenders or an Eligible Assignee) to replace such Lender. Any substitution under this Section 3.18 may be accomplished at Borrower's option either (i) by the replaced Lender assigning its rights and obligations hereunder to the replacement lender or lenders pursuant to Section 11.8 at a mutually agreeable price or (ii) by Borrower prepaying all outstanding Advances from the replaced Lender and terminating its obligations hereunder on a date specified in a notice delivered to the Administrative Agent and the replaced Lender at least three (3) Banking Days before the date so specified (and compensating such Lender for any

resulting funding losses as provided in Section 3.8(e) and concurrently the replacement lender or lenders assuming a Pro Rata Share of the Commitments in an amount equal to the Pro Rata Share of the Commitments being terminated and making Advances in the same aggregate amount and having the same maturity date or dates, respectively, as the Advances being prepaid, all pursuant to documents reasonably satisfactory to the Administrative Agent (and in the case of any document to be signed by the replaced Lender, reasonably satisfactory to such Lender). Borrower must give written notice to the affected Lender and the Administrative Agent within sixty (60) days after the applicable event described in clauses (a) or (b) of the first sentence of this Section of its intent to exercise its rights under this Section, and must complete the substitution within thirty (30) days after the date of such notice. No such substitution shall relieve Borrower of its obligations to compensate and/or indemnify the replaced Lender as required by Sections 3.7 and 3.8 with respect to the period before it is replaced and to pay all accrued interest, accrued fees and other amounts owing the replaced Lender hereunder.

Article 4
REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to the Lenders that:

4.1 Existence and Qualification; Power; Compliance With Laws. Borrower is a corporation duly formed, validly existing and in good standing under the Laws of Delaware. Borrower is duly qualified or registered to transact business and is in good standing in Maryland and each other jurisdiction in which the conduct of its business or the ownership or leasing of its Properties makes such qualification or registration necessary, except where the failure so to qualify or register and to be in good standing would not constitute a Material Adverse Effect. Borrower has all requisite power and authority to conduct its business, to own and lease its Properties and to execute and deliver each Loan Document to which it is a Party and to perform its Obligations. All outstanding shares of capital stock of Borrower are duly authorized, validly issued, fully paid and non-assessable, and no holder thereof has any enforceable right of rescission under any applicable state or federal securities Laws. Borrower is in compliance with all Laws (except for Hazardous Materials Laws which are the subject of Section 4.18) and other legal requirements applicable to its business, has obtained all authorizations, consents, approvals, orders, licenses and permits from, and has accomplished all filings, registrations and qualifications with, or obtained exemptions from any of the foregoing from, any Governmental Agency that are necessary for the transaction of its business, except where the failure so to comply, obtain authorizations, etc., file, register, qualify or obtain exemptions does not constitute a Material Adverse Effect.

4.2 Authority; Compliance With Other Agreements and Instruments and Government Regulations. The execution, delivery and performance by Borrower and the Subsidiary Guarantors of the Loan Documents to which it is a Party have been duly authorized by all necessary corporate action, and do not and will not:

(a) Require any consent or approval not heretofore obtained of any partner, director, stockholder, security holder or creditor of such Party;

(b) Violate or conflict with any provision of such Party's charter, articles of incorporation or bylaws, as applicable;

(c) Result in or require the creation or imposition of any Lien (other than pursuant to the Loan Documents) or Right of Others upon or with

respect to any Property now owned or leased or hereafter acquired by such Party;

(d) Violate any Requirement of Law applicable to such Party;

(e) Result in a breach of or constitute a default under, or cause or permit the acceleration of any obligation owed under, any material indenture or loan or credit agreement or any other Contractual Obligation to which such Party is a party or by which such Party or any of its Property is bound or affected;

and such Party is not in violation of, or default under, any Requirement of Law or Contractual Obligation, or any material indenture, loan or credit agreement described in Section 4.2(e), in any respect that constitutes a Material Adverse Effect.

4.3 No Governmental Approvals Required. Except as previously obtained or made, no authorization, consent, approval, order, license or permit from, or filing, registration or qualification with, any Governmental Agency is or will be required to authorize or permit under applicable Laws the execution, delivery and performance by Borrower or any Subsidiary Guarantor of the Loan Documents to which it is a Party.

4.4 Subsidiaries.

(a) Schedule 4.4 hereto correctly sets forth as of the Closing Date the names, form of legal entity, number of shares of capital stock issued and outstanding, number of shares owned by Borrower or a Subsidiary of Borrower (specifying such owner) and jurisdictions of organization of all Subsidiaries of Borrower and specifies which thereof, as of the Closing Date, are Inactive Subsidiaries. Except as described in Schedule 4.4, Borrower does not as of the Closing Date own any capital stock, equity interest or debt security which is convertible, or exchangeable, for capital stock or equity interest in any Person. Unless otherwise indicated in Schedule 4.4, all of the outstanding shares of capital stock, or all of the units of equity interest, as the case may be, of each Subsidiary are owned of record and beneficially by Borrower, there are no outstanding options, warrants or other rights to purchase capital stock of any such Subsidiary, and all such shares or equity interests so owned are duly authorized, validly issued, fully paid and non-assessable, and were issued in compliance with all applicable state and federal securities and other Laws, and are free and clear of all Liens, except for Permitted Encumbrances.

(b) Each Subsidiary is a legal entity of the type described in Schedule 4.4 duly formed, validly existing and in good standing under the Laws of its jurisdiction of organization, is duly qualified to do business as a foreign organization and is in good standing as such in each jurisdiction in which the conduct of its business or the ownership or leasing of its Properties makes such qualification necessary (except where the failure to be so duly qualified and in good standing does not constitute a Material Adverse Effect), and has all requisite power and authority to conduct its business and to own and lease its Properties.

(c) Except as described in Schedule 4.4(c), each Subsidiary is in compliance with all Laws (except for Hazardous Materials Laws which are the subject of Section 4.18) and other requirements applicable to its business and has obtained all authorizations, consents, approvals, orders, licenses, and permits from, and each such Subsidiary has accomplished all filings, registrations, and qualifications with, or obtained exemptions from any of the foregoing from, any Governmental Agency that are necessary for the transaction of its business, except where the failure to be in such compliance, obtain such authorizations,

consents, approvals, orders, licenses, and permits, accomplish such filings, registrations, and qualifications, or obtain such exemptions, does not constitute a Material Adverse Effect.

4.5 Financial Statements. Borrower has furnished to the Lenders (a) the audited financial statements of Predecessor for the Fiscal Year ended June 30, 1997 and (b) the unaudited balance sheet and statement of operations of Predecessor for the Fiscal Quarter ended March 31, 1998. The financial statements described in clause (a) fairly present in all material respects the financial condition, results of operations and changes in financial position, and the balance sheet and statement of operations described in clause (b) fairly present the financial condition and results of operations of Predecessor as of such dates and for such periods in conformity with GAAP consistently applied (except as otherwise indicated in the notes thereto), subject only to normal year-end accruals and audit adjustments.

4.6 No Other Liabilities; No Material Adverse Changes. Borrower and its Subsidiaries do not have any material liability or material contingent liability required under GAAP to be reflected or disclosed, and not reflected or disclosed, in the balance sheet described in Section 4.5(b), other than (a) liabilities and contingent liabilities arising in the ordinary course of business since the date of such financial statements and (b) the matters set forth in Schedule 4.6. As of the Closing Date, no circumstance or event has occurred that constitutes a Material Adverse Effect since March 31, 1998.

4.7 Title to and Location of Property. Borrower and its Subsidiaries have valid title to the Property (other than assets which are the subject of a Capital Lease Obligation) reflected in the balance sheet described in Section 4.5(b), other than (a) items of Property or exceptions to title which are in each case immaterial and Property subsequently sold or disposed of in the ordinary course of business, (b) uranium inventory owned by customers of Predecessor or USEC (Delaware) for which a corresponding liability in favor of such customers is reflected in such balance sheet and (c) the matters set forth in Schedule 4.7A. Such Property is free and clear of all Liens and Rights of Others, other than Liens or Rights of Others described in Schedule 4.7B and Permitted Encumbrances and Permitted Rights of Others.

4.8 Intellectual Property. Except as set forth in Schedule 4.8, Borrower and its Subsidiaries own, or possess the right to use to the extent necessary in their respective businesses, all trademarks, service marks, trade names, copyrights, patents, patent rights and related registrations and applications that are used in and are material to the conduct of their businesses as now operated, and no such intellectual property, to the best knowledge of Borrower, conflicts with the valid trademark, service mark, trade name, copyright, patent or patent right of any other Person to the extent that such conflict constitutes a Material Adverse Effect.

4.9 Public Utility Holding Company Act. Neither Borrower nor any of its Subsidiaries is a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

4.10 Litigation. Except for (a) any matter fully covered as to subject matter and amount (subject to applicable deductibles and retentions) by insurance for which the insurance carrier has not asserted lack of subject matter coverage or reserved its right to do so, (b) any matter, or series of related matters, involving a claim against Borrower or any of its Subsidiaries or Predecessor of less than $1,000,000, (c) matters involving a claim against Predecessor for which neither Borrower nor any of its Subsidiaries will be liable subsequent to Privatization, (d) matters of an administrative nature not involving a claim or charge against Borrower or any of its Subsidiaries or Predecessor, (e) matters involving a claim under Hazardous Materials Laws which are the subject of Section 4.18 and (f) matters set forth in Schedule 4.10,

there are no actions, suits, proceedings or investigations pending as to which Borrower or any of its Subsidiaries or Predecessor have been served or have received notice or, to the best knowledge of Borrower, threatened against or affecting Borrower or any of its

Subsidiaries or Predecessor or any Property of any of them before any Governmental Agency.

4.11 Binding Obligations. Each of the Loan Documents to which Borrower and any Subsidiary Guarantor is a Party will, when executed and delivered by such Party, constitute the legal, valid and binding obligation of such Party, enforceable against such Party in accordance with its terms, except as enforcement may be limited by Debtor Relief Laws or equitable principles relating to the granting of specific performance and other equitable remedies as a matter of judicial discretion.

4.12 No Default. No event has occurred and is continuing that is a Default or Event of Default.

4.13 ERISA.

(a) With respect to each Pension Plan:

(i) such Pension Plan complies in all material respects with ERISA and any other applicable Laws to the extent that noncompliance could reasonably be expected to have a Material Adverse Effect;

(ii) such Pension Plan has not incurred any "accumulated funding deficiency" (as defined in Section 302 of ERISA) that could reasonably be expected to have a Material Adverse Effect;

(iii) no "reportable event" (as defined in Section 4043 of ERISA, but excluding such events as to which the PBGC has by regulation waived the requirement therein contained that it be notified within thirty days of the occurrence of such event) has occurred that could reasonably be expected to have a Material Adverse Effect; and

(iv) neither Borrower nor any of its Subsidiaries has engaged in any non-exempt "prohibited transaction" (as defined in Section 4975 of the Code) that could reasonably be expected to have a Material Adverse Effect.

(b) Neither Borrower nor any of its Subsidiaries has incurred or expects to incur any withdrawal liability to any Multiemployer Plan that could reasonably be expected to have a Material Adverse Effect.

4.14 Regulation U; Investment Company Act. No part of the proceeds of any Loan hereunder will be used to purchase or carry, or to extend credit to others for the purpose of purchasing or carrying, any Margin Stock in violation of Regulation U. Neither Borrower nor any of its Subsidiaries is or is required to be registered as an "investment company" under the Investment Company Act of 1940.

4.15 Disclosure. No written statement made by a Senior Officer to the Administrative Agent or any Lender in connection with this Agreement, or in connection with any Loan, taken as a whole with other written statements concurrently or theretofore made, as of the date thereof contained any untrue statement of a material fact or omitted a material fact necessary to make the statement made not misleading in light of all the circumstances existing at the

date the statement was made.

4.16 Tax Liability. Borrower and its Subsidiaries have filed all tax returns which are required to be filed, such returns are true, complete, correct and in compliance with applicable Laws and Borrower and its Subsidiaries have paid, or made provision for the payment of, all taxes shown to be due and payable in said returns, or pursuant to any written assessment received by Borrower or any of its Subsidiaries, except (a) such tax returns, taxes, fees or other charges the amount or validity of which are being contested in good faith by appropriate proceedings and as to which adequate reserves in respect to the reasonably anticipated liability have been established and maintained and (b) such returns or taxes which, if not filed or paid, would not constitute a Material Adverse Effect.

4.17 Projections. As of the Closing Date, to the best knowledge of Borrower, the assumptions set forth in the Projections are reasonable and consistent with each other and with all facts known to Borrower, and the Projections are reasonably based on such assumptions. Nothing in this Section 4.17 shall be construed as a representation or covenant that the Projections in fact will be achieved.

4.18 Hazardous Materials. Except as described in Schedule 4.18, as of the Closing Date (a) neither Borrower nor any of its Subsidiaries or Predecessor at any time has disposed of, discharged, released or threatened the release of any Hazardous Materials on, from or under the Real Property in violation of any Hazardous Materials Law that would individually or in the aggregate constitute a Material Adverse Effect, (b) to the best knowledge of Borrower, no condition exists that violates any Hazardous Material Law affecting any Real Property except for such violations that would not individually or in the aggregate constitute a Material Adverse Effect, (c) no Real Property or any portion thereof is or has been utilized by Borrower or any of its Subsidiaries or Predecessor as a site for the manufacture of any Hazardous Materials and (d) to the extent that any Hazardous Materials are used, generated or stored by

Borrower or any of its Subsidiaries or Predecessor on any Real Property, or transported to or from such Real Property by Borrower or any of its Subsidiaries, such use, generation, storage and transportation are in compliance with all Hazardous Materials Laws except for such non-compliance that would not constitute a Material Adverse Effect or be materially adverse to the interests of the Lenders.

4.19 Solvency. On the Closing Date, giving effect to all transactions occurring on that date, each of Borrower and USEC (Delaware) is Solvent.

4.20 The Privatization. The Privatization has been consummated on the Closing Date as described in the Registration Statement and in compliance in all material respects with all applicable Laws.

4.21 Registration Statement. The Registration Statement (excluding any pro forma financial information or projections included in the Registration Statement) complied as of the Closing Date in all material respects with the requirements of the Securities Act of 1933, as amended, and the rules and regulations thereunder applicable to the Registration Statement. The Registration Statement (excluding any pro forma financial information or projections included in the Registration Statement) does not as of the Closing Date contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

4.22 Pre- Privatization Liabilities. Except for those liabilities described in the Memorandum of Agreement dated April 6, 1998 between Predecessor and the Office of Management and Budget (which liabilities are estimated to be approximately $65,000,000 as of December 31, 1997), the United States Government

has retained all liabilities of Predecessor (including liabilities under Hazardous Materials Laws) arising prior to the Closing Date or attributable to periods prior to the Closing Date.

Article 5
AFFIRMATIVE COVENANTS
(OTHER THAN INFORMATION AND REPORTING REQUIREMENTS)

So long as any Advance remains unpaid, or any other Obligation remains unpaid, or any portion of any of the Commitments remains in force, Borrower shall, and shall cause its Subsidiaries to, unless the Administrative Agent (with the written approval of the Requisite Lenders) otherwise consents:

5.1 Payment of Taxes and Other Potential Liens. Pay and discharge promptly all taxes, assessments and governmental charges or levies imposed upon any of them, upon their respective Property or any part thereof and upon their respective income or profits or any part thereof, except that Borrower and its Subsidiaries shall not be required to pay or cause to be paid (a) any tax, assessment, charge or levy that is not yet past due, or is being contested in good faith by appropriate proceedings so long as the relevant entity has established and maintains adequate reserves in respect of the reasonably anticipated liability for the payment of the same or (b) such taxes which, if not paid, would not constitute a Material Adverse Effect.

5.2 Preservation of Existence. Preserve and maintain their respective existences in the jurisdiction of their formation and all material authorizations, rights, franchises, privileges, consents, approvals, orders, licenses, permits, or registrations from any Governmental Agency that are necessary for the transaction of their respective business and qualify and remain qualified to transact business in each jurisdiction in which such qualification is necessary in view of their respective business or the ownership or leasing of their respective Properties except (a) a merger permitted by Section 6.2 or as otherwise permitted by this Agreement and (b) where the failure to so qualify or remain qualified would not constitute a Material Adverse Effect.

5.3 Maintenance of Properties. Maintain, preserve and protect all of their respective Properties in good order and condition, subject to wear and tear in the ordinary course of business, and not permit any waste of their respective Properties, except that the failure to maintain, preserve and protect a particular item of Property that is at the end of its useful life or that is not of significant value, either intrinsically or to the operations of Borrower, shall not constitute a violation of this covenant.

5.4 Maintenance of Insurance. Maintain liability, casualty and other insurance (subject to customary deductibles and retentions) with responsible insurance

companies in such amounts and against such risks as is carried by responsible companies engaged in similar businesses and owning similar assets in the general areas in which Borrower and its Subsidiaries operate.

5.5 Compliance With Laws. Comply with all Requirements of Law noncompliance with which constitutes a Material Adverse Effect, except that Borrower and its Subsidiaries need not comply with a Requirement of Law then being contested by any of them in good faith by appropriate proceedings.

5.6 Inspection Rights. Upon reasonable notice, at any time during regular business hours and as often as reasonably requested (but not so as to materially interfere with the business of Borrower or any of its Subsidiaries) permit the Administrative Agent or any Lender, or any authorized employee, agent or representative thereof, to examine, audit and make copies and abstracts from the records and books of account of, and to visit and inspect the Properties of, Borrower and its Subsidiaries and to discuss the affairs, finances and accounts of Borrower and its Subsidiaries with any of their officers, key employees or accountants, subject in each case to compliance with applicable Laws; provided that Borrower and its Subsidiaries shall not be obligated to provide any information that is "classified" under applicable Laws.

5.7 Keeping of Records and Books of Account. Keep adequate records and books of account reflecting all financial transactions in conformity with GAAP, consistently applied, and in material conformity with all applicable requirements of any Governmental Agency having regulatory jurisdiction over Borrower and its Subsidiaries.

5.8 Compliance With Agreements. Promptly and fully comply with all Contractual Obligations to which any one or more of them is a party, except for any such Contractual Obligations (a) the performance of which would cause a Default or (b) if the failure to comply does not constitute a Material Adverse Effect.

5.9 Use of Proceeds. Use the proceeds of (a) Loans under the Privatization Facilities to fund a portion of the payment to the United States Government in connection with the Privatization, to pay transactional expenses and to provide working capital and (b) Loans under the Working Capital Facility to provide working capital and to fund general corporate purposes.

5.10 Hazardous Materials Laws. Keep and maintain all Real Property and each portion thereof in compliance in all material respects with all applicable Hazardous Materials Laws and promptly notify the Administrative Agent in writing

(attaching a copy of any pertinent written material) of (a) any and all material enforcement, cleanup, removal or other governmental or regulatory actions instituted, completed or threatened in writing by a Governmental Agency pursuant to any applicable Hazardous Materials Laws, (b) any and all material claims made or threatened in writing by any Person against Borrower relating to damage, contribution, cost recovery, compensation, loss or injury resulting from any Hazardous Materials and (c) discovery by any Senior Officer of any of Borrower of any material occurrence or condition on any real Property adjoining or in the vicinity of such Real Property that could reasonably be expected to cause such Real Property or any part thereof to be subject to any restrictions on the ownership, occupancy, transferability or use of such Real Property under any applicable Hazardous Materials Laws.

5.11 Future Subsidiaries. Cause any Subsidiary (other than an Inactive Subsidiary), formed or acquired after the Closing Date to execute and deliver an appropriate joinder to the Subsidiary Guaranty.

5.12 Year 2000 Compliance. Take such steps as are reasonably necessary to assure that, prior to November 1, 1999, (a) Borrower and its Subsidiaries are Year 2000 Compliant and (b) all customers and vendors of Borrower and its Subsidiaries that are material to the business of Borrower and whose ability to perform their business obligations to Borrower may be materially affected by their not being Year 2000 Compliant are Year 2000 Compliant. Such steps shall include the performance of a comprehensive review and assessment of all data storage and operating systems and the adoption of a detailed plan and budget for the remediation, monitoring and testing of such systems. The term "Year 2000 Compliant" means, for purposes of the foregoing, that all hardware, software, firmware, equipment, goods and systems used by a Person, or which are material to the business operations or financial condition of a Person, will properly perform date-sensitive functions on and after January 1, 2000.

5.13 Syndication Process. Cooperate in such respects as may be requested by the Lead Arranger in connection with the syndication of the Facilities, including the provision of information (in form and substance reasonably acceptable to the Lead Arranger) for inclusion in written materials furnished to prospective syndicate members and the participation by Senior Officers in meetings with prospective syndicate members. Borrower expressly agrees that, at any time during the three (3) week period immediately following the general meeting of Lenders with Borrower as part of the syndication process, the Lead Arranger may, with the consent of Borrower (which shall not be unreasonably withheld), change the pricing, terms and structure (other than the aggregate amount of the Commitments) of any of the Facilities

if the Lead Arranger determines that such changes are advisable to assure a successful syndication.

Article 6
NEGATIVE COVENANTS

So long as any Advance remains unpaid, or any other Obligation remains unpaid, or any portion of any of the Commitments remains in force, Borrower shall not, and shall not permit any of its Subsidiaries to, unless the Administrative Agent (with the written approval of the Requisite Lenders or, if required by Section 11.2, of all of the Lenders) otherwise consents:

6.1 Disposition of Property. Make any Disposition of its Property, whether now owned or hereafter acquired, (a) except a Disposition by Borrower to a Wholly-Owned Subsidiary, or by a Subsidiary to Borrower or a Wholly-Owned Subsidiary and (b) a Disposition for which the Net Cash Sales Proceeds, when added to the aggregate Net Cash Sales Proceeds of all Dispositions made during that Fiscal Year, does not exceed an amount equal to 10% of the book value of consolidated total assets of Borrower and its Subsidiaries as of the last day of the immediately preceding Fiscal Year.

6.2 Mergers. Merge or consolidate with or into any Person, except (a) mergers and consolidations of a Subsidiary of Borrower into Borrower or a Wholly-Owned Subsidiary or of Subsidiaries with each other and (b) a merger or consolidation of a Person into Borrower or with or into a Wholly-Owned Subsidiary of Borrower which constitutes an acquisition permitted by Section 6.3; provided that (i) Borrower or a Wholly-Owned Subsidiary is the surviving entity, (ii) no Change in Control results therefrom, (iii) no Default or Event of Default then exists or would result therefrom and (iv) Borrower and each of the Subsidiary Guarantors execute such amendments to the Loan Documents as the Administrative Agent may reasonably determine are appropriate as a result of such merger.

6.3 Hostile Acquisitions. Directly or indirectly use the proceeds of any Loan in connection with the acquisition of part or all of a voting interest of five percent (5%) or more in any corporation or other business entity if such acquisition is opposed by the board of directors of such corporation or business entity.

6.4 Distributions. Make any Distribution, whether from capital, income or otherwise, and whether in Cash or other Property, subsequent to the Privatization except:

(a) Distributions by any Subsidiary of Borrower to Borrower or any Wholly-Owned Subsidiary;

(b) dividends payable on Common Stock; and

(c) repurchases of Common Stock; provided that no Default or Event of Default then exists or would result therefrom.

6.5 ERISA. At any time, permit any Pension Plan to: (i) engage in any non-exempt "prohibited transaction" (as defined in Section 4975 of the Code); (ii) fail to comply with ERISA or any other applicable Laws; (iii) incur any material "accumulated funding deficiency" (as defined in Section 302 of ERISA); or (iv) terminate in any manner, which, with respect to each event listed above, could reasonably be expected to result in a Material Adverse Effect or (b) withdraw, completely or partially, from any Multiemployer Plan if to do so could reasonably be expected to result in a Material Adverse Effect.

6.6 Change in Nature of Business. Make any material change in the nature of the business of Borrower and its Subsidiaries, taken as a whole; provided that the development and commercialization of an advanced uranium enrichment technology as described in the Registration Statement shall not be deemed a material change in such business.

6.7 Liens and Negative Pledges. Create, incur, assume or suffer to exist any Lien or Negative Pledge of any nature upon or with respect to any of their respective Properties, or engage in any sale and leaseback transaction with respect to any of their respective Properties, whether now owned or hereafter acquired, except:

(a) Liens and Negative Pledges existing on the Closing Date and disclosed in Schedule 4.7 and any renewals/extensions or amendments thereof, provided that the obligations secured or benefited thereby are not increased;

(b) Liens and Negative Pledges under the Loan Documents;

(c) Permitted Encumbrances;

(d) Liens on Property acquired by Borrower or any of its Subsidiaries that were in existence at the time of the acquisition of such Property and were not created in contemplation of such acquisition;

(e) Liens (to the extent that such arrangements constitute a Lien) on uranium inventory owned by customers of Borrower but held by Borrower for which there exists a corresponding liability of Borrower in favor of such customers; and

(f) Liens not otherwise described above on Property having a book value or fair market value not in excess of ten percent (10%) of Stockholders' Equity of Borrower and its Subsidiaries as of the last day of the immediately preceding Fiscal Year.

6.8 Transactions with Affiliates. Enter into any transaction of any kind with any Affiliate of Borrower other than (a) salary, bonus, employee stock option and other compensation arrangements with directors or officers in the ordinary course of business, (b) transactions that are fully disclosed to the board of directors (or executive committee thereof) of Borrower and expressly authorized by a resolution of the board of directors (or executive committee) of Borrower which is approved by a majority of the directors (or executive committee) not having an interest in the transaction, (c) transactions between or among Borrower and its Subsidiaries and (d) transactions on overall terms at least as favorable to Borrower or its Subsidiaries as would be the case in an arm's-length transaction between unrelated parties of equal bargaining power.

6.9 Stockholders' Equity. Permit Stockholders' Equity, as of the last day of any Fiscal Quarter, to be less than the sum of (a) the Opening Amount, plus (b) 35% of Net Income in the Fiscal Quarter ending September 30, 1998 and each Fiscal Quarter thereafter (with no deduction for a net loss in any such Fiscal Quarter) plus (c) 50% of the proceeds of any issuance by Borrower of equity securities (except to employees or former employees of Borrower pursuant to an employee stock option plan maintained by Borrower) subsequent to the Closing Date and not included in the Opening Amount.

6.10 Capitalization Ratio. Permit, as of the last day of any Fiscal Quarter, the ratio of (a) all Indebtedness of Borrower and its Subsidiaries on that date to (b) Total Capitalization on that date to exceed .55 to 1.00.

6.11 Investments. Make or suffer to exist any Investment, other than:

(a) Investments in existence on the Closing Date and disclosed on Schedule 6.11;

(b) Investments consisting of Cash Equivalents;

(c) Investments consisting of advances to officers, directors and employees of Borrower and its Subsidiaries for travel, entertainment, relocation, anticipated bonus and analogous ordinary business purposes;

(d) Investments in Wholly-Owned Subsidiaries;

(e) Investments consisting of the extension of credit to customers or suppliers of Borrower and its Subsidiaries in the ordinary course of business and any Investments received in satisfaction or partial satisfaction thereof;

(f) Investments received in connection with the settlement of a bona fide dispute with another Person;

(g) Investments representing all or a portion of the sales price of Property sold or services provided to another Person;

(h) Investments consisting of advances to the vendor under the Russian HEU Contract (as such term is defined in the Registration Statement) and other advances in the ordinary course of business to vendors against purchases of inventory which Borrower is obligated to purchase in the future;

(i) Investments in joint ventures to develop advanced uranium enrichment technologies generally consistent in amounts and timing to those described in Borrower's Strategic Plan dated September, 1997; and

(j) Investments not described above not in excess of an amount equal to 15% of the consolidated total assets of Borrower and its Subsidiaries as of the last day of the immediately preceding Fiscal Quarter outstanding at any time.

6.12 Subsidiary Indebtedness. Permit any Subsidiary to create, incur, assume or suffer to exist any Indebtedness or Guaranty Obligation, except (a) Indebtedness and Guaranty Obligations in existence on the Closing Date, (b) the Subsidiary Guaranty, (c) Indebtedness owed to Borrower or another Subsidiary of Borrower, (d) Capital Lease Obligations and purchase money obligations of a Subsidiary in respect of Property used by that Subsidiary and (e) other Indebtedness not described above not in excess of $100,000,000 outstanding at any time.

Article 7
INFORMATION AND REPORTING REQUIREMENTS

7.1 Financial and Business Information. So long as any Advance remains unpaid, or any other Obligation remains unpaid, or any portion of any of the Commitments remains in force, Borrower shall, unless the Administrative Agent (with the written approval of the Requisite Lenders) otherwise consents, at Borrower's sole expense, deliver to the Administrative Agent for distribution by it to the Lenders, a sufficient number of copies for all of the Lenders of the following:

(a) As soon as practicable, and in any event not later than September 30,1998, the consolidated balance sheet of Predecessor and its Subsidiaries as at the end of its fiscal year ended June 30, 1998 and the consolidated statement of income and cash flows, in each case of Predecessor and its Subsidiaries for such fiscal year, all in reasonable detail. Such financial statements shall be prepared in accordance with GAAP, consistently applied, and shall be accompanied by a report of Arthur Andersen LLP or other independent public accountants of recognized standing, which report shall be prepared in accordance with generally accepted auditing standards as at such date, and shall not be subject to any qualifications or exceptions as to the scope of the audit nor to any other qualification or exception determined by the Requisite Lenders in their good faith business judgment to be adverse to the interests of the Lenders;

(b) Concurrently with the financial statements required pursuant to Section 7.1(a), a pro-forma consolidated balance sheet of Borrower and its Subsidiaries as of the Closing Date, which balance sheet shall be based on the balance sheet as of June 30, 1998 delivered pursuant to Section 7.1(a) and be adjusted to reflect the Initial Public Offering, the Privatization, the Indebtedness incurred under this Agreement and all other transactions occurring on the Closing Date, which pro-forma balance sheet shall be certified by the chief financial officer of Borrower as fairly presenting the pro-forma financial condition of Borrower and its Subsidiaries as of the Closing Date;

(c) As soon as practicable, and in any event within 45 days after the end of each Fiscal Quarter (other than the fourth Fiscal Quarter in any Fiscal Year), the consolidated balance sheet of Borrower and its Subsidiaries as at the end of such Fiscal Quarter and the consolidated statements of income and cash flows for such Fiscal Quarter, and the portion of the Fiscal Year ended

with such Fiscal Quarter, all in reasonable detail. Such financial statements shall be certified by the chief financial officer of Borrower as fairly presenting the financial condition, results of operations and cash flows of Borrower and its Subsidiaries in accordance with GAAP (other than footnote disclosures), consistently applied, as at such date and for such periods, subject only to normal year-end accruals and audit adjustments;

(d) As soon as practicable, and in any event within 90 days after the end of each Fiscal Year, the consolidated balance sheet of Borrower and its Subsidiaries as at the end of such Fiscal Year and the

consolidated statements of income and cash flows, in each case of Borrower and its Subsidiaries for such Fiscal Year, all in reasonable detail. Such financial statements shall be prepared in accordance with GAAP, consistently applied, and shall be accompanied by a report of Arthur Andersen LLP or other independent public accountants of recognized standing, which report shall be prepared in accordance with generally accepted auditing standards as at such date, and shall not be subject to any qualifications or exceptions as to the scope of the audit nor to any other qualification or exception determined by the Requisite Lenders in their good faith business judgment to be adverse to the interests of the Lenders;

(e) Promptly after the same are available, and in any event within five (5) Banking Days after filing with the Securities and Exchange Commission, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of Borrower, and copies of all annual, regular, periodic and special reports and registration statements which Borrower may file or be required to file with the Securities and Exchange Commission under Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, and not otherwise required to be delivered to the Lenders pursuant to other provisions of this Section 7.1;

(f) Promptly after request by the Administrative Agent or any Lender, copies of any other report or other document that was filed by Borrower with any Governmental Agency; provided that neither Borrower nor any of its Subsidiaries shall be obligated to provide any information that is "classified" under applicable Laws;

(g) Promptly upon a Senior Officer becoming aware, and in any event within ten (10) Banking Days after becoming aware, of the occurrence of any (i) "reportable event" (as such term is defined in Section 4043 of ERISA, but excluding such events as to which the PBGC has by regulation

waived the requirement therein contained that it be notified within thirty days of the occurrence of such event) or (ii) non-exempt "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) involving any Pension Plan or any trust created thereunder, telephonic notice specifying the nature thereof, and, no more than two (2) Banking Days after such telephonic notice, written notice again specifying the nature thereof and specifying what action Borrower is taking or proposes to take with respect thereto, and, when known, any action taken by the Internal Revenue Service with respect thereto;

(h) As soon as practicable, and in any event within two (2) Banking Days after a Senior Officer becomes aware of the existence of any condition or event which constitutes a Default or Event of Default, telephonic notice specifying the nature and period of existence thereof, and, no more than two (2) Banking Days after such telephonic notice, written notice again specifying the nature and period of existence thereof and specifying what action Borrower is taking or proposes to take with respect thereto;

(i) Promptly upon a Senior Officer becoming aware that (i) any Person has commenced a legal proceeding with respect to a claim against Borrower that is $5,000,000 or more in excess of the amount thereof that is fully covered by insurance, (ii) any creditor under a credit agreement involving Indebtedness of $5,000,000 or more or any lessor under a lease involving aggregate rent of $5,000,000 or more has asserted a default

thereunder on the part of Borrower or, (iii) any Person has commenced a legal proceeding with respect to a claim against Borrower under a contract that is not a credit agreement or material lease with respect to a claim of in excess of $5,000,000 or which otherwise may reasonably be expected to result in a Material Adverse Effect, a written notice describing the pertinent facts relating thereto and what action Borrower is taking or proposes to take with respect thereto;

(j) Promptly upon a Senior Officer becoming aware of a change in the credit rating given by S&P or Moody's to Borrower's long term senior unsecured non-credit enhanced debt, written notice thereof; and

(k) Such other data and information as from time to time may be reasonably requested by the Administrative Agent, any Lender (through the Administrative Agent) or the Requisite Lenders; provided that neither Borrower nor any of its Subsidiaries shall be obligated to provide any information that is "classified" under applicable Laws.

7.2 Compliance Certificates. So long as any Advance remains unpaid, or any other Obligation remains unpaid or unperformed, or any portion of any of the Commitments remains outstanding, Borrower shall, at Borrower's sole expense, deliver to the Administrative Agent for distribution by it to the Lenders concurrently with the financial statements required pursuant to Sections 7.1(c) and 7.1(d), a Compliance Certificate signed by a Senior Officer.

Article 8
CONDITIONS

8.1 Initial Advances. The obligation of each Lender to make the initial Advance to be made by it, and the obligation of the Fronting Lender to issue the initial Letter of Credit, is subject to the following conditions precedent, each of which shall be satisfied prior to the making of the initial Advances (unless all of the Lenders, in their sole and absolute discretion, shall agree otherwise):

(a) The Administrative Agent shall have received all of the following, each of which shall be originals unless otherwise specified, each properly executed by a Responsible Official of each party thereto, each dated as of the Closing Date and each in form and substance satisfactory to the Administrative Agent and its legal counsel (unless otherwise specified or, in the case of the date of any of the following, unless the Administrative Agent otherwise agrees or directs):

(1) at least one (1) executed counterpart of this Agreement, together with arrangements satisfactory to the Administrative Agent for additional executed counterparts, sufficient in number for distribution to the Lenders and Borrower;

(2) Tranche A Notes executed by Borrower in favor of each Lender, each in a principal amount equal to that Lender's Pro Rata Share of the Tranche A Commitment;

(3) Tranche B Notes executed by Borrower in favor of each Lender, each in a principal amount equal to that Lender's Pro Rata Share of the Tranche B Commitment;

(4) Tranche C Notes executed by Borrower in favor of each Lender, each in a principal amount equal to that Lender's Pro Rata Share of the Tranche C Commitment;

(5) Bid Option Advance Notes executed by Borrower in favor of each Lender, each in the principal amount of $100,000,000;

(6) the Subsidiary Guaranty executed by the Subsidiary Guarantors;

(7) with respect to Borrower and the Subsidiary Guarantors, such documentation as the Administrative Agent may reasonably require to establish the due organization, valid existence and good standing of Borrower and the Subsidiary Guarantors, their qualification to engage in business in each material jurisdiction in which they are engaged in business or required to be so qualified, their authority to execute, deliver and perform the Loan Documents to which it is a Party, the identity, authority and capacity of each Responsible Official thereof authorized to act on its behalf, including certified copies of articles of incorporation and amendments thereto, bylaws and amendments thereto, certificates of good standing and/or qualification to engage in business, tax clearance certificates, certificates of corporate resolutions, incumbency certificates, Certificates of Responsible Officials, and the like;

(8) the Opinion of Counsel;

(9) a copy of each of the operative documents effecting the legal process by which Predecessor becomes USEC (Delaware), certified by a Senior Officer of Borrower;

(10) a copy of the Registration Statement;

(11) a Certificate of the chief financial officer of Borrower certifying that the representation contained in Section 4.17 is, to the best of his or her knowledge, true and correct;

(12) a Certificate of the chief financial officer of Borrower certifying that the conditions specified in Sections 8.1(f) and 8.1(g) have been satisfied; and

(13) such other assurances, certificates, documents, consents or opinions as the Administrative Agent or the Requisite Lenders reasonably may require.

(b) The fees payable on the Closing Date pursuant to Section 3.2 shall have been paid.

(c) The Privatization shall have been (or shall concurrently be) consummated.

(d) The Initial Public Offering shall have been (or shall concurrently be) consummated with gross cash proceeds of not less than $1,000,000,000.

(e) The reasonable costs and expenses of the Administrative Agent in connection with the preparation of the Loan Documents payable pursuant to Section 11.3, and invoiced to Borrower prior to the Closing Date, shall have been paid.

(f) The representations and warranties of Borrower contained in Article 4 shall be true and correct in all material respects.

(g) Borrower shall be in compliance with all the terms and provisions of the Loan Documents, and giving effect to the initial Advance, no Default or Event of Default shall have occurred and be continuing.

(h) All legal matters relating to the Loan Documents shall be satisfactory to Sheppard, Mullin, Richter & Hampton LLP, special counsel to the Administrative Agent.

(i) The Closing Date shall have occurred on or before September 30, 1998.

8.2 Any Advance. The obligation of each Lender to make any Advance, and the obligation of the Fronting Lender to issue any Letter of Credit, is subject to the following conditions precedent (unless the Requisite Lenders or, in any case where the approval of all of the Lenders is required pursuant to Section 11.2, all of the Lenders, in their sole and absolute discretion, shall agree otherwise):

(a) except (i) for representations and warranties which expressly speak as of a particular date or are no longer true and correct as a result of a change which is permitted by this Agreement or (ii) as disclosed by Borrower and approved in writing by the Requisite Lenders, the representations and warranties contained in Article 4 (other than Sections 4.4(a), 4.6 (first sentence), 4.10 and 4.17) shall be true and correct in all material respects on and as of the date of the Advance as though made on that date;

(b) no circumstance or event shall have occurred that constitutes a Material Adverse Effect since the Closing Date; provided, that this clause (b) shall not apply at any time that the Facilities are explicitly in support of authorized or outstanding commercial paper of Borrower;

(c) other than matters described in Schedule 4.10 or not required as of the Closing Date to be therein described, there shall not be then pending or threatened any action, suit, proceeding or investigation against or affecting Borrower or any of its Subsidiaries or any Property of any of them before any Governmental Agency that constitutes a Material Adverse Effect;

(d) the Administrative Agent shall have timely received a Request for Loan, or a Request for Letter of Credit (as applicable), in compliance with Article 2; and

(e) the Administrative Agent shall have received, in form and substance satisfactory to the Administrative Agent, such other assurances, certificates, documents or consents related to the foregoing

as the Administrative Agent or Requisite Lenders reasonably may require.

Article 9
EVENTS OF DEFAULT AND REMEDIES UPON EVENT OF DEFAULT

9.1 Events of Default. The existence or occurrence of any one or more of the following events, whatever the reason therefor and under any circumstances whatsoever, shall constitute an Event of Default:

(a) Borrower fails to pay any principal on any of the Notes, or any portion thereof, on the date when due; or

(b) Borrower fails to pay any interest on any of the Notes, or any fees under Sections 3.2, 3.3, 3.4, 3.5 or 3.6, or any portion thereof, within five (5) days after the date when due; or fails to pay any other fee or amount payable to the Lenders under any Loan Document, or any portion thereof, within two (2) Banking Days after demand therefor; or

(c) Borrower fails to comply with any of the covenants contained in Article 6; or

(d) Borrower fails to comply with Section 7.1(i) in any respect that is materially adverse to the interests of the Lenders; or

(e) Borrower or any other Party fails to perform or observe any other covenant or agreement (not specified in clause (a), (b), (c) or (d) above) contained in any Loan Document on its part to be performed or observed within twenty (20) Banking Days after the giving of notice by the Administrative Agent on behalf of the Requisite Lenders of such Default or, if such Default is not reasonably susceptible of cure within such period, within such longer period as is reasonably necessary to effect a cure so long as such Borrower or such Party continues to diligently pursue cure of such Default but not in any event in excess of forty (40) Banking Days; or

(f) Any representation or warranty of Borrower or any other Party made in any Loan Document, or in any certificate or other writing delivered by Borrower or such Party pursuant to any Loan Document, proves to have been incorrect when made or reaffirmed in any respect that is materially adverse to the interests of the Lenders; or

(g) Borrower or any Subsidiary Guarantor (i) fails to pay the principal, or any principal installment, of any present or future Indebtedness of

$10,000,000 or more, or any guaranty of present or future Indebtedness of $10,000,000 or more, on its part to be paid, when due (or within any stated grace period), whether at the stated maturity, upon acceleration, by reason of required prepayment or otherwise or (ii) fails to perform or observe any other term, covenant or agreement on its part to be performed or observed, or suffers any event of default to occur, in connection with any present or future Indebtedness of $10,000,000 or more, or of any guaranty of present or future Indebtedness of $10,000,000 or more, if as a result of such failure or sufferance any holder or holders thereof (or

an agent or trustee on its or their behalf) has the right to declare such Indebtedness due before the date on which it otherwise would become due or the right to require Borrower or the Subsidiary Guarantor to redeem or purchase, or offer to redeem or purchase, all or any portion of such Indebtedness; or

(h) Any Loan Document, at any time after its execution and delivery and for any reason other than the agreement or action (or omission to act) of the Administrative Agent or the Lenders or satisfaction in full of all the Obligations, ceases to be in full force and effect or is declared by a court of competent jurisdiction to be null and void, invalid or unenforceable in any respect which is materially adverse to the interests of the Lenders; or any Party thereto denies in writing that it has any or further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind same; or

(i) A final judgment against Borrower or any Subsidiary Guarantor is entered for the payment of money in excess of $5,000,000 (not covered by insurance or for which an insurer has reserved its rights) and, absent procurement of a stay of execution, such judgment remains unsatisfied for thirty (30) calendar days after the date of entry of judgment, or in any event later than five (5) days prior to the date of any proposed sale thereunder; or any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the Property of Borrower or any Subsidiary Guarantor and is not released, vacated or fully bonded within thirty (30) calendar days after its issue or levy; or

(j) Borrower or any Subsidiary Guarantor institutes or consents to the institution of any proceeding under a Debtor Relief Law relating to it or to all or any material part of its Property, or is unable or admits in writing its inability to pay its debts as they mature, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver,

trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its Property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of that Person and the appointment continues undischarged or unstayed for sixty (60) calendar days; or any proceeding under a Debtor Relief Law relating to any such Person or to all or any part of its Property is instituted without the consent of that Person and continues undismissed or unstayed for sixty (60) calendar days; or

(k) The occurrence of an Event of Default (as such term is or may hereafter be specifically defined in any other Loan Document in existence on the Closing Date) under any other Loan Document; or

(l) Any Pension Plan maintained by Borrower is finally determined by the PBGC to have a material "accumulated funding deficiency" as that term is defined in Section 302 of ERISA in excess of an amount equal to 5% of the consolidated total assets of Borrower as of the most-recently ended Fiscal Quarter; or

(m) The Nuclear Regulatory Commission or other Governmental Authority takes any action that restricts the operation of Borrower and its Subsidiaries such that Borrower or its Subsidiary is or will be unable to make scheduled deliveries under customer contracts the payments for which would exceed 10% of the projected gross revenues of Borrower and its Subsidiaries over the next twelve (12) consecutive months; or

(n) The Requisite Lenders determine in good faith that a circumstance or event has occurred that constitutes a Material Adverse Effect; provided, that this clause (n) shall not apply at any time that the Facilities are explicitly in support of authorized or outstanding commercial paper of Borrower.

9.2 Remedies Upon Event of Default. Without limiting any other rights or remedies of the Administrative Agent or the Lenders provided for elsewhere in this Agreement, or the other Loan Documents, or by applicable Law, or in equity, or otherwise:

(a) Upon the occurrence, and during the continuance, of any Event of Default other than an Event of Default described in Section 9.1(j):

(1) the Commitments to make Advances and all other obligations of the Administrative Agent or the Lenders and all rights of Borrower and any other Parties under the Loan Documents shall be

suspended without notice to or demand upon Borrower, which are expressly waived by Borrower, except that all of the Lenders or the Requisite Lenders (as the case may be, in accordance with Section 11.2) may waive an Event of Default or, without waiving, determine, upon terms and conditions satisfactory to the Lenders or Requisite Lenders, as the case may be, to reinstate the Commitments and such other obligations and rights and make further Advances, which waiver or determination shall apply equally to, and shall be binding upon, all the Lenders;

(2) the Fronting Lender may, with the approval of the Administrative Agent on behalf of the Requisite Lenders, demand immediate payment by Borrower of an amount equal to the aggregate amount of all outstanding Letters of Credit to be held by the Fronting Lender in an interest-bearing cash collateral account as collateral hereunder; and

(3) the Requisite Lenders may request the Administrative Agent to, and the Administrative Agent thereupon shall, terminate the Commitments and/or declare all or any part of the unpaid principal of all Notes, all interest accrued and unpaid thereon and all other amounts payable under the Loan Documents to be forthwith due and payable, whereupon the same shall become and be forthwith due and payable, without protest, presentment, notice of dishonor, demand or further notice of any kind, all of which are expressly waived by Borrower.

(b) Upon the occurrence of any Event of Default described in Section 9.1(j):

(1) the Commitments to make Advances and all other obligations of the Administrative Agent or the Lenders and all rights of Borrower and any other Parties under the Loan Documents shall terminate without notice to or demand upon Borrower, which are expressly waived by Borrower, except that all of the Lenders may waive the Event of Default or, without waiving, determine, upon terms and conditions satisfactory to all the Lenders, to reinstate the Commitment and such other obligations and rights and make further Advances, which determination shall apply equally to, and shall be binding upon, all the Lenders;

(2) an amount equal to the aggregate amount of all outstanding

Letters of Credit shall be immediately due and payable to the

Fronting Lender without notice to or demand upon Borrower, which are expressly waived by Borrower, to be held by the Fronting Lender in an interest-bearing cash collateral account as collateral hereunder; and

(3) the unpaid principal of all Notes, all interest accrued and unpaid thereon and all other amounts payable under the Loan Documents shall be forthwith due and payable, without protest, presentment, notice of dishonor, demand or further notice of any kind, all of which are expressly waived by Borrower.

(c) Upon the occurrence of any Event of Default, the Lenders and the Administrative Agent, or any of them, without notice to (except as expressly provided for in any Loan Document) or demand upon Borrower, which are expressly waived by Borrower (except as to notices expressly provided for in any Loan Document), may proceed (but only with the consent of the Requisite Lenders) to protect, exercise and enforce their rights and remedies under the Loan Documents against Borrower and any other Party and such other rights and remedies as are provided by Law or equity.

(d) The order and manner in which the Lenders' rights and remedies are to be exercised shall be determined by the Requisite Lenders in their sole discretion, and all payments received by the Administrative Agent and the Lenders, or any of them, shall be applied first to the costs and expenses (including reasonable attorneys' fees and disbursements and the reasonably allocated costs of attorneys employed by the Administrative Agent or by any Lender) of the Administrative Agent and of the Lenders, and thereafter paid pro rata to the Lenders in the same proportions that the aggregate Obligations owed to each Lender under the Loan Documents bear to the aggregate Obligations owed under the Loan Documents to all the Lenders, without priority or preference among the Lenders. Regardless of how each Lender may treat payments for the purpose of its own accounting, for the purpose of computing Borrower' Obligations hereunder and under the Notes, payments shall be applied first, to the costs and expenses of the Administrative Agent and the Lenders, as set forth above, second, to the payment of accrued and unpaid interest due under any Loan Documents to and including the date of such application (ratably, and without duplication, according to the accrued and unpaid interest due under each of the Loan Documents), and third, to the payment of all other amounts (including principal and fees) then owing to the Administrative Agent or the Lenders under the Loan Documents. No application of payments will cure any Event of Default, or prevent acceleration, or continued acceleration, of amounts payable under the Loan Documents, or

prevent the exercise, or continued exercise, of rights or remedies of the Lenders hereunder or thereunder or at Law or in equity.

Article 10
THE ADMINISTRATIVE AGENT

10.1 Appointment and Authorization. Subject to Section 10.8, each Lender hereby irrevocably appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Administrative Agent by the terms thereof or are reasonably incidental, as determined by the Administrative Agent, thereto. This appointment and authorization is intended solely for the purpose of facilitating the servicing of the Loans and does not constitute appointment of the Administrative Agent as trustee for any Lender or as representative of any Lender for any other purpose and, except as specifically set forth in the Loan Documents to the contrary, the Administrative Agent shall take such action and exercise such powers only in an administrative and ministerial capacity.

10.2 Administrative Agent and Affiliates. Bank of America National Trust and Savings Association (and each successor Administrative Agent) has the same rights and powers under the Loan Documents as any other Lender and may exercise the same as though it were not the Administrative Agent, and the term "Lender" or "Lenders" includes Bank of America National Trust and Savings Association in its individual capacity. Bank of America National Trust and Savings Association (and each successor Administrative Agent) and its Affiliates may accept deposits from, lend money to and generally engage in any kind of banking, trust or other business with Borrower, any Subsidiary thereof, or any Affiliate of Borrower or any Subsidiary thereof, as if it were not the Administrative Agent and without any duty to account therefor to the Lenders. Bank of America National Trust and Savings Association (and each successor Administrative Agent) need not account to any other Lender for any monies received by it for reimbursement of its costs and expenses as Administrative Agent hereunder, or (subject to Section 11.10) for any monies received by it in its capacity as a Lender hereunder. The Administrative Agent shall not be deemed to hold a fiduciary relationship with any Lender and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent.

10.3 Proportionate Interest in any Collateral. The Administrative Agent, on behalf of all the Lenders, shall hold in accordance with the Loan Documents all items of any collateral or interests therein received or held by the Administrative Agent. Subject to the Administrative Agent's and the Lenders' rights to reimbursement for their costs and expenses hereunder (including reasonable attorneys' fees and disbursements and other professional services and the reasonably allocated costs of

attorneys employed by the Administrative Agent or a Lender) and subject to the application of payments in accordance with Section 9.2(d), each Lender shall have an interest in the Lenders' interest in such collateral or interests therein in the same proportions that the aggregate Obligations owed such Lender under the Loan Documents bear to the aggregate Obligations owed under the Loan Documents to all the Lenders, without priority or preference among the Lenders.

10.4 Lenders' Credit Decisions. Each Lender agrees that it has, independently and without reliance upon the Administrative Agent, any other Lender or the directors, officers, agents, employees or attorneys of the Administrative Agent or of any other Lender, and instead in reliance upon information supplied to it by or on behalf of Borrower and upon such other information as it has deemed appropriate, made its own independent credit analysis and decision to enter into this Agreement. Each Lender also agrees that it shall, independently and without reliance upon the Administrative Agent, any

other Lender or the directors, officers, agents, employees or attorneys of the Administrative Agent or of any other Lender, continue to make its own independent credit analyses and decisions in acting or not acting under the Loan Documents.

10.5 Action by Administrative Agent.

(a) Absent actual knowledge of the Administrative Agent of the existence of a Default, the Administrative Agent may assume that no Default has occurred and is continuing, unless the Administrative Agent (or the Lender that is then the Administrative Agent) has received notice from Borrower stating the nature of the Default or has received notice from a Lender stating the nature of the Default and that such Lender considers the Default to have occurred and to be continuing.

(b) The Administrative Agent has only those obligations under the Loan Documents as are expressly set forth therein.

(c) Except for any obligation expressly set forth in the Loan Documents and as long as the Administrative Agent may assume that no Event of Default has occurred and is continuing, the Administrative Agent may, but shall not be required to, exercise its discretion to act or not act, except that the Administrative Agent shall be required to act or not act upon the instructions of the Requisite Lenders (or of all the Lenders, to the extent required by Section 11.2) and those instructions shall be binding upon the Administrative Agent and all the Lenders, provided that the Administrative Agent shall not be required to act or not act if to do so would be contrary to any Loan Document or

to applicable Law or would result, in the reasonable judgment of the Administrative Agent, in substantial risk of liability to the Administrative Agent.

(d) If the Administrative Agent has received a notice specified in clause (a), the Administrative Agent shall immediately give notice thereof to the Lenders and shall act or not act upon the instructions of the Requisite Lenders (or of all the Lenders, to the extent required by Section 11.2), provided that the Administrative Agent shall not be required to act or not act if to do so would be contrary to any Loan Document or to applicable Law or would result, in the reasonable judgment of the Administrative Agent, in substantial risk of liability to the Administrative Agent, and except that if the Requisite Lenders (or all the Lenders, if required under Section 11.2) fail, for five (5) Banking Days after the receipt of notice from the Administrative Agent, to instruct the Administrative Agent, then the Administrative Agent, in its sole discretion, may act or not act as it deems advisable for the protection of the interests of the Lenders.

(e) The Administrative Agent shall have no liability to any Lender for acting, or not acting, as instructed by the Requisite Lenders (or all the Lenders, if required under Section 11.2), notwithstanding any other provision hereof.

10.6 Liability of Administrative Agent. Neither the Administrative Agent nor any of its directors, officers, agents, employees or attorneys shall be liable for any action taken or not taken by them under or in connection with the Loan Documents, except for their own gross negligence or willful misconduct. Without limitation on the foregoing, the Administrative Agent and its directors, officers, agents, employees and attorneys:

(a) May treat the payee of any Note as the holder thereof until

the Administrative Agent receives notice of the assignment or transfer thereof, in form satisfactory to the Administrative Agent, signed by the payee, and may treat each Lender as the owner of that Lender's interest in the Obligations for all purposes of this Agreement until the Administrative Agent receives notice of the assignment or transfer thereof, in form satisfactory to the Administrative Agent, signed by that Lender;

(b) May consult with legal counsel (including in-house legal counsel), accountants (including in-house accountants) and other professionals or experts selected by it, or with legal counsel, accountants or other profes-

sionals or experts for Borrower and/or their Subsidiaries or the Lenders, and shall not be liable for any action taken or not taken by it in good faith in accordance with any advice of such legal counsel, accountants or other professionals or experts;

(c) Shall not be responsible to any Lender for any statement, warranty or representation made in any of the Loan Documents or in any notice, certificate, report, request or other statement (written or oral) given or made in connection with any of the Loan Documents;

(d) Except to the extent expressly set forth in the Loan Documents, shall have no duty to ask or inquire as to the performance or observance by Borrower or its Subsidiaries of any of the terms, conditions or covenants of any of the Loan Documents or to inspect any collateral or any Property, books or records of Borrower or their Subsidiaries;

(e) Will not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, effectiveness, sufficiency or value of any Loan Document, any other instrument or writing furnished pursuant thereto or in connection therewith, or any collateral;

(f) Will not incur any liability by acting or not acting in reliance upon any Loan Document, notice, consent, certificate, statement, request or other instrument or writing believed in good faith by it to be genuine and signed or sent by the proper party or parties; and

(g) Will not incur any liability for any arithmetical error in computing any amount paid or payable by Borrower or any Subsidiary or Affiliate thereof or paid or payable to or received or receivable from any Lender under any Loan Document, including, without limitation, principal, interest, commitment fees, Advances and other amounts; provided that, promptly upon discovery of such an error in computation, the Administrative Agent, the Lenders and (to the extent applicable) Borrower and/or its Subsidiaries or Affiliates shall make such adjustments as are necessary to correct such error and to restore the parties to the position that they would have occupied had the error not occurred.

10.7 Indemnification. Each Lender shall, ratably in accordance with its Pro Rata Share of the Commitments (if the Commitments are then in effect) or in accordance with its proportion of the aggregate Indebtedness then evidenced by the Notes (if the Commitments have then been terminated), indemnify and hold the

Administrative Agent and its directors, officers, agents, employees and attorneys harmless against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever (including reasonable attorneys' fees and disbursements and allocated costs of attorneys employed by the Administrative Agent) that may be imposed on, incurred by or asserted against it or them in any way relating to or arising out of the Loan Documents (other than losses incurred by reason of the failure of Borrower to pay the Indebtedness represented by the Notes) or any action taken or not taken by it as Administrative Agent thereunder, except such as result from its own gross negligence or willful misconduct. Without limitation on the foregoing, each Lender shall reimburse the Administrative Agent upon demand for that Lender's Pro Rata Share of any out-of-pocket cost or expense incurred by the Administrative Agent in connection with the negotiation, preparation, execution, delivery, amendment, waiver, restructuring, reorganization (including a bankruptcy reorganization), enforcement or attempted enforcement of the Loan Documents, to the extent that Borrower or any other Party is required by Section 11.3 to pay that cost or expense but fails to do so upon demand. Nothing in this Section 10.7 shall entitle the Administrative Agent or any indemnitee referred to above to recover any amount from the Lenders if and to the extent that such amount has theretofore been recovered from Borrower or any of its Subsidiaries. To the extent that the Administrative Agent or any indemnitee referred to above is later reimbursed such amount by Borrower or any of its Subsidiaries, it shall return the amounts paid to it by the Lenders in respect of such amount.

10.8 Successor Administrative Agent. The Administrative Agent may, and at the request of the Requisite Lenders shall, resign as Administrative Agent upon reasonable notice to the Lenders and Borrower effective upon acceptance of appointment by a successor Administrative Agent. If the Administrative Agent shall resign as Administrative Agent under this Agreement, the Requisite Lenders shall appoint from among the Lenders a successor Administrative Agent for the Lenders, which successor Administrative Agent shall be approved by Borrower (and such approval shall not be unreasonably withheld or delayed). If no successor Administrative Agent is appointed prior to the effective date of the resignation of the Administrative Agent, the Administrative Agent may appoint, after consulting with the Lenders and Borrower, a successor Administrative Agent from among the Lenders. Upon the acceptance of its appointment as successor Administrative Agent hereunder, such successor Administrative Agent shall succeed to all the rights, powers and duties of the retiring Administrative Agent and the term "Administrative Agent" shall mean such successor Administrative Agent and the retiring Administrative Agent's appointment, powers and duties as Administrative Agent shall be terminated. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article 10, and Sections 11.3, 11.11 and 11.22, shall inure to its

benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement. Notwithstanding the foregoing, if (a) the Administrative Agent has not been paid its agency fees under Section 3.4 or has not been reimbursed for any expense reimbursable to it under Section 11.3, in either case for a period of at least one (1) year and (b) no successor Administrative Agent has accepted appointment as Administrative Agent by the date which is thirty (30) days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective and the Lenders shall perform all of the duties of the Administrative Agent hereunder until such time, if any, as the Requisite Lenders appoint a successor Administrative Agent as provided for

above.

10.9 No Obligations of Borrower. Nothing contained in this Article 10 shall be deemed to impose upon Borrower any obligation in respect of the due and punctual performance by the Administrative Agent of its obligations to the Lenders under any provision of this Agreement, and Borrower shall have no liability to the Administrative Agent or any of the Lenders in respect of any failure by the Administrative Agent or any Lender to perform any of its obligations to the Administrative Agent or the Lenders under this Agreement. Without limiting the generality of the foregoing, where any provision of this Agreement relating to the payment of any amounts due and owing under the Loan Documents provides that such payments shall be made by Borrower to the Administrative Agent for the account of the Lenders, Borrower's obligations to the Lenders in respect of such payments shall be deemed to be satisfied upon the making of such payments to the Administrative Agent in the manner provided by this Agreement. In addition, Borrower may rely on a written statement by the Administrative Agent to the effect that it has obtained the written consent of the Requisite Lenders or all of the Lenders, as applicable under Section 11.2, in connection with a waiver, amendment, consent, approval or other action by the Lenders hereunder, and shall have no obligation to verify or confirm the same.

Article 11
MISCELLANEOUS

11.1 Cumulative Remedies; No Waiver. The rights, powers, privileges and remedies of the Administrative Agent and the Lenders provided herein or in any Note or other Loan Document are cumulative and not exclusive of any right, power, privilege or remedy provided by Law or equity. No failure or delay on the part of the Administrative Agent or any Lender in exercising any right, power, privilege or remedy may be, or may be deemed to be, a waiver thereof; nor may any single or partial exercise of any right, power, privilege or remedy preclude any other or further exercise of the same or any other right, power, privilege or remedy. The terms and conditions of Article 8 hereof are inserted for the sole benefit of the Administrative Agent and the Lenders; the same may be waived in whole or in part, with or without terms or conditions, in respect of any Loan without prejudicing the Administrative Agent's or the Lenders' rights to assert them in whole or in part in respect of any other Loan.

11.2 Amendments; Consents. No amendment, modification, supplement, extension, termination or waiver of any provision of this Agreement or any other Loan Document, no approval or consent thereunder, and no consent to any departure by Borrower or any other Party therefrom, may in any event be effective unless in writing signed by the Administrative Agent with the written approval of the Requisite Lenders (and, in the case of any amendment, modification or supplement of or to any Loan Document to which Borrower is a Party, signed by Borrower, and, in the case of any amendment, modification or supplement to Article 10, signed by the Administrative Agent), and then only in the specific instance and for the specific purpose given; and, without the approval in writing of all the Lenders, no amendment, modification, supplement, termination, waiver or consent may be effective:

(a) To amend or modify the principal of, or the amount of principal, principal prepayments or the rate of interest payable on, any Note, or the amount of the Commitments or the Pro Rata Share of any Lender or the amount of any commitment fee payable to any Lender, or any other fee or amount payable to any Lender under the Loan Documents or to waive an Event of Default consisting of the failure of Borrower to pay when due principal, interest or any fee;

(b) To postpone any date fixed for any payment of principal of, prepayment of principal of or any installment of interest on, any Note or any installment of any fee, or to extend the term of the Commitments;

(c) To amend the provisions of the definition of "Requisite Lenders", "Tranche B Conversion Date", "Tranche A Maturity Date", or "Tranche B Maturity Date, or "Tranche C Maturity Date"; or

(d) To release any material Subsidiary Guarantor from the Subsidiary Guaranty; or

(e) To amend or waive Article 8 or this Section 11.2; or

(f) To amend any provision of this Agreement that expressly requires the consent or approval of all the Lenders.

Any amendment, modification, supplement, termination, waiver or consent pursuant to this Section 11.2 shall apply equally to, and shall be binding upon, all the Lenders and the Administrative Agent.

11.3 Costs, Expenses and Taxes. Borrower shall pay within twenty (20) Banking Days after demand, accompanied by an invoice therefor, the reasonable costs and expenses of the Administrative Agent in connection with the negotiation, preparation, syndication, execution and delivery of the Loan Documents and any amendment thereto or waiver thereof. Borrower shall also pay on demand, accompanied by an invoice therefor, the reasonable costs and expenses of the Administrative Agent and the Lenders in connection with the refinancing, restructuring, reorganization (including a bankruptcy reorganization) and enforcement or attempted enforcement of the Loan Documents, and any matter related thereto. The foregoing costs and expenses shall include filing fees, recording fees, title insurance fees, appraisal fees, search fees, and other out-of-pocket expenses and the reasonable fees and out-of-pocket expenses of any legal counsel (including reasonably allocated costs of legal counsel employed by the Administrative Agent or any Lender), independent public accountants and other outside experts retained by the Administrative Agent or any Lender, whether or not such costs and expenses are incurred or suffered by the Administrative Agent or any Lender in connection with or during the course of any bankruptcy or insolvency proceedings of any of Borrower or any Subsidiary thereof. Borrower shall pay any and all documentary and other taxes that may be payable in connection with the execution and delivery of the Loan Documents and agrees to hold harmless and indemnify on the terms set forth in 11.11 the Administrative Agent and the Lenders from and against any and all loss, liability or legal or other expense with respect to or resulting from any delay in paying or failure to pay any such tax, cost, expense, fee or charge or that any of them may suffer or incur by reason of the failure of any Party to perform any of its Obligations.

11.4 Nature of Lenders' Obligations. The obligations of the Lenders hereunder are several and not joint or joint and several. Nothing contained in this Agreement or any other Loan Document and no action taken by the Administrative Agent or the Lenders or any of them pursuant hereto or thereto may, or may be deemed to, make the Lenders a partnership, an association, a joint venture or other entity, either among themselves or with the Borrower or any Affiliate of any of Borrower. A default by any Lender will not increase the Pro Rata Share of the Commitments attributable to any other Lender. Any Lender

not in default may, if it desires, assume in such proportion as the nondefaulting Lenders agree the obligations of any Lender in default, but is not obligated to do so. The Administrative Agent agrees that it will use its best efforts either to induce promptly the other Lenders to assume the obligations of a Lender in default or to obtain promptly another Lender, reasonably satisfactory to Borrower, to replace such a Lender in default.

11.5 Survival of Representations and Warranties. All representations and warranties contained herein or in any other Loan Document, or in any certificate or other writing delivered by or on behalf of any one or more of the Parties to any Loan Document, will survive the making of the Loans hereunder and the execution and delivery of the Notes, and have been or will be relied upon by the Administrative Agent and each Lender, notwithstanding any investigation made by the Administrative Agent or any Lender or on their behalf.

11.6 Notices. Except as otherwise expressly provided in the Loan Documents, all notices, requests, demands, directions and other communications provided for hereunder or under any other Loan Document must be in writing and must be mailed, telegraphed, telecopied, dispatched by commercial courier or delivered to the appropriate party at the address set forth on the signature pages of this Agreement or other applicable Loan Document or, as to any party to any Loan Document, at any other address as may be designated by it in a written notice sent to all other parties to such Loan Document in accordance with this Section. Except as otherwise expressly provided in any Loan Document, if any notice, request, demand, direction or other communication required or permitted by any Loan Document is given by mail it will be effective on the earlier of receipt or the fourth Banking Day after deposit in the United States mail with first class or airmail postage prepaid; if given by telegraph or cable, when delivered to the telegraph company with charges prepaid; if given by telecopier, when sent; if dispatched by commercial courier, on the scheduled delivery date; or if given by personal delivery, when delivered.

11.7 Execution of Loan Documents. Unless the Administrative Agent otherwise specifies with respect to any Loan Document, (a) this Agreement and any

other Loan Document may be executed in any number of counterparts and any party hereto or thereto may execute any counterpart, each of which when executed and delivered will be deemed to be an original and all of which counterparts of this Agreement or any other Loan Document, as the case may be, when taken together will be deemed to be but one and the same instrument and (b) execution of any such counterpart may be evidenced by a telecopier transmission of the signature of such party. The execution of this Agreement or any other Loan Document by any party hereto or thereto will not become effective until counterparts hereof or thereof, as the case may be, have been executed by all the parties hereto or thereto.

11.8 Binding Effect; Assignment.

(a) This Agreement and the other Loan Documents to which Borrower is a Party will be binding upon and inure to the benefit of Borrower, the Administrative Agent, each of the Lenders, and their respective successors and assigns, except that Borrower may not assign its rights hereunder or thereunder or any interest herein or therein without the prior written consent of all the Lenders. Each Lender represents that it is not acquiring its Note with a view to the distribution thereof within the meaning of the Securities Act of 1933, as amended (subject to any requirement that disposition of such Note must be within the control of such Lender). Any Lender may at any time pledge its Note or any other instrument evidencing its rights as a Lender under this Agreement to a Federal Reserve Bank, but no such pledge shall release that Lender from

its obligations hereunder or grant to such Federal Reserve Bank the rights of a Lender hereunder absent foreclosure of such pledge.

(b) From time to time following the Closing Date, each Lender may assign to one or more Eligible Assignees all or any portion of its Pro Rata Share of the Commitments; provided that (i) such Eligible Assignee, if not then a Lender or an Affiliate of the assigning Lender, shall be approved by the Administrative Agent and (if no Event of Default then exists) Borrower (neither of which approvals shall be unreasonably withheld or delayed), (ii) such assignment shall be evidenced by a Commitment Assignment and Acceptance, a copy of which shall be furnished to the Administrative Agent as hereinbelow provided, (iii) except in the case of an assignment to an Affiliate of the assigning Lender, to another Lender or of the entire remaining Commitments of the assigning Lender, the assignment shall not assign a Pro Rata Share of the Commitments that is equivalent to less than $10,000,000, (iv) any assignment of a Pro Rata Share of the Tranche A Commitment must include an assignment of the same Pro Rata Share of the Tranche B Commitment, (v) an assignment of a Pro Rata Share of the Tranche A Commitment and Tranche B Commitment

may, but need not, include an assignment of the Tranche C Commitment, and vice versa, and (vi) the effective date of any such assignment shall be as specified in the Commitment Assignment and Acceptance, but not earlier than the date which is five (5) Banking Days after the date the Administrative Agent has received the Commitment Assignment and Acceptance, unless otherwise consented to by the Administrative Agent. Upon the effective date of such Commitment Assignment and Acceptance, the Eligible Assignee named therein shall be a Lender for all purposes of this Agreement, with the Pro Rata Share of the Commitments therein set forth and, to the extent of such Pro Rata Share, the assigning Lender shall be released from its further obligations under this Agreement. Borrower agrees that it shall execute and deliver (against delivery by the assigning Lender to Borrower of its Notes) to such assignee Lender, Notes evidencing that assignee Lender's Pro Rata Share of the Commitments, and to the assigning Lender, Notes evidencing the remaining balance Pro Rata Share retained by the assigning Lender.

(c) By executing and delivering a Commitment Assignment and Acceptance, the Eligible Assignee thereunder acknowledges and agrees that: (i) other than the representation and warranty that it is the legal and beneficial owner of the Pro Rata Share of the Commitments being assigned thereby free and clear of any adverse claim, the assigning Lender has made no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness or sufficiency of this Agreement or any other Loan Document; (ii) the assigning Lender has made no representation or warranty and assumes no responsibility with respect to the financial condition of Borrower or the performance by Borrower of the Obligations; (iii) it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 7.1 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Commitment Assignment and Acceptance; (iv) it will, independently and without reliance upon the Administrative Agent or any Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) it appoints and authorizes the Administrative Agent to take such action and to exercise such powers under this Agreement as are delegated to the Administrative Agent by this Agreement; and (vi) it will perform in

accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) The Administrative Agent shall maintain at the Administrative Agent's Office a copy of each Commitment Assignment and Acceptance delivered to it and a register (the "Register") of the names and address of each of the Lenders and the Pro Rata Share of the Commitments held by each Lender, giving effect to each Commitment Assignment and Acceptance. The Register shall be available during normal business hours for inspection by Borrower or any Lender upon reasonable prior notice to the Administrative Agent. After receipt of a completed Commitment Assignment and Acceptance executed by any Lender and an Eligible Assignee, and receipt of an assignment fee of $3,000 from such Lender or Eligible Assignee, the Administrative Agent shall, promptly following the effective date thereof, provide to Borrower and the Lenders a revised Schedule 1.1A giving effect thereto. Borrower, the Administrative Agent and the Lenders shall deem and treat the Persons listed as Lenders in the Register as the holders and owners of the Pro Rata Share of the Commitments listed therein for all purposes hereof, and no assignment or transfer of any such Pro Rata Share of the Commitments shall be effective, in each case unless and until a Commitment Assignment and Acceptance effecting the assignment or transfer thereof shall have been accepted by the Administrative Agent and recorded in the Register as provided above. Prior to such recordation, all amounts owed with respect to the applicable Pro Rata Share of the Commitments shall be owed to the Lender listed in the Register as the owner thereof, and any request, authority or consent of any Person who, at the time of making such request or giving such authority or consent, is listed in the Register as a Lender shall be conclusive and binding on any subsequent holder, assignee or transferee of the corresponding Pro Rata Share of the Commitments.

(e) Each Lender may from time to time grant participations to one or more banks or other financial institutions in a portion of its Pro Rata Share of the Commitments; provided, however, that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other financial institutions shall not be a Lender hereunder for any purpose except, if the participation agreement so provides, for the purposes of Sections 3.7, 3.8, 11.11 and 11.22 but only to the extent that the cost of such benefits to Borrower does not exceed the cost which Borrower would have incurred in respect of such Lender absent the participation, (iv) Borrower, the Administrative Agent 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, (v) the participation interest shall be expressed as a percentage of the granting Lender's Pro Rata

Share of the Commitments as it then exists and shall not restrict an increase in the Commitments, or in the granting Lender's Pro Rata Share of the Commitments, so long as the amount of the participation interest is not affected thereby and (vi) the consent of the holder of such participation interest shall not be required for amendments or waivers of provisions of the Loan Documents other than those which (A) extend any Maturity Date or any other date upon which any payment of money is

due to the Lenders, (B) reduce the rate of interest on the Notes, any fee or any other monetary amount payable to the Lenders, (C) reduce the amount of any installment of principal due under the Notes or (D) release any material Subsidiary Guarantor from the Subsidiary Guaranty.

11.9 Right of Setoff. If an Event of Default has occurred and is continuing, the Administrative Agent or any Lender may exercise its rights under applicable Laws and, to the extent permitted by applicable Laws, apply any funds in any deposit account maintained with it by Borrower and/or any Property of Borrower in its possession against the Obligations.

11.10 Sharing of Setoffs. Each Lender severally agrees that if it, through the exercise of any right of setoff, banker's lien or counterclaim against Borrower, or otherwise, receives payment of the Obligations held by it that is ratably more than any other Lender, through any means, receives in payment of the Obligations held by that Lender, then, subject to applicable Laws: (a) the Lender exercising the right of setoff, banker's lien or counterclaim or otherwise receiving such payment shall purchase, and shall be deemed to have simultaneously purchased, from each of the other Lenders a participation in the Obligations held by the other Lenders and shall pay to the other Lenders a purchase price in an amount so that the share of the Obligations held by each Lender after the exercise of the right of setoff, banker's lien or counterclaim or receipt of payment shall be in the same proportion that existed prior to the exercise of the right of setoff, banker's lien or counterclaim or receipt of payment; and (b) such other adjustments and purchases of participations shall be made from time to time as shall be equitable to ensure that all of the Lenders share any payment obtained in respect of the Obligations ratably in accordance with each Lender's share of the Obligations immediately prior to, and without taking into account, the payment; provided that, if all or any portion of a disproportionate payment obtained as a result of the exercise of the right of setoff, banker's lien, counterclaim or otherwise is thereafter recovered from the purchasing Lender by Borrower or any Person claiming through or succeeding to the rights of Borrower, the purchase of a participation shall be rescinded and the purchase price thereof shall be restored to the extent of the recovery, but without interest. Each Lender that purchases a participation in the Obligations pursuant to this Section 11.10 shall from and after the purchase have

the right to give all notices, requests, demands, directions and other communications under this Agreement with respect to the portion of the Obligations purchased to the same extent as though the purchasing Lender were the original owner of the Obligations purchased. Borrower expressly consents to the foregoing arrangements and agrees that any Lender holding a participation in an Obligation so purchased pursuant to this Section 11.10 may exercise any and all rights of setoff, banker's lien or counterclaim with respect to the participation as fully as if the Lender were the original owner of the Obligation purchased.

11.11 Indemnity by Borrower. Borrower agrees to indemnify, save and hold harmless the Administrative Agent and each Lender and their respective Affiliates, directors, officers, agents, attorneys and employees (collectively the "Indemnitees") from and against: (a) any and all claims, demands, actions or causes of action (except a claim, demand, action, or cause of action for any amount excluded from the definition of "Taxes" in Section 3.12(d)) if the claim, demand, action or cause of action arises out of or relates to any act or omission (or alleged act or omission) of Borrower, its Affiliates or any of its officers, directors or stockholders relating to the Commitment, the use or contemplated use of proceeds of any Loan, or the relationship of Borrower and the Lenders under this Agreement; (b) any administrative or investigative proceeding by any Governmental Agency arising out of or related to a claim,

demand, action or cause of action described in clause (a) above; and (c) any and all liabilities, losses, costs or expenses (including reasonable attorneys' fees and the reasonably allocated costs of attorneys employed by any Indemnitee and disbursements of such attorneys and other professional services) that any Indemnitee suffers or incurs as a result of the assertion of any foregoing claim, demand, action or cause of action; provided that no Indemnitee shall be entitled to indemnification for any loss caused by its own gross negligence or willful misconduct or for any loss asserted against it by another Indemnitee. If any claim, demand, action or cause of action is asserted against any Indemnitee, such Indemnitee shall promptly notify Borrower, but the failure to so promptly notify Borrower shall not affect Borrower's obligations under this Section unless such failure materially prejudices Borrower's right to participate in the contest of such claim, demand, action or cause of action, as hereinafter provided. Such Indemnitee may (and shall, if requested by Borrower in writing) contest the validity, applicability and amount of such claim, demand, action or cause of action and shall permit Borrower to participate in such contest. Any Indemnitee that proposes to settle or compromise any claim or proceeding for which Borrower may be liable for payment of indemnity hereunder shall give Borrower written notice of the terms of such proposed settlement or compromise reasonably in advance of settling or compromising such claim or proceeding and shall obtain Borrower's prior consent (which shall not be unreasonably withheld or delayed). In connection with any claim, demand, action or cause of action covered by this Section 11.11 against more than one Indemnitee, all

such Indemnitees shall be represented by the same legal counsel (which may be a law firm engaged by the Indemnitees or attorneys employed by an Indemnitee or a combination of the foregoing) selected by the Indemnitees and reasonably acceptable to Borrower; provided, that if such legal counsel determines in good faith that representing all such Indemnitees would or could result in a conflict of interest under Laws or ethical principles applicable to such legal counsel or that a defense or counterclaim is available to an Indemnitee that is not available to all such Indemnitees, then to the extent reasonably necessary to avoid such a conflict of interest or to permit unqualified assertion of such a defense or counterclaim, each affected Indemnitee shall be entitled to separate representation by legal counsel selected by that Indemnitee and reasonably acceptable to Borrower, with all such legal counsel using reasonable efforts to avoid unnecessary duplication of effort by counsel for all Indemnitees; and further provided that the Administrative Agent (as an Indemnitee) shall at all times be entitled to representation by separate legal counsel (which may be a law firm or attorneys employed by the Administrative Agent or a combination of the foregoing). Any obligation or liability of Borrower to any Indemnitee under this Section 11.11 shall survive the expiration or termination of this Agreement and the repayment of all Loans and the payment and performance of all other Obligations owed to the Lenders.

11.12 Nonliability of the Lenders. Borrower acknowledges and agrees that:

(a) Any inspections of any Property of Borrower made by or through the Administrative Agent or the Lenders are for purposes of administration of the Loan only and Borrower is not entitled to rely upon the same (whether or not such inspections are at the expense of Borrower);

(b) By accepting or approving anything required to be observed, performed, fulfilled or given to the Administrative Agent or the Lenders pursuant to the Loan Documents, neither the Administrative Agent nor the Lenders shall be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and such acceptance or approval thereof shall not constitute a warranty or representation to anyone with respect

thereto by the Administrative Agent or the Lenders;

(c) The relationship between Borrower and the Administrative Agent and the Lenders is, and shall at all times remain, solely that of borrowers and lenders; neither the Administrative Agent nor the Lenders shall under any circumstance be construed to be partners or joint venturers of Borrower or its Affiliates; neither the Administrative Agent nor the Lenders shall under any

circumstance be deemed to be in a relationship of confidence or trust or a fiduciary relationship with Borrower or its Affiliates, or to owe any fiduciary duty to Borrower or its Affiliates; neither the Administrative Agent nor the Lenders undertake or assume any responsibility or duty to Borrower or its Affiliates to select, review, inspect, supervise, pass judgment upon or inform Borrower or its Affiliates of any matter in connection with their Property or the operations of Borrower or its Affiliates; Borrower and its Affiliates shall rely entirely upon their own judgment with respect to such matters; and any review, inspection, supervision, exercise of judgment or supply of information undertaken or assumed by the Administrative Agent or the Lenders in connection with such matters is solely for the protection of the Administrative Agent and the Lenders and neither Borrower nor any other Person is entitled to rely thereon; and

(d) The Administrative Agent and the Lenders shall not be responsible or liable to any Person for any loss, damage, liability or claim of any kind relating to injury or death to Persons or damage to Property caused by the actions, inaction or negligence of Borrower and/or its Affiliates and Borrower hereby indemnify and hold the Administrative Agent and the Lenders harmless on the terms set forth in Section 11.11 from any such loss, damage, liability or claim.

11.13 No Third Parties Benefited. This Agreement is made for the purpose of defining and setting forth certain obligations, rights and duties of Borrower, the Administrative Agent and the Lenders in connection with the Loans, and is made for the sole benefit of Borrower and its Subsidiaries, the Administrative Agent and the Lenders, and the Administrative Agent's and the Lenders' successors and assigns. Except as provided in Sections 11.8 and 11.11, no other Person shall have any rights of any nature hereunder or by reason hereof.

11.14 Confidentiality. Each Lender agrees to hold any confidential information that it may receive from Borrower pursuant to this Agreement in confidence, except for disclosure: (a) to other Lenders or Affiliates of a Lender; (b) to legal counsel and accountants for Borrower or any Lender; (c) to other professional advisors to Borrower or any Lender, provided that the recipient has accepted such information subject to a confidentiality agreement substantially similar to this Section 11.14; (d) to regulatory officials having jurisdiction over that Lender; (e) as required by Law or legal process, provided that each Lender agrees to notify Borrower of any such disclosures unless prohibited by applicable Laws, or in connection with any legal proceeding to which that Lender and Borrower are adverse parties; and (f) to another financial institution in connection with a disposition or proposed disposition to

that financial institution of all or part of that Lender's interests hereunder or a participation interest in its Notes, provided that the recipient has

accepted such information subject to a confidentiality agreement substantially similar to this Section 11.14. For purposes of the foregoing, "confidential information" shall mean any information respecting Borrower or its Subsidiaries reasonably considered by Borrower to be confidential, other than (i) information previously filed with any Governmental Agency and available to the public, (ii) information previously published in any public medium from a source other than, directly or indirectly, that Lender, and (iii) information previously disclosed by Borrower to any Person not associated with Borrower which does not owe a professional duty of confidentiality to Borrower or which has not executed an appropriate confidentiality agreement with Borrower. Nothing in this Section shall be construed to create or give rise to any fiduciary duty on the part of the Administrative Agent or the Lenders to Borrower.

11.15 Further Assurances. Borrower shall, at its expense and without expense to the Lenders or the Administrative Agent, do, execute and deliver such further acts and documents as the Requisite Lenders or the Administrative Agent from time to time reasonably require for the assuring and confirming unto the Lenders or the Administrative Agent of the rights hereby created or intended now or hereafter so to be, or for carrying out the intention or facilitating the performance of the terms of any Loan Document.

11.16 Integration. This Agreement, together with the other Loan Documents and the letter agreement referred to in Sections 3.2 and 3.6, comprises the complete and integrated agreement of the parties on the subject matter hereof and supersedes all prior agreements (including the commitment letter between the Arranger, Bank of America and Borrower dated July 10, 1998), written or oral, on the subject matter hereof. In the event of any conflict between the provisions of this Agreement and those of any other Loan Document, the provisions of this Agreement shall control and govern; provided that the inclusion of supplemental rights or remedies in favor of the Administrative Agent or the Lenders in any other Loan Document shall not be deemed a conflict with this Agreement. Each Loan Document was drafted with the joint participation of the respective parties thereto and shall be construed neither against nor in favor of any party, but rather in accordance with the fair meaning thereof.

11.17 Governing Law. Except to the extent otherwise provided therein, each Loan Document shall be governed by, and construed and enforced in accordance with, the Laws of New York applicable to contracts made and performed in New York.

11.18 Severability of Provisions. Any provision in any Loan Document that is held to be inoperative, unenforceable or invalid as to any party or in any jurisdiction shall, as to that party or jurisdiction, be inoperative, unenforceable or invalid without affecting the remaining provisions or the operation, enforceability or validity of that provision as to any other party or in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

11.19 Headings. Article and Section headings in this Agreement and the other Loan Documents are included for convenience of reference only and are not part of this Agreement or the other Loan Documents for any other purpose.

11.20 Time of the Essence. Time is of the essence of the Loan Documents.

11.21 Foreign Lenders and Participants. Each Lender organized under the Laws of a jurisdiction outside the United States of America or a State thereof or the District of Columbia on or prior to the date of execution and delivery of this Agreement (a) shall provide each of the Administrative Agent and Borrower with two original and duly completed United States Internal Revenue

Forms 1001 or 4224, or successor applicable form, as appropriate, and any other forms or certifications prescribed by the Internal Revenue Service (including a Form W-8 or Form W-9, as appropriate) certifying that such Lender (i) is exempt from or entitled to a reduced rate of withholding with respect to United States federal income tax imposed on any payments under this Agreement or the Notes and (ii) is exempt from United States backup withholding tax, (b) shall provide to the Administrative Agent and Borrower two further copies of any such form or certification from time to time thereafter as requested in writing by Borrower and (c) shall obtain such extensions and renewals thereof as may reasonably be requested in writing by Borrower or the Administrative Agent. If the form provided by a Lender at the time such Lender first becomes a party to this Agreement indicates a withholding rate in excess of zero, withholding taxes at such rate shall be considered excluded from Non-Excluded Taxes, and such Lender shall not be entitled to receive any payment under this Section 11.21 with respect thereto, unless and until such Lender provides any additional forms or certifications certifying that a lesser rate of withholding applied with respect to such Lender under existing Law at the time such Lender first became a party to this Agreement, whereupon withholding tax at such lesser rate only shall be considered excluded from Non-Excluded Taxes for all subsequent periods. Each Person that becomes a participant pursuant to Section 11.8 shall, upon the effectiveness of the related transfer, be required to provide all of the forms and certifications required pursuant to this Section 11.21, as appropriate, as if such participant were a Lender; provided that such

participant shall furnish all such required forms and certifications to the Lender from which the related participation was purchased.

11.22 Hazardous Material Indemnity. Borrower hereby agrees to indemnify, hold harmless and defend (by counsel reasonably satisfactory to the Administrative Agent) the Administrative Agent and each of the Lenders and their respective directors, officers, employees, agents, successors and assigns from and against any and all claims, losses, damages, liabilities, fines, penalties, charges, administrative and judicial proceedings and orders, judgments, remedial action requirements, enforcement actions of any kind, and all costs and expenses incurred in connection therewith (including but not limited to reasonable attorneys' fees and the reasonably allocated costs of attorneys employed by the Administrative Agent or any Lender, and expenses to the extent that the defense of any such action has not been assumed by Borrower), arising directly or indirectly out of (i) the presence on, in, under or about any Real Property of any Hazardous Materials, or any releases or discharges of any Hazardous Materials on, under or from any Real Property and (ii) any activity carried on or undertaken on or off any Real Property by Borrower or any of its predecessors in title, whether prior to or during the term of this Agreement, and whether by Borrower or any predecessor in title or any employees, agents, contractors or subcontractors of Borrower or any predecessor in title, in connection with the handling, treatment, removal, storage, decontamination, clean-up, transport or disposal of any Hazardous Materials at any time located or present on, in, under or about any Real Property. The foregoing indemnity shall further apply to any residual contamination on, in, under or about any Real Property, or affecting any natural resources, and to any contamination of any Property or natural resources arising in connection with the generation, use, handling, storage, transport or disposal of any such Hazardous Materials, and irrespective of whether any of such activities were or will be undertaken in accordance with applicable Laws, but the foregoing indemnity shall not apply to Hazardous Materials on any Real Property, the presence of which is caused by the Administrative Agent or the Lenders. Borrower hereby acknowledges and agrees that, notwithstanding any other provision of this Agreement or any of the other Loan Documents to the contrary, the obligations of Borrower under this Section shall be unlimited corporate obligations of Borrower and shall not be secured by any Lien on any Real Property. Any obligation or liability of Borrower to any

Indemnitee under this Section 11.22 shall survive the expiration or termination of this Agreement and the repayment of all Loans and the payment and performance of all other Obligations owed to the Lenders.

11.23 Waiver of Right to Trial by Jury. EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING

UNDER ANY LOAN DOCUMENT OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTY HERETO OR ANY OF THEM WITH RESPECT TO ANY LOAN DOCUMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE SIGNATORIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

11.24 Purported Oral Amendments. BORROWER EXPRESSLY ACKNOWLEDGES THAT THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS MAY ONLY BE AMENDED OR MODIFIED, OR THE PROVISIONS HEREOF OR THEREOF WAIVED OR SUPPLEMENTED, BY AN INSTRUMENT IN WRITING THAT COMPLIES WITH SECTION 11.2. BORROWER AGREES THAT IT WILL NOT RELY ON ANY COURSE OF DEALING, COURSE OF PERFORMANCE, OR ORAL OR WRITTEN STATEMENTS BY ANY REPRESENTATIVE OF THE MANAGING AGENT OR ANY BANK THAT DOES NOT COMPLY WITH SECTION 11.2 TO EFFECT AN AMENDMENT, MODIFICATION, WAIVER OR SUPPLEMENT TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS.

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

USEC INC.

By: /s/ HENRY Z SHELTON, JR.

Henry Z Shelton, Jr.
Chief Financial Officer

Address for notices:

USEC Inc.
6903 Rockledge Drive
Bethesda, Maryland 20817

Attn: Chief Financial Officer

Telecopier:(301) 564-3211
Telephone: (301) 564-3344

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, as Documentation Agent and Administrative Agent

By: /s/ DIANNE P. ALLEN

Dianne P. Allen
Vice President

Address for notices (other than Requests for Loan, Requests for Letters of Credit and Bid Requests):

Bank of America National Trust and Savings Association
Agency Management - Los Angeles #20529
555 South Flower Street, 11th Floor
Los Angeles, California 90071

Attn: Gina Meador

Telecopier: (213) 228-2299
Telephone: (213) 228-5245

Address for notices (Requests for Loans, Requests for Letters of Credit and Bid Requests):

Bank of America National Trust and Savings Association
Agency Administrative Services #5596
1850 Gateway Boulevard, Fifth Floor
Concord, California 94520

Attn: Glenis Croucher

Telecopier: (925) 675-8500
Telephone: (925) 675-8447

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, as a Lender

By: /s/ DIANNE P. ALLEN

Dianne P. Allen
Vice President

Address for notices (other than Requests for Loans, Requests for Letters of Credit and Bid Requests):

Bank of America National Trust and Savings Association
Credit Products #5618
555 South Flower Street, 11th Floor
Los Angeles, California 90071

Attn: Dianne P. Allen

Telecopier: (213) 623-1959
Telephone: (213) 228-2435

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Address for notices (Domestic and Offshore Lending Office):

Bank of America National Trust and Savings Association
GPO-Domestic Account Administration #5693
1850 Gateway Boulevard, 3rd Floor
Concord, California 94520

Attn: Karen Meyers

Telecopier: (925) 675-7531
Telephone: (925) 675-7368

FIRST UNION NATIONAL BANK, as a Syndication Agent and as a Lender

By: /s/ KIMBERLY P. ARMSTRONG

Kimberly P. Armstrong
Vice President

Address for notices:

First Union National Bank
1970 Chain Bridge Road, 3rd Floor
McLean, Virginia 22102

Attn: Steve McNabb

Telecopier: (703) 760-6300
Telephone: (703) 760-6945

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NATIONSBANK, N.A., as a Syndication Agent and as a Lender

By: /s/ PAULA Z. KRAMP

Paula Z. Kramp
Vice President

Address for notices:

NationsBank, N.A.
6610 Rockledge Drive, 6th Floor
MD2-600-06-13
Bethesda, MD 20817-1876

Attn: Paula Z. Kramp

Telecopier: (301) 571-0719
Telephone: (301) 571-0713

Address for notices (Requests for Loans,

Requests for Letters of Credit and Bid Requests):

NationsBank, N.A.
Corporate Credit Services
101 N. Tryon St. NC1-001-15-03
Charlotte, NC 28255

Attn: Marcella Graham

Telecopier: (704) 386-8694
Telephone: (704) 386-8201

EXHIBIT 10.28

THIS AGREEMENT is made this 19th day of August, 1998, by and between USEC INC., a corporation organized and existing under the laws of the state of Delaware (hereinafter called "USEC"), and James R. Mellor, an individual (hereinafter called the "Consultant").

IN CONSIDERATION of the mutual promises set forth herein, the parties hereby agree as follows:

1. The term of this Agreement shall be from July 28, 1998 to July 27, 1999, unless sooner terminated pursuant to the terms hereof.

2. While this Agreement is in effect, the Consultant shall perform certain work and services relating to and including USEC's policies, procedures, commercial practices, external affairs, and strategic planning under the terms and conditions hereinafter set forth.

3. While the Agreement is in effect, USEC shall compensate the Consultant at a fixed price of TWO HUNDRED FIFTY FIVE THOUSAND DOLLARS ($255,000), payable in 12 equal monthly installments to be paid thirty (30) days after the last day of each month falling, in whole or in part, during the term of this Agreement, excluding July 1998. USEC shall reimburse Consultant for reasonable and necessary travel and living expenses incurred by the Consultant in the performance of the services described herein. Compensation for expenses shall be made once monthly upon the Consultant's furnishing to USEC a written statement specifying such expenses. Payment terms shall be net 30 days.

4. In the performance of the work and services hereunder, the Consultant shall act solely as an independent contractor and not as an employee of USEC. All taxes applicable to any amounts paid by USEC to the Consultant under this Agreement shall be the Consultant's liability and USEC shall not withhold nor pay any amounts for federal, state or municipal income tax, social security, unemployment or worker's compensation. In accordance with current law, USEC shall annually file with the Internal Revenue Service a Form 1099-MISC., U.S. Information Return for Recipients of Miscellaneous Income, reflecting the gross annual payments by USEC to the Consultant, net of any reimbursed expenses incurred by the Consultant on behalf of USEC, pursuant to this Agreement. The Consultant hereby acknowledges personal income tax liability for the self-employment tax imposed by Section 1401 of the Internal Revenue Code, and the payment, when applicable, of estimated quarterly taxes on Internal Revenue Service Forms 1040-ES, declaration of estimated tax by individuals.

5. All reports, findings, recommendations, data, memoranda or documents, arising out of and relating to the services performed under this Agreement are (and shall continue to be after the expiration of this Agreement) the property of USEC or its assigns, and USEC shall have the exclusive rights to such materials. The use of these materials in any manner by USEC or its assigns shall not result in any additional claim for compensation by the Consultant. The Consultant shall hold confidential all information developed by or communicated to the Consultant in the performance of the services, whether described in this Agreement, in any schedule executed pursuant

hereto or otherwise, other than information that is already in the public domain or that becomes publicly available other than through an unauthorized disclosure by the Consultant. Nothing herein shall preclude disclosure of

confidential information to officers, employees or directors of USEC and its subsidiaries and affiliates, or to attorneys, advisers and consultants of USEC who are under an obligation to USEC to keep such information confidential.

6. By entering into this Agreement with USEC, the Consultant represents that he presently has no conflicting interests, agreements or obligations with any other party. The Consultant shall promptly notify USEC in writing if a change in circumstances creates, or appears likely to create, a conflict with the Consultant's obligations hereunder or an appearance that such a conflict exists.

7. The Consultant hereby releases USEC from any and all liability for damage to property or loss thereof, personal injury or death during the term of this Agreement (and any extensions thereof) or thereafter, sustained by the Consultant as a result of performing the services under this Agreement or arising out of the performance of such services; provided, however, that the foregoing release shall not apply to the extent such damage, loss, injury or death is caused by or results from the negligence of USEC, its agents or employees. Nothing herein shall be deemed to limit the obligation of USEC or any USEC subsidiary or affiliate, to indemnify the Consultant under its articles of incorporation or by-laws or under any indemnification agreement entered into with the Consultant concerning the Consultant's services as a director of USEC or any USEC subsidiary or affiliate.

8. If the services to be performed by the Consultant include access to classified material or areas, the Consultant shall comply with all applicable security laws, regulations, orders and requirements. The Consultant shall submit a confidential report to USEC immediately whenever for any cause it has reason to believe that there is either (a) an active danger of espionage or sabotage affecting any work under such government contracts, or (b) a violation or threatened violation of any applicable security law, regulation, order or requirement concerning the classified material or areas.

9. Either party may terminate this Agreement, for any reason or no reason, at any time by a written notice to the other party. Such termination shall take effect immediately upon receipt of a termination notice by the other party, unless a different termination date is stated in the notice. Upon termination of the Agreement, all work and services being performed under this Agreement shall cease. USEC shall have no liability or obligation for any performance by the Consultant after a termination takes effect.

10. The Consultant may not assign this Agreement, nor may the Consultant delegate or subcontract the performance or obligations imposed hereunder without the consent of USEC.

11. The Consultant has no authority whatever, express or implied, by virtue of this Agreement to commit USEC in any way to perform in any manner or to pay money for services or material.

12. This Agreement is to be governed by the laws of the State of Delaware.

13. The whole and entire agreement of the parties is set forth in this Agreement and the parties are not bound by any agreements, understandings or conditions otherwise than as expressly set forth herein.

14. This Agreement may not be changed or modified in any manner except by a writing mutually signed by the parties or their respective successors and permitted assigns.

15. Any notice, request, demand, claim or other communication related to this Contract shall be in writing and delivered by hand or transmitted by

telecopier, registered mail (postage prepaid), or overnight courier to the other party at the following numbers and addresses:

If to USEC: President and Chief Executive Officer
USEC Inc.
6903 Rockledge Drive
Bethesda, MD 20817-1818

If to Consultant: James R. Mellor
[Address]

16. Nothing herein shall be deemed to limit or modify any duty or obligation that the Consultant may have as a director of USEC or any of its affiliates or subsidiaries.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year written above.

USEC INC.

/s/ WILLIAM H. TIMBERS, JR.

CONSULTANT

/s/ JAMES R. MELLOR

<ARTICLE> 5
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET AND STATEMENT OF INCOME FILED AS PART OF THE ANNUAL REPORT ON FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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