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

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarter ended September 30, 2007

OR

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

Commission file number 1-14287

USEC Inc.

(Exact name of registrant as specified in its charter)

Delaware	**52-2107911**
(State of incorporation)	*(I.R.S. Employer Identification No.)*

2 Democracy Center
6903 Rockledge Drive
Bethesda, Maryland 20817
(301) 564-3200

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 ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☐ No ☑

As of October 31, 2007, there were 110,445,000 shares of Common Stock issued and outstanding.

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This quarterly report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2, contains "forward-looking statements" – that is, statements related to future events. In this context, forward-looking statements may address our expected future business and financial performance, and often contain words such as "expects," "anticipates," "intends," "plans," "believes," "will" and other words of similar meaning. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For USEC, particular risks and uncertainties that could cause our actual future results to differ materially from those expressed in our forward-looking statements include, but are not limited to: the success of the demonstration and deployment of our American Centrifuge technology including our ability to meet our performance targets, target cost estimate and schedule for the American Centrifuge Plant and our ability to secure required external financial support; the cost of electric power used at our gaseous diffusion plant; our dependence on deliveries under the Russian Contract and on a single production facility; our inability under most existing long-term contracts to pass on to customers increases in SWU prices under the Russian Contract resulting from significant increases in market prices; changes in existing restrictions on imports of Russian enriched uranium, including the imposition of duties on imports of enriched uranium under the Russian Contract; the elimination of duties charged on imports of foreign-produced low enriched uranium; pricing trends in the uranium and enrichment markets and their impact on our profitability; changes to, or termination of, our contracts with the U.S. government and changes in U.S. government priorities and the availability of government funding, including loan guarantees; the impact of government regulation; the outcome of legal proceedings and other contingencies (including lawsuits, government investigations or audits and government/regulatory and environmental remediation efforts); the competitive environment for our products and services; changes in the nuclear energy industry; and other risks and uncertainties discussed in this and our other filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K. We do not undertake to update our forward-looking statements except as required by law.

USEC Inc.
CONSOLIDATED CONDENSED BALANCE SHEETS (Unaudited)
(millions)

	September 30, 2007	December 31, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	$ 774.8	$ 171.4
Accounts receivable – trade	342.4	215.9
Inventories	1,044.8	900.0
Deferred income taxes	36.2	24.0
Other current assets	95.8	97.8
Total Current Assets	2,294.0	1,409.1
Property, Plant and Equipment, net	239.1	189.9
Other Long-Term Assets		
Deferred income taxes	195.0	156.2
Deposits for surety bonds	66.2	60.8
Pension asset	16.6	13.8
Inventories	—	24.2
Bond financing costs	14.5	—
Goodwill	6.8	6.8
Intangibles	0.3	0.6
Total Other Long-Term Assets	299.4	262.4
Total Assets	**$ 2,832.5**	**$ 1,861.4**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 176.8	$ 129.1
Payables under Russian Contract	130.9	105.3
Inventories owed to customers and suppliers	86.4	56.9
Deferred revenue and advances from customers	134.8	133.8
Total Current Liabilities	528.9	425.1
Long-Term Debt	725.0	150.0
Other Long-Term Liabilities		
Depleted uranium disposition	86.6	71.5
Postretirement health and life benefit obligations	137.7	128.7
Pension benefit liabilities	22.6	20.2
Other liabilities	84.1	79.9
Total Other Long-Term Liabilities	331.0	300.3
Commitments and Contingencies (Note 8)		
Stockholders' Equity	1,247.6	986.0
Total Liabilities and Stockholders' Equity	**$ 2,832.5**	**$ 1,861.4**

See notes to consolidated condensed financial statements.

USEC Inc.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)
(millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Revenue:				
Separative work units	$ 483.5	$ 336.6	$ 1,034.4	$ 974.9
Uranium	102.2	34.4	134.2	181.2
U.S. government contracts and other	49.0	46.8	142.2	148.3
Total revenue	634.7	417.8	1,310.8	1,304.4
Cost of sales:				
Separative work units and uranium	480.3	326.7	976.3	956.9
U.S. government contracts and other	42.4	39.0	121.6	123.8
Total cost of sales	522.7	365.7	1,097.9	1,080.7
Gross profit	112.0	52.1	212.9	223.7
Special charge for organizational restructuring	—	(0.1)	—	1.4
Advanced technology costs	30.8	23.9	100.1	71.0
Selling, general and administrative	9.0	10.9	33.0	36.7
Operating income	72.2	17.4	79.8	114.6
Interest expense	3.3	3.2	9.2	11.4
Interest (income)	(3.9)	(1.7)	(21.7)	(4.0)
Income before income taxes	72.8	15.9	92.3	107.2
Provision for income taxes	27.2	6.0	20.8	41.1
Net income	**$ 45.6**	**$ 9.9**	**$ 71.5**	**$ 66.1**
Net income per share – basic	$ .52	$ .11	$ .82	$ .76
Net income per share – diluted	$ .51	$ .11	$ .81	$ .76
Weighted-average number of shares outstanding:				
Basic	87.9	86.7	87.3	86.5
Diluted	89.8	86.9	88.2	86.8

See notes to consolidated condensed financial statements.

USEC Inc.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)
(millions)

	Nine Months Ended September 30,	
	2007	**2006**
Cash Flows from Operating Activities		
Net income	$ 71.5	$ 66.1
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	28.1	26.5
Deferred income taxes	(21.9)	(8.6)
Changes in operating assets and liabilities:		
Accounts receivable – (increase) decrease	(126.5)	65.2
Inventories – net (increase) decrease	(91.1)	84.0
Payables under Russian Contract – increase	25.6	9.1
Deferred revenue, net of deferred costs – increase (decrease)	6.5	(16.8)
Accrued depleted uranium disposition	15.1	16.1
Accounts payable and other liabilities – (decrease)	(5.2)	(76.2)
Other, net	(6.4)	(12.4)
Net Cash Provided by (Used in) Operating Activities	(104.3)	153.0
Cash Flows Used in Investing Activities		
Capital expenditures	(65.9)	(29.6)
Deposits for surety bonds	(4.0)	—
Net Cash (Used in) Investing Activities	(69.9)	(29.6)
Cash Flows Used in Financing Activities		
Borrowings under credit facility	71.1	133.3
Repayments under credit facility	(71.1)	(133.3)
Repayment of senior notes	—	(288.8)
Tax benefit related to stock-based compensation	0.9	0.4
Proceeds from issuance of convertible senior notes	575.0	—
Bond issuance costs paid	(12.9)	—
Common stock issued, net of issuance costs	214.6	2.2
Net Cash Provided By (Used in) Financing Activities	777.6	(286.2)
Net Increase (Decrease)	603.4	(162.8)
Cash and Cash Equivalents at Beginning of Period	171.4	259.1
Cash and Cash Equivalents at End of Period	**$ 774.8**	**$ 96.3**
Supplemental Cash Flow Information:		
Interest paid, net of capitalized interest	$ 7.7	$ 19.7
Income taxes paid	49.6	72.6

See notes to consolidated condensed financial statements.

1. BASIS OF PRESENTATION

The unaudited consolidated condensed financial statements as of and for the three and nine months ended September 30, 2007 and 2006 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. The unaudited consolidated condensed financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the financial results for the interim period. Certain information and notes normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been omitted pursuant to such rules and regulations.

Operating results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. The unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and related notes and management's discussion and analysis of financial condition and results of operations included in the annual report on Form 10-K for the year ended December 31, 2006.

New Accounting Standards Not Yet Implemented

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements." This statement clarifies the definition of fair value, establishes a framework for measuring fair value when required or permitted under other accounting pronouncements, and expands the disclosures on fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are evaluating the statement and have not determined whether it will have a material effect on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are evaluating the statement and have not determined whether it will have a material effect on our financial position or results of operations.

2. ACCOUNTS RECEIVABLE

	September 30, 2007	December 31, 2006
	(millions)	
Accounts receivable – trade, net (1):		
Utility customers:		
Trade receivables	$ 255.8	$ 174.3
Unbilled revenue (2)	52.5	2.0
	308.3	176.3
Contract services, primarily DOE (3):		
Contract services billed	21.8	19.8
Unbilled revenue	12.3	19.8
	34.1	39.6
	$ 342.4	**$ 215.9**

(1) Valuation and allowances for doubtful accounts were $17.0 million at September 30, 2007 and $14.4 million at December 31, 2006.

(2) Unbilled revenue for utility customers represents price adjustments for past deliveries earned but not yet billable under contract, of which $51.5 million is expected to be billed in the first quarter of 2008.

(3) Billings for contract services related to DOE are invoiced based on provisional billing rates approved by DOE. Unbilled revenue represents the difference between actual costs incurred and invoiced amounts. USEC expects to invoice and collect the unbilled amounts as provisional billing rates are revised, submitted to and approved by DOE.

3. INVENTORIES

	September 30, 2007	December 31, 2006
	(millions)	
Current assets:		
Separative work units	$ 703.6	$ 701.7
Uranium	330.4	189.1
Materials and supplies	10.8	9.2
	1,044.8	900.0
Long-term assets:		
Uranium	—	24.2
Current liabilities:		
Inventories owed to customers and suppliers	(86.4)	(56.9)
Inventories, net	**$ 958.4**	**$ 867.3**

4. INCOME TAXES

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). This interpretation clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before the related tax benefit may be recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

USEC adopted the provisions of FIN 48 effective January 1, 2007. As a result of implementing FIN 48, USEC recognized a $31.1 million increase in the liability for unrecognized tax benefits. This increase resulted in a $7.5 million decrease in the January 1, 2007 retained earnings balance and a $23.6 million increase in the deferred tax assets. Implementation of FIN 48 also resulted in an additional $11.4 million decrease in the January 1, 2007 retained earnings balance for accrued interest and penalties. The liability for unrecognized tax benefits was $38.5 million at January 1, 2007, of which $19.5 million would impact the effective tax rate, if recognized.

USEC and its subsidiaries file income tax returns with the U.S. government and various states and foreign jurisdictions. In the third quarter, the Internal Revenue Service ("IRS") completed USEC's federal income tax return examination for tax years 1998 through 2003. At September 30, 2007, the federal statute of limitations was closed with respect to all tax years through 2003. In the second quarter of 2007, the IRS commenced an examination of USEC's 2004 and 2005 federal income tax returns. At September 30, 2007, the applicable Kentucky and Ohio statutes of limitations for tax years 2002 forward and 2003 forward, respectively, had not yet expired.

In the third quarter of 2007, the liability for unrecognized tax benefits decreased $0.9 million and the tax provision decreased $0.4 million, primarily as a result of the expiration of the statute of limitations with respect to tax year 2003. For the first nine months of 2007, the liability for unrecognized tax benefits decreased by $31.5 million and the tax provision decreased by $12.9 million primarily as a result of the expiration of the federal statute of limitations for all tax years through 2003 which occurred in the first and third quarters and as a result of an agreement reached with the IRS on an issue in the second quarter followed by the completion of the IRS examination in the third quarter. At September 30, 2007, the liability for unrecognized tax benefits, included in other long-term liabilities, was $7.0 million. USEC believes that it is reasonably possible that the liability for unrecognized tax benefits could decrease by up to $1.3 million in the next 12 months.

USEC recognizes accrued interest as a component of interest expense and accrued penalties as a component of selling, general and administrative expense in the consolidated statement of income, which is consistent with the reporting for these items in periods prior to the implementation of FIN 48. After implementation of FIN 48, USEC's balance of accrued interest and penalties was $19.5 million at January 1, 2007. Expenses for accrued interest and penalties recorded during the third quarter of 2007 and the first nine months of 2007 were $0.5 million and $2.5 million, respectively. During the third quarter of 2007 and the first nine months of 2007, $2.2 million and $15.7 million, respectively, of previously accrued interest and penalties were reversed as a result of the expiration of the federal statute of limitations for all tax years through 2003 and the completion of the IRS examination. The reversal of previously accrued interest was recorded as interest income and the reversal of the previously accrued penalties was recorded as a reduction to selling, general and administrative expense in the consolidated statement of income. As a result of settling the IRS examination, USEC made an interest payment to the IRS of $3.5 million in September 2007. At September 30, 2007, accrued interest and penalties totaled $2.8 million.

5. DEBT

Long-Term Debt

	September 30, 2007	December 31, 2006
	(millions)	
3.0% convertible senior notes, due October 1, 2014	$ 575.0	$ —
6.75% senior notes, due January 20, 2009	150.0	150.0
	$ 725.0	**$ 150.0**

Convertible Senior Notes due 2014

In September 2007, USEC issued $575.0 million in convertible notes. The notes bear interest at a rate of 3.0% per annum payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 1, 2008. As part of this issuance, USEC paid underwriting discounts and accrued related offering expenses of $14.5 million. These costs are deferred and will be amortized using the effective interest rate method over the life of the convertible notes. The notes will mature on October 1, 2014.

The notes are senior unsecured obligations and rank equally with all existing and future senior unsecured debt of USEC Inc. and senior to all subordinated debt of USEC Inc. The notes are structurally subordinated to all existing and future liabilities of subsidiaries of USEC Inc. and will be effectively subordinated to existing and future secured indebtedness of USEC Inc. to the extent of the value of the collateral.

Holders may convert their notes to common stock at their option on any day prior to the close of business on the scheduled trading day immediately preceding August 1, 2014 only under the following circumstances: (1) during the five business day period after any five consecutive trading day period in which the price per note for each trading day of that measurement period was less than 98% of the product of the last reported sale price of USEC Inc. common stock and the conversion rate on each such day; (2) during any calendar quarter (and only during such quarter), if the last reported sale price of USEC Inc. common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter; or (3) upon the occurrence of specified corporate events. The notes will be convertible, regardless of the foregoing circumstances, at any time from, and including, August 1, 2014 through the scheduled trading day immediately preceding the maturity date of the notes.

Upon conversion, for each $1,000 in principal amount outstanding, USEC will deliver a number of shares of USEC Inc. common stock equal to the conversion rate. The initial conversion rate for the notes is 83.6400 shares of common stock per $1,000 in principal amount of notes, equivalent to an initial conversion price of approximately $11.956 per share of common stock. The conversion rate will be subject to adjustment in some events but will not be adjusted for accrued interest. In addition, if a make-whole fundamental change (as defined in the indenture governing the notes) occurs prior to the maturity date of the notes, USEC will in some cases increase the conversion rate for a holder that elects to convert its notes in connection with such make-whole fundamental change.

Subject to certain exceptions, holders may require USEC to repurchase for cash all or part of their notes upon a fundamental change (as defined in the indenture governing the notes) at a price equal to 100% of the principal amount of the notes being repurchased plus any accrued and unpaid interest up to, but excluding, the relevant repurchase date. USEC may not redeem the notes prior to maturity.

At September 30, 2007, the fair value of the convertible notes based on the most recent trading price was $624.1 million, compared with the balance sheet carrying amount of $575.0 million.

Senior Notes due 2009

Senior notes bearing interest at 6.75% amounted to $150.0 million in aggregate principal amount at September 30, 2007 and December 31, 2006. The senior notes are due January 20, 2009, and interest is paid every six months in arrears on January 20 and July 20. The senior notes are unsecured obligations and rank on parity with all other unsecured and unsubordinated indebtedness of USEC Inc. The senior notes are not subject to any sinking fund requirements. The senior notes may be redeemed by USEC at any time at a redemption price equal to the principal amount plus any accrued interest up to the redemption date plus a make-whole premium.

At September 30, 2007, the fair value of the senior notes calculated based on the most recent trading price was $144.8 million, compared with the balance sheet carrying amount of $150.0 million.

In January 2006, USEC repaid the remaining balance of its 6.625% senior notes which amounted to $288.8 million on the scheduled maturity date.

Revolving Credit Facility

There were no short-term borrowings under the $400.0 million revolving credit facility at September 30, 2007 or December 31, 2006. During the nine months ended September 30, 2007, aggregate borrowings and repayments were $71.1 million, and the peak amount outstanding was $61.4 million. Letters of credit issued under the facility amounted to $38.4 million at September 30, 2007 and $35.8 million at December 31, 2006. Borrowings under the credit facility are subject to limitations based on established percentages of qualifying assets such as eligible accounts receivable and inventory. Availability under the credit facility after letters of credit outstanding was $361.6 million at September 30, 2007 and $346.2 million at December 31, 2006.

6. DEFERRED REVENUE AND ADVANCES FROM CUSTOMERS

Deferred revenue and advances from customers were as follows (in millions):

	September 30, 2007	December 31, 2006
Deferred revenue	$ 133.1	$ 129.4
Advances from customers	1.7	4.4
	$ 134.8	**$ 133.8**

In a number of sales transactions, title to uranium or low enriched uranium ("LEU") is transferred to the customer and USEC receives payment under normal credit terms without physically delivering the uranium or LEU to the customer. This may occur because the terms of the agreement require USEC to hold the uranium to which the customer has title, or because the customer encounters brief delays in taking delivery of LEU at USEC's facilities. In such cases, recognition of revenue is deferred until uranium or LEU to which the customer has title is physically delivered rather than at the time title transfers to the customer. Related costs associated with deferred revenue, reported in other current assets, totaled $72.6 million at September 30, 2007 and $78.4 million at December 31, 2006.

7. AMERICAN CENTRIFUGE DECONTAMINATION AND DECOMMISSIONING

USEC leases facilities in Piketon, Ohio from the U.S. Department of Energy ("DOE") for the American Centrifuge Plant. USEC owns all capital improvements and, unless otherwise consented to by DOE, must remove them by the conclusion of the lease term. This provision is unlike the gaseous diffusion plant lease where USEC may leave the property in "as-is" condition at termination of the lease. At the conclusion of the 36-year lease period in 2043, assuming no further extensions, USEC is required to return these leased facilities to DOE in a condition that meets U.S. Nuclear Regulatory Commission ("NRC") requirements and in the same condition as the facilities were in when they were leased to USEC (other than due to normal wear and tear). This creates an asset retirement obligation ("ARO"). As part of the NRC license to operate the American Centrifuge Plant issued in April 2007, USEC is required to provide an acceptable Decommissioning Funding Plan ("DFP") to the NRC. USEC is required to adjust the cost estimate of the DFP annually prior to operation of the facility at full capacity, and after full capacity is reached, at least every three years. The current DFP

cost estimate of $317.7 million is in 2006 dollars. USEC is required to provide financial assurance to the NRC incrementally based on the DFP and in anticipation of the upcoming annual facility construction and centrifuge installation. USEC is also required to provide financial assurance to DOE in an amount equal to USEC's current estimate of costs to comply with lease turnover requirements, less the amount of financial assurance required of USEC by the NRC for decommissioning, which is estimated to be $27.6 million. During 2006, USEC provided a surety bond of $8.8 million in accordance with the DFP increment related to American Centrifuge decommissioning. On March 12, 2007, USEC provided an additional surety bond of $8.1 million, in accordance with the DFP increment related to the NRC license application and anticipated commercial plant construction. The 2006 and March 2007 surety bonds were collateralized with interest-earning cash deposits, included in other long-term assets, of $2.0 million and $4.0 million, respectively.

Prior to commencing operation of the American Centrifuge Plant and annually thereafter, USEC is required to include in the cost estimate of the DFP an estimate of the costs for the disposition of the depleted uranium previously generated and anticipated to be generated during the upcoming year of production.

The accounting for ARO requires that the fair value of retirement costs that USEC has a legal obligation to pay be recorded as a liability, with an equivalent amount added to the asset cost as construction of the American Centrifuge Plant takes place. During each reporting period, USEC reassesses and revises the estimate of the ARO based on construction progress, cost evaluation of future decommissioning expectations, and other judgmental considerations which impact the amount recorded in both construction work in progress and other long-term liabilities.

Commensurate with the American Centrifuge Plant commercial lease signed in December 2006, USEC recorded $8.8 million, the 2006 financial assurance, as the estimate of the fair value of the ARO at year end. In the first quarter of 2007, USEC reassessed and revised the estimate of the ARO reducing the amount recorded in both construction work in progress and other long-term liabilities. The estimate is also revised for any changes in long-term inflation rate assumptions. Additional retirement obligations are recognized as construction progress continues.

In addition to the establishment of an ARO during the construction period, the liability is also accreted for the time value of money by applying an interest method of allocation to the liability. The time value accretion is charged to cost of sales.

Changes in USEC's asset retirement obligation since December 31, 2006 follow (in millions):

	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Beginning balance	$ 3.0	$ 8.8
Additional retirement obligation and revision of estimate	0.8	(5.0)
Time value accretion	0.1	0.1
Balance at September 30, 2007	**$ 3.9**	**$ 3.9**

Upon commencement of commercial operations, the asset cost capitalized during the construction period will be depreciated over the appropriate period based on the shorter of the asset life or expected lease period.

8. COMMITMENTS AND CONTINGENCIES

Power Contracts and Commitments

The gaseous diffusion process uses significant amounts of electric power to enrich uranium. USEC purchases most of the electric power for the Paducah gaseous diffusion plant from the Tennessee Valley Authority ("TVA"). In June 2007, the power purchase agreement with TVA was amended for delivery of electric power through May 2012. Capacity under the agreement is fixed. As of September 30, 2007, USEC is obligated to make minimum payments under the agreement, whether or not it takes delivery of electric power, of approximately $2.4 billion through May 2012. USEC's costs are subject to monthly fuel cost adjustments to reflect changes in TVA's fuel costs, purchased power costs, and related costs.

American Centrifuge Technology

USEC is working to develop and deploy the American Centrifuge technology as a replacement for the gaseous diffusion technology used at the Paducah plant. The DOE-USEC Agreement contains specific project milestones relating to the American Centrifuge Plant. Under the DOE-USEC Agreement, if, for reasons within USEC's control, USEC fails to meet one or more milestones and it is determined that the resulting delay would substantially impact USEC's ability to begin commercial operations on schedule, DOE could take a number of actions that could have a material adverse impact on USEC's business. These actions include terminating the DOE-USEC Agreement, recommending that USEC be removed as the sole Executive Agent under the Megatons-to-Megawatts program, which could reduce or terminate USEC's access to Russian LEU, or revoking USEC's access to DOE's U.S. centrifuge technology that USEC requires for the American Centrifuge project and requiring USEC to transfer its rights in U.S. centrifuge technology and facilities to DOE royalty free. However, once USEC has demonstrated to DOE financing commitments for the construction of a 1 million SWU per year centrifuge plant, DOE's remedies are limited to circumstances in which a failure results from gross negligence or project abandonment by USEC.

Under its revised deployment schedule, USEC is working toward beginning commercial plant operations of the American Centrifuge Plant in late 2009 and having approximately 11,500 machines deployed in 2012, which USEC expects to operate at a production rate of about 3.8 million SWU per year, based on its current estimates of machine output and plant availability. This revised schedule is later than the schedule established by the milestones contained in the DOE-USEC Agreement of beginning commercial plant operations in January 2009, reaching a plant capacity of 1 million SWU in March 2010 and, at USEC's option, reaching a plant capacity of 3.5 million SWU in September 2011. USEC anticipates reaching agreement with DOE regarding these milestones at a later date. However, USEC cannot provide any assurances that it will reach an agreement or that DOE will not assert its rights under the agreement.

DOE Contract Services Matter

The U.S. Department of Justice ("DOJ") asserted in a letter to USEC dated July 10, 2006 that DOE may have sustained damages in an amount that exceeds $6.9 million under USEC's contract with DOE for the supply of cold standby services at the Portsmouth plant. DOJ indicated that it was assessing possible violations of the Civil False Claims Act ("FCA") and related claims in connection with invoices submitted under that contract. USEC responded to DOJ's letter in September 2006, indicating that the government does not have any legitimate bases for asserting any FCA or related claims under the cold standby contract, and has been cooperating with DOJ and the DOE Office of Investigations with respect to their inquiries into this matter. As part of USEC's continuing discussions with DOJ, USEC and DOJ agreed in August 2007 to extend the statute of limitations for this matter. In a supplemental presentation by DOJ and DOE on October 18, 2007, DOJ identified revised assertions of alleged overcharges of at least $14.6 million on the cold standby and two other cost-type contracts, again potentially in violation of the FCA, which allows for treble damages and civil penalties. DOJ invited a response by USEC, which USEC intends to supply in the near future. USEC believes that the DOJ and DOE analyses are significantly flawed, and intends to defend vigorously any such claim that might be asserted against it.

Defense Contract Audit Agency Audit Inquiry

In March 2007, in connection with an audit of fiscal year 2002 costs, the Defense Contract Audit Agency ("DCAA") raised certain questions regarding the allowability, under the Federal Acquisition Regulations, of employee overtime costs associated with satisfaction by employees of mandatory qualification and certification standards. USEC is conducting discussions with DCAA regarding these questions. USEC provided a paper to DCAA in April 2007, explaining USEC's position that such costs are allowable and recoverable, and DCAA indicated in a communication on or about April 25, 2007 that it intended to question such costs. No disallowance has yet been made, nor has USEC quantified the potential impacts of disallowance. USEC intends to continue to try to work with DCAA and DOE to resolve any disagreements, and does not believe that any disallowance of employee overtime costs associated with satisfaction of qualification and certification requirements would be justified.

Environmental Matter

USEC and certain federal agencies were identified as potentially responsible parties under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, for a site in Barnwell, South Carolina, previously operated by Starmet CMI ("Starmet"), one of USEC's former contractors. In February 2004, USEC entered into an agreement with the U.S. Environmental Protection Agency ("EPA") to clean up certain areas at Starmet's Barnwell site. Under the agreement, USEC was responsible for removing certain material from the site that was attributable to quantities of depleted uranium USEC had sent to the site. In December 2005, the EPA confirmed that USEC completed its clean up obligations under the agreement.

In June 2007, the EPA notified USEC that the agency had spent approximately $7.6 million in its remediation of retention ponds at the Barnwell site. The EPA indicated verbally that it would seek reimbursement of this amount from USEC and the federal agencies that had previously been identified as potentially responsible parties. It further suggested that USEC's share of the reimbursement expense would be approximately $3.2 million. Based on this information, USEC accrued a current liability of $3.2 million in the second quarter of 2007. However, based on ongoing discussions with the EPA, USEC now believes the actual amount of its liability is in the range of $1.0 million to $3.2 million.

Other Legal Matters

USEC is subject to various other 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, USEC does not believe that the outcome of any of these legal matters will have a material adverse effect on its results of operations or financial condition.

9. PENSION AND POSTRETIREMENT HEALTH AND LIFE BENEFITS

The components of net benefit costs (income) for pension and postretirement health and life benefit plans were as follows (in millions):

	Defined Benefit Pension Plans				Postretirement Health and Life Benefit Plans			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006	2007	2006	2007	2006
Service costs	$ 4.5	$ 4.2	$ 13.5	$ 12.8	$ 1.0	$ 1.2	$ 3.0	$ 3.6
Interest costs	10.8	10.0	32.3	30.1	3.0	2.7	8.9	8.2
Expected return on plan assets (gains)	(14.5)	(13.4)	(43.5)	(40.4)	(1.4)	(1.3)	(4.2)	(4.1)
Amortization of prior service costs (credit)	0.4	0.4	1.3	1.2	(3.6)	(3.6)	(10.8)	(10.8)
Amortization of actuarial losses	0.3	1.2	0.9	3.5	0.5	0.6	1.6	1.9
Net benefit costs (income)	**$ 1.5**	**$ 2.4**	**$ 4.5**	**$ 7.2**	**$ (0.5)**	**$ (0.4)**	**$ (1.5)**	**$ (1.2)**

USEC expects total cash contributions to the plans in 2007 will be as follows: $9.8 million for the defined benefit pension plans and $3.1 million for the postretirement health and life benefit plans. Of those amounts, contributions made as of September 30, 2007 were $7.5 million and $2.5 million related to the defined benefit pension plans and postretirement health and life benefit plans, respectively.

During the second quarter of 2007, USEC's actuaries completed a mid-year valuation update of the pension and postretirement health and life benefit plans. The valuation was conducted using updated census data and the same economic assumptions disclosed in note 12 of USEC's 2006 Annual Report, including assumptions of a 5.75% discount rate, 4.0% compensation increase and 8.0% expected return on plan assets. SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" adopted by USEC at December 31, 2006 requires recognition on the balance sheet of the over or underfunded status of a defined benefit postretirement plan as an asset or liability, and an offsetting adjustment to accumulated other comprehensive income (loss), a component of stockholders' equity. Based on the updated census data, the underfunded status of the plans increased $5.5 million on an after tax basis which was recorded in accumulated other comprehensive loss. The increase in the overall unfunded status of the plans was driven primarily by fewer employees retiring than expected (resulting in additional accruals of benefits), and an increase in participation by retirees that had previously declined coverage for health and welfare benefits as provided under the plan.

10. STOCK-BASED COMPENSATION

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
		(millions)		
Expense included in selling, general and administrative:				
Restricted stock and restricted stock units	$ (1.4)	$ 0.8	$ 4.0	$ 2.0
Stock options	(0.3)	—	0.5	0.4
Total expense	**$ (1.7)**	**$ 0.8**	**$ 4.5**	**$ 2.4**
Total after-tax expense	**$ (1.1)**	**$ 0.5**	**$ 2.9**	**$ 1.5**
Costs capitalized as part of inventory	**$ 0.1**	**$ 0.1**	**$ 0.3**	**$ 0.2**
Additional information:				
Intrinsic value of stock options exercised	$ —	$ 0.2	$ 1.0	$ 1.3
Cash received from exercise of stock options	$ 0.1	$ 0.7	$ 0.8	$ 2.1

Stock-based compensation in the three months ended September 30, 2007 reflects a reduction in USEC's stock price resulting in a credit to expense for the three-month period. Stock-based compensation in the nine months ended September 30, 2007 reflects vesting of restricted stock and restricted stock units under USEC's long-term incentive plan.

Assumptions used in the Black-Scholes option pricing model to value option grants follow. There were no option grants in the three months ended September 30, 2007.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Risk-free interest rate	—	5.0%	4.5%	4.6-5.0%
Expected dividend yield	—	—	—	—
Expected volatility	—	41%	42%	38-41%
Expected option life	—	3.2 years	3.5 years	3.4 years
Weighted-average grant date fair value	—	$ 2.65	$ 4.77	$ 4.20
Options granted	—	20,000	258,000	287,000

As of September 30, 2007, there was $6.0 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based payments granted, of which $4.8 million relates to restricted shares and restricted stock units, and $1.2 million relates to stock options. That cost is expected to be recognized over a weighted-average period of 1.6 years.

11. STOCKHOLDERS' EQUITY

Changes in stockholders' equity were as follows (in millions, except per share data):

	Common Stock, Par Value $.10 per Share	Excess of Capital over Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Income (Loss)
Balance at December 31, 2006	$ 10.0	$ 970.6	$ 137.5	$ (95.5)	$ (36.6)	$ 986.0	$ —
Implementation of FIN 48, net of tax (Note 4)	—	—	(18.9)	—	—	(18.9)	—
Common stock issued:							
Proceeds from issuance of common stock	2.3	211.3	—	—	—	213.6	—
Proceeds from the exercise of stock options	—	—	—	0.8	—	0.8	—
Restricted and other stock issued, net of amortization	—	3.2	—	1.5	—	4.7	—
Amortization of actuarial losses and prior service costs (credits) and valuation revisions, net of tax	—	—	—	—	(10.1)	(10.1)	(10.1)
Net income	—	—	71.5	—	—	71.5	71.5
Balance at September 30, 2007	**$ 12.3**	**$ 1,185.1**	**$ 190.1**	**$ (93.2)**	**$ (46.7)**	**$ 1,247.6**	**$ 61.4**

In September 2007, USEC issued and sold 23 million shares of common stock concurrent with the issuance of convertible notes referenced in note 5. Proceeds from the sale of common stock, net of underwriter discount and accrued offering expenses of $10.9 million, totaled $213.6 million.

Amortization of actuarial losses and prior service costs (credits), net of tax, are those related to pension and postretirement health and life benefits as presented on a pre-tax basis in note 9.

12. NET INCOME PER SHARE

Basic net income per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period, excluding any unvested restricted stock that is subject to repurchase. For diluted net income per share, the numerator is increased by interest expense on the convertible notes, net of tax, and the denominator is increased by the weighted average number of shares resulting from the convertible notes, assuming full conversion, and the potentially dilutive stock compensation awards.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in millions)			
Numerator:				
Net income	$ 45.6	$ 9.9	$ 71.5	$ 66.1
Interest expense on convertible notes – net of tax	0.1	—	0.1	—
Net income if-converted	**$ 45.7**	**$ 9.9**	**$ 71.6**	**$ 66.1**
Denominator:				
Weighted average common shares	88.3	87.0	87.7	86.8
Less: Weighted average unvested restricted stock	0.4	0.3	0.4	0.3
Denominator for basic calculation	**87.9**	**86.7**	**87.3**	**86.5**
Weighted average effect of dilutive securities:				
Convertible notes	1.6	—	0.5	—
Stock compensation awards	0.3	0.2	0.4	0.3
Denominator for diluted calculation	**89.8**	**86.9**	**88.2**	**86.8**
Net income per share — basic	**$ .52**	**$ .11**	**$ .82**	**$ .76**
Net Income per share — diluted	**$ .51**	**$ .11**	**$ .81**	**$ .76**

Options to purchase shares of common stock having an exercise price greater than the average share market price are excluded from the calculation of diluted earnings per share.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Options excluded from diluted earnings per share calculation:				
Options to purchase common stock (in millions)	.1	.5	—	.4
Exercise price	$16.90	$10.44 to $16.90	—	$11.88 to $16.90

13. SEGMENT INFORMATION

USEC has two reportable segments: the LEU segment with two components, separative work units ("SWU") and uranium, and the U.S. government contracts segment. The LEU segment is USEC's primary business focus and includes sales of the SWU component of LEU, sales of both the SWU and uranium components of LEU, and sales of uranium. The U.S. government contracts segment includes work performed for DOE and DOE contractors at the Portsmouth and Paducah plants, as well as nuclear energy services and technologies provided by NAC International Inc. Gross profit is USEC's measure for segment reporting. Intersegment sales between the reportable segments amounted to less than $0.1 million in each period presented below and have been eliminated in consolidation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(millions)			
Revenue				
LEU segment:				
Separative work units	$ 483.5	$ 336.6	$ 1,034.4	$ 974.9
Uranium	102.2	34.4	134.2	181.2
	585.7	371.0	1,168.6	1,156.1
U.S. government contracts segment	49.0	46.8	142.2	148.3
	$ 634.7	**$ 417.8**	**$ 1,310.8**	**$ 1,304.4**
Segment Gross Profit				
LEU segment	$ 105.4	$ 44.3	$ 192.3	$ 199.2
U.S. government contracts segment	6.6	7.8	20.6	24.5
Gross profit	112.0	52.1	212.9	223.7
Special charge for organizational restructuring	—	(0.1)	—	1.4
Advanced technology costs	30.8	23.9	100.1	71.0
Selling, general and administrative	9.0	10.9	33.0	36.7
Operating income	72.2	17.4	79.8	114.6
Interest expense (income), net	(0.6)	1.5	(12.5)	7.4
Income before income taxes	**$ 72.8**	**$ 15.9**	**$ 92.3**	**$ 107.2**

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements and related notes set forth in Part I, Item 1 of this report as well as the risks and uncertainties included in Part II, Item 1A of this report.

Overview

USEC, a global energy company, is a leading supplier of low enriched uranium, or LEU, for commercial nuclear power plants. LEU is a critical component in the production of nuclear fuel for reactors to produce electricity. We, either directly or through our subsidiaries United States Enrichment Corporation and NAC International Inc. ("NAC"):

- supply LEU to both domestic and international utilities for use in about 150 nuclear reactors worldwide,
- are in the process of demonstrating, and expect to deploy, what we anticipate will be the world's most efficient uranium enrichment technology, known as the American Centrifuge,
- are the exclusive executive agent for the U.S. government under a nuclear nonproliferation program with Russia, known as Megatons to Megawatts,
- perform contract work for the U.S. Department of Energy ("DOE") and its contractors at the Paducah and Portsmouth gaseous diffusion plants, and
- provide transportation and storage systems for spent nuclear fuel and provide nuclear and energy consulting services, including nuclear materials tracking.

Low Enriched Uranium

LEU consists of two components: separative work units ("SWU") and uranium. SWU is a standard unit of measurement that represents the effort required to transform a given amount of natural uranium into two components: enriched uranium having a higher percentage of U^{235} and depleted uranium having a lower percentage of U^{235}. The SWU contained in LEU is calculated using an industry standard formula based on the physics of enrichment. The amount of enrichment deemed to be contained in LEU under this formula is commonly referred to as the SWU component.

We produce or acquire LEU from two principal sources. We produce LEU at the gaseous diffusion plant in Paducah, Kentucky ("Paducah GDP"), and we acquire LEU from Russia under a contract, which we refer to as the Russian Contract, to purchase the SWU component of LEU recovered from dismantled nuclear weapons from the former Soviet Union for use as fuel in commercial nuclear power plants.

Our View of the Business Today

We are focused on a pair of strategic objectives. First, we are addressing significant pressure on our gross profit margins and cash flow from operations caused by higher power costs incurred since June 2006. Second, we are deploying our next generation commercial uranium enrichment plant in Piketon, Ohio, known as the American Centrifuge Plant, which will eventually replace our more power-intensive gaseous diffusion plant in Paducah, Kentucky. These efforts have both shown signs of success:

- Our financial results for 2007 are substantially better than our initial expectations.
- We successfully commenced operations on our Lead Cascade test program.
- Centrifuges in our Lead Cascade test program produced nuclear fuel at commercial product assay levels. We believe that these results demonstrate our achievement of the October 2007 milestone under our agreement with DOE, and have reported these results to DOE.
- In September, we raised net proceeds of approximately $775 million through the concurrent issuance of 23 million shares of common stock and $575 million in aggregate principal amount of convertible notes. We believe that these proceeds, along with our existing $400 million bank credit facility and anticipated cash flow from operations have positioned us to meet the January 2008 milestone under our agreement with DOE which requires us to have secured a financing commitment for a 1 million SWU centrifuge plant.

The American Centrifuge Plant is a large and technically challenging project. We believe that over the long term, the deployment of the American Centrifuge Plant will provide our customers with an efficient and reliable source of LEU and that our production costs will be more predictable and less affected by changes in power costs. In addition, we believe that the American Centrifuge Plant will provide the United States with energy security for nuclear fuel and will provide substantial national security benefits.

Our production costs increased during the first nine months of 2007 as a result of a significant increase beginning in June 2006 in the cost of electric power used by the Paducah gaseous diffusion plant. Because of our average inventory method of accounting, the impact of power cost increases is reflected in our cost of sales over time. We expect the high cost of power to continue to adversely affect our gross profit margin until the American Centrifuge Plant is complete. Our cost of sales also increased this year as a result of increases in the purchase price for LEU delivered under the Russian Contract, which accounts for approximately 50% of our supply mix. Although the impact is significantly less than the impact of higher power costs, this price increase under the Russian Contract without corresponding price increases under most of our existing customer contracts has had and will continue to have a negative impact on our gross profit margin. Further, our Russian counterpart under the Russian Contract has asked us to discuss revisions to the pricing for the SWU component of LEU to be delivered in 2009 and beyond, and such revisions could result in increases in the price paid for SWU under the Russian Contract.

The market price for our product has improved over the course of 2007, and absent an increase in sales of unfairly priced SWU by our foreign competitors, we believe market fundamentals suggest that SWU prices will likely remain firm. We believe that a stable domestic enrichment market that supports investment in new enrichment capacity is essential to the successful deployment of the American Centrifuge Plant.

The Russian government has said it will not extend the current Megatons to Megawatts program beyond 2013 and has been negotiating with the U.S. government regarding direct sales of Russian LEU to U.S. utilities after that date. We support a balanced approach that will provide the market with fairly priced Russian LEU while sustaining a stable domestic enrichment market that can support investment in new uranium enrichment facilities. However, recent court rulings regarding the Russian Suspension Agreement could potentially open the U.S. market to unlimited direct Russian sales before the Megatons to Megawatts program concludes at the end of 2013. If Russia is permitted to begin selling substantial quantities of LEU before we have secured an adequate backlog of sales to cover our production from the American Centrifuge Plant, the impact of this additional supply in the enrichment market could be significant, and long-term SWU prices could drop to a level where we could not justify further investment in the American Centrifuge Plant. Given the high priority that the Bush Administration has placed on ensuring a secure domestic nuclear fuel supply, we believe that the U.S. government will seek reasonable limits on Russian imports.

We have recently moved into the next phase of integrated testing of the American Centrifuge technology involving multiple machines in a cascade configuration. We refer to this phase as the Lead Cascade test program. In a centrifuge enrichment facility, a cascade is a group of centrifuge machines connected in a series and parallel arrangement to achieve an intended isotope separation capability. A uranium enrichment facility that uses gas centrifuge technology is made up of hundreds of cascades. The number and arrangement of centrifuge machines in a cascade can vary. The cascades tested during the initial phase of our Lead Cascade test program consist of fewer than 20 prototype machines, including spare machines, and are located within an existing building that will ultimately house the full-scale commercial plant.

Initiating the Lead Cascade test program marks another important step in the deployment of the American Centrifuge Plant. We intend to achieve a number of key objectives through the Lead Cascade test program, including:

- demonstrating the capability of the cascade to generate product assays in a range useable by commercial nuclear power plants,
- providing information on machine-to-machine interactions and integrated efficiency of the full cascade,
- confirming the design and performance of centrifuge machine and cascade support systems,
- verifying cascade performance models under various operating conditions,
- providing information on the performance of centrifuge components over time, and
- providing operators and technicians hands-on experience assembling, operating and maintaining the machines.

Over the past year, our project team has been operating and testing individual machines at our American Centrifuge Demonstration Facility in Piketon, Ohio. In late August, we successfully commenced cascade operations in a closed-loop configuration. The license issued by the NRC for the demonstration facility specifies that the machines be operated in closed-loop configuration where the uranium gas is enriched, depleted and recombined in a repetitive cycle. The demonstration facility license permits test samples of enriched uranium to be withdrawn. The ability to separate uranium isotopes is tested by analyzing these samples. The data obtained from these initial tests were consistent with the predictions of our analytical models regarding the product assays generated and the SWU performance achieved. These initial tests also demonstrated the ability of the American Centrifuge technology to produce nuclear fuel at commercial product assay levels. We expect that testing of Lead Cascade operations will continue for an extended period at various operating conditions and configurations.

Concurrent with our testing activities in the Lead Cascade, we are working to finalize the development and design of the first series of plant production centrifuges that will be manufactured by our strategic suppliers. We refer to this centrifuge design, which we expect will be manufactured in large quantities, as the AC100 series centrifuge machine. We expect the Lead Cascade test program to help us to identify improvements in design, assembly and operations that will be integrated into the AC100 machine, helping us and our suppliers to ensure reliability and achieve lower costs through high-volume manufacturing for full-scale commercial deployment. We expect to deploy several dozen AC100 machines in the Lead Cascade in late 2008 and begin test operations in early 2009.

During the third quarter, we entered into a number of contracts related to procurement of key components and materials for the American Centrifuge Plant and we expect to enter into additional contracts by year end. We now have contracts in place for carbon fiber needed to manufacture the centrifuge rotor and for the outer steel casings for the centrifuge machines. Centrifuges in the AC100 series are expected to be the first used to produce enriched uranium for sale when commercial operations begin, scheduled for late 2009.

In early 2007, we completed a comprehensive review of the cost of deploying the American Centrifuge Plant and established a target cost estimate of $2.3 billion. This target cost estimate included amounts spent on the project through early 2007 and estimates for cost escalation, but did not include financing costs or a reserve for general contingencies. Our target cost estimate assumes that we will be successful in reducing the capital cost per machine over time based on value engineering the design of centrifuge machines for high-volume manufacturing.

Based on information currently available to us, including costs incurred since establishing the target cost estimate in early 2007, initial bids and procurements from suppliers, feedback from consultants and other third parties, and our analysis of material, commodity and labor cost trends, we believe that our cost of deploying the American Centrifuge Plant is likely to be higher than provided for in our target cost estimate as a result of higher costs associated with the centrifuge machines being manufactured by our suppliers during the initial stage of deployment and higher costs in construction materials for completion of the plant. Spending as of September 30, 2007 of approximately $541 million, combined with contractual arrangements we have made and anticipate making in the near future for components of the American Centrifuge Plant exceeds the corresponding amounts included in our target cost estimate by approximately $150 million, or roughly 15%.

Working closely with key suppliers, we are seeking to reduce the capital cost per machine while maintaining performance objectives to help achieve our target cost estimate. We continue to simplify the design of the centrifuge machines in order to reduce costs as well as to take advantage of technological advancements to improve performance. We are also contracting for the manufacture of the centrifuge machines in stages so that contracts for machines manufactured in later stages can benefit from the reduced costs we expect to realize over time. We believe that success in these value engineering efforts by our project team and our strategic suppliers may help to offset higher materials costs seen in some of the initial American Centrifuge project procurements.

Using information collected from our efforts and further progress toward freezing the design of the AC100 machine, we expect to complete a comprehensive review and update of our target cost estimate for deployment of the American Centrifuge Plant in the first quarter of 2008. The cost estimate resulting from that review will take into account the costs and the cost trends that we have experienced during our initial procurements as well as our evaluation of material, commodity and labor cost trends. Given the roughly 15% variance in spending to date and contractual arrangements as compared with our target estimate, unless we can identify further cost savings, including through the contracts that we are negotiating with our key suppliers, the target cost estimate we expect to establish in the first quarter of 2008 will be greater than the $2.3 billion target cost estimate established in early 2007.

The target cost update will also for the first time include a reserve for general contingencies that will reflect the maturity of the project. The reserve for general contingencies, which is not included in our target cost estimate of $2.3 billion, will take into account potential variations in the project plans and uncertainty regarding associated costs that we cannot specifically identify at the time the estimate is prepared. We expect that the information available to us when we calculate the reserve for general contingencies in 2008 will allow us to develop a risk-based estimate at that time. Based on the limited information currently available to us, including cost data, initial bids and procurements from suppliers, feedback from consultants and other third parties, and our analysis of material, commodity and labor cost trends, we believe that a reserve for contingencies of approximately 15% to 20% of our current target cost estimate of $2.3 billion (which would reflect variances seen to date), is reasonable at this time.

We expect to continue to periodically review and update our target cost estimate throughout the duration of the project.

In addition to providing for a reserve for general contingencies, our overall financing needs for the American Centrifuge project will also include additional costs not covered by our target cost estimate, such as financing costs, financial assurance requirements and operating costs related to commercial plant initial operations. See note 7 to the consolidated condensed financial statements for a discussion of our financial assurance requirements, currently estimated to be approximately $345.3 million in 2006 dollars, and associated asset retirement obligations. See "Risk Factors — Our estimates of the costs of the American Centrifuge project are subject to significant uncertainties that could adversely affect our ability to finance and deploy the American Centrifuge Plant".

Even with the proceeds of our recent securities offerings, we will still need to raise a significant amount of additional capital to complete the American Centrifuge project. Under our current schedule and anticipating the additional maturity and progress of the project, we expect that we will seek to raise debt in the second half of 2008. We also continue to pursue potential participation by third parties and/or involvement of the U.S. government in financing the American Centrifuge project.

We have been seeking two opportunities that involve the U.S. government. First, we have been pursuing the possibility of U.S. government loan guarantees under authorized programs. We have been an active participant in these programs, submitting a pre-application in December 2006 and also provided feedback to DOE in response to its Notice of Proposed Rulemaking for the loan guarantee program. In October, DOE finalized its regulations for the program. DOE also invited 16 non-nuclear projects to submit full applications for a loan guarantee. While the American Centrifuge project was not among those invited to submit a full application, we will continue to pursue a DOE loan guarantee and will submit a full application when DOE invites nuclear projects to apply. The timing of this next round of loan guarantees is uncertain and requires Congressional action and appropriations before any meaningful loan guarantees could be offered.

Second, we have had discussions with DOE regarding the potential for us to re-enrich uranium contained in cylinders of depleted uranium, also known as "tails". These tails were generated during the several decades that the U.S. government operated its gaseous diffusion plants in Kentucky, Ohio and Tennessee. These cylinders are owned by the U.S. government and represent an obligation of the U.S. government for their ultimate disposal. Because the market price of uranium has increased dramatically over the past three years, it now makes economic sense to reclaim more of the U^{235} content remaining in these byproduct cylinders. We have the only domestic enrichment plant capable of processing and reclaiming the U^{235} content from these cylinders, so we believe we are ideally suited to this task. We have been discussing with DOE the potential for us to re-enrich the uranium contained in these cylinders for our benefit, and the benefit of our customers and the U.S. government. At the request of several congressmen and senators, the Government Accountability Office is reviewing current law to determine DOE's authority to transfer this material to us for additional processing, with a report expected soon. Any agreement for the re-enrichment of DOE's tails will require action by the U.S. government, and the nature and the timing of any action is uncertain.

If we can reach agreement with the government regarding the tails, we will seek to generate additional cash flows from operations to help offset the higher cost of electric power at the Paducah GDP and to reinvest in the American Centrifuge Plant. Our electric utility customers would also benefit from additional uranium supply in the marketplace. The U.S. government could gain a uranium supply that it could hold as a strategic reserve similar to the national petroleum strategic reserve, and provide an assurance of uranium supply for new nuclear power reactors being proposed in the United States. The U.S. government would also benefit from a smaller disposal liability because fewer cylinders of tails will remain after the re-enrichment process.

We are focused on meeting these substantial challenges, and we are encouraged about the prospects for the nuclear power industry and the important role that we will play in fueling that future.

Revenue from Sales of SWU and Uranium

Our revenue is derived primarily from:

- sales of the SWU component of LEU,
- sales of both the SWU and uranium components of LEU, and
- sales of uranium.

The majority of our customers are domestic and international utilities that operate nuclear power plants, with international sales constituting approximately 40% of revenue in 2006. Our agreements with electric utilities are primarily long-term fixed-commitment contracts under which our customers are obligated to purchase a specified quantity of SWU or uranium from us or long-term requirements contracts under which our customers are obligated to purchase a percentage of their SWU or uranium requirements from us. Under requirements contracts, customers only make purchases if the reactor has requirements. The timing of requirements is associated with reactor refueling outages.

Our revenues and operating results can fluctuate significantly from quarter to quarter, and in some cases, year to year. Customer demand is affected by, among other things, reactor operations, maintenance and the timing of refueling outages. 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 annual or two-year refuelings in the spring or fall, or for 18-month cycles alternating between both seasons. Customer requirements and orders are more predictable over the longer term, and we believe our performance is best measured on an annual, or even longer, business cycle. Our revenue could be adversely affected by actions of the U.S. Nuclear Regulatory Commission ("NRC") or nuclear regulators in foreign countries issuing orders to delay, suspend or shut down nuclear reactor operations within their jurisdictions.

Our financial performance over time can be significantly affected by changes in prices for SWU. The SWU price indicator for new long-term contracts, as published by TradeTech in Nuclear Market Review, is an indication of base-year prices under new long-term enrichment contracts in our primary markets. Since our backlog includes contracts awarded to us in previous years, the average SWU price billed to customers typically lags behind the current price indicators. Following are the long-term SWU price indicator, the long-term price for uranium hexafluoride, as calculated using indicators published in Nuclear Market Review, and the spot price indicator for uranium hexafluoride:

	September 30, 2007	June 30, 2007	December 31, 2006	September 30, 2006
Long-term SWU price indicator ($/SWU)	$ 143.00	$140.00	$ 136.00	$ 135.00
Uranium hexafluoride:				
Long-term price composite ($/KgU)	260.47	260.47	192.54	155.96
Spot price indicator ($/KgU)	207.00	358.00	199.00	157.00

A substantial portion of our earnings and cash flows in recent years has been derived from sales of uranium and, as a result, our inventory of uranium available for sale has been reduced. We will continue to supplement our supply of uranium by underfeeding the production process at the Paducah plant and by purchasing uranium from suppliers in connection with specific customer contracts.

Underfeeding is a mode of operation that uses or feeds less uranium but requires more SWU in the enrichment process, which requires more electric power. In producing the same amount of LEU, we vary our production process to underfeed uranium based on the economics of the cost of electric power relative to the price of uranium. Uranium prices in the market have continued to make underfeeding economical despite increases in power costs. Under the June 2007 amendment to the TVA power contract, we have a greater supply of electric power available to underfeed the production process and increase our SWU production.

We supply uranium to the Russian Federation for the LEU we receive under the Russian Contract. We replenish our uranium inventory with uranium supplied by customers under our contracts for the sale of SWU and through underfeeding our production process. Our older contracts give customers the flexibility to determine the amounts of natural uranium that they deliver to us, which can result in our receiving less uranium from customers than we transfer from our inventory to the Russian Federation under the Russian Contract. Our new SWU sales contracts and certain of those contracts that we have renegotiated require customers to deliver a greater amount of natural uranium to us. Although this means we will sell less SWU under these contracts, the natural uranium delivered to us by customers is approaching the amounts we utilize in our production process and must deliver under the Russian Contract.

Although we have reduced supplies of uranium available for sale compared with prior years, we expect to opportunistically sell uranium inventory in excess of internal needs. The recognition of revenue and earnings for uranium sales is deferred until uranium or LEU to which the customer has title is physically delivered rather than at the time title transfers to the customer. The timing of revenue recognition for uranium sales is uncertain.

Revenue from U.S. Government Contracts

We perform and earn revenue from contract work for DOE and DOE contractors at the Paducah and Portsmouth plants, including contracts for cold standby or cold shutdown and processing out-of-specification uranium at the Portsmouth plant. DOE and USEC have periodically extended the cold standby program, and we anticipate continued funding through 2008. The program was redefined beginning in 2006 to include actions necessary to prepare for a DOE decontamination and decommissioning program, which we refer to as “cold shutdown”. Processing of USEC-owned out-of-specification uranium under contract with DOE was completed in October 2006, and we expect that the processing of DOE-owned out-of-specification uranium for DOE will continue through September 2008. Continuation of U.S. government contracts is subject to DOE funding and Congressional appropriations, and the processing of out-of-specification uranium is currently funded through February 2008.

Revenue from U.S. government contracts is based on allowable costs determined under government cost accounting standards. Allowable costs include direct costs as well as allocations of indirect plant and corporate overhead costs and are subject to audit by the Defense Contract Audit Agency. DCAA is in the process of reviewing the final settlement of allowable costs proposed by us for the fiscal year ended June 2002, the six months ended December 2002, the year ended December 2003, and the year ended December 2004. Also refer to “DOE Contract Services Matter” and “Defense Contract Audit Agency Audit Inquiry” in note 8 to the Consolidated Condensed Financial Statements. Revenue from U.S. government contracts includes revenue from NAC.

Cost of Sales

Cost of sales for SWU and uranium is based on the amount of SWU and uranium sold during the period and is determined by a combination of inventory levels and costs, production costs, and purchase costs. Production costs consist principally of electric power, labor and benefits, long-term depleted uranium disposition cost estimates, materials, depreciation and amortization, and maintenance and repairs. Under the monthly moving average inventory cost method coupled with our inventories of SWU and uranium, an increase or decrease in production or purchase costs will have an effect on inventory costs and cost of sales over current and future periods.

We have agreed to purchase approximately 5.5 million SWU each calendar year for the remaining term of the Russian Contract through 2013. Purchases under the Russian Contract are approximately 50% of our supply mix. Prices are determined using a discount from an index of international and U.S. price points, including both long-term and spot prices. A multi-year retrospective of the index is used to minimize the disruptive effect of short-term market price swings. Increases in these price points in recent years have resulted, and likely will continue to result, in increases to the index used to determine prices under the Russian Contract. Officials of the Russian government have announced that Russia will not extend the Russian Contract or the government-to-government agreement it implements, beyond 2013. Accordingly, we do not anticipate that we will purchase significant quantities of Russian SWU after 2013.

We provide for the remainder of our supply mix from the Paducah gaseous diffusion plant. The gaseous diffusion process uses significant amounts of electric power to enrich uranium. In 2006, the power load at the Paducah plant averaged 1,370 megawatts and we expect the average power load at the Paducah plant to increase in 2007. We purchase electric power for the Paducah plant under a power purchase agreement signed with TVA in 2000. On June 1, 2006, fixed, below market prices under the 2000 TVA power contract expired and a one-year pricing agreement went into effect. Costs for electric power increased from approximately 60% of production costs at the Paducah plant under the pre-2006 agreement to approximately 70%. Pricing for the one-year term ending May 2007 was about 50% higher than the pre-2006 pricing, and was also subject to a fuel cost adjustment to reflect changes in TVA's fuel costs, purchased power costs, and related costs. Upon the expiration of this one-year pricing agreement, effective June 1, 2007, we amended the TVA power contract to provide for the quantity and pricing of power purchases for the five-year period June 1, 2007 through May 31, 2012, extending the overall term of the power contract by two additional years to May 31, 2012.

Pricing under the 2007 amendment continues to consist of a summer and a non-summer base energy price through May 31, 2008. Beginning June 1, 2008, the price consists of a year-round base energy price that increases moderately based on a fixed, annual schedule. All years remain subject to a fuel cost adjustment provision. The initial power price under the 2007 amendment represents a modest reduction from the actual price paid under the previous one-year pricing, in each case after taking into account the fuel cost adjustment. The impact of future fuel cost adjustments is uncertain and our cost of power could fluctuate in the future.

The increase in electric power costs from the pre-2006 pricing has significantly increased overall LEU production costs and reduced cash flows, and negatively affects our gross profit margin as higher production costs are reflected in cost of sales under our monthly moving average cost of inventory.

The quantity of power purchases under the 2007 amendment generally ranges from 300 megawatts in the summer months (June – August) to up to 2,000 megawatts in the non-summer months. This is an increase from previous quantities in the non-summer months. During the last two years of the contract, the quantity of non-summer power purchases will be reduced to a maximum of 1,650 megawatts at all hours. This is designed to provide a transition down for the TVA power system because of the significant amount of power being purchased by us. Consistent with past practice, we also purchased from TVA and another third party, at market-based prices, an additional 600 megawatts of power during the summer months of 2007.

Because of the increased quantities in the non-summer months, the 2007 amendment also provides for an increase in the amount of financial assurances we provide to TVA to support our payment obligations. These include a letter of credit and weekly prepayments based on the price and usage of power.

We store depleted uranium at the Paducah and Portsmouth plants and accrue estimated costs for its future disposition. We anticipate that we will send most or all of our depleted uranium to DOE for disposition unless a more economic disposal option becomes available. DOE is constructing facilities at the Paducah and Portsmouth plants to process large quantities of depleted uranium owned by DOE. Under federal law, DOE would also process our depleted uranium if we provided it to DOE for disposal. If we were to dispose of our uranium in this way, we would be required to reimburse DOE for the related disposition costs of our depleted uranium, including our pro rata share of DOE's capital costs. Our estimate of the unit disposal cost is based primarily on estimated cost data obtained from DOE without consideration given to contingencies or reserves, and was increased by 2% in the first quarter of 2007 as a result of our review of current data available. The NRC requires that we guarantee the disposition of our depleted uranium with financial assurance (refer to "Liquidity and Capital Resources – Financial Assurances and Related Liabilities"). Our estimate of the unit disposition cost for accrual purposes is approximately 35% less than the unit disposition cost for financial assurance purposes, which includes contingencies and other potential costs as required by the NRC. Our estimated cost and accrued liability, as well as financial assurance we provide for the disposition of depleted uranium, are subject to change as additional information becomes available.

American Centrifuge Technology Costs

Costs relating to the demonstration and deployment of the American Centrifuge technology are charged to expense or capitalized based on the nature of the activities and estimates and judgments involving the completion of project milestones. Centrifuge costs relating to the demonstration of American Centrifuge technology are charged to expense as incurred. Demonstration costs include NRC licensing of the American Centrifuge Demonstration Facility in Piketon, Ohio, engineering activities, and assembling and testing of centrifuge machines and equipment at centrifuge test facilities located in Oak Ridge, Tennessee and at the American Centrifuge Demonstration Facility. Capitalized costs relating to the American Centrifuge technology include NRC licensing, engineering activities, construction of centrifuge machines and equipment, leasehold improvements and other costs directly associated with the American Centrifuge Plant. Capitalized centrifuge costs are recorded in property, plant and equipment as part of construction work in progress. The continued capitalization of such costs is subject to ongoing review and successful project completion, including NRC licensing, financing, and installation and operation of centrifuge machines and equipment.

During the first half of 2007 and in prior periods we were principally in a demonstration phase of the American Centrifuge project and, as a result, the majority of our expenditures on the project were expensed. In the third quarter, we moved into a commercial plant phase where an increasing amount of costs will be capitalized as part of the American Centrifuge Plant. Our move from a demonstration phase to a commercial plant phase was based on management's judgment that the technology has a high probability of commercial success and meets internal targets related to physical control, technical achievement and economic viability. If conditions change and deployment were no longer probable, costs that were previously capitalized would be charged to expense.

Expenditures related to American Centrifuge technology for the nine months ended September 30, 2007 and 2006, as well as cumulative expenditures as of September 30, 2007, follow (in millions):

	Nine Months Ended September 30,		Cumulative as of September 30,
	2007	2006	2007
Total expenditures, including accruals (A)	$ 170.3	$ 91.2	$ 541.0
Amount expensed	$ 99.2	$ 69.7	$ 406.6
Amount capitalized (B)	$ 71.1	$ 21.5	$ 134.4

(A) Total expenditures are all American Centrifuge costs including, but not limited to, demonstration facility, licensing activities, commercial plant facility, program management, interest related costs and accrued asset retirement obligations.

(B) Cumulative capitalized costs as of September 30, 2007 include interest of $8.8 million and include prepayments made to suppliers for services not yet performed of $7.7 million.

For discussions of the financing plan for the American Centrifuge program, see "Management's Discussion and Analysis – Liquidity and Capital Resources." For discussions of the target cost estimate for the American Centrifuge program, see "Management's Discussion and Analysis – Our View of the Business Today." Risks and uncertainties related to the demonstration, construction and deployment of the American Centrifuge technology are described in Part II, Item 1A, "Risk Factors" of this report.

Advanced technology costs also include research and development efforts undertaken for NAC, relating primarily to its new generation MAGNASTOR™ dual-purpose dry storage system for spent fuel.

Russian Suspension Agreement

Imports of LEU and other uranium products produced in the Russian Federation are subject to restrictions imposed under the Russian Suspension Agreement. In July 2005, the Department of Commerce (the "DOC") and the International Trade Commission (the "ITC") each initiated a "sunset" review of the Russian Suspension Agreement to determine whether termination of the Russian Suspension Agreement is likely to lead to:

- a continuation or recurrence of dumping of Russian uranium products (a determination made by the DOC), and
- a continuation or recurrence of material injury to the U.S. uranium industry, including to us (a determination made by the ITC).

We supported continuation of the Russian Suspension Agreement in the proceedings before both the DOC and ITC, and actively participated in these proceedings.

In 2006, the DOC and the ITC made affirmative determinations, meaning that, absent reversal on appeal, the Russian Suspension Agreement would not be terminated as a result of the sunset review. However, parties who opposed continuation of the Russian Suspension Agreement subsequently appealed the determinations of the DOC and the ITC to the U.S. Court of International Trade (the "CIT"). They argued, among other things, that a decision of the U.S. Court of Appeals for the Federal Circuit (the "Federal Circuit") required that imports of LEU pursuant to enrichment services transactions should not have been considered by the DOC and the ITC in making their affirmative determinations.

On September 26, 2007, the CIT remanded the DOC's decision in the sunset review back to the DOC for reconsideration in light of the Federal Circuit decision. It also directed the DOC to reexamine its findings concerning the likelihood of continued or recurring dumping and the margin of dumping likely to prevail. The results of the DOC's reconsideration are due to be filed with the CIT on November 26, 2007 and the CIT will then decide whether to accept the DOC's results or to remand the case to the DOC for further analysis.

In the remand proceeding, the DOC may narrow the scope of the investigation and the Russian Suspension Agreement to exclude LEU imported pursuant to enrichment services transactions. In connection with that determination or on another basis, the DOC could even reverse its earlier affirmative determination in the sunset review. Such a negative determination would result in termination of the Russian Suspension Agreement and the antidumping investigation it suspended. Termination of the Russian Suspension Agreement could result in a significant increase in sales of Russian-produced LEU in the United States that could depress prices and undermine our ability to sell the large quantity of LEU that we are committed to purchase under the Russian Contract as well as our ability to sell our own LEU production. This would substantially reduce our revenues, gross profit margins and cash flows and adversely affect the economics of the American Centrifuge program and our ability to finance it. Even if the Russian Suspension Agreement remains in place, we could face similar adverse impacts if a narrowing of the scope of the investigation and the Russian Suspension Agreement permits the importation of large quantities of Russian LEU pursuant to enrichment services transactions.

The results of the remand to the DOC can be contested at the CIT and thereafter appealed to the Federal Circuit. Depending on the outcome of that appeal, the parties could request the U.S. Supreme Court to review the case.

The Russian government has been negotiating with the U.S. government regarding modifications to the Russian Suspension Agreement that would permit direct sales of Russian LEU to U.S. utilities within certain quota limits. Although we believe the Russian and U.S. governments could initial such an agreement soon, one or both of the parties may delay bringing the amendment into force in light of the CIT's decision to remand the sunset review decision to the DOC. Even if the amendment is brought into force, the Russian government, importers of Russian LEU or others may seek to circumvent any quota limitations under the amendment by arguing that imports of Russian LEU for sale in enrichment services transactions should be excluded from the quota under the authority of the Federal Circuit's decision. If the DOC adopts this position, any quota on imports of Russian LEU under a Russian Suspension Agreement amendment could be rendered ineffective as a means of controlling imports of Russian LEU.

Government Investigation of LEU Imports from France

In 2002, the DOC imposed antidumping and countervailing duty (anti-subsidy) orders on imports of LEU produced in France. Since 2002, these orders have been challenged and impacted by further judicial and administrative actions, and as a result of these challenges, the countervailing duty order was revoked in May 2007.

In 2005, the Federal Circuit concluded that imports of French LEU pursuant to enrichment services transactions were not subject to the antidumping law because such transactions involved a sale of "services" rather than a sale of merchandise. Following that decision, the DOC issued a remand determination excluding imports pursuant to SWU transactions from the scope of the antidumping duty order and establishing a mechanism for the French enricher and U.S. utilities to certify that specific imports fall within that exclusion. The implementation of that remand decision has been held in abeyance until a final and conclusive court decision is issued in the appeal.

We and the U.S. government appealed the remand determination seeking to more clearly define how to apply the Federal Circuit's 2005 decision. On September 21, 2007, the Federal Circuit declined to rule on our appeals, stating that it was premature for the Court to make a decision on how the 2005 decision would apply in practice until the DOC had actually reviewed specific imports involving enrichment services transactions. This had the following effects:

- We now expect that the application of the Federal Circuit's 2005 decision to individual imports of LEU from France will be decided in the first instance by the DOC, on a case by case basis based upon certifications and other documentation submitted by U.S. utilities and the French exporter.
- The Federal Circuit's ruling concluded the pending litigation before the Federal Circuit concerning the implementation of the Federal Circuit's 2005 decision regarding the exclusion of enrichment services transactions from the antidumping law. It is now possible for any of the parties, including us, to seek review of the 2005 decision by the U.S. Supreme Court. If the U.S. Supreme Court were to agree to review the case, it could reverse or modify the 2005 decision.

We continue to believe that the 2005 decision created an unwarranted exception to the antidumping law that will adversely affect the ability of the U.S. government to ensure that unfairly priced imports of LEU do not undermine the viability of the U.S. uranium industry. Accordingly, we are carefully considering the possibility of seeking U.S. Supreme Court review.

On January 3, 2007, the DOC and the ITC initiated sunset reviews of the antidumping order against French LEU. On May 3, 2007, the DOC determined that termination of the antidumping order is likely to lead to a continuation or recurrence of dumping of French LEU. In November 2007, the ITC is expected to determine whether termination of the order is likely to lead to a continuation or recurrence of material injury to the U.S. enrichment industry. Unless the ITC makes an affirmative determination, the antidumping order will be revoked as of January 2007 and French LEU could again be sold in the United States without restriction. We believe that the absence of any limitation on dumped French LEU could undermine market prices for SWU and result in lost sales by us. Therefore, we are supporting continuation of the order in the proceedings before the ITC.

Results of Operations – Three and Nine Months Ended September 30, 2007 and 2006

The following tables show for the three and nine months ended September 30, 2007 and 2006, certain items from the accompanying consolidated condensed statements of income detailed by reportable segments and in total.

Segment Information

We have two reportable segments measured and presented through the gross profit line of our income statement: the low enriched uranium ("LEU") segment with two components, separative work units ("SWU") and uranium, and the U.S. government contracts segment. The LEU segment is our primary business focus and includes sales of the SWU component of LEU, sales of both SWU and uranium components of LEU, and sales of uranium. The U.S. government contracts segment includes work performed for DOE and DOE contractors at the Portsmouth and Paducah gaseous diffusion plants as well as nuclear energy services and technologies provided by NAC. Intersegment sales between the reportable segments were less than $0.1 million in each period presented below and have been eliminated in consolidation. Segment information follows (in millions):

	Three Months Ended September 30, 2007			Three Months Ended September 30, 2006		
	LEU Segment	U.S. Government Contracts Segment	Total	LEU Segment	U.S. Government Contracts Segment	Total
Revenue	$ 585.7	$ 49.0	$ 634.7	$ 371.0	$ 46.8	$ 417.8
Cost of sales	480.3	42.4	522.7	326.7	39.0	365.7
Gross profit	$ 105.4	$ 6.6	$ 112.0	$ 44.3	$ 7.8	$ 52.1

	Nine Months Ended September 30, 2007			Nine Months Ended September 30, 2006		
	LEU Segment	U.S. Government Contracts Segment	Total	LEU Segment	U.S. Government Contracts Segment	Total
Revenue	$ 1,168.6	$ 142.2	$ 1,310.8	$ 1,156.1	$ 148.3	$ 1,304.4
Cost of sales	976.3	121.6	1,097.9	956.9	123.8	1,080.7
Gross profit	$ 192.3	$ 20.6	$ 212.9	$ 199.2	$ 24.5	$ 223.7

Revenue

Total revenue increased $216.9 million (or 52%) in the three months and $6.4 million (or less than 1%) in the nine months ended September 30, 2007, compared to the corresponding periods in 2006. Revenues from the LEU segment are presented in the following table (in millions, except percentage change):

	Three Months Ended			
	September 30, 2007	September 30, 2006	Increase (Decrease)	Percentage Change
SWU Revenue	$ 483.5	$ 336.6	$ 146.9	44%
Uranium Revenue	102.2	34.4	67.8	197%
Total LEU Revenue	$ 585.7	$ 371.0	$ 214.7	58%

	Nine Months Ended			
	September 30, 2007	September 30, 2006	Increase (Decrease)	Percentage Change
SWU Revenue	$ 1,034.4	$ 974.9	$ 59.5	6%
Uranium Revenue	134.2	181.2	(47.0)	(26)%
Total LEU Revenue	$ 1,168.6	$ 1,156.1	$ 12.5	1%

The volume of SWU sales increased 36% in the three months ended September 30, 2007, and declined 2% in the nine months ended September 30, 2007, compared to the corresponding periods in 2006, due to the timing of utility customer refuelings. We estimate the volume of SWU sales in 2007 will be roughly 8% higher than in 2006. Revenue from the sales of SWU under barter contracts, based on the estimated fair value of uranium received in exchange for SWU, was $50.8 million in the nine months ended September 30, 2007 compared to $12.5 million in the corresponding period in 2006. The barter sales occurred in the first quarters of 2007 and 2006.

The average price billed to customers for sales of SWU increased 6% in the three months and 8% in the nine months ended September 30, 2007, compared to the corresponding periods in 2006. The increases reflect higher prices charged to customers under contracts signed in recent years, price increases from contractual provisions for inflation and market adjustments, and the customer mix.

The volume of uranium sold increased 15% in the three months ended September 30, 2007, and declined 56% in the nine months ended September 30, 2007, compared to the corresponding periods in 2006, representing a decline in inventory of uranium available for sale. The average price for uranium delivered increased 159% in the three-month period and 70% in the nine-month period, reflecting higher prices charged to customers under contracts signed in recent years.

Revenue from the U.S. government contracts segment increased $2.2 million (or 5%) in the three months ended September 30, 2007, and declined $6.1 million (or 4%) in the nine months ended September 30, 2007, compared to the corresponding periods in 2006. The decline for the nine-month period is due primarily to net declines in DOE and other contract work at the Portsmouth and Paducah gaseous diffusion plants.

Cost of Sales

Cost of sales for SWU and uranium increased $153.6 million (or 47%) in the three months ended September 30, 2007, compared to the corresponding period in 2006, due to an increase in SWU sales volume and increases in unit costs. In the nine-month period, cost of sales for SWU and uranium increased $19.4 million (or 2%), due to increases in unit costs that were largely offset by declines in sales volume. Cost of sales per SWU was 5% higher in the three-month period and 8% higher in the nine-month period, reflecting increases in the monthly moving average inventory costs. Our inventory costs reflect increasing production costs and costs of purchasing SWU under the Russian Contract. Under the monthly moving average inventory cost method we use to value our SWU and uranium inventories, an increase or decrease in production or purchase costs has an effect on inventory costs and cost of sales over current and future periods.

Production costs increased $12.8 million (or 7%) in the three months ended September 30, 2007, compared to the corresponding period in 2006, reflecting a 9% increase in production volume partly offset by a 1% decrease in unit production costs. The average cost per megawatt hour increased by 1% in the three-month period and was offset on a unit cost basis by declines in other production costs.

Production costs increased $114.4 million (or 26%) in the nine months ended September 30, 2007, compared to the corresponding period in 2006, reflecting a 20% increase in unit production costs and a 5% increase in production volume. The cost of electric power increased $109.6 million in the nine-month period reflecting increases in the average cost per megawatt hour and, to a lesser extent, the increase in production volume.

We purchase approximately 5.5 million SWU per year under the Russian Contract. Purchase costs for the SWU component of LEU under the Russian Contract increased $39.6 million in the three months and $16.2 million in the nine months ended September 30, 2007, compared to the corresponding periods in 2006, reflecting increases in the market-based purchase cost and increased volume in the three-month period based on the timing of deliveries.

Cost of sales for the U.S. government contracts segment increased $3.4 million (or 9%) in the three months and declined $2.2 million (or 2%) in the nine months ended September 30, 2007, compared to the corresponding periods in 2006. The decline for the nine-month period is due primarily to net declines in DOE and other contract work at the Portsmouth and Paducah gaseous diffusion plants.

Gross Profit

Our gross profit margin was 17.6% in the three months ended September 30, 2007, compared to 12.5% in the corresponding period in 2006, reflecting higher average sale prices for uranium and SWU, partly offset by higher costs of sales. Our gross profit margin was 16.2% in the nine months ended September 30, 2007, compared with 17.1% in the corresponding period in 2006, reflecting higher production costs resulting from an increase in power costs beginning in June 2006 and declines in the volume of high-margin uranium sales, partly offset by higher average sale prices.

Gross profit for SWU and uranium increased $61.1 million (or 138%) in the three months ended September 30, 2007, compared to the corresponding period in 2006, due to higher average sale prices and an increase in SWU sales volume, partly offset by higher costs of sales. Gross profit for SWU and uranium declined $6.9 million (or 3%) in the nine-month period reflecting a decline primarily in uranium sales volume, largely offset by increases in the average sale prices for uranium and SWU.

Gross profit for the U.S. government contracts segment declined $1.2 million (or 15%) in the three months and $3.9 million (or 16%) in the nine months ended September 30, 2007, compared to the corresponding periods in 2006 as a result of reduced DOE contract work and sales of lower margin contract services.

Non-Segment Information

The following table presents elements of the accompanying consolidated condensed statements of income that are not categorized by segment (amounts in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Gross profit	$ 112.0	$ 52.1	$ 212.9	$ 223.7
Special charge for organizational restructuring	—	(0.1)	—	1.4
Advanced technology costs	30.8	23.9	100.1	71.0
Selling, general and administrative	9.0	10.9	33.0	36.7
Operating income	72.2	17.4	79.8	114.6
Interest expense	3.3	3.2	9.2	11.4
Interest (income)	(3.9)	(1.7)	(21.7)	(4.0)
Income before income taxes	72.8	15.9	92.3	107.2
Provision for income taxes	27.2	6.0	20.8	41.1
Net income	**$ 45.6**	**$ 9.9**	**$ 71.5**	**$ 66.1**

Advanced Technology Costs

Advanced technology costs increased $6.9 million (or 29%) in the three months and $29.1 million (or 41%) in the nine months ended September 30, 2007, compared to the corresponding periods in 2006, reflecting demonstration costs for the American Centrifuge technology of $30.6 million and $99.2 million in the three and nine months ended September 30, 2007 compared to $23.5 million and $69.7 million in the three and nine months ended September 30, 2006. The remaining amounts included in advanced technology costs are for development efforts by NAC of its MAGNASTOR™ storage system.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses declined $1.9 million (or 17%) in the three months and $3.7 million (or 10%) in the nine months ended September 30, 2007, compared to the corresponding periods in 2006. The decline in the three-month period reflects reduced stock-based compensation expenses of $2.5 million resulting primarily from changes in our stock price from period to period, partly offset by an increase in consulting expenses of $0.5 million.

The decline in the nine-month period reflects a reversal of a previously accrued tax penalty of $3.4 million. We reached agreement with the IRS during the second quarter of 2007 on certain deductions related to expenditures made in the tax return years 1998 through 2000. Consulting expenses declined $1.0 million in the nine-month period. Offsetting these improvements were increased stock-based compensation expenses of $2.1 million resulting primarily from vesting of participants in our equity compensation plans.

Interest Expense and Interest Income

Interest expense declined $2.2 million (or 19%) in the nine months ended September 30, 2007, compared to the corresponding period in 2006, resulting primarily from our repayment of $288.8 million of our 6.625% senior notes in the first quarter of 2006 and changes in the utilization of our credit facility period to period, slightly offset by increases of accrued interest for taxes.

Interest income increased $2.2 million in the three months and $17.7 million in the nine months ended September 30, 2007, compared to the corresponding period in 2006, due, in large part, to reversals of previously accrued interest expense on taxes and interest expense recorded upon the adoption of FIN 48 effective January 1, 2007. These reversals relate to the expiration of the U.S. federal statute of limitations with respect to tax return years 1998 through 2003 and agreement on outstanding matters reached with the IRS during the second quarter of 2007.

Provision for Income Taxes

The provision for income taxes is $27.2 million in the three months and $20.8 million in the nine months ended September 30, 2007. The income tax provision was $6.0 million and $41.1 million in the corresponding three and nine month periods in 2006. In the first nine months of 2007, we recorded the effects of approximately $12.9 million of benefits due to reversals of accruals previously recorded and those associated with the adoption of FIN 48 effective January 1, 2007. These reversals resulted from the expiration of the U.S. federal statute of limitations with respect to tax return years 1998 through 2003. Excluding these reversals, the overall effective income tax rate for the nine months ended September 30, 2007 is 39% compared to 38% in the corresponding nine month period in 2006. The increase in our effective income tax rate from year to year is primarily attributable to changes in state tax laws effective January 1, 2007.

Net Income

Net income was $45.6 million (or $.52 per share) in the three months ended September 30, 2007, compared with net income of $9.9 million (or $.11 per share) in the corresponding period in 2006. The increase of $35.7 million reflects higher gross profits in the sales of SWU and uranium, partly offset by an increase in advanced technology costs.

Net income was $71.5 million (or $.82 per share) in the nine months ended September 30, 2007, compared with net income of $66.1 million (or $.76 per share) in the corresponding period in 2006. The increase of $5.4 million reflects $22.2 million of tax-related effects from the impact of reversals of accruals previously recorded and those associated with the adoption of FIN 48, released upon the U.S. federal statute of limitations expiration with respect to tax return years 1998 through 2003 and the completion of the IRS examination for all tax years through 2003. Partly offsetting the positive impact of the reversals was the after-tax impacts of our reduced gross profits and an increase in advanced technology costs.

2007 Outlook Update

We are updating our guidance for annual net income and cash flow from operations for 2007. Our guidance for 2007 net income is in a range of $80 to $90 million, and cash flow from operations is also in a range of $95 to $105 million.

Net income is expected to improve compared to our earlier guidance primarily due to a slight improvement to the gross profit margin and lower SG&A expenses. Cash flow from operations is expected to improve due to timing of customer collections in the fourth quarter, timing of payments to Russia and higher interest income.

Our projection for total revenue for 2007 remains approximately $1.91 billion, with approximately $1.55 billion coming from the sale of SWU. We expect our gross profit margin for 2007 to be 14% to 15%, a slight improvement over our previous guidance of 14% gross margin for 2007 but less than the 18% gross margin recorded in 2006.

We expect total spending on the American Centrifuge project in 2007 will be approximately $300 million, split between $135 million in expense and $150 million in capital expenditures, with the remainder representing prepayments for specialty materials and new manufacturing facilities for building the commercial plant AC100 centrifuges. During the third quarter, USEC determined that the project has moved from the demonstration phase to a commercial plant phase, and a significant portion of expenditures will be capitalized going forward. We continue to anticipate an increased rate of spending on the American Centrifuge Plant, with 2008 spending projected to be roughly $600 million. The timing of major procurement actions at year end could shift spending on the project between the two calendar years.

We expect SG&A expenses to be approximately $50 million for 2007 and net interest to be positive $12 million.

Even though we have a smaller inventory of uranium available for sale as compared with prior years, we expect to sell uranium in excess of internal needs opportunistically. These potential sales of additional uranium are not reflected in the net income and cash flow guidance described above.

Although customer orders are generally firm for 2007, this earnings and cash flow guidance is subject to assumptions and uncertainties that could affect results either positively or negatively. For example, movement of delivery dates could affect the period when revenue is recorded and when cash is collected from customers. Variations from our expectations could cause differences between our guidance and ultimate results.

Liquidity and Capital Resources

We provide for our liquidity requirements through our cash balances, working capital, access to our bank credit facility and most recently through the net proceeds from our issuances of convertible notes and common stock. We anticipate that our cash, expected internally generated cash flow from operations and available borrowings under our revolving credit facility will be sufficient over the next 12 months to meet our cash needs, including the funding of American Centrifuge project activities. However, under our current schedule and anticipating the additional maturity and progress of the American Centrifuge project, we expect that we will seek to raise debt for the American Centrifuge project in the second half of 2008. Additional funds may be necessary sooner than we currently anticipate in the event of changes in schedule, increases above our target cost estimate, unanticipated prepayments to suppliers, increases in financial assurance, cost overruns or any shortfall in our estimated levels of operating cash flow, or to meet other unanticipated expenses. We cannot assure you that we will be able to obtain additional financing on a timely basis, on acceptable terms, or at all. See "Risk Factors – Deployment of the American Centrifuge technology will require additional external financial and other support that may be difficult to secure."

In early 2007, we completed a comprehensive review of the cost of deploying the American Centrifuge Plant and established a target cost estimate of $2.3 billion. This target cost estimate includes amounts spent on the project through early 2007 and estimates for cost escalation, but does not include financing costs or a reserve for general contingencies. Based on information currently available to us, including costs incurred since establishing the target cost estimate in early 2007, initial bids and procurements from suppliers, feedback from consultants and other third parties, and our analysis of material, commodity and labor cost trends, we believe that our cost of deploying the American Centrifuge Plant is likely to be higher than provided for in our target cost estimate as a result of higher costs associated with the centrifuge machines being manufactured by our suppliers during the initial stage of deployment and higher costs in construction materials for completion of the plant. Spending as of September 30, 2007 of approximately $541 million, combined with contractual arrangements we have made and anticipate making in the near future for components of the American Centrifuge Plant exceeds the corresponding amounts included in our target cost estimate by approximately $150 million, or roughly 15%.

We expect to complete a comprehensive review and update of our target cost estimate for deployment of the American Centrifuge Plant in the first quarter of 2008. The cost estimate resulting from that review will take into account the costs and the cost trends that we have experienced during our initial procurements as well as our evaluation of material, commodity and labor cost trends. The target cost update will also for the first time include a reserve for general contingencies that will reflect the maturity of the project. The reserve for general contingencies, which is not included in our target cost estimate of $2.3 billion, will take into account potential variations in the project plans and uncertainty regarding associated costs that we cannot specifically identify at the time the estimate is prepared. We expect that the information available to us when we calculate the reserve for general contingencies in 2008 will allow us to develop a risk-based estimate at that time. Based on the limited information currently available to us, including cost data, initial bids and procurements from suppliers, feedback from consultants and other third parties, and our analysis of material, commodity and labor cost trends, we believe that a reserve for contingencies of approximately 15% to 20% of our current target cost estimate of $2.3 billion (which would reflect variances seen to date), is reasonable at this time.

In addition to providing for a reserve for general contingencies, our overall financing needs for the American Centrifuge project will also include additional costs not covered by our target cost estimate, such as financing costs, financial assurance requirements and operating costs related to commercial plant initial operations. At the end of 2007, we expect to provide an additional financial assurance of approximately $75 million relating to anticipated American Centrifuge Plant activities in 2008. See "– Financial Assurances and Related Liabilities."

We have spent approximately $541 million on the American Centrifuge project through September 30, 2007. Based on our current deployment schedule, we expect to spend approximately $130 million on the American Centrifuge project in the remainder of 2007 for total spending of approximately $300 million in 2007 and roughly $600 million in 2008.

The change in cash and cash equivalents from our consolidated statements of cash flows are as follows on a summarized basis (in millions):

	Nine Months Ended September 30,	
	2007	2006
Net Cash Provided by (Used in) Operating Activities	$ (104.3)	$ 153.0
Net Cash (Used in) Investing Activities	(69.9)	(29.6)
Net Cash Provided by (Used in) Financing Activities	777.6	(286.2)
Net Increase (Decrease) in Cash and Cash Equivalents	**$ 603.4**	**$ (162.8)**

Operating Activities

Cash flow used by operating activities was $104.3 million in the nine months ended September 30, 2007 compared with cash flow provided by operations of $153.0 million in the corresponding period in 2006, or $257.3 million more cash used by operating activities period to period.

During the first nine months ended September 30, 2007, results of operations of $71.5 million, which includes approximately $22.2 million of non-cash related reversals of tax-related accruals previously recorded and those associated with the adoption of FIN 48, contributed to our operating cash. Net inventory balances grew $91.1 million reflecting increased production costs. Accounts receivable increased $126.5 million following a high level of sales in the third quarter of 2007. The timing of purchases under the Russian Contract resulted in an increase in payables at September 30, 2007, providing $25.6 million of cash flow as of the end of the period.

During the first nine months ended September 30, 2006, results of operations contributed $66.1 million to cash flow along with a reduction in net inventory balances of $84.0 million since December 31, 2005, as we sold more from inventories than we produced. The reduction in our balances of accounts payable and other liabilities were principally from tax payments made during the period, from prepayment modifications under the 2006 amendment to the TVA contract, and from payments made to our former president and chief executive officer in settlement of his claims. These reductions in accounts payable and other liabilities reduced cash flow from operations by $76.2 million. Accounts receivable balances decreased $65.2 million, reflecting the timing of our sales volume following a high level of sales in the fourth quarter of 2005.

Investing Activities

Capital expenditures amounted to $65.9 million in the nine months ended September 30, 2007, compared with $29.6 million in the corresponding period in 2006. Capital expenditures include cash expenditures associated with the American Centrifuge Plant of $52.4 million in the nine months ended September 30, 2007, compared with $21.5 million in the corresponding period in 2006. In addition, cash deposits of $4.0 million were provided in March 2007 as collateral for an $8.1 million surety bond, in anticipation of receipt of the American Centrifuge Plant license from the NRC, which was received in April 2007.

Financing Activities

In September 2007, we raised net proceeds of approximately $775 million through the concurrent issuance of 23 million shares of common stock and $575 million in aggregate principal amount of convertible notes.

During the nine months ended September 30, 2007, aggregate borrowings and repayments under the revolving credit facility were $71.1 million, and the peak amount outstanding was $61.4 million. There were no borrowings under the revolving credit facility at September 30, 2007 or December 31, 2006.

We repaid the remaining principal balance of our 6.625% senior notes of $288.8 million on the scheduled maturity date of January 20, 2006, using cash on hand and borrowing under our bank credit facility of approximately $78.5 million. We repaid the $78.5 million borrowing with funds from operations by the end of January 2006.

There were 110.4 million shares of common stock outstanding at September 30, 2007, compared with 87.1 million at December 31, 2006, an increase of 23.3 million shares (or 27%), primarily due to our issuance of 23 million shares of common stock in September 2007.

Working Capital

	September 30, 2007	December 31, 2006
	(millions)	
Cash and cash equivalents	$ 774.8	$ 171.4
Accounts receivable – trade	342.4	215.9
Current inventories, net	958.4	843.1
Other current assets and liabilities, net	(310.5)	(246.4)
Working capital	**$ 1,765.1**	**$ 984.0**

The increase in cash and cash equivalents reflects net proceeds from the issuance and sale of common stock and convertible notes in September 2007.

Capital Structure and Financial Resources

At September 30, 2007, our long-term debt consisted of $575.0 million in 3.0% convertible senior notes due October 1, 2014 and $150.0 million of 6.75% senior notes due January 20, 2009. These notes are unsecured obligations and rank on a parity with all of our other unsecured and unsubordinated indebtedness. Our debt to total capitalization ratio was 37% at September 30, 2007 and 13% at December 31, 2006. We may, from time to time, purchase our outstanding 6.75% senior notes due January 20, 2009 for cash in open market purchases and/or privately negotiated transactions. We will evaluate any such transactions in light of then existing market conditions, taking into account our current liquidity and prospects for future access to capital. The amounts involved in any such transactions, individually or in the aggregate, may be material.

In August 2005, we entered into a five-year, syndicated bank credit facility, providing up to $400.0 million in revolving credit commitments, including up to $300.0 million in letters of credit, secured by assets of USEC Inc. and our subsidiaries. The credit facility is available to finance working capital needs, refinance existing debt and fund capital programs, including the American Centrifuge project.

Utilization of the revolving credit facility at September 30, 2007 and December 31, 2006 follows:

	September 30, 2007	December 31, 2006
	(millions)	
Short-term borrowings	$ —	$ —
Letters of credit	38.4	35.8
Available credit	361.6	346.2

Borrowings under the credit facility are subject to limitations based on established percentages of qualifying assets such as eligible accounts receivable and inventory. Available credit reflects the levels of qualifying assets at the end of the previous month less any borrowings or letters of credit, and will fluctuate during the quarter. Qualifying assets are reduced by certain reserves, principally a reserve for future obligations to DOE with respect to the turnover of the gaseous diffusion plants at the end of the term of the lease of these facilities. As a result of the capital we raised from the issuance of common stock and convertible notes in September 2007, qualifying assets are no longer reduced by a $150.0 million reserve referred to in the agreement as the "senior note reserve".

The revolving credit facility contains various reserve provisions that reduce available borrowings under the facility periodically or restrict the use of borrowings, including covenants that can periodically limit us to $50.0 million in capital expenditures based on available liquidity levels. Other reserves under the revolving credit facility, such as availability reserves and borrowing base reserves, are customary for credit facilities of this type.

Outstanding borrowings under the facility bear interest at a variable rate equal to, based on our election, either:

- the sum of (1) the greater of the JPMorgan Chase Bank prime rate and the federal funds rate plus 1/2 of 1% plus (2) a margin ranging from 0.25% to 0.75% based upon collateral availability, or
- the sum of LIBOR plus a margin ranging from 2.0% to 2.5% based on collateral availability.

The revolving credit facility includes various customary operating and financial covenants, including restrictions on the incurrence and prepayment of other indebtedness, granting of liens, sales of assets, making of investments, maintenance of a minimum amount of inventory, and payment of dividends or other distributions. Failure to satisfy the covenants would constitute an event of default under the revolving credit facility. As of September 30, 2007, we were in compliance with all of the covenants.

Our current credit ratings are as follows:

	Standard & Poor's	Moody's
Corporate credit/family rating	B-	B3
3.0% convertible senior notes	CCC	unrated
6.75% senior notes	CCC	Caa2
Outlook	Negative	Negative

We do not have any debt obligations that are accelerated or in which interest rates increase in the event of a credit rating downgrade, although reductions in our credit ratings may increase the cost and reduce the availability of financing to us in the future.

Contractual Commitments

As of September 30, 2007, significant new commitments entered into in 2007 follow (in millions):

	Through Sep. 30, 2008	Oct. 1, 2008 – Sep. 30, 2010	Oct. 1, 2010 - Sep. 30, 2012	Oct. 1, 2012 and Thereafter	Total
3.0% convertible senior notes (1)	$ —	$ —	$ —	$ 575.0	$ 575.0
Interest on convertible senior notes (1)	$ 8.6	$ 34.5	$ 34.5	$ 60.4	$ 138.0
Power purchase commitments for the Paducah plant (2)	$ 490.8	$ 1,034.5	$ 844.8	$ —	$ 2,370.1
American Centrifuge purchase commitments (3)	$ —	$ 38.0	$ 43.5	$ —	$ 81.5

(1) Assumes no conversion to shares of common stock. Interest is payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 1, 2008, through the maturity date of October 1, 2014.

(2) Capacity under the TVA power purchase agreement is fixed. Prices are subject to monthly fuel cost adjustments to reflect changes in TVA's fuel costs, purchased power costs, and related costs.

(3) Supply agreements were signed in 2007 for the purchase of materials, goods and services to be used in the manufacture of centrifuge machines to be used in the American Centrifuge Plant. Prices for minimum purchase commitments above are subject to adjustment for inflation. Contractual provisions for termination payments total $39 million for these agreements.

There were no other significant changes to our contractual commitments as presented in our 2006 Annual Report.

Financial Assurances and Related Liabilities

The NRC requires that we guarantee the disposition of our depleted uranium and stored wastes with financial assurance. The financial assurance in place for depleted uranium and stored wastes is based on the quantity of depleted uranium and waste at the end of the prior year plus expected depleted uranium generated over the current year. Financial assurances are also provided for the ultimate decontamination and decommissioning ("D&D") of the American Centrifuge facilities to meet NRC and DOE requirements. Surety bonds for the disposition of depleted uranium and for D&D are partially collateralized by interest earning cash deposits included in other long-term assets. A summary of financial assurances, related liabilities and cash collateral follows (in millions):

	September 30, 2007	December 31, 2006
Depleted Uranium:		
Long-term liability for depleted uranium disposition	$ 86.6	$ 71.5
Financial assurance primarily for depleted uranium:		
Letters of credit	$ 24.1	$ 24.1
Surety bonds	130.6	130.6
Total financial assurance primarily for depleted uranium	$ 154.7	$ 154.7
Decontamination and decommissioning ("D&D") of American Centrifuge:		
Long-term liability for asset retirement obligation	$ 3.9	$ 8.8
Financial assurance related to D&D:		
Letters of credit	$ —	$ —
Surety bonds	16.9	8.8
Total financial assurance related to D&D	$ 16.9	$ 8.8
Other financial assurance:		
Letters of credit	$ 14.3	$ 11.7
Surety bonds	2.2	3.6
Total other financial assurance	$ 16.5	$ 15.3
Total financial assurance:		
Letters of credit	**$ 38.4**	**$ 35.8**
Surety bonds	**149.7**	**143.0**
Total financial assurance	**$ 188.1**	**$ 178.8**
Cash collateral deposit for surety bonds for depleted uranium and D&D	**$ 66.2**	**$ 60.8**

We anticipate providing additional financial assurance during the fourth quarter of 2007 of approximately $30 million for depleted uranium expected to be generated in 2008. In addition, based on our projected construction progress on the American Centrifuge facility, we also anticipate providing approximately $75 million of D&D related financial assurance in the fourth quarter of 2007. Our cash collateral requirements are anticipated to be approximately 50% of these amounts.

Off-Balance Sheet Arrangements

Other than the letters of credit issued under the credit facility, the surety bonds as discussed above and certain contractual commitments disclosed in our 2006 Annual Report along with updates included in this quarterly report for our contractual commitments, there were no material off-balance sheet arrangements, obligations, or other relationships at September 30, 2007 or December 31, 2006.

New Accounting Standards Not Yet Implemented

Reference is made to New Accounting Standards Not Yet Implemented in note 1 of the notes to the consolidated condensed financial statements for information on new accounting standards.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

At September 30, 2007, the balance sheet carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and payables under the Russian Contract approximate fair value because of the short-term nature of the instruments.

USEC has not entered into financial instruments for trading purposes. At September 30, 2007, the fair value of USEC's debt, based on the most recent trading price, and related balance sheet carrying amounts follow (in millions):

	Balance Sheet Carrying Amount	Fair Value
Debt:		
6.75% senior notes due January 20, 2009	$ 150.0	$ 144.8
3.0% convertible senior notes due October 1, 2014	575.0	624.1
	$ 725.0	**$ 768.9**

Reference is made to additional information reported in management's discussion and analysis of financial condition and results of operations included herein for quantitative and qualitative disclosures relating to:

- commodity price risk for electric power requirements for the Paducah plant (refer to "Overview – Cost of Sales" and "Results of Operations – Cost of Sales"),
- commodity price risk for raw materials needed for construction of the American Centrifuge Plant, that could affect the overall cost of the project, and
- interest rate risk relating to any outstanding borrowings at variable interest rates under the $400.0 million revolving credit agreement (refer to "Liquidity and Capital Resources – Capital Structure and Financial Resources").

Item 4. ***Controls and Procedures***

Effectiveness of Our Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 1. ***Legal Proceedings***

Reference is made to information regarding (a) the U.S. Department of Justice's investigation of a possible claim relating to USEC's contract with the U.S. Department of Energy for the supply of cold standby services at the Portsmouth plant, (b) questions raised by the Defense Contract Audit Agency regarding the allowability of certain costs billed to DOE, and (c) an environmental matter involving Starmet CMI, the U.S. Environmental Protection Agency, USEC and others, reported in note 8 to the consolidated condensed financial statements.

USEC is subject to various other 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, we do not believe that the outcome of any of these legal matters will have a material adverse effect on our results of operations or financial condition.

Item 1A. ***Risk Factors***

Investors should carefully consider the updated risk factors below, in addition to the other information in our 2006 Annual Report on Form 10-K and in this quarterly report on Form 10-Q.

The long-term viability of our business depends on our ability to replace our current enrichment facility with the American Centrifuge Plant.

We currently depend on our gaseous diffusion facility in Paducah, Kentucky for approximately one-half of the LEU that we need to meet our delivery obligations to our customers and to generate uranium through underfeeding to satisfy our obligations under the Russian Contract. The gaseous diffusion technology that we use at the Paducah gaseous diffusion plant ("Paducah GDP"), is an older, high operating-cost technology that requires substantially greater amounts of electric power than the centrifuge technology used by our competitors. Due to significant increases in our power costs during recent periods and the possibility of additional power cost increases in the future, the production of LEU using gaseous diffusion technology is becoming increasingly uneconomic. We are focused on developing and deploying an advanced uranium enrichment centrifuge technology, which we refer to as the American Centrifuge technology, as a replacement for our gaseous diffusion technology. The American Centrifuge technology is more advanced and expected to operate substantially more cost-efficiently than gaseous diffusion. The American Centrifuge technology, however, has substantial capital costs and risks as further described below. We are not currently pursuing any strategies to replace the Paducah GDP with alternatives other than the American Centrifuge Plant. As a result, if we are unable to successfully and timely demonstrate and deploy the American Centrifuge Plant on a cost-effective basis, due to the risks and uncertainties described in this section or for any other reasons, our gross profit margins, cash flows, liquidity and results of operations would be materially and adversely affected and our business may not remain viable.

We face a number of risks and uncertainties associated with the successful and timely demonstration, construction and deployment of the American Centrifuge technology.

The American Centrifuge technology is expected to be more operationally cost-efficient than our gaseous diffusion technology that we currently depend on for LEU production at the Paducah GDP. However, the demonstration, construction and deployment of the American Centrifuge technology is a large and capital-intensive undertaking that is subject to numerous risks and uncertainties.

We are in the process of demonstrating the American Centrifuge technology and are working toward beginning commercial plant operations in late 2009 and having approximately 11,500 centrifuge machines deployed in 2012. However, to date we have experienced substantial delays in demonstrating the American Centrifuge technology and these delays have impacted our construction and deployment schedule and increased the overall costs of the project. The delays we have experienced to date resulted from a variety of factors including the failure of certain materials to meet specifications, performance problems with, and failures of, certain centrifuge components and the time-consuming process of ensuring compliance with new regulatory requirements.

In the beginning of 2007, we revised our deployment schedule and cost estimate to take account of the effect of delays experienced through the end of 2006. While the revised schedule takes into account the lessons we have learned in our efforts to deploy the American Centrifuge Plant to date, it is nevertheless ambitious. To maintain the revised schedule, we have made, and expect to continue to make, key decisions, including decisions to expend or commit to expend large amounts of capital and resources, before we have received all relevant centrifuge machine performance data and confirmation of the American Centrifuge project's costs, schedule and overall viability.

Additionally, our ability to meet the revised schedule depends on a number of factors that are outside of our control, including our reliance on third party suppliers for American Centrifuge components. The failure of any of our suppliers to provide their respective components as scheduled or at all could result in substantial delays in, or otherwise materially hamper, the deployment of the American Centrifuge Plant. There are a limited number of potential suppliers for these key components and finding alternate suppliers could be difficult, time consuming and costly. In addition, because such suppliers are few and due to our dependence on them for key components, our ability to obtain favorable contractual terms with these suppliers is limited. We have entered into and expect to enter into future agreements with suppliers in which we bear certain cost, schedule and performance risk. Although we will seek to address these risks, we cannot provide any assurance that we will be able to, which could result in cost increases and unanticipated delays. Our inability to effectively integrate these suppliers and other key third party suppliers could also result in delays and otherwise increase our costs.

As a result of these and other factors, including factors and circumstances similar to those that have delayed us in the past, we may be unable to meet our revised schedule. Significant delays in our revised schedule could:

- increase our costs for the project, both on an overall basis and in terms of the incremental costs we must incur to recover from delays,
- if the delays cause us to fail to meet a milestone under the 2002 DOE-USEC Agreement, lead DOE to exercise the remedies described below,
- make it more difficult for us to attract and retain customers who may want to contract for purchases of LEU beyond 2012 before we can enter into contracts for the sale of LEU generated by the American Centrifuge Plant, and
- extend the time under which we are contractually required to continue to operate our high-cost Paducah GDP.

Any of these outcomes could substantially reduce our revenues, gross profit margins, liquidity and cash flows and adversely affect the overall economics, ability to finance and the likelihood of successful deployment of the American Centrifuge Plant. This would have a material adverse impact on our business and prospects because we believe the long-term viability of our business depends on the successful deployment of the American Centrifuge Plant.

We are required to meet certain milestones under the 2002 DOE-USEC Agreement and our failure to meet these milestones or disagreements with DOE as to whether we met a milestone could cause DOE to exercise one or more remedies under the 2002 DOE-USEC Agreement.

The 2002 DOE-USEC Agreement contains specific project milestones relating to the American Centrifuge Plant. In March 2007 we received approval from DOE to revise and extend the October 2006 milestone by one year and to extend the January 2007 financing milestone by one year. In approving these extensions, DOE reserved its rights and remedies under the 2002 DOE-USEC Agreement.

We believe that data gathered from our Lead Cascade test program demonstrate our achievement of the October 2007 milestone of having the Lead Cascade operational and generating product assay in a range useable by nuclear power plants and have reported this to DOE. However, DOE is not obligated under the 2002 DOE-USEC Agreement to provide any formal confirmation that we have met this or any other milestone.

We also believe that the proceeds from our September 2007 issuance of common stock and convertible notes, along with our existing $400 million revolving credit facility and anticipated cash flow from operations have positioned us to be able to meet the January 2008 milestone of having a financing commitment secured for a one million SWU per year centrifuge plant. However, increases above our target cost estimate, cost overruns, shortfalls in our estimated levels of operating cash flow, other unanticipated expenses and other uncertainties could affect our ability to demonstrate the achievement of this milestone.

Including the January 2008 milestone, three mandatory milestones and one optional milestone remain:

- ***January 2008:*** Financing commitment secured for a one million SWU per year centrifuge plant;
- ***January 2009:*** Begin American Centrifuge commercial plant operations at the facility in Piketon, Ohio;
- ***March 2010:*** American Centrifuge Plant capacity at one million SWU per year; and
- ***September 2011:*** American Centrifuge Plant (if expanded at our option) projected to have an annual capacity of 3.5 million SWU.

Our revised schedule for deploying the American Centrifuge Plant is later than the schedule established by the January 2009, March 2010 and September 2011 milestones above. While we believe that we will reach a mutually acceptable agreement with DOE regarding rescheduling of these milestones, we cannot assure you that we will reach such an agreement.

If DOE determines that we failed to comply with the terms of the 2002 DOE-USEC Agreement, including if DOE determines we did not meet one or more of the milestones that we believe we have met, then, unless such failure is determined to arise from causes beyond our control and without our fault or negligence, DOE could exercise one or more remedies under the 2002 DOE-USEC Agreement. These remedies could include terminating the 2002 DOE-USEC Agreement, revoking our access to DOE's U.S. centrifuge technology that we require for the success of the American Centrifuge project and requiring us to transfer our rights in the American Centrifuge technology and facilities to DOE, and requiring us to reimburse DOE for certain costs associated with the American Centrifuge project. DOE could also recommend that we be removed as the sole Executive Agent under the Megatons-to-Megawatts program. Any of these actions could have a material adverse impact on our business and prospects. Once we have met the January 2008 milestone, DOE's ability to take these actions is limited to circumstances in which failure to meet a milestone is attributable to our gross negligence in project planning or execution or where we constructively or formally abandon the project.

Deployment of the American Centrifuge technology will require additional external financial and other support that may be difficult to secure.

We will require a significant amount of capital to achieve commercial deployment of the American Centrifuge Plant. Under our revised deployment schedule, spending on the American Centrifuge project will increase substantially after 2007, with spending in 2008 currently projected to be roughly $600 million. We cannot assure you that we will be able to obtain sufficient additional external financing and we cannot predict the cost or terms on which such financing will be available, if at all, to continue our operations and deployment of the American Centrifuge Plant.

We have been pursuing a DOE loan guarantee and submitted a pre-application in December 2006. However, we were not one of the 16 projects that DOE invited to submit a full application in early October 2007. The timing of the next round of loan guarantees is uncertain and will require Congressional action and appropriations and we cannot give any assurances that there will be additional appropriations or that we will be invited to participate in the timeframe we need to raise capital, if at all.

Factors that could affect our ability to obtain financing or the cost of such financing could include:

- the success of our demonstration of the American Centrifuge technology and the estimated costs, efficiency, timing and return on investment of the deployment of the American Centrifuge Plant,
- consequences of a failure to reach an agreement with DOE regarding future milestones under the 2002 DOE-USEC Agreement or the determination by DOE that we have not complied with a prior milestone that we believe we met,
- our ability to get loan guarantees or other support from the U.S. government,
- competition for financing from other uranium enrichment projects and nuclear-related projects generally,
- the impact of reductions or changes in trade restrictions on imports of Russian and other foreign LEU and related uncertainties,
- SWU prices,
- our perceived competitive position,
- our ability to secure long-term SWU purchase commitments from customers at adequate prices and for adequate duration,
- projected costs for the disposal of depleted uranium and the decontamination and decommissioning of the American Centrifuge Plant, and the impact of related financial assurance requirements,
- additional downgrades in our credit rating,
- market price and volatility of our common stock,
- general economic and capital market conditions,
- conditions in energy markets,
- regulatory developments,
- investor confidence in our industry and in us,
- our reliance on LEU delivered to us under the Russian Contract,
- the level of success of our current operations, and
- restrictive covenants in the agreements governing our revolving credit facility and in our outstanding notes and any future financing arrangements that limit our operating and financial flexibility.

We cannot assure you that we will attract the capital we need to complete the American Centrifuge project in a timely manner or at all. If we do not, we might be forced to slow or stop spending on the project, which could result in delays and increased costs, and potentially make the project uneconomic. This would have a material adverse impact on our business and prospects because we believe the long-term viability of our business depends on the successful deployment of the American Centrifuge project.

Our estimates of the costs of the American Centrifuge project are subject to significant uncertainties that could adversely affect our ability to finance and deploy the American Centrifuge Plant.

In early 2007, we completed a comprehensive review of the cost of deploying the American Centrifuge Plant and established a target cost estimate of $2.3 billion. That target cost estimate included amounts spent on the project through early 2007 and estimates for cost escalation, but did not include financing costs or a reserve for general contingencies. Our target cost estimate assumes that we will be successful in reducing the capital cost per machine over time based on value engineering the design of centrifuge machines for high-volume manufacturing.

Our cost estimates for the American Centrifuge project are based on many assumptions that are subject to change as new information becomes available or as unexpected events occur. For example, spending as of September 30, 2007 of approximately $541 million, combined with contractual arrangements we have made and anticipate making in the near future for components of the American Centrifuge Plant exceeds the corresponding amounts included in our target cost estimate by approximately $150 million, or roughly 15%. Some of the key variables in our estimates are difficult to quantify with certainty at this stage of the project. Further, several key variables such as the cost of raw materials to build the plant and general inflation, are outside our control. It is also difficult to quantify with certainty at this stage the cost of manufacturing complex centrifuge machine components on a commercial scale. This manufacturing will be done by third parties and while our cost estimates reflected preliminary input from our project suppliers, we will not know the actual cost until we finalize the design of the centrifuge machines and enter into contractual arrangements with these project suppliers.

Based on information currently available to us, including costs incurred since establishing the target cost estimate in early 2007, initial bids and procurements from suppliers, feedback from consultants and other third parties, and our analysis of material, commodity and labor cost trends, we believe that our cost of deploying the American Centrifuge Plant is likely to be higher than provided for in our target cost estimate as a result of higher costs associated with the centrifuge machines being manufactured by our suppliers during the initial stage of deployment and higher costs in construction materials for completion of the plant. Working closely with key suppliers, we are seeking to reduce the capital cost per machine while maintaining performance objectives to help achieve our target cost estimate. We continue to simplify the design of the centrifuge machines in order to reduce costs as well as to take advantage of technological advancements to improve performance. We believe that success in these value engineering efforts by our project team and our strategic suppliers may help to offset higher materials costs seen in some of the initial American Centrifuge project procurements, but we cannot assure you that such offsets will be achieved or that we will otherwise meet our target cost estimate.

In addition, our current target estimate for the deployment of the American Centrifuge Plant of $2.3 billion assumes that we are able to comply with an ambitious schedule for demonstration and deployment activities and achieve certain costs savings in 2007 and beyond. We may not be able to maintain this schedule or achieve these cost savings.

We expect to complete a comprehensive review and update of our target cost estimate for deployment of the American Centrifuge Plant in the first quarter of 2008. The cost estimate resulting from that review will take into account the costs and the cost trends we have experienced during our initial procurements as well as our evaluation of material, commodity and labor cost trends. Given the roughly 15% variance in spending to date and contractual arrangements as compared with our target cost estimate, unless we can identify further cost savings, including through the contracts that we are negotiating with our key suppliers, the target cost estimate we expect to establish in the first quarter of 2008 will be greater than the $2.3 billion target cost estimate established in early 2007.

The target cost update will also for the first time include a reserve for general contingencies that will reflect the maturity of the project. The reserve for general contingencies, which is not included in our target cost estimate of $2.3 billion, will take into account potential variations in the project plans and uncertainty regarding associated costs that we cannot specifically identify at the time the estimate is prepared. We expect that the information available to us when we calculate the reserve for general contingencies in 2008 will allow us to develop a risk-based estimate at that time. Based on the limited information currently available to us, including cost data, initial bids and procurements from suppliers, feedback from consultants and other third parties, and our analysis of material, commodity and labor cost trends, we believe that a reserve for general contingencies of approximately 15% to 20% of our current target cost estimate of $2.3 billion (which would reflect variances seen to date), is reasonable at this time. Nevertheless, given the uniqueness of the American Centrifuge project, we cannot assure investors that the actual amount eventually required for general contingencies will be within this range. In addition to providing a reserve for general contingencies, our overall financing needs for the American Centrifuge project will also include additional costs not covered by our target cost estimate, such as financing costs, financial assurance requirements and operating costs related to commercial plant initial operations.

We cannot assure investors that costs associated with the American Centrifuge Plant will not be materially higher than anticipated or that efforts that we take to mitigate cost increases will be successful or sufficient. Regardless of our success in demonstrating the technical viability of the American Centrifuge technology, uncertainty surrounding our ability to accurately estimate costs or to limit potential cost increases could jeopardize our ability to successfully finance and deploy the American Centrifuge Plant. Our inability to finance and deploy the American Centrifuge Plant would have a material adverse impact on our business and prospects because we believe the long-term viability of our business depends on the successful deployment of the American Centrifuge project.

Significant increases in the cost of the electric power supplied to the Paducah GDP have materially increased our overall production costs and may, in the future, increase our cost of sales to a level above the average prices we bill our customers.

Dramatically higher costs for power are putting significant pressure on our business and will continue to do so unless and until we are able to replace our existing production with more efficient centrifuge technology. The gaseous diffusion enrichment process that we use to produce LEU at the Paducah GDP requires significant amounts of electric power. After an approximately 50% increase in 2006 in our costs for electric power under our power contract with the Tennessee Valley Authority ("TVA"), electric power constitutes approximately 70% of the production cost at the Paducah GDP. We amended our power contract with TVA effective June 1, 2007 to provide capacity and prices from June 2007 through May 2012. While this contract provides some stability and assurances regarding power costs for the next five years, the costs of electric power under this 2007 amendment are at prices generally similar to those implemented in 2006, and our price of power under the contract increases each year through 2012. Our power costs are also subject to monthly adjustments to account for changes in TVA's fuel and purchased-power costs, which means that our actual power costs could be greater than we anticipate. We also purchase additional power during the summer months at market prices, which is the time of the year when market prices tend to be the highest, and which are subject to volatility.

Capacity and prices under the TVA contract are only agreed upon through May 2012 and we have not yet contracted for power for periods beyond that time. If we want to purchase power to operate the Paducah GDP beyond May 2012, we may be unable to reach an acceptable agreement and we are at risk for additional power cost increases in the future.

Although we are currently signing new contracts with customers in which prices for future deliveries are adjusted, in part, on the basis of changes in a power cost index, most of our sales contracts do not include provisions that permit us to pass through increases in power prices to our customers. As a result, our gross profit margin and cash flow under these sales contracts will be significantly reduced by the higher power costs under the amended TVA contract since June 2006. Additionally, if our power costs rise unexpectedly, profit margins under new sales contracts that we are entering into may be similarly impacted to the extent the adjustments in the power cost index are not sufficient to account for increases in our power costs. Accordingly, if our power costs continue to rise and mitigating steps are unavailable or insufficient, production at the Paducah GDP will become increasingly uneconomic at existing contract prices, which will adversely affect the long-term viability of our business.

In accordance with the TVA power contract, we provide financial assurance to support our payment obligations to TVA, including providing an irrevocable letter of credit and making weekly prepayments based on the price and usage of power. Effective September 2007, because of the increased volume of power we have contracted for, the amount required for the letter of credit and weekly prepayments increased. These financial requirements increased again in October 2007. A significant increase in the price we pay for power could further increase the amount of this financial assurance, which could adversely affect our liquidity and reduce capital resources otherwise available to fund the American Centrifuge project.

Deliveries of LEU under the Russian Contract account for approximately 50% of our supply mix and a significant delay or stoppage of deliveries could affect our ability to meet customer orders and could pose a significant risk to our continued operations.

A significant delay in, or stoppage or termination of, deliveries of LEU from Russia under the Russian Contract or a failure of the LEU to meet the Russian Contract's quality specifications, could adversely affect our ability to make deliveries to our customers. A delay, stoppage or termination could occur due to a number of factors, including logistical or technical problems with shipments, commercial or political disputes between the parties or their governments, or our failure or inability to meet the terms of the Russian Contract. Further, because our annual LEU production capacity is less than our total delivery commitments to customers, an interruption of deliveries under the Russian Contract could, depending on the length of such an interruption, threaten our ability to fulfill these delivery commitments with adverse effects on our reputation, costs, results of operations, cash flows and long-term viability. Depending upon the reasons for the interruption and subject to limitations of liability under our sales contracts, we could be required to compensate customers for a failure or delay in delivery.

Our Russian counterpart under the Russian Contract, TENEX, has requested that we discuss revisions of the pricing for the SWU component of LEU delivered under the Russian Contract in 2009 and beyond. TENEX may also be negotiating pricing terms with the three Western companies to which it sells the natural uranium that we deliver to TENEX for the LEU delivered to us. Given recent increases in market prices for uranium and SWU, TENEX, as the executive agent for the Russian government party to the Russian Contract, will likely ask for higher prices from both us and the three Western companies. While we are not bound to agree to any change, TENEX could seek to force a change by refusing to deliver LEU or taking other steps to suspend or alter its performance in ways that are adverse to us. TENEX could take similar actions with respect to the Western companies. In either case, TENEX's actions could have an adverse impact on our ability to receive LEU in a timely manner in order to meet our delivery commitments. Although we do not intend to agree to any terms that are less favorable than our current terms, we cannot assure you that the discussions with TENEX will not result in terms that are less favorable than current pricing terms or that may, over time, prove to be less favorable than current terms.

The appointment of a substitute or additional executive agent pursuant to the U.S. government's compliance with the terms of the Executive Agent agreement would require that all or part of the fixed quantity of LEU available each year under the Russian Contract be provided to the substitute or additional executive agent. This would not only reduce our access to LEU under the Russian Contract, but would also create a significant new competitor, which could impair our ability to meet our existing delivery commitments while reducing our ability to bid for new sales. Reduced access to LEU under the Russian Contract would also increase our costs and reduce our gross profit margins.

Changes in, or termination of, the Russian Suspension Agreement, or an inability to apply the limitations under the Russian Suspension Agreement to imports of Russian LEU, could lead to significantly increased competition from Russian LEU or, if replaced with tariffs, could increase our costs under the Russian Contract.

The Russian Suspension Agreement is a 1992 agreement between the U.S. and Russia that today precludes Russian LEU from being sold for consumption in the U.S. except under the Russian Contract. The Russian Suspension Agreement could be terminated (1) unilaterally by the Russian government upon 60 days notice or (2) as a result of periodic administrative procedures under U.S. international trade laws. For example, a "sunset review" of the Russian Suspension Agreement is conducted every five years by the Department of Commerce ("DOC") and the U.S. International Trade Commission ("ITC").

Final determinations in the latest sunset review were made by the DOC in May 2006 and by the ITC in July 2006, and were in favor of maintaining the Russian Suspension Agreement. However, in response to an appeal by parties who opposed continuation of the Russian Suspension Agreement, in September 2007 the U.S. Court of International Trade ("CIT") remanded the DOC's sunset review decision to the DOC for reconsideration. The remand could result in a substantial narrowing of the scope of the limits on LEU imports under the Russian Suspension Agreement, depending on how the DOC implements the decision of the U.S. Court of Appeals for the Federal Circuit to exclude imports under enrichment services transactions from the antidumping law. The remand could even result in a reversal of the DOC's affirmative determination, which could lead to termination of the Russian Suspension Agreement, without any offsetting restraints on increases in imports of Russian LEU. We expect that the Russian Suspension Agreement will not be affected by the outcome of the remand until after all appeals are completed, which could take a year or more. However, we cannot assure you how long any appeals will take or that a court will not order implementation of an adverse remand decision prior to completion of all appeals.

The Russian Federation may terminate the Russian Suspension Agreement upon 60 days notice to the DOC. If the Russian Federation were to exercise this right, the DOC would be required to recommence its 1991 antidumping investigation that was suspended as a result of the Russian Suspension Agreement, and would require importers of Russian LEU, including us under the Russian Contract, to post bonds to cover estimated duties on imports subject to that investigation. In this event, we would be required to post bonds to cover those duties, which would likely exceed 100% of the value of the imports. Further, if the investigation resulted in an antidumping order, we would have to pay the estimated duties on future imports of Russian LEU in cash. We would be obligated for both posting of the bonds and payment of duties unless a legal mechanism could be identified that would remove these obligations. We are exploring with the U.S. government ways that could possibly reduce or eliminate this obligation. We believe that the cost of posting the bonds and paying any duties ultimately imposed on imports under the Russian Contract would significantly increase our cost of importing Russian LEU and could make the purchase of SWU under the Russian Contract uneconomic.

The Russian government has been negotiating with the U.S. government regarding modifications to the Russian Suspension Agreement that would permit direct sales of Russian LEU to U.S. utilities within certain quota limits. Although we believe the Russian and U.S. governments could initial such an agreement soon, we believe the CIT's decision to remand the sunset review decision to the DOC may delay one or both of the parties from bringing the amendment into force. An amendment could result in an agreement between the Russian and U.S. governments that allows Russia to make significant sales of LEU in the U.S. market in future years. Even if the amendment is brought into force and has reasonable quota limits, the Russian government, importers of Russian LEU or others may seek to circumvent any quota limitations under the amendment by arguing that imports of Russian LEU for sale in enrichment services transactions should be excluded from the quota under the authority of the Federal Circuit's decision. If the DOC adopts this position, any quota on imports of Russian LEU under a Russian Suspension Agreement amendment could be rendered ineffective as a means of controlling imports of Russian LEU.

Depending upon a number of factors, including the amount of LEU the Russians are permitted to sell in future years under an amendment to the Russian Suspension Agreement, the amounts available from other suppliers for delivery in such years, the level of market demand for LEU, the manner in which any remaining limits on Russian imports of LEU under the Russian Suspension Agreement are implemented and the enforceability of such limits in light of the Federal Circuit's decision excluding imports of LEU under enrichment services transactions from the antidumping law, the availability of Russian LEU in the U.S. market could increase, resulting in a decline in market prices and a decrease in our sales, which could adversely affect our revenues, gross profit margins and cash flows and jeopardize our ability to secure the long-term sales contracts we need to continue operating our existing enrichment plant, implement the Russian Contract and pursue the deployment of the American Centrifuge Plant, including our ability to secure financing for the American Centrifuge project.

If the Russian and U.S. governments fail to reach agreement on an amendment to the Russian Suspension Agreement that is satisfactory to Russia, or if, after reaching agreement, Russia becomes dissatisfied with the benefits of the amendment, Russia could elect to terminate the Russian Suspension Agreement. Unless accompanied by equivalent limitations on imports or unless other steps are taken by the U.S. government to limit the impact on us, a termination of the Russian Suspension Agreement could result in a significant increase in sales of Russian LEU in the United States. This could depress prices and undermine our ability to sell the large quantity of LEU that we are committed to purchase under the Russian Contract as well as our ability to sell our own LEU production. This could substantially alter the economics of the American Centrifuge project and our ability to obtain financing for it, reduce our revenues, gross profit margins and cash flows and jeopardize our ability to secure the long-term sales contracts we need to continue operating our existing enrichment plant, implement the Russian Contract and pursue the deployment of the American Centrifuge Plant.

Any limitations imposed on imports of Russian LEU under the Russian Suspension Agreement or under an order resulting from a recommenced antidumping investigation following the unilateral termination by Russia of the Russian Suspension Agreement, could be circumvented if Russia elects to sell only the SWU component of Russian LEU in a manner that DOC or U.S. courts consider to be a sale of services that is outside the scope of U.S. antidumping law. In that case, Russia would be free to sell SWU without regard to any limitations under the Russian Suspension Agreement or any duties imposed under an antidumping order. Such unrestricted sales also could result in a decline in market prices and a loss of sales by us, which could adversely affect our revenues, gross profit margins and cash flows and jeopardize our ability to secure the long-term sales contracts we need to continue operating our existing enrichment plant, implement the Russian Contract and and pursue the deployment of the American Centrifuge Plant, including our ability to secure financing for the American Centrifuge project.

We depend on a single production facility in Paducah, Kentucky for approximately 50% of our LEU supply and significant or extended unscheduled interruptions in production could affect our ability to meet customer orders and pose a significant risk to, or could significantly limit, our continued operations and profitability.

Our annual imports of Russian LEU under the Russian Contract account for only approximately one-half of the total amount of LEU that we need to meet our delivery obligations to customers. In addition, some customers do not permit us to deliver Russian LEU to them under their contracts with us. Accordingly, our production at the Paducah GDP is needed to meet our annual delivery commitments. An interruption of production at the Paducah GDP would result in a drawdown of our inventories of LEU and, depending on the length and severity of the production interruption, we could be unable to meet our annual delivery commitments, with adverse effects on our reputation, costs, results of operations, cash flows and long-term viability. Depending upon the reasons for the interruption and subject to limitations on our liability under our sales contracts, we also could be required to compensate customers for our failure to deliver on time.

Production interruptions at the Paducah GDP could be caused by a variety of factors, such as:

- equipment breakdowns,
- interruptions of electric power, including those interruptions permitted under the TVA power agreement, or an inability to purchase electric power at an acceptable price,
- regulatory enforcement actions,
- labor disruptions,
- unavailability or inadequate supply of uranium feedstock or coolant,
- natural or other disasters, including seismic activity in the vicinity of the Paducah GDP, which is located near the New Madrid fault line, or
- accidents or other incidents.

The Paducah GDP is owned by the U.S. government. Our rights to the plant are defined under a lease agreement with DOE and the law that the lease agreement implements. Under the 2002 DOE-USEC Agreement, we could lose our right to extend the lease of the Paducah GDP and could be required to waive our exclusive right to lease the facility if we fail on more than one occasion within specified periods to meet certain production thresholds and fail to cure the deficiency. In addition, DOE could assume responsibility for operation of the Paducah GDP if we cease production at the Paducah GDP and fail to recommence production within time periods specified in the 2002 DOE-USEC Agreement. Without a lease to the Paducah GDP and absent access to other sources of LEU, we would be unable to meet our annual delivery commitments to customers once our available inventories were exhausted.

Our ability to retain key executives and managers is critical to the success of our business.

The success of our business depends on our key executives, managers and other skilled personnel, some of whom were involved in the development of our American Centrifuge technology and many of whom have security clearances. We do not have employment agreements with our corporate executives or American Centrifuge project managers nor do we have key man insurance policies for them. If our executives, managers or other skilled personnel resign, retire or are terminated, or their service is otherwise interrupted, we may not be able to replace them in a timely manner and we could experience significant declines in productivity and delays in the deployment of our American Centrifuge project, on which the viability of our business depends.

The rights of our creditors under the documents governing our indebtedness may limit our operating and financial flexibility.

Our revolving credit facility includes various operating and financial covenants that restrict our ability, and the ability of our subsidiaries, to, among other things, incur or prepay other indebtedness, grant liens, sell assets, make investments and acquisitions, consummate certain mergers and other fundamental changes, make certain capital expenditures and declare or pay dividends or other distributions. Complying with these covenants may make it more difficult for us to successfully execute our business strategy. For example, these covenants could limit the amount of cash we can use to finance the American Centrifuge Plant. The revolving credit agreement also requires that we maintain a minimum level of available borrowings and contains reserve provisions that may reduce the available borrowings under the credit facility periodically.

Our failure to comply with obligations under the revolving credit facility or other agreements such as the indenture governing our outstanding convertible notes and the 2002 DOE-USEC Agreement, or the occurrence of a "fundamental change" as defined in the indenture governing our outstanding convertible notes, could result in an event of default under the credit facility. A default, if not cured or waived, could permit acceleration of our indebtedness. We cannot be certain that we will be able to remedy any default. If our indebtedness is accelerated, we cannot be certain that we will have funds available to pay the accelerated indebtedness or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all.

Changes in the price for SWU or uranium could affect our gross profit margins and ability to service our indebtedness and finance the American Centrifuge project.

Changes in the price for SWU and uranium are influenced by numerous factors, such as:

- LEU and uranium production levels and costs in the industry,
- supply and demand shifts,
- actions taken by governments to regulate, protect or promote trade in nuclear material, including the continuation of existing restrictions on unfairly priced imports,
- actions taken by governments to narrow, reduce or eliminate limits on trade in nuclear material, including the removal of existing restrictions on unfairly priced imports,
- actions of competitors,
- exchange rates,
- availability and cost of alternate fuels, and
- inflation.

The long-term nature of our contracts with customers may prolong any adverse impact of low market prices on our gross profit margins. For example, even as prices increase and we secure new higher-priced contracts, we are contractually obligated to deliver LEU and uranium at lower prices under contracts signed prior to the increase. A decrease in the price for SWU could also affect our future ability to service our indebtedness and finance the American Centrifuge project because the economics of the American Centrifuge Plant are dependent upon a minimum SWU sales price to finance future American Centrifuge operations and service our indebtedness.

Additionally, an increase in the price for SWU could result in an increase in the price that we pay for the SWU component of Russian LEU because the price we are charged for the SWU component of Russian LEU under the Russian Contract is determined by a formula that employs an index of international and U.S. price points, which in turn reflects market prices. Although any increase may be moderated by the retrospective nature of the formula, a significant increase in the prices Russia charges us as a result of increasing price points due to significant increases in market prices would substantially increase our costs of sales and inventories. This increase, if not offset by increases in our sales prices, would adversely affect our cash flows and results of operations.

The release of excess government stockpiles of enriched uranium into the market could depress market prices and reduce demand for LEU from our company.

Foreign governments have stockpiles of LEU that they could sell in the market. In addition, LEU may be produced by downblending stockpiles of highly enriched uranium owned by the U.S. and foreign governments. The release of these stockpiles into the market can depress prices and reduce demand for LEU from us, which could adversely affect our revenues, cash flows and results of operations.

The long-term nature of our customer contracts could adversely affect our results of operations in current and future years.

As is typically the case in our industry, we sell nearly all of our LEU under long-term contracts. The prices that we charge under many of our existing contracts (particularly those reflecting terms agreed to prior to 2006) only increase based on an agreed upon inflation index. Therefore, these contracts do not allow us to pass along increases in our actual costs, such as increased power costs or increases in the prices we pay under the Russian Contract, or to take advantage of market increases in the price of SWU. We anticipate that these limitations, combined with our cost-structure and our sensitivity to increased power costs due to the power-intensive gaseous diffusion technology that we currently depend on, will reduce our ability to cover our cost of sales with revenues earned under our customer contracts and will materially and adversely impact our gross profit margins and cash flows in current and future periods.

In addition, our older contracts give customers the flexibility to determine the amounts of natural uranium that they deliver to us, which can result in our receiving less uranium from customers than we transfer from our inventory to the Russian Federation under the Russian Contract. Over time, to the extent our inventory, including uranium generated through underfeeding, is insufficient to absorb the difference, we could be required to purchase uranium to continue to meet our obligations to the Russian Federation, which, depending on the market price of uranium, could have an adverse impact on our gross profit margins, cash flows, results of operations and liquidity.

We face significant competition from three major producers who may be less cost sensitive or may be favored due to national loyalties and from emerging competitors in the domestic market.

We compete with three major producers of LEU, all of which are wholly or substantially owned by governments: AREVA (France), TENEX (Russia) and Urenco (Germany, Netherlands and the United Kingdom). Currently, these competitors utilize or are in the process of transitioning to more efficient and cost-effective technology to enrich uranium than we use at the Paducah GDP. Recently, our French competitor, AREVA, announced that it was speeding up deployment of its new enrichment plant in France.

In addition, Louisiana Energy Services, a group controlled by Urenco, has started to construct a 3 million SWU per year uranium enrichment plant in New Mexico, and AREVA recently announced that it is preparing to build a proposed 3 million SWU per year centrifuge uranium enrichment plant in the United States. We also face potential competition from General Electric's nuclear energy business, which has begun a phased development process of a Global Laser Enrichment technology based on technology licensed from Silex Systems Limited, an Australian company. General Electric has stated its plans to build a uranium enrichment plant in the United States with a target capacity of between 3.5 million and 6 million SWU per year.

Our competitors may have greater financial resources than we do, including access to below-market financing terms. Our foreign competitors enjoy support from their government owners, which may enable them to be less cost- or profit-sensitive than we are. In addition, decisions by our foreign competitors may be influenced by political and economic policy considerations rather than commercial considerations. For example, our foreign competitors may elect to increase their production or exports of LEU, even when not justified by market conditions, thereby depressing prices and reducing demand for our LEU, which could adversely affect our revenues, cash flows and results of operations. Similarly, the elimination or weakening of existing restrictions on imports from our competitors could adversely affect our revenues, cash flows and results of operations.

Our dependence on our largest customers could adversely affect us.

Our 10 largest customers (other than the U.S. government) represented 53% of our revenue in 2006, and our three largest customers represented 22% of our revenue in 2006. To the extent our existing contracts with these customers include prices that are greater than or equal to market prices, a reduction in purchases from these customers, whether due to their decision to increase purchases from our competitors or for other reasons, including a disruption in their operations that reduces their need for LEU from us, could adversely affect our business and results of operations. Conversely, to the extent that our contracts with these customers include prices that are lower than market prices, a decision by these customers to exercise options under these contracts to purchase more from us also could adversely affect our business and results of operations.

We are seeking to improve the pricing under our long-term contracts with our customers, including our largest customers, as these contracts expire. However, because price is a significant factor in a customer's choice of a uranium enricher, when contracts come up for renewal, customers may reduce their purchases from us if we attempt to increase our prices in order to offset increases in our costs, resulting in the loss of the contracts. Moreover, once lost, customers may be difficult to regain because they typically purchase LEU under long-term contracts. Therefore, given the need to maintain existing customer relationships, particularly with our largest customers, our ability to raise prices in order to respond to increases in costs or other developments may be limited. In addition, because we have a fixed commitment to order LEU derived from at least 30 metric tons of highly enriched uranium each year under the Russian Contract and to purchase the approximately 5.5 million SWU deemed to be contained in such material, any reduction in purchases from us by our customers below the level required for us to resell both our own production and the Russian material could adversely affect our revenues, cash flows and results of operations.

Our ability to compete in certain foreign markets may be limited for political, legal and economic reasons.

Agreements for cooperation between the U.S. government and various foreign governments control the export of nuclear materials from the United States. If any of the agreements with countries in which our customers are located were to lapse, terminate or be amended, it is possible we would not be able to make sales or deliver LEU to customers in those countries. This could adversely affect our results of operations.

Purchases of SWU by customers in the European Union are subject to a policy of the Euratom Supply Agency that seeks to limit foreign enriched uranium to no more than 20% of European Union consumption per year. Further, we are precluded from selling LEU in the Russian Federation by the absence of an agreement for cooperation that permits exports to Russia.

Recent court decisions reduce our ability to protect ourselves from unfairly priced imports, which could adversely affect our results of operations.

Absent a successful appeal to the U.S. Supreme Court or a change in applicable law, recent decisions of the U.S. Court of International Trade and the U.S. Court of Appeals for the Federal Circuit preclude DOC from imposing antidumping and countervailing duties to offset unfairly-priced LEU imported from foreign countries pursuant to enrichment services transactions. Under these rulings, we will be unable to use certain U.S. trade laws to protect us from unfairly priced LEU in the future if imported pursuant to enrichment services transactions, thereby increasing the possibility that our competitors will seek to increase market share by reducing prices to unfair levels. An increase in our competitors' market share and the accompanying reduction in market prices could adversely affect our results of operations.

Our future prospects are tied directly to the nuclear energy industry worldwide.

Potential events that could affect either nuclear reactors under contract with us or the nuclear industry as a whole, include:

- accidents, terrorism or other incidents at nuclear facilities or involving shipments of nuclear materials,
- regulatory actions or changes in regulations by nuclear regulatory bodies, or decisions by agencies, courts or other bodies that limit our ability to seek relief under applicable trade laws to offset unfair competition or pricing by foreign competitors,
- disruptions in other areas of the nuclear fuel cycle, such as uranium supplies or conversion,
- civic opposition to, or changes in government policies regarding, nuclear operations,
- business decisions concerning reactors or reactor operations,
- the need for generating capacity, or
- consolidation within the electric power industry.

These events could adversely affect us to the extent they result in a reduction or elimination of customers' contractual requirements to purchase from us, the suspension or reduction of nuclear reactor operations, the reduction of supplies of raw materials, lower demand, burdensome regulation, disruptions of shipments or production, increased competition from third parties, increased operational costs or difficulties or increased liability for actual or threatened property damage or personal injury.

Changes to, or termination of, any of our agreements with the U.S. government, or deterioration in our relationship with the U.S. government, could adversely affect our results of operations.

We, or our subsidiaries, are a party to a number of agreements and arrangements with the U.S. government that are important to our business, including:

- leases for the gaseous diffusion plants and American Centrifuge facilities,
- the Executive Agent agreement under which we are designated the U.S. Executive Agent and purchase the SWU component of LEU under the Russian Contract,
- the 2002 DOE-USEC Agreement and other agreements that address issues relating to the domestic uranium enrichment industry and the American Centrifuge technology,
- electric power purchase agreements with the Tennessee Valley Authority,
- contract work for DOE and DOE contractors at the Portsmouth and Paducah GDPs, including contracts for maintenance of the Portsmouth GDP in "cold standby" or "cold shutdown" states, and
- NAC consulting and transportation activities.

Termination or expiration of one or more of these agreements, without replacement with an equivalent agreement or arrangement that accomplishes the same objectives as the terminated or expired agreement(s), could adversely affect our results of operations. In addition, deterioration in our relationship with the U.S. agencies that are parties to these agreements could impair or impede our ability to successfully implement these agreements, which could adversely affect our results of operations.

Our existing U.S. government contracts are subject to continued appropriations by Congress and may be terminated if future funding is not made available.

Approximately 10% of our revenues are from U.S. government contracts. All contract work for DOE, including cold standby or cold shutdown of the Portsmouth GDP, cleanup of out-of-specification uranium and certain NAC consulting and transportation activities, is subject to the availability of DOE funding and congressional appropriations. If funds were not available, we could be required to terminate these operations and incur related termination costs. In addition, the criteria for awarding contracts to us may change such that we would not be eligible to compete for such contracts, which could adversely affect our results of operations.

Revenue from U.S. government contract work is based on cost accounting standards and allowable costs that are subject to audit by the Defense Contract Audit Agency. Allowable costs include direct costs as well as allocations of indirect plant and corporate overhead costs. Audit adjustments could reduce the amounts we are allowed to bill for DOE contract work or require us to refund to DOE a portion of amounts already billed.

Our operations are highly regulated by the NRC and DOE.

Our operations, including the Paducah and Portsmouth GDPs and NAC, are regulated by the NRC. In addition, the American Centrifuge Demonstration Facility and the construction and operation of the American Centrifuge Plant are licensed by the NRC, which regulates our activities at those facilities.

Our gaseous diffusion plants are required to be recertified every five years and the term of the current certification expires on December 31, 2008. The NRC could refuse to renew either or both of the certificates if it determines that: (1) we are foreign owned, controlled or dominated; (2) the issuance of a renewed certificate would be inimical to the maintenance of a reliable and economic domestic source of enrichment services; (3) the issuance of renewed certificate would be adverse to U.S. defense or security objectives; or (4) the issuance of a renewed certificate is otherwise not consistent with applicable laws or regulations in effect at the time of renewal. The same requirements apply to NRC's issuance of the 30 year license for the American Centrifuge Plant. If the certificate for the Paducah GDP were not renewed, we could no longer produce LEU at the Paducah GDP, which would threaten our ability to make deliveries to customers and meet the minimum production requirements under the 2002 DOE-USEC Agreement, jeopardize our cash flows, and subject us to various penalties under our customer contracts and the 2002 DOE-USEC Agreement.

The NRC has the authority to issue notices of violation for violations of the Atomic Energy Act of 1954, NRC regulations and conditions of licenses, certificates of compliance, or orders. The NRC has the authority to impose civil penalties or additional requirements and to order cessation of operations for violations of its regulations. Penalties under NRC regulations could include substantial fines, imposition of additional requirements or withdrawal or suspension of licenses or certificates. Any penalties imposed on us could adversely affect our results of operations. The NRC also has the authority to issue new regulatory requirements or to change existing requirements. Changes to the regulatory requirements could also adversely affect our results of operations.

Our American Centrifuge facilities in Oak Ridge and certain of our operations at our other facilities are subject to regulation by DOE. DOE has the authority to impose civil penalties and additional requirements which could adversely affect our results of operations.

Our operations require that we maintain security clearances that are overseen by the NRC and DOE in accordance with the National Industrial Security Program Operating Manual ("NISPOM"). These security clearances require that we provide a certification regarding foreign ownership, control or influence ("FOCI"), and the security clearances could be suspended or revoked based upon material changes to our FOCI certification, or other concerns that we might be subject to FOCI. Under the NISPOM and applicable DOE and NRC regulations and guidance, aggregate foreign ownership of our common stock exceeding 10% would not, in and of itself, result in a material change to our FOCI certification. Rather, reporting pursuant to our FOCI certification would be required if a foreign person or group under common control reported ownership of more than 5%, or any foreign person or group individually or collectively exercised control or influence through the entitlement to control the appointment and tenure of any management position or similar entitlement indicating control or influence. The NRC staff has previously concluded that its NISPOM FOCI requirements are more comprehensive and prescriptive than the statutory prohibition of foreign ownership and that information sufficient to make a FOCI determination should be sufficient to enable NRC to satisfy its statutory responsibility to assure that we are not owned, controlled or dominated by an alien, a foreign company, or a foreign government.

Our certificate of incorporation gives us certain rights with respect to common stock held (beneficially or of record) by foreign persons. If levels of foreign ownership set forth in our certificate of incorporation are exceeded, we have the right, among other things, to redeem or exchange common stock held by foreign persons, and in certain cases, the applicable redemption price or exchange value may be equal to the lower of fair market value or a foreign person's purchase price.

Our certificate of incorporation gives us certain rights with respect to shares of our common stock held (beneficially or of record) by foreign persons. Specifically, if "foreign persons" (as defined in our certificate of incorporation to include, among others, individuals who are not a U.S. citizen, entities that are organized under the laws of non-U.S. jurisdictions and entities that are controlled by individuals who are not a U.S. citizen or by entities that are organized under the laws of non-U.S. jurisdictions) beneficially own in the aggregate more than 10% of our common stock, or if persons having a significant commercial relationship with a foreign uranium enrichment provider or a foreign competitor own any shares of our common stock, we may exercise certain rights. These rights include requesting information from holders (or proposed holders) of our securities, refusing to permit the transfer of securities to foreign persons, suspending or limiting voting rights of shares of stock held by foreign persons, redeeming or exchanging shares of our stock owned by foreign persons on terms set forth in our certificate of incorporation, and taking other actions that we deem necessary or appropriate to ensure compliance with the foreign ownership restrictions.

In order to monitor and estimate the amount of our common stock held by foreign persons, we regularly review Schedule 13D and 13G filings with the SEC with respect to our common stock and other information available to us including monthly and quarterly reports listing major institutional holders of our common stock. However, it is very difficult to determine our level of foreign ownership as of any particular date due to a variety of factors including: the complexities associated with identifying whether a particular beneficial holder is a foreign person; the significant volume of our common stock that changes hands daily; and the fact that a number of our stockholders are under no obligation to report their ownership to us or to otherwise make such information public. As a result, we cannot assure you that on any given day the aggregate ownership of our common stock by foreign persons will not exceed the foreign ownership restrictions.

The terms and conditions of our rights with respect to our redemption or exchange right in respect of shares held by foreign persons are as follows:

- *Redemption price or exchange value:* Generally the redemption price or exchange value for any shares of our common stock redeemed or exchanged would be their fair market value. However, if we redeem or exchange shares held by foreign persons and our Board in good faith determines that such foreign person knew or should have known that the foreign ownership restrictions in our certificate of incorporation were violated at the time of their purchase, the redemption price or exchange value is required to be the lesser of fair market value and the foreign person's purchase price for the shares redeemed or exchanged.
- *Form of payment:* Cash, securities or a combination, valued by our Board in good faith.
- *Notice:* At least 30 days' notice of redemption is required, however, if we have deposited the cash or securities for the redemption or exchange in trust for the benefit of the relevant foreign holders, we may redeem shares held by such holders on the same day that we provide notice (which we refer to as the "trust redemption right").

Accordingly, there are situations in which foreign stockholders could lose the right to vote their shares or in which we may redeem or exchange shares held by foreign persons and in which such redemption or exchange could be at the lesser of fair market value and the foreign person's purchase price for the shares redeemed or exchanged, which could result in a significant loss for that foreign person.

Our operations are subject to numerous federal, state and local environmental protection laws and regulations.

We incur substantial costs for 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 our operations. Unanticipated events or regulatory developments, however, could cause the amount and timing of future environmental expenditures to vary substantially from those expected.

Under a cleanup agreement with the Environmental Protection Agency ("EPA"), we removed certain material from a site in South Carolina previously operated by Starmet CMI, one of our former contractors, that was attributable to quantities of depleted uranium we had sent there under a 1998 contract. In June 2007, we were contacted by the EPA concerning costs incurred by the EPA for additional cleanup at the Starmet site. We are currently in discussions with the EPA regarding these costs. At September 30, 2007, we had an accrued current liability related to these costs that is less than the amount spent by the EPA for the cleanup. The amount of this accrual could be insufficient. In addition, we could incur additional costs associated with our share of costs for cleanup of the Starmet site, resulting from a variety of factors, including a decision by federal or state agencies to recover costs for prior cleanup work or require additional remediation at the site.

Pursuant to numerous federal, state and local environmental laws and regulations, we are required to hold multiple permits. Some permits require periodic renewal or review of their conditions, and we cannot predict whether we will be able to renew such permits or whether material changes in permit conditions will be imposed. Changes in permits could increase costs of producing LEU and reduce our profitability. An inability to secure or renew permits could prevent us from producing LEU needed to meet our delivery obligations to customers, which would threaten our ability to make deliveries to customers and meet the minimum production requirements under the 2002 DOE-USEC Agreement, adversely affect our reputation, costs, cash flows, results of operations and long-term viability, and subject us to various penalties under our customer contracts and the 2002 DOE-USEC Agreement.

Our operations involve the use, transportation and disposal of toxic, hazardous and/or radioactive materials and could result in liability without regard to our fault or negligence.

Our plant operations involve the use of toxic, hazardous and radioactive materials. A release of these materials could pose a health risk to humans or animals. If an accident were to occur, its severity could be significantly affected by the volume of the release and the speed of corrective action taken by plant emergency response personnel, as well as other factors beyond our control, such as weather and wind conditions. Actions taken in response to an actual or suspected release of these materials, including a precautionary evacuation, could result in significant costs for which we could be legally responsible. In addition to health risks, a release of these materials may cause damage to, or the loss of, property and may adversely affect property values.

We lease facilities from DOE for the Paducah and Portsmouth GDPs, the American Centrifuge Plant and centrifuge test facilities in Piketon, Ohio and Oak Ridge, Tennessee. Pursuant to the Price-Anderson Act, DOE has indemnified us against claims for public liability arising out of or in connection with activities under those leases resulting from a nuclear incident or precautionary evacuation. If an incident or evacuation is not covered under the DOE indemnification, we could be financially liable for damages arising from such incident or evacuation, which could have an adverse effect on our results of operations and financial condition. In connection with international transportation of LEU, it is possible for a claim related to a nuclear incident occurring outside the United States to be asserted that would not fall within the DOE indemnification under the Price-Anderson Act.

While DOE has provided indemnification pursuant to the Price-Anderson Act, there could be delays in obtaining reimbursement for costs from DOE and DOE may determine that not all costs are reimbursable under the indemnification.

We do not maintain any nuclear liability insurance for our operations at the gaseous diffusion plants. Further, American Nuclear Insurers, the only provider of nuclear liability insurance, has declined to provide nuclear liability insurance to the American Centrifuge Plant due to past and present DOE operations on the site. In addition, the Price Anderson Act indemnification does not cover loss or damage to property located at the Paducah or Portsmouth GDPs.

NAC's business involves providing products and services for the storage and transportation of toxic, hazardous and radioactive materials, which, if released or mishandled, could cause personal injury and property damage (including environmental contamination) or loss and could adversely affect property values. NAC obtains nuclear liability insurance to protect against third party liability resulting from a nuclear incident, but this insurance contains exclusions and limits and there is no assurance that this insurance would cover all potential liabilities.

In our contracts, we seek to protect ourselves from liability, but there is no assurance that such contractual limitations on liability will be effective in all cases or that, in the case of NAC's contracts, NAC's insurance will cover all the liabilities NAC has assumed under those contracts. The costs of defending against a claim arising out of a nuclear incident or precautionary evacuation, and any damages awarded as a result of such a claim, could adversely affect our results of operations and financial condition.

The dollar amount of our sales backlog, as stated at any given time, is not necessarily indicative of our future sales revenues.

Backlog is the aggregate dollar amount of SWU and uranium that we expect to sell under contracts with utilities. As of June 30, 2007, our sales backlog was an estimated $6.9 billion through 2015 ($6.5 billion through 2012, including $1.0 billion expected to be delivered during the period from July 1 to December 31, 2007). There can be no assurance that the revenues projected in our backlog will be realized, or, if realized, will result in profits. Backlog is partially based on customers' estimates of their fuel requirements and certain other assumptions, including our estimates of selling prices and inflation rates. Such estimates are subject to change. For example, some of our contracts include pricing elements based on market prices prevailing at the time of delivery. We use an external composite forecast of future market prices in estimating the price that we will be entitled to charge under such contracts in the future. These forecasts may not be accurate, and therefore our estimate of future prices could be overstated. Pricing under some new contracts is subject, in part, to escalation based on a broad power price index. For purposes of the backlog, we assume increases to the power price index in line with overall inflation rates. However, because the index is not geared to general inflation rates, our estimates of future prices under these contracts could be inaccurate. Any inaccuracy in our estimates of future prices would add to the imprecision of our backlog estimate.

For a variety of reasons, the amounts of SWU and uranium that we will sell in the future under our existing contracts, or the timing of customer purchases under those contracts, may differ from our estimates. Customers may not purchase as much as we predicted, or at the times we anticipated, as result of operational difficulties, changes in fuel requirements or other reasons. Reduced purchases would reduce the revenues we actually receive from contracts included in the backlog. For example, our revenue could be reduced by actions of the NRC or nuclear regulators in foreign countries issuing orders to delay, suspend or shut down nuclear reactor operations within their jurisdictions. Increases in our costs of production or other factors could cause sales included in our backlog to be at prices that are below our cost of sales, which could adversely affect our results of operations, and customers may purchase more under lower priced contracts than we predicted.

We use estimates in accounting for the future disposition of depleted uranium and changes in these estimates or in actual costs could affect our future financial results and liquidity.

We currently store depleted uranium at the Paducah GDP and accrue estimated costs for its future disposition. The long-term liability for depleted uranium is dependent upon the volume of depleted uranium generated and estimated processing, transportation and disposal costs, which involves many assumptions. Our estimated cost and accrued liability are subject to change as new information becomes available, and an increase in the estimate would have an adverse effect on our results of operations.

We anticipate that we will send most or all of our depleted uranium to DOE for disposition unless a more economic disposal option is available. DOE is constructing facilities at the Paducah and Portsmouth GDPs to process large quantities of depleted uranium owned by DOE. Under federal law, DOE would also process our depleted uranium if we provided it to DOE. If we were to dispose of our uranium in this way, we would be required to reimburse DOE for the related costs of disposal, including our pro rata share of capital costs.

The NRC requires that we guarantee the disposition of our depleted uranium with financial assurance. Our estimate of the unit disposition cost for accrual purposes is approximately 35% less than the unit disposition cost for financial assurance purposes, which includes contingencies and other potential costs as required by the NRC. Any increase in our estimated unit cost of disposal will require us to provide additional financial assurance and could adversely affect our liquidity. The amount of future depleted uranium disposal costs could also vary substantially from amounts accrued and an increase in our actual cost of disposal could have a material adverse impact on our results of operations in future years.

Financial assurances are also provided for the ultimate decontamination and decommissioning of the American Centrifuge facilities to meet NRC and DOE requirements. The amount of these decontamination and decommissioning costs could vary from the amounts accrued.

Deferral of revenue recognition could result in volatility in our quarterly and annual results.

We do not recognize revenue for sales of uranium or LEU until the uranium or LEU is physically delivered. Consequently, in sales transactions where we have received payment and title has transferred to the customer but delivery has not occurred because the terms of the agreement require us to hold the uranium to which the customer has title or because a customer encounters delays in taking delivery of LEU at our facilities, recognition of revenue is deferred until the uranium or LEU is physically delivered. This deferral can potentially be over an indefinite period and is outside our control and can result in volatility in our quarterly and annual results. If, in a given period, a significant amount of revenue is deferred or a significant amount of previously deferred revenue is recognized, earnings in that period will be affected, which could result in volatility in our quarterly and annual results. Additional information on our deferred revenue is provided in note 6 to our consolidated financial statements.

Our operating results may fluctuate significantly from quarter to quarter, and even year to year, which could have an adverse effect on our cash flows.

Under customer contracts with us for the supply of LEU to meet requirements for specific time periods or specific reactor refuelings, our customers order LEU from us based on their refueling schedules for nuclear reactors, which generally range from 12 to 18 months, or in some cases up to 24 months. Customer payments for the SWU component of such LEU typically average $12 million per order. As a result, a relatively small change in the timing of customer orders due to a change in a customer's refueling schedule may cause operating results to be substantially above or below expectations, which could have an adverse effect on our cash flows.

The levels of returns on pension and postretirement benefit plan assets, changes in interest rates and other factors affecting the amounts we have to contribute to fund future pension and postretirement benefit liabilities could adversely affect our earnings in future periods.

Our earnings may be positively or negatively impacted by the amount of expense we record for our employee benefit plans. This is particularly true with expense for our pension and postretirement benefit plans. Generally Accepted Accounting Principles in the United States ("GAAP") require that we calculate expense for the plans using actuarial valuations. These valuations are based on assumptions that we make relating to financial market and other economic conditions. Changes in key economic indicators can result in changes in the assumptions we use. The key year-end assumptions used to estimate pension and postretirement benefit expenses for the following year are the discount rate, the expected rate of return on plan assets, healthcare cost trend rates and the rate of increase in future compensation levels. For additional information and a discussion regarding how our financial statements can be affected by pension and postretirement benefit plan accounting policies, see Critical Accounting Estimates in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2006 Annual Report on Form 10-K.

Anti-takeover provisions in Delaware law and in our certificate of incorporation, bylaws and shareholder rights plan could delay or prevent an acquisition of our company.

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of our company, even if a change of control would be beneficial to our existing shareholders. Other provisions of our certificate of incorporation and bylaws may make it more difficult for a third party to acquire control of us without the consent of our board of directors. We also have adopted a shareholder rights plan, which could increase the cost of, or prevent, a takeover attempt. These various restrictions could deprive shareholders of the opportunity to realize takeover premiums for their shares.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

(c) Third Quarter 2007 Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased(1)	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1 - July 31	3,645	$ 19.52	—	—
August 1 - August 31	340	$ 15.59	—	—
September 1 - September 30	1,561	$ 10.34	—	—
Total	**5,546**	**$ 16.70**	—	—

(1) These purchases were not made pursuant to a publicly announced repurchase plan or program. Represents 5,546 shares of common stock surrendered to USEC to pay withholding taxes on shares of restricted stock under the 1999 Equity Incentive Plan, as amended.

Item 5. ***Other Information***

In exercising its discretion under our certificate of incorporation in determining what rights, if any, to exercise if foreign ownership levels set forth in our certificate of incorporation are exceeded, on September 13, 2007 our board of directors adopted a policy applicable to foreign persons owning (beneficially or of record) shares of our common stock, which states that:

1. Unless the board of directors determines that the further exercise of rights under our certificate of incorporation is necessary to maintain our regulatory compliance (whether as a result of a request or order of a regulatory authority or otherwise), the board of directors will seek to maintain our regulatory compliance by first limiting the voting rights of any such foreign person.

2. To the extent that the board of directors determines that the exercise of our right of redemption or exchange is necessary to maintain our regulatory compliance (whether as a result of a request or order of a regulatory authority or otherwise), such redemption or exchange shall be taken only to the extent necessary, in the judgment of the board of directors, to maintain such regulatory compliance or comply with such request or order, shall be settled only in cash and in no event will we avail ourselves of the trust redemption right (unless otherwise required by law or to maintain our regulatory compliance).

3. In no event will we exercise our right of redemption or exchange if the board of directors determines that such redemption or exchange is required to be made at the lesser of fair market value and the foreign person's purchase price for the shares redeemed or exchanged.

   Paragraphs 1 and 2 of the policy may only be amended or repealed upon 60 days' prior public notice (unless a shorter period is required by law or to maintain regulatory compliance) if board of directors determines that doing so is in the best interest of us and our stockholders. Paragraph 3 of the policy may only be amended or repealed to the extent necessary to ensure our regulatory compliance if, after we have exhausted all other rights under the certificate of incorporation or reasonably determined in consultation with the proper regulatory authorities that the exercise of such other rights would be insufficient to ensure regulatory compliance, the board of directors determines that doing so is necessary to maintain our regulatory compliance (whether as a result of a request or order of a regulatory authority or otherwise), but only to be settled in cash and upon 60 days' prior public notice unless another form of settlement or a shorter period is required by law or to maintain our regulatory compliance.

For additional information regarding the foreign ownership restrictions set forth in our certificate of incorporation, please refer to "Item 1A. Risk Factors — Our certificate of incorporation gives us certain rights with respect to common stock held (beneficially or of record) by foreign persons. If levels of foreign ownership set forth in our certificate of incorporation are exceeded, we have the right, among other things, to redeem or exchange common stock held by foreign persons, and in certain cases, the applicable redemption price or exchange value may be equal to the lower of fair market value or a foreign person's purchase price."

Item 6. ***Exhibits***

3.1 Certificate of Increase to the Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed on September 25, 2007 (Commission file number 1-14287).

4.1 Indenture dated September 28, 2007, between USEC Inc. and Wells Fargo Bank, N.A., incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed on September 28, 2007 (Commission file number 1-14287).

10.1 Third Amendment dated September 21, 2007 to the Amended and Restated Revolving Credit Agreement, dated as of August 18, 2005, among USEC Inc., United States Enrichment Corporation, the lenders named therein, JPMorgan Chase Bank, N.A., as administrative and collateral agent, and the other financial institutions named therein, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on September 25, 2007 (Commission file number 1-14287).

10.2 Contract dated as of August 16, 2007 between USEC Inc., ATK Space Systems Inc., a subsidiary of Alliant Techsystems, and Hexcel Corporation. (Certain information has been omitted and filed separately pursuant to a request for confidential treatment under Rule 24b-2).

10.3 Contract dated August 30, 2007 between USEC Inc. and Major Tool and Machine, Inc. (Certain information has been omitted and filed separately pursuant to a request for confidential treatment under Rule 24b-2).

10.4 Amendment D to the Cooperative Research and Development Agreement, Development of an Economically Attractive Gas Centrifuge Machine and Enrichment Process, by and between UT-Battelle, LLC, under its DOE Contract, and USEC Inc., dated August 10, 2007.

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).

32 Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350.

SIGNATURE

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

USEC Inc.

November 2, 2007

By /s/ John C. Barpoulis

John C. Barpoulis
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit No.	Description
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EXHIBIT 10.2

CONFIDENTIAL TREATMENT HAS BEEN REQUESTED FOR THE REDACTED PORTIONS. THE CONFIDENTIAL REDACTED PORTIONS HAVE BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. ASTERISKS DENOTE SUCH REDACTIONS.

MEMORANDUM OF UNDERSTANDING

USEC / ATK / HEXCEL

AMERICAN CENTRIFUGE PROGRAM

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1. Parties

USEC Inc. ("USEC"), a Delaware corporation with a principal place of business at Bethesda MD, ATK Space Systems Inc. ("ATK"), a Delaware corporation with a principal place of business at Salt Lake City UT, and Hexcel Corporation ("Hexcel"), a Delaware corporation with a principal place of business at Stamford CT, hereby enter into this Memorandum of Understanding ("Memorandum") dated as of August 16, 2007. This Memorandum will become effective on the "Effective Date" as defined in Section 9.

2. Scope

USEC has received from the U.S. Nuclear Regulatory Commission ("USNRC") a license to construct and operate a uranium enrichment plant at Piketon Ohio and is in the process of demonstrating its next-generation uranium enrichment technology for use at the plant.

ATK has contracted with USEC to assist USEC in the development, design and assembly of composite rotors for demonstration of USEC's enrichment technology. Once satisfactory performance and cost data have been obtained from testing, it is USEC and ATK's intention to enter into a contract whereby ATK will manufacture and deliver, on a schedule that supports USEC's requirements, approximately 11,500 rotors, plus a sufficient number of spare rotors, that are estimated to be required to construct a commercial centrifuge uranium enrichment plant with an initial capacity of about 3.8 million SWUs (hereinafter referred to as the American Centrifuge Plant or "ACP" which term includes any similar or substitute centrifuge program undertaken by USEC). It is estimated that the assembly of composite rotors for the ACP will require approximately ***** of intermediate modulus carbon fiber and approximately ***** of carbon fiber prepreg.

In order to assure that a sufficient supply of intermediate modulus carbon fiber will be available for the ACP, Hexcel is willing to increase its capacity for producing intermediate modulus carbon fiber at its facility in Salt Lake City UT (the "SLC Facility") and to supply intermediate modulus carbon fiber required by the ACP, provided, however, that (i) USEC purchases, or causes ATK to purchase, from Hexcel ***** of the intermediate modulus carbon fiber required for the ACP, and (ii) USEC advances $***** to Hexcel against future purchases of the intermediate modulus carbon fiber (the "Advance Payment"), all as subject to the terms and conditions set forth in this Memorandum. Hexcel is also willing to supply the carbon fiber prepreg required by the ACP *****, provided, however, that (i) USEC provides Hexcel a notice of its intent to purchase the carbon fiber prepreg as provided in Section 6(B), and (ii) USEC purchases, or causes ATK to purchase, from Hexcel certain amounts of carbon fiber prepreg for the ACP. Hexcel's product designations for these requirements of carbon-based products are ***** ("IM Fiber) and ***** ("Prepreg").

*****.

Other than for this Memorandum, Hexcel is not a party to any agreement or other arrangement made or to be made between USEC and ATK respecting any aspect of the ACP.

3. Product Use

USEC and ATK agree that IM Fiber and Prepreg purchased will be used solely for the ACP and will not be used or resold for any other purpose, except as permitted under this Memorandum. In the event that ATK or USEC has excess IM Fiber (not to exceed a cumulative total of *****) that it desires to sell for purposes other than for the ACP, Hexcel will have a right of first refusal to purchase the excess IM Fiber at a price offered by ATK or USEC. If Hexcel declines to purchase the IM Fiber offered, ATK or USEC may sell such excess fiber to a third party but not at a price below that offered to Hexcel without first offering the fiber to Hexcel at the lower price. Hexcel's purchase of excess IM Fiber will not reduce USEC or ATK's commitments regarding the purchase IM Fiber under this Memorandum.

4. Carbon Fiber Capacity Expansion

Hexcel has represented to USEC that the current and projected market demand for all types of carbon fiber made by Hexcel is such that Hexcel will need to expand its carbon fiber capacity to meet USEC and ATK's requirements for IM Fiber for the ACP by adding a new carbon fiber line at the SLC Facility (the "New Line").

The New Line will be scheduled for completion no later than *****. This is a target completion date and is subject to extension by delays caused by events consistent with "Force Majeure" as defined in Section 11 (as extended, the "Completion Date").

USEC and ATK in good faith will cooperate with Hexcel to qualify, within three full calendar months after the Completion Date, the New Line and any existing carbon fiber manufacturing lines providing IM Fiber that may be used on the ACP so that such lines meet the specification attached as Attachment A to Exhibit J (the "Carbon Fiber Specification"), *****. USEC and ATK will also, in good faith, cooperate with Hexcel to confirm that the new and existing ***** lines supporting the IM Fiber will manufacture precursor that enables such carbon fiber manufacturing lines to meet the Carbon Fiber Specification, *****.

5. Advance Payment

USEC will advance $***** by wire transfer to Hexcel payable in three installments as follows:

The first installment within 10 days after the Effective Date	$ *****
The second installment within 90 days after the Effective Date	$ *****
The third installment within 180 days after the Effective Date	$ *****

Hexcel will not segregate these funds nor hold them in trust for USEC or ATK. Hexcel may draw on the funds immediately upon receipt. If USEC fails to make any installment payment within thirty days after it is due, all remaining installments will be due and payable immediately.

*****

6. Supply Arrangements with USEC and ATK for the ACP

(A) *Purchase and Supply of IM Fiber for the ACP*

USEC agrees to purchase, or cause ATK to purchase, from Hexcel (i) ***** of its requirements of intermediate modulus carbon fiber for the ACP; (ii) at least ***** of intermediate modulus carbon fiber for the ACP and (iii) as described in Table 2 on Schedule A, the minimum amount of intermediate modulus carbon fiber shown for that month, or per an agreed-to monthly delivery schedule negotiated by ATK and Hexcel in the 3rd quarter of any year for the upcoming year's supply. Hexcel agrees to supply to ATK/USEC intermediate modulus carbon fiber which USEC is obligated to purchase, or cause ATK to purchase, from Hexcel for the ACP. Hexcel will meet these obligations to supply the intermediate modulus carbon fiber by supplying Hexcel's IM Fiber. USEC's obligation to purchase or cause ATK to purchase intermediate modulus carbon fiber from Hexcel is subject to Hexcel satisfying its obligations under Section 4(a) of the Hexcel/ATK Supply Agreement, which includes the obligation of Hexcel to meet the Carbon Fiber Specification and delivery requirements resulting from this Memorandum.

(B) *Purchase and Supply of Prepreg for the ACP*

On or before *****, USEC may, at its option, provide a notice to Hexcel (the "Prepreg Supply Notice") that USEC intends to purchase, or cause ATK to purchase, from Hexcel carbon fiber prepreg for the ACP. The notice will include a proposed schedule for delivery of the amounts of carbon fiber prepreg, by month. The parties will not be obligated to purchase or supply Prepreg unless and until a purchase order is issued to and accepted by Hexcel; Hexcel will meet any obligations to supply carbon fiber prepreg by supplying Hexcel's Prepreg. The quantities, schedules and lead times for the deliveries of carbon fiber prepreg will be agreed between ATK/USEC and Hexcel, taking into account Hexcel's internal and customer needs, availability of raw materials and fibers, capacity and other manufacturing and shipping considerations. Any USEC obligation to purchase or cause ATK to purchase carbon fiber prepreg from Hexcel is subject to Hexcel satisfying its obligations under Section 4(a) of the Hexcel/ATK Supply Agreement, which includes the obligation of Hexcel to meet specifications and delivery requirements resulting from this Memorandum. The specification for carbon fiber prepreg will be negotiated in good faith between Hexcel and USEC and, upon agreement, will be incorporated into this Memorandum.

(C) *Terms and Conditions of Purchase and Supply*

Hexcel and ATK are parties to an existing supply agreement (i.e. that certain Memorandum of Agreement between Hexcel and ATK as revised through December 8, 2005 (the "Hexcel/ATK Supply Agreement") which provides for the terms of sale by Hexcel to ATK of certain products other than IM Fiber and Prepreg. To facilitate the purchase of USEC's ACP requirements for carbon fiber and carbon fiber prepreg through ATK, Hexcel and ATK agree that, as of the Effective Date:

(i) The Hexcel/ATK Supply Agreement will be amended by adding "Exhibit J" thereto substantially in the form as set forth in Schedule A to this Memorandum;

(ii) Sections 3, 4(b) and (d), 8(b), 9 and 18 of the Hexcel/ATK Supply Agreement will be disregarded;

(iii) The "*ATK Composites Procurement Terms and Conditions (Effective April 1, 2003 as Modified for Hexcel Corporation)*," which is incorporated into the Hexcel/ATK Supply Agreement, will be modified as set forth in Schedule B to this Memorandum; and

(iv) The terms of this Memorandum, including the Carbon Fiber Specification, will supersede any inconsistent provisions of the Hexcel/ATK Supply Agreement, and the Hexcel/ATK Supply Agreement will be interpreted to be consistent with this Memorandum and the Carbon Fiber Specification.

The Hexcel/ATK Supply Agreement will remain unaffected by any of the foregoing clauses (i) — (iv) for products other than IM Fiber and Prepreg for the ACP.

Hexcel and ATK will not modify the pricing (other than pursuant to any applicable escalation formula), minimum quantities, delivery schedules, or specifications of IM Fiber and Prepreg without the consent of USEC which shall not be unreasonably withheld.

(D) *Direct Purchases by USEC*

Without affecting the rights and obligations of USEC and ATK to one another as provided in any agreement between ATK and USEC (which agreement takes precedence as between USEC and ATK), USEC may purchase IM Fiber and Prepreg directly from Hexcel on the terms and conditions applicable under the Hexcel/ATK Supply Agreement as amended by the foregoing clauses (i) — (iv) (the "USEC Purchase Terms"). Except to the extent of any direct purchases by USEC pursuant to this Memorandum, ATK will purchase IM Fiber and Prepreg under the Hexcel/ATK Supply Agreement. A USEC offer to purchase IM Fiber or Prepreg directly from Hexcel will only be effective if it: (i) is made in accordance with the USEC Purchase Terms; (ii) is for not less than a minimum monthly quantity; (iii) is notified in writing to Hexcel by USEC and ATK jointly at least sixty days in advance of the scheduled delivery date; and (iv) would not have the effect of imposing any additional or greater obligations on Hexcel than if such direct purchase had not been made. No failure of either USEC or ATK to purchase IM Fiber or Prepreg will relieve the other of the obligation to purchase IM Fiber and Prepreg in accordance with this Memorandum or the Hexcel/ATK Supply Agreement.

(E) *Pricing*

The prices for IM Fiber and Prepreg, including provision for the escalation of prices, are set forth in Exhibit J and Section 7. However, in recognition of the Advance Payment made by USEC, Hexcel will reduce the IM Fiber price by $*****, of IM Fiber purchased by USEC and ATK for the ACP, up to a maximum aggregate price reduction equal to *****. For avoidance of doubt, price escalations will be determined before application of any price reduction.

7. Additional Obligations

(A) *Abandonment of the ACP*.

USEC acknowledges that it is necessary for Hexcel to expand the SLC Facility to supply IM Fiber for the ACP, and that in so doing Hexcel will undertake considerable expense and effort to design and construct the New Line to meet USEC and ATK's requirements for supply. Among other things, Hexcel will employ its personnel for design and planning, commit to ordering long lead-time equipment, retain third party engineering and other services, procure appropriate approvals and employ its capital resources. USEC further acknowledges that if the ACP is abandoned Hexcel would suffer

substantial damages and that such damages cannot be determined with reasonable certainty at this time.

Accordingly, in the event that USEC, for any reason whatsoever, abandons the ACP (as evidenced by a notice signed by the chief executive officer of USEC which references this Memorandum and which is delivered to Hexcel no later than seven days following the final corporate action by USEC necessary to abandon) before the start of the first month in which the minimum quantity of IM Fiber is required to be purchased as set forth in Exhibit J (such event being a "Section 7(A) Event"), USEC will pay Hexcel damages equal to the sum of (i) Hexcel's actual expenditures for the New Line, (ii) Hexcel's obligations incurred to suppliers, contractors and other third parties for deliveries and work performed for the New Line, and (iii) Hexcel's reasonable costs incurred in connection with suspension or termination of work on the New Line (should Hexcel, at its option, decide to suspend or terminate construction of the New Line), including settled and unsettled claims asserted against Hexcel, all as of the delivery date of the notice to Hexcel of the Section 7(A) Event (the aggregate amount payable by USEC being the "Damage Amount"). The maximum Damage Amount under this Section 7(A) will be $*****. The Damage Amount will be paid by USEC within ten days after Hexcel submits reasonable evidence of the determination of the Damage Amount, provided, however, (i) that USEC's payment will be reduced by any Advance Payment previously made, and (ii) that Hexcel will return to USEC the amount, if any, by which any Advance Payment previously made exceeds the Damage Amount. In addition, should Hexcel complete the New Line, it will pay USEC at the rate of $***** produced on the New Line and sold or used by Hexcel prior to December 31, 2011, up to a maximum aggregate payment equal to the Damage Amount paid by USEC. Hexcel will have no obligation to maximize this payment by selling or using fiber from the New Line if it can otherwise obtain fiber from its other production lines. Hexcel will make these payments, if any, to USEC within sixty days after the end of the month in which the payment amount is earned.

The Damage Amount payable by USEC will be the exclusive liability of USEC to Hexcel, and the exclusive remedy of Hexcel against USEC, arising from a Section 7(A) Event. Neither USEC nor ATK will be liable to Hexcel for any other actual, consequential, special, indirect, or incidental damages including loss of use or loss of profits, under any theory of law or equity, arising from a Section 7(A) Event. In addition, upon the occurrence of a Section 7(A) Event, the obligations of USEC to purchase IM Fiber and Prepreg, and the obligation of Hexcel to supply IM Fiber and Prepreg under this Memorandum and the Hexcel/ATK Supply Agreement automatically will terminate, in each case without liability of a Party to any other Party except for liabilities accrued prior to termination and the obligations of USEC and Hexcel to make payments under this Section 7(A).

(B) *Failure to Purchase IM Fiber Monthly Minimum for the ACP*

If a Section 7(A) Event has not occurred, and neither USEC nor ATK purchases, in any month commencing *****, the minimum quantity of IM Fiber set forth in Exhibit J (for any reason other than a failure to deliver, in accordance with this Memorandum, IM Fiber by Hexcel), USEC will forfeit to Hexcel out of the Advance Payment an amount (the "Forfeited Amount") equal to the aggregate price reduction that would have been applied on the quantity of IM Fiber by which the amount purchased is less than the minimum quantity. Hexcel will have no obligation to credit the Forfeited Amount against other purchases of IM Fiber or Prepreg or to supply in any other month the quantity of IM Fiber not purchased.

Except as provided in the last paragraph of this Section 7(B), the remedy in the prior paragraph is the exclusive remedy for the failure to purchase the monthly minimum in any month, but does not adversely affect Hexcel's rights against USEC and ATK with respect to the purchase of IM Fiber in accordance with Sections 6(A)(i) and 6(A)(ii) of this Memorandum and the Hexcel/ATK Supply Agreement, but the Forfeited Amount will be applied by Hexcel as a credit against any other damages that Hexcel may suffer.

In addition, if the Advance Payment has been reduced to zero by any combination of the fiber price reductions described in Section 6(E), the amounts forfeited by USEC under Section 7(B) and the payments made to USEC under Section 7(C), then Hexcel may, in accordance with Section 10, terminate the obligations of USEC to purchase IM Fiber and Prepreg, and the obligation of Hexcel to supply IM Fiber and Prepreg under this Memorandum, the USEC Purchase Terms and the Hexcel/ATK Supply Agreement, in each case without any liability to any other Party except for liabilities accrued prior to termination.

(C) *Pricing Of IM Fiber based on Purchases of Prepreg for the ACP*

If a Section 7(A) Event has not occurred, the price of IM Fiber to be purchased by USEC/ATK is based on the volume of Prepreg that is purchased, as described on Schedule A.

(D) *Late Delivery of IM Fiber for the ACP*

Hexcel's obligations to supply IM Fiber for the ACP will be governed solely by this Memorandum, the USEC Purchase Terms and the Hexcel/ATK Supply Agreement. In the event Hexcel is late in delivery of either IM Fiber, Hexcel will pay ATK a penalty, commencing on the 16th day of delay, equal to ***** of the then current price of the delayed IM Fiber, per day of delay, until the date of delivery of the delayed IM Fiber to ATK. The penalty is limited to a cap of *****. Notwithstanding anything to the contrary contained herein, in no event will Hexcel be liable to USEC or ATK for any consequential, special, indirect, or incidental damages, including loss of use or loss of profits, under any theory of law or equity, for any matter arising out of under this Memorandum, the USEC Purchase Terms or the Hexcel/ATK Supply Agreement.

The payment of such amount will not adversely affect the rights of USEC and ATK against Hexcel with respect to the purchase of IM Fiber in accordance with other Sections of this Memorandum and the Hexcel/ATK Supply Agreement.

(E) *Failure to Qualify the New Line*

If through no fault of USEC and ATK the New Line is not qualified by *****, Hexcel will return to USEC, within ten days after such date, the Advance Payment less any previously Forfeited Amount under Section 7(B). The return of the Advance Payment will be the exclusive liability of Hexcel to USEC and ATK, and the exclusive remedy of USEC and ATK against Hexcel, arising from the failure to qualify the New Line. Hexcel will not be liable to USEC or ATK for any actual, consequential, special, indirect, or incidental damages, including loss of use or loss of profits, under any theory of law, arising from such failure. For the avoidance of doubt, the failure to qualify the New Line is not a default by Hexcel as long as Hexcel is not otherwise in default in supplying IM Fiber under the terms of this Memorandum and the Hexcel/ATK Supply Agreement.

(F) *Exchange of Information*

USEC will keep Hexcel apprised of the progress of the ACP in reasonable detail and will promptly inform Hexcel of any facts and circumstances that could result in any actual or anticipated abandonment or delay of the ACP.

Hexcel will keep USEC and ATK apprised of the progress of the New Line in reasonable detail and will promptly inform USEC and ATK of any facts and circumstances that could result in any actual or anticipated delay in qualifying the New Line beyond *****.

8. Nature of Memorandum

Nothing in the arrangements contemplated by this Memorandum is intended to constitute a partnership, joint venture or other common enterprise, and Hexcel retains, free and clear and without any restriction or encumbrance arising out of this Memorandum, all rights to its facilities, assets and intellectual property.

9. Confidentiality; Effective Date; Binding Commitments

Hexcel and USEC agree, and USEC shall cause ATK to agree, that this Memorandum and any information exchanged in the performance hereof shall be kept confidential and protected in accordance with the terms of the confidentiality agreement between Hexcel and USEC effective April 5, 2005 (“Hexcel/USEC Confidentiality Agreement”).

This Memorandum will become effective on the date (the “Effective Date”) on which the letter of credit is issued pursuant to Section 5. *****

On becoming effective, this Memorandum is intended to be a legally binding commitment that supercedes any prior representations, agreements and understandings relating to the subject matter hereof, except for the Hexcel/USEC Confidentiality Agreement. Each Party has obtained its respective corporate or other approvals necessary for it to enter into and perform under this Memorandum. The terms of this Memorandum may not be waived or modified except by a writing signed by the Party against which the waiver or modification is sought to be enforced.

10. Termination; Continuing Default

(A) This Memorandum and/or the Hexcel/ATK Supply Agreement may be terminated by a Party pursuant to a termination right expressly provided in another Section of this Memorandum.

(B) This Memorandum and the Hexcel/ATK Supply Agreement, together and not separately, may be terminated by USEC and ATK, acting jointly, if there is a Continuing Default by Hexcel under the Memorandum or the Hexcel/ATK Supply Agreement.

(C) This Memorandum and/or the Hexcel/ATK supply Agreement may be terminated by Hexcel against either or both USEC and ATK if there is a Continuing Default by either of them under this Memorandum or the Hexcel/ATK Supply Agreement.

Unless otherwise expressly provided in another Section of this Memorandum, a termination will be effective upon notice and all liabilities accrued prior to termination will survive the termination.

The term “Continuing Default” means a material default by a Party which continues for more than sixty days after receipt of notice from the Party asserting such default that describes, in particular detail, the facts supporting the default.

Any termination of the Hexcel/ATK Supply Agreement that may arise under this Memorandum will affect the Hexcel/ATK Supply Agreement only to the extent it applies to this Memorandum and Schedule A and will have no effect on the Hexcel/ATK Supply Agreement as applied to any other program or contract or any other exhibit to the Hexcel/ATK Supply Agreement.

11. Force Majeure

A Party will be excused from performance under this Memorandum (except for the obligations to purchase the minimum amounts contained in Section 6(A)(ii) and (iii) and 6(B)) if the failure to perform arises from causes beyond the reasonable control of the Party. Examples of such causes include acts of God or of the public enemy, acts of the Federal Government in either its sovereign or contractual capacity, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, lack of raw material *****,

and unusually severe weather *****. The Party asserting Force Majeure will give notice to the other Parties promptly of the effect of such Force Majeure on performance under this Memorandum and the likely duration thereof, if reasonably known, and will keep the other Parties informed of any changes in such circumstances, including when such Force Majeure ceases. The Party claiming Force Majeure shall use commercially reasonable efforts to continue to perform under this Memorandum, to remedy the circumstances constituting the Force Majeure and to mitigate the adverse effects of such Force Majeure on performance under this Memorandum. For the avoidance of doubt, (1) this Section 11 is not applicable in determining whether USEC is obligated to pay any Damage Amount pursuant to Section 7(A) and (2) to the extent that Hexcel does not supply IM Fiber because it is excused due to a Force Majeure, USEC and ATK shall be excused from their obligations to purchase such excused amount of IM Fiber, so that (a) USEC and ATK may purchase the excused amount of intermediate modulus carbon fiber from a different source without breaching Section 6(A)(i); (b) the minimum amount of intermediate modulus carbon fiber to be purchased pursuant to Section 6(A)(ii) shall be reduced by such excused amount; and (c) the minimum monthly amount of intermediate modulus carbon fiber to be purchased pursuant to Section 6(A)(iii) shall be reduced by such excused amount.

12. Notices

Notices and communications required to be given by a Party under this Memorandum will be in writing and deemed delivered when delivered personally or by courier, or when received if posted as registered or certified mail, to the following addresses

USEC

USEC Inc.
6903 Rockledge Dr.
Bethesda, MD 20817

*****

ATK

ATK Space Systems, Inc
Freeport Center Building A15
Clearfield, UT 84016

*****

Hexcel

Hexcel Corporation
11711 Dublin Blvd
Dublin, CA 94568

*****

The foregoing contact information will be applicable for all notices and communications hereunder until such time as a Party by like means has notified the other Parties of any change.

13. Governing Law

This Memorandum will be governed by Delaware Law without applying conflicts of law principles. The Parties agree to submit any disputes under this Memorandum to the courts of Delaware for determination. If a court should determine that any provision of this Memorandum is unenforceable, the Parties intend that such provision be modified by the court so as to be enforceable to the fullest extent permitted under the law.

14. Assignment

This Memorandum is not assignable in whole or in part by any party without the prior written consent of the other parties, except to a wholly owned subsidiary of the assignor (but in no event will the assignor be released from its obligations hereunder). This Memorandum shall inure to the benefit of and be binding on the parties hereto and their respective successors and permitted assigns. A party may assign the right to receive payments from another party hereunder to a financial institution that generally collects payments from customers of the assignor but such assignment is subject to the rights of the payor with respect to such payments.

IN WITNESS WHEREOF, the Parties have caused this Memorandum to be executed by their duly authorized representatives as of the day and year first above written.

USEC Inc.

By /s/ Charles W. Kerner
Name: Charles W. Kerner
Title: Director of Procurement and Contracts

ATK Space Systems Inc

By /s/ Mark J. Messick
Name: Mark J. Messick
Title: Vice President and General Manager,
ATK Aerostructures Division

Hexcel Corporation

By /s/ Charles D. Dunbar
Name: Charles D. Dunbar
Title: Director of Sales

Schedule A
Exhibit J to Memorandum of Agreement
Between
Hexcel and ATK

*****

Schedule B
Modified Form
of

ATK Composites Procurement Terms and Conditions (Effective April 1, 2003 as Modified for Hexcel Corporation)

The following modifications to the ATK Composites Procurement Terms and Conditions (Effective April 1, 2003 as Modified for Hexcel Corporation) (the "Terms and Conditions") which is incorporated into the ATK Supply Agreement shall apply to purchases pursuant to this Memorandum:

1) The following Sections of the Terms and Conditions shall be deleted: 1.3, second paragraph of 1.6(b), 1.6(c), 1.10 (b), 1.10(c), 1.10(d), second paragraph of 1.13, 1.14, 1.15, 1.16, 1.42, 1.43, 1.44(d), 1.44(e), 1.44(h), 1.44(k), 1.45, 1.47, 1.48 and Section 2 (Special Provisions).

2) The last sentence of Section 1.6(a) shall be amended to read: "Unless performance is excused, deliveries will be made even in the event of a strike at either the Buyer's or Seller's location, unless prior written consent is obtained from the other party, which shall not be unreasonably withheld."

3) The last sentence of Section 1.6(b) shall be amended to read: "Unless performance is excused, if ATK requests, Contractor shall, at Contractor's expense, ship via air or other expedited routing to avoid the delay or minimize it as much as possible."

4) The second sentence of Section 1.7 shall be amended to read: "Either party may litigate any dispute arising under or relating to this Contract before a court located in the state of Delaware."

5) The first paragraph of Section 1.9 shall be amended to read:

"Failure of either party to enforce at any time any of the provisions of this Contract, or any rights in respect thereto, or to exercise any election therein provided, shall in no way be considered to be a waiver or relinquishment of the right to thereafter enforce such provisions or rights or exercise any subsequent elections. Except as specifically provided, any and all of the rights and remedies under this Contract shall be cumulative and in addition to, and not in lieu of, the rights and remedies granted by law. If any provision of this Contract becomes void or unenforceable by law, the remaining shall be valid and enforceable."

6) Section 1.12 shall be amended to read:

"Except to the extent claims arise from the other party's negligent or intentional acts or omissions, each party agrees to indemnify and hold the other party, its officer's, employees, agents and representatives, harmless from any and all claims, fines, penalties, offsets, liabilities, judgments, losses, damages, costs and profit disallowed, or expenses (including reasonable attorney's fees) for:

(a) Property damage or personal injury including death, of whatever kind or nature arising out of, as a result of, or in connection with the party's, its employees', agents', Subcontractors', and lower-tier Subcontractors to comply with any law, regulation, or clause whose terms are part of this Contract, and/or

(b) Any liability which arises as the result of failure of the party's or its lower-tier Subcontractors to comply with any law, regulation, or clause whose terms are part of this Contract, and/or

(c) Liability from any actual or alleged patent, copyright, trademark, or trade secret infringement by reason of any manufacture, use, or sale of any articles delivered by Contractor under this Contract, provided that Contractor's indemnification shall not apply:

i. To the extent such infringement results directly from compliance with Buyer's particularlized designs, specifications or instructions, or from changes made by Buyer to Contractor's product after delivery without Contractor's knowledge or authorization; or

ii. To the extent such infringement results from the use or sale of the product in combination with other items (unless such combination was known and authorized by Contractor) and would not have occurred from the product itself.

(d) The indemnifying party must be promptly notified of any claim for indemnity. In the event of an obligation to indemnify, the indemnifying party, at the indemnifying party's election, have sole charge and direction thereof, in which event, the other party, shall provide the indemnifying party reasonable assistance in the defense thereof as the indemnifying party may require. The other party shall have the right to be represented in such suit by advisory counsel at the other party's expense."

7) The first paragraph of Section 1.13 shall be amended to read: “ATK and/or its customers shall at all times have title to all drawings and specifications furnished by ATK to Contractor. Contractor agrees to use all drawings and specifications provided by ATK solely in connection with the Contract and shall not disclose such drawings and specifications to any person, firm or corporation other than those employees of ATK and/or its customers, the Contractor, or approved Subcontractors that have a need to know.”

8) The second paragraph of Section 1.35 shall be amended to read: “Notwithstanding the foregoing, any amounts due or to become due hereunder may be assigned by the Contractor provided that such assignment shall not be binding upon ATK unless and until ATK is notified thereof.”

9) Section 1.39 shall be amended to read: “Irrespective of the place of performance, this Contract shall be governed by and construed according to the laws of the State of Delaware.

USEC PROPRIETARY INFORMATION
CONTRACT NO. 727613

CONFIDENTIAL TREATMENT HAS BEEN REQUESTED FOR THE REDACTED PORTIONS. THE CONFIDENTIAL REDACTED PORTIONS HAVE BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. ASTERISKS DENOTE SUCH REDACTIONS.

USEC Inc.

Centrifuge Commercial Plant Casing Manufacturing

CONTRACT NUMBER:	**727613**
CONTRACTOR:	**Major Tool and Machine, Inc**
DATE:	**August 30, 2007**

Contract Purchase Agreement

IN WITNESS WHEREOF, the Parties have caused this Contract to be signed by their duly authorized representatives as of the Effective Date.

USEC Inc.	Major Tool and Machine, Inc.
By: /s/ Charles W. Kerner	By: /s/ J. Stephen Weyreter
Name: Charles W. Kerner	Name: J. Stephen Weyreter
Title: Director, Contracts and Materials	Title: President and CEO

USEC PROPRIETARY INFORMATION
CONTRACT NO. 727613

CONTRACT

BETWEEN

USEC Inc.

AND

Major Tool and Machine, Inc

In consideration of the mutual promises hereinafter set forth, USEC Inc., a Delaware Corporation, ("Corporation"), and Major Tool and Machine, Inc., an Indiana corporation ("Contractor") (the Corporation and Contractor being referred to herein individually as a "Party" and together, as the "Parties") hereby agree to the following contract (which, including the General Terms and Conditions attached hereto as Exhibit A (the "General Terms and Conditions"), and including the Attachments attached hereto, is hereinafter referred to as this "Contract").

I. Purpose and Scope

This is a contract for purchase of assemblies consisting of casings with internal Heat Shields as specified in Attachment I hereto ("Casings") to be delivered to the Corporation's American Centrifuge Plant in Piketon, Ohio (ACP). This contract is for delivery by Contractor and purchase by Corporation of 11,520 Casings to support start up of the 3.8 million SWU ACP. The Contractor will manufacture and deliver Casings in accordance with this Contract and shall perform the following for effective performance under this Contract:

a. Maintain a quality program consistent with and meeting applicable requirements of the Corporation's Quality Assurance Program and NRC license to build and operate the Piketon, OH facility and comply with all regulatory requirements applicable to the performance of Contractor's obligations under this Contract and be responsive to all regulatory questions and directions throughout the life of this Contract.

b. Ensure a safety culture is in place that assures safety takes priority over cost, schedule, manufacturing or any other considerations. The Contractor shall comply with all applicable state and federal requirements related to performance of Contractor's obligations under this Contract.

c. Maintain an effective program that maintains compliance with all NRC and DOE requirements and regulations related to performance of Contractor's obligations under this Contract, including, but not limited to all applicable export control regulations.

d. Coordinate with other contractors as necessary to assure centrifuge machines are assembled and delivered in accordance with the schedule contemplated by this Contract.

e. Establish or maintain a configuration control program for the design, specifications, manufacturing processes, quality requirements and all other attributes necessary to deliver Casings in accordance with the terms and conditions of this Contract.

f. Maintain a capability to process all reasonable proposed or directed changes of Corporation (at the expense of Corporation) with minimum impact on technical, schedule, and cost elements of this Contract.

g. Maintain an effective value engineering program directed at reducing costs through recommended design changes.

h. Develop a transportation plan using shipping trailers, with a design that is mutually agreed upon by Corporation and Contractor, for timely delivery of all Casings Piketon, OH; provided that if mutual agreement can not be achieved, Corporation's design decision shall be final, subject to the other provisions of this Contract.

II. Period of Performance; Quantity

This Contract shall be effective when fully executed by both parties and shall remain in effect through December 31, 2012. Effective upon full execution of this Contract, the Letter Contract awarded July 18, 2007, as extended, shall be terminated and superseded in all respects by this Contract. During the term of this Contract (prior to December 31, 2012), Corporation will purchase from Contractor (and pay for in accordance with the terms hereof) 11,520 Casings.

III. Non-Recurring Costs

Corporation will provide the firm, non-refundable fixed amount of $***** for start-up of the Casings program contemplated hereby (the "Start-Up Fee"), in increments per the Non-Recurring Milestone Schedule, Attachment II, to Contractor over the next year to support Contractor's outlays necessary to acquire equipment and other items and services to be used for manufacturing Casings under this Contract. As an inducement to Corporation to enter into this Contract and to secure performance of Contractor's production obligations under this Contract, Contractor agrees that Corporation will have a lien on and security interest in the equipment described in Attachment II purchased by Contractor for the Casings production program out of the Start-Up Fee as set forth in that certain Security Agreement to be mutually agreed upon by the Parties and executed and delivered by the Parties within ten (10) days of the date hereof.

Contractor shall remain responsible for the payment of all other costs associated with the manufacture and delivery of the Casings under this Contract except as explicitly stated elsewhere in this Contract.

IV. Pricing

A. Initial Price

The initial unit price for Casings delivered prior to the date on which Contractor's new automated facility is fully operational or prior to *****, whichever is earlier, shall be $***** plus material and fuel escalation, to the extent applicable from time to time.

B. Price

The unit price for Casings delivered after the date on which Contractor's new automated facility is fully operational or after ***** (which ever occurs first), shall be the Base Price for the applicable year in which the delivery is completed, as specified in clause (C) below, plus material and fuel escalation, to the extent applicable from time to time.

C. Base Price

The Base Price of Casings through ***** shall be $*****.

Casings delivered after the following dates (and prior to the next following date, if any) will have the following Base Price:

*****

D. Material Escalation

The total cost in the proposal submitted by Contractor for metal is $***** per Casing. This amount will be escalated/deescalated based on American Metals Market (amm.com) index for steel base pricing, specifically listed under Steel Base Prices, Plate-Carbon Grade Plate, National Mills, cut to length, using the average of the past three months for the next three months usage. The Base Index shall be $*****. On the first working day of each quarter, Contractor will calculate the cost of metal for the next three months deliveries the price of which will be adjusted accordingly. *****.

V. Incentive for Early Casing Facility Completion

In the event Contractor completes its new Casing production facility (demonstrated by the manufacture of at least one acceptable Casing per the requirements in the Specifications) prior to *****, Contractor shall be paid an incentive fee of $*****.

VI. Fuel Escalation

There will be a fuel price adjustment billed/credited each quarter as a separate line item for Casings shipped during the quarter. The price adjustment will be based on the average price of diesel fuel during the last quarter. The upward or downward unit price adjustment will be based on *****. This index is updated on a weekly basis. The calculation and pricing is in U.S. gallons and will be:

*****. A negative number implies a credit and a positive number implies an additional charge.

VII. Buffer Quantity

Contractor shall begin providing Casings for buffer storage beginning on, or shortly after, the date the new automated manufacturing facility becomes fully operational. Contractor shall manufacture, while maintaining the required delivery schedule per Attachment III (the "Schedule"), twenty (20) additional Casings per month until the Corporation has 200 Casings for a buffer in storage at its plant in Piketon, Ohio. Such buffer Casings shall be packaged to meet all requirements of Specification ECS-1150-0002, Rev.1; Section 4.9 and shall be purchased and paid for by Corporation in accordance with the terms and conditions of this Contract.

VIII. Delivery Penalty

Contractor understands that time is of the essence and delivery of Casings in accordance with the Schedule is of critical importance to the ACP. If at any time after the buffer storage of 200 Casings is established by Contractor in accordance with the terms of this Contract, Contractor fails to deliver or delivers non-conforming Casings (in any such case other than due to actions or inactions of Corporation or due to a Force Majeure), and at such time the entire number of available buffer Casings have been used by Corporation as a substitute for such failed or non-conforming deliveries, then the unit price for each Casing delivered thereafter will be reduced by $***** until Contractor has replenished Corporation's buffer storage of 200 Casings with timely delivery of Casings in accordance with the Schedule for daily deliveries.

In the event Contractor fails to deliver or delivers non-conforming Casings (in any such case other than due to actions or inactions of Corporation or due to a Force Majeure) that results in the Corporation using Casings stored in the long term storage buffer, Contractor shall ship Casings to replenish the quantity of long term storage units used. The buffer storage shall be fully replenished as soon as is reasonably practicable. The replenishment quantities are over and above the regularly scheduled quantities. These Casings shall be packaged to meet all requirements of Specification ECS-1150-0002 Rev.1; Section 4.9 and shall be purchased and paid for by Corporation in accordance with the terms and conditions of this Contract.

Nothing in this section limits Corporation's rights of termination under Paragraph 21 titled Termination and Suspension of the General Terms and Conditions if otherwise applicable in accordance with their terms.

IX. Nuclear Regulatory Commission (NRC) U.S. Department of Energy (DOE) and other Regulatory Support

Contractor shall provide support for any NRC, DOE or other regulatory authority inspections, audits, request for information or other regulatory requirements related to Work performed under this Contract. Contractor shall provide up to 20 hours of non-production support labor per month for inspections or audits that are performed at Contractor's facility at no additional cost to the Corporation. If requested by

Corporation, Contractor will supply additional non-production support and Corporation will reimburse Contractor for the additional non-production support labor that is requested beyond 20 hours per month at the rate of $***** payable in accordance with the terms and conditions of this Contract.

X. Delivery

Contractor will perform all transportation related to the Casing manufacturing. Contractor will deliver finished casings on a daily basis per the Schedule. Trucks shall be scheduled for departure/arrival throughout the day as mutually agreed by the Parties. Empty trailers will be returned to Contractor to be re-loaded for the next day's shipments. All transportation costs are included in the Casing unit price, subject to the fuel escalation provided for herein; provided that Corporation shall be fully responsible for the direct payment of or reimbursement of Contractor Ohio sales and use taxes arising out of the sale of the Casings to Corporation. Portable casing trolleys will be returned to Contractor from Piketon on a periodic basis on a returning truck.

Delivery shall be FOB Destination, Freight included in the agreed price.

XI. Commencement of Work and Task Orders/Purchase Orders

Contractor shall commence activities necessary to enable it to deliver Casings in accordance with the Schedule including acquiring equipment to be used for manufacturing Casings under this Contract and other activities described in Article III Non-Recurring Costs. Prior to commencing manufacturing the Casings, Contractor shall complete the activities and provide the documentation required in all mutually agreed upon Task Orders/Purchase Orders. Contractor shall provide access to facilities and records to demonstrate that it is on schedule to complete its facility and install equipment such that it can begin automated production no later than *****. Contractor will perform other Work only as authorized in a mutually agreed upon Task Order or Purchase Order signed by the Buyer. Each Task Order/Purchase Order shall specify the work to be performed, the ceiling price for such work and any special terms that may apply as mutually agreed upon by the Parties. The Corporation shall in no event be liable to pay any amount above the ceiling price established by the applicable Task Order/ Purchase Order.

XII. Trailers and Trailer Maintenance

The Corporation will provide to Contractor a design for trailers to transport Casings to the ACP. The Contractor will review the design and provide comments to the Corporation within thirty (30) days of its receipt of the design. Contractor shall purchase the trailers after it receives a Task Order authorizing the purchase. Corporation will promptly reimburse Contractor for the cost incurred by Contractor for the trailers with a reasonable markup mutually agreed upon by the Parties to reflect the time spent by Contractor in assisting in design and coordinating purchase of the trailers. Routine maintenance of non-special design aspects of these trailers (e.g. tires, brakes, required inspections, etc.) shall be the responsibility of Contractor but Corporation shall reimburse

Contractor for its costs with a reasonable mark-up on such costs. Maintenance of special design features of these trailers (e.g. hydraulic lifts) shall be the responsibility of Contractor with reimbursement by Corporation of costs, with a reasonable mark-up on such costs. Should such maintenance of special design features be necessary, Contractor shall inform Corporation and shall perform such maintenance upon receipt of a Task Order authorizing it. The Parties shall in good faith consider and negotiate alternative provisions with respect to the trailers that contemplate that Contractor will be fully responsible for the trailers in exchange for appropriate compensation paid by Corporation to Contractor; provided that (a) the foregoing provisions shall control unless and until any such provisions are mutually agreed upon by the Parties by way of an amendment to this Contract and (b) until otherwise mutually agreed upon by the Parties by way of an amendment to this Contract, the trailers will be owned by Corporation and Corporation shall be responsible for all taxes assessed with respect to the trailers and for all fees, license plates, licenses, approvals and authorizations necessary to use the trailers as contemplated by this Contract.

XIII. Corporation Furnished Equipment

Corporation shall furnish the following equipment to the Contractor (and Corporation shall retain full ownership of, shall insure, and shall pay all property taxes assessed on such equipment):

*****. One machine is to be used as a primary production machine with the remaining unit to be held in reserve as a back-up in case of failure of the primary machine. Contractor shall be responsible for routine maintenance on both units prior to, during and post operation. As authorized by a Task Order signed by the Buyer, Contractor shall perform any non-routine repairs, software programming or upgrades, and the Corporation shall reimburse Contractor for its costs with a reasonable mark-up on such costs. All maintenance or repair and any software programming shall be done by a qualified, trained technician.

XIV. Warranty

The warranties in Paragraph 9 of the General Terms and Conditions are hereby amended and shall be for a period of the lesser of

(a) ***** from the time of shipment to Corporation or
(b) ***** of service life

XV. Value Engineering

A design change or modification initiated by Corporation resulting in a reduction in the cost of manufacturing of Casings shall be applied ***** toward reducing the cost of any Casing actually produced with such change or modification. A design change or modification initiated by Contractor and accepted by Corporation (which acceptance shall not be unreasonably withheld or delayed) resulting in a reduction in the cost of manufacturing of Casings or assembly activities of Corporation shall be *****. In the case of such a change on modification initiated by Contractor *****.

XVI. Post-Production Manufacturing Capability

Contractor will maintain the Casing manufacturing facility and equipment in a stand by condition at no cost to Corporation, able to resume manufacturing within a reasonable period of time, for a period of six months after shipment of the last Casing under this Contract; provided, however, this obligation shall not exist after any termination of this Contract due to a breach by Corporation or a termination or suspension under Paragraph 21 (a)(i) of the General Terms and Conditions.

XVII. Option for Additional Casings

Contractor grants Corporation an option exercisable after December 31, 2009 and prior to September 30, 2011 to extend this Contract for the purchase of additional Casings past the scheduled delivery of the 11,520th unit for the first 3.8 Million SWU plant. The Parties agree that the "Base Price" for such Casings shall be mutually agreed upon by the Parties in December of 2009 based upon all relevant facts, extensive experience and a completed learning curve, including a fair profit for Contractor. If the Parties are unable to mutually agree upon a "Base Price" in December of 2009, then the option hereunder shall expire on December 31, 2009 and shall be of no further force and effect. If the option is exercised, the Parties will enter into good faith negotiations within a month to determine appropriate labor escalation to be applied to the base price and the schedule for delivery. The material escalation method in Article IV D and the Fuel Escalation in Article VI hereof shall remain in effect for additional Casings purchased over and above the 11,520 to be manufactured and sold under this Contract as of the effective date of this Contract.

XVIII. Purchase of Manufacturing Equipment

In the event Corporation chooses to not order more Casings after the purchase by Corporation of 11,520 Casings hereunder prior to December 31, 2012, then for a period of six months after the expiration of this Contract on December 31, 2012, Corporation shall have the option to purchase any or all of the manufacturing equipment and tooling dedicated to manufacture of the Casings. The price for such equipment and tooling shall be ***** of the original purchase price for the equipment or tooling to be purchased, plus the actual costs to remove (and repair damage caused by said removal) and transport the equipment without markup or fee. This purchase option shall automatically expire if (a) the Corporation shall exercise its extension option under Article XVII, (b) this Contract shall terminate due to a default by Corporation or (c) a termination or suspension is invoked under Paragraph 21 (a)(i) of the General Terms and Conditions.

XIX. Support for Continued Casing Production

In the event Contractor ceases production of Casings for more than thirty (30) days before delivery of all contracted quantities, other than as a result of a default by Corporation (or other action or inaction of Corporation), a termination or suspension under Paragraph 21(a)(i) of the General Terms and Conditions or due to a Force Majeure, Contractor will provide any reasonable support requested by Corporation to permit continued production and to mitigate any damages to the Corporation. These efforts may include, but are not limited to:

- Assigning any contracts to other suppliers.

• Transferring title to and shipping production equipment dedicated to providing Casings (and in which Corporation has a security interest under the Security Agreement) to another supplier.

• Allowing Corporation or its replacement contractor to operate the Casing production facility with necessary services provided on an actual cost reimbursement basis without markup or fee.

XX. Invoicing

Invoices are to be submitted weekly by facsimile or other agreed electronic transmission media to:

USEC Inc.
3930 U.S. Route 23
Piketon, OH 45661

Attn: Accounts Payable
*****

Payment shall be due ***** days after receipt of invoice and shall be made by USEC weekly by transfer of electronic funds to Contractor to an account designated by Contractor or in the absence of such designation by check to:

Major Tool and Machine, Inc.
PO Box 66145
Indianapolis, IN 46266
Attn: Chief Financial Officer

XXI Contract Terms

This Contract constitutes the entire agreement between the Contractor and the Corporation, subject to and including the Attachments referenced herein and the General Terms and Conditions.

XXII. Employee Protection

a. Section 211 of the Energy Reorganization Act of 1974, as amended (the "ERA"), or 10 CFR Section 70.7 of the NRC regulations (applicable to item/services provided in support Corporation Inc's centrifuge lead cascade or production facility) or 10 CFR Part 708 of the DOE regulations (applicable to item/services provided in support of Corporation's centrifuge demonstration project), implementing Section 211, as applicable applies to the performance of Work under this Contract. Contractor acknowledges its obligation to comply with the requirements of Section 211 of the Energy Reorganization Act of 1974, as amended (the "ERA"), 10 CFR Section 70.7 of the NRC regulations or 10 CFR Part 708 of the DOE regulations implementing Section 211.

b. In the event that an employee of Contractor, or an employee of any subcontractor, files a complaint with the United States Department of Labor (the "DOL") alleging that Contractor, or any of its subcontractors, violated the requirements of Section 211 with

respect to such employee while he or she was performing Services in connection with this Contract, Contractor shall promptly notify the Buyer of the filing of such complaint, and shall keep the Buyer apprised of the status of the complaint itself and all material developments in any DOL or judicial proceedings related to the complaint.

c. In the event that Contractor becomes aware of an allegation of retaliation or safety raised to the NRC or DOE, Contractor shall promptly notify the Buyer of the filing of such allegation, and shall keep the Buyer apprised of the status of the allegation itself and all material developments in any NRC, DOE or judicial proceedings related to the allegation.

d. Contractor further agrees to indemnify and hold the Corporation harmless against any and all costs, losses, claims, damages, liabilities, civil penalties and expenses, including reasonable attorneys' fees, imposed upon or incurred by the Corporation in connection with (A) any DOL proceeding brought against the Corporation by an employee or former employee of Contractor, or any subcontractor of Contractor, based upon Contractor's or its subcontractor's actual or alleged violation of Section 211 with respect to such employee or former employee, (B) any investigation or enforcement action by the NRC based upon such an actual or alleged violation of Section 211, 10 CFR Section 70.7 or 10 CFR Part 708; and (C) any civil action brought against the Corporation based upon Contractor's, or its Subcontractor's, actual or alleged violation of Section 211. Such costs, losses, claims, damages, liabilities, civil penalties and expenses, including reasonable attorney's fees, shall not be recoverable from the Corporation under any other provisions of this Contract.

e. Contractor shall notify the Buyer if any Contractor employee is subject to an NRC or DOE Order or enforcement action. The Corporation reserves the right to determine that the employee may not be used in the performance of this Contract.

XXIII. Subcontract and Consultants

a. Contractor shall ensure that all subcontracts placed under the Contract (and all lower-tier subcontracts) include (i) any requirements applicable to the subcontracted work as to quality and performance which are at least as stringent as are imposed on Contractor by this Contract; (ii) any requirements imposed by applicable law and regulation; (iii) the same requirements to maintain the confidentiality of Corporation Proprietary Information, and provide and protect the intellectual property rights of the Corporation as are imposed on Contractor by the Contract; and (iii) any other provisions in this Contract required to be included in such subcontracts including, but not limited to, the following articles of the General Terms and Conditions if applicable: Article 5 (Standard of Performance), Article 32 (Confidentiality), Article 33, (Intellectual Property), Article 34 (Security of Classified Information and Controlled Areas), Article 35 (Waiver for Claims Due to Nuclear Incidents, Article 36 (Representation Concerning Nuclear Hazards).

b. The Contractor further agrees to pass the requirements imposed by this Section to its subcontractors by including a provision similar to this section in all Subcontracts for the performance of Services in connection with the Task Orders.

c. Subcontractor Conflicts of Interest. Contractor shall ensure that subcontracts include protection against Conflicts of Interest acceptable to the Corporation. If required by the Corporation, Contractor shall cause subcontractors to execute agreements with the Corporation for the protection of Contractor Proprietary Information, prior to engaging subcontractors in work.

XXIV. Notices

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), email or overnight courier to the other Party at the following numbers and addresses:

Contractor: *****

Corporation: *****

XXV. Technical Representative

The Corporation's Technical Representative, with overall responsibility for coordinating work under this Contract is *****. In addition, the Corporation may designate a specific Technical Representative for individual technical areas.

XXVI. Code of Conduct

(a) The Contractor agrees that its employees performing services under this Contract who represent the Corporation, or may be viewed as representing the Corporation, shall abide by the Corporation's Code of Conduct (the "Code"). The Code can be accessed at: www.USEC.com/v2001_02/Content/AboutUSEC/USECCodeofBusinessConduct.pdf.

(b) The Contractor further agrees that it will use its reasonable best efforts to ensure that its employees covered by this Paragraph are provided access to the Code and that they have read and understand its requirements and prohibitions.

XXVII. Export Controlled Information

(i) Definition. "Export Controlled Information" or "ECI" means all information and contract documents (purchase orders, drawings, specifications, etc.) furnished by Corporation to be used in connection with proposal/offer preparation or performance under a contract, which are identified as ECI. The ECI identification will be determined by an appropriate ECI review authority as specified by the DOE Office Export Control Policy and Corporation (NA-242).

(ii) Oral or Visual Disclosure. A Party that discloses Export Controlled Information orally or visually shall identify it as Export Controlled Information at the time of disclosure.

(iii) Marking. All tangible objects, such as drawings, reports, programs or documents, which constitute and/or contains or may contain Export Controlled Information shall be Marked "Export Controlled information" or "Information Contained Within May Contain

Export Controlled Information" or such other markings as required or permitted by DOE guidance. Markings inadvertently omitted from Export Controlled Information when disclosed to a recipient shall be applied by such recipient promptly when requested by the disclosing Party, and such Export Controlled Information shall thereafter continue to be treated as provided by this Agreement.

(iv) Export Controlled Information shall be protected in accordance with the DOE guidelines on Export Control and Nonproliferation and with U.S. Government export control laws and regulations. Each recipient shall not disclose the information to suppliers or contractors who are not U.S. owned and managed or to employees who are not U.S. Citizens, except in accordance with the DOE Guidelines on Export Control and Nonproliferation, and with U.S. Government export control laws and regulations. This restriction applies to written and oral guidance concerning performance, which may be provided by Corporation technical representatives.

(v) Unless specifically and expressly approved in writing by Corporation, Contractor shall not disclose any ECI or information that may contain ECI provided or furnished by Corporation for any purpose to any individual who is not a U.S. citizen or to any non-U.S. person or entity (including any non-U.S. employee, supplier or contractor). For purposes of this Section, a person or entity is considered to be non-U.S. if it is incorporated, organized or created under the laws of a foreign country, or is foreign owned, controlled or influenced as defined in applicable regulations and guidelines. This restriction applies to written and oral information and guidance which may be provided by Corporation and applies to any information provided by any contractor, or subcontractor to the Corporation or any other person acting on behalf of Corporation. Prior to disclosing any ECI to any person, Contractor shall include this Section in a contract or agreement with the recipient.

XXVIII. Termination by Contractor

In the event that Corporation shall default in the performance of its obligations under this Contract and it shall fail to cure such default within ***** days after Contractor shall notify Corporation in writing of such default, then, in addition to all other rights and remedies available to Contractor at law or in equity, (a) Contractor may terminate this Contract and in such event such termination shall be treated as a termination or suspension of this Contract by Corporation under Paragraph 21(a)(i) of the General Terms and Conditions and (b) the security interest granted to Corporation under the Security Agreement shall automatically expire (and Corporation shall be obligated to promptly terminate all public record filings with respect to such security interest).

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1. DEFINITIONS.

As used throughout this Contract, the following terms, whether in the singular or plural, when used with initial capitalization, shall have the meanings set forth below:

(a) The term "Buyer" means the Corporation's Procurement Director or his/her designated Procurement representative.

(b) The term "Conflict Of Interest" means that, because of other activities or relationships with other persons (including, without limitation, competitors of the Corporation) Contractor is unable or potentially unable to render impartial assistance or advice to the Corporation, or Contractor's objectivity in performing under this Contract is or might be otherwise impaired.

(c) The term "Contract" means the contractual agreement between the Corporation and Contractor which includes (i) the terms and conditions herein, (ii) any supplements to the terms and conditions herein agreed by the Parties, (iii) any item descriptions, Specifications or Drawings incorporated herein or attached hereto, and (iv) any instructions submitted to Contractor by Buyer in connection with this Contract, provided that in the case of clause (iv) any instructions that change the terms and conditions of this Contract in any material respect shall be subject to and treated as a Contract modification under Paragraph 19 for which an equitable adjustment shall be made as provided in Paragraph 19.

(d) The term "Contract Price" means the price for the Supplies specified in the Contract and includes all applicable Federal, State and local taxes and duties except for those set forth in Paragraph 17(a).

(e) The term "Contractor" means the individual or business entity that has entered into this Contract with the Corporation.

(f) The term "Corporation" means United States Enrichment Corporation when the "Bill to" address is "United States Enrichment Corporation". The term means USEC Inc when the "Bill to" address is "USEC Inc".

(g) The term "Corporation Facility" means any property or facility owned or leased by the Corporation.

(h) The term "Default" shall have the meaning ascribed to it in the Paragraph entitled "Termination and Suspension of this Contract."

(i) The term "Drawings" means all the drawings, sketches, or maps referenced in this Contract and also such supplementary drawings, sketches or maps as the Buyer may issue from time to time.

(j) The term "Force Majeure" shall have the meaning ascribed to it in the Paragraph entitled "Termination and Suspension of This Contract."

(k) The term "Furnished Property" shall have the meaning ascribed to it in the Paragraph entitled "Furnished Property".

(l) The term "Party" refers to the Corporation or the Contractor individually and the term "Parties" refers to both the Corporation and the Contractor collectively.

(m) The term "Specifications" means all the terms and stipulations contained in the document entitled "Casing Specification" Doc. No. ECS-1150-002 Rev. 1 (March 27, 2007) (including, as of March 27, 2007, all codes, standards, documents, drawings and other materials referenced therein) and includes those portions known as "specific contract requirements" and such amendments, revisions, deductions or additions as may be issued in writing, from time to time, by the Buyer and agreed to in writing by Contractor, pertaining to the quantities and qualities of the Supplies to be furnished under this Contract.

(n) The term "Supplies" means any materials, components or goods required to be furnished by the Contractor under this Contract.

(o) The term "Work" means the Supplies.

2. ENTIRE AGREEMENT.

The whole and entire agreement of the Parties with respect to the subject matter hereto, is set forth in this Contract; and the Parties are not bound by any prior agreements, understandings or conditions other than as expressly set forth herein.

3. ASSIGNMENT.

Contractor may not assign this Contract. The rights and obligations of Contractor under this Contract are personal to Contractor and may not be delegated or subcontracted to any other entity, in whole or in part, without the prior written consent of the Corporation. The Corporation shall have the right to assign this Contract including all rights, benefits and obligations hereunder to any affiliate of the Corporation without Contractor's consent, provided that no such assignment shall be deemed to be a novation (and Corporation shall remain jointly and severally liable for performance of all obligations of Corporation under this Contract without regard to such assignment).

4. CONTRACTOR'S REPRESENTATIONS.

(a) Contractor's Representations. The Contractor hereby makes the following representations to the Corporation:

(i) The Contractor is a merchant in the business of providing the Supplies called by this Contract and is not acting as an agent for any other person or entity in providing such Supplies;

(ii) The Contractor has all power and authority required to execute, deliver and perform this Contract, and the Contractor has sufficient staff and other resources to carry out its duties hereunder in a prompt, efficient and diligent manner;

(iii) The execution, delivery and performance of this Contract by the Contractor and by the person signing this Contract on behalf of the Contractor have been duly authorized by all necessary corporate or partnership action;

(iv) This Contract constitutes a legal, valid and binding agreement of the Contractor, enforceable against the Contractor in accordance with its terms, except as limited by bankruptcy, insolvency, receivership or other similar laws affecting or relating to the rights of creditors generally;

(v) The Contractor has or will obtain, maintain and comply with all licenses and permits necessary to legally and validly execute, deliver and perform this Contract;

(vi) The representations and certificates made in, or submitted with, the Contractor's proposal, have been duly authorized, made and executed and are true and correct as if made herein and as of the date hereof; and

(vii) The Contractor has the right to make all disclosures to, and assignments of intellectual property rights to, the Corporation as required under this Contract.

(viii) Except as disclosed in an attached schedule, Contractor has no Conflict of Interest in performing this Contract.

(b) Condition. The Contractor acknowledges that the Corporation has relied on the truth, accuracy and completeness of the foregoing representations in entering into this Contract.

5. STANDARDS OF PERFORMANCE.

The Contractor shall be responsible for the professional quality, technical accuracy and the coordination of all Supplies furnished by the Contractor under this Contract. In connection with the foregoing, the Contractor shall expend its best professional efforts to perform this Contract with all due diligence, economy and efficiency, generally accepted techniques and practices in the Contractor's industry, sound management and technical practices, and applicable law and regulations.

6. DELIVERY.

(a) The Contractor shall deliver the Supplies in accordance with the delivery terms specified elsewhere in this Contract.

(b) UNLESS OTHERWISE STATED IN THIS CONTRACT, TIME SHALL BE DEEMED OF THE ESSENCE FOR DELIVERY OF SUPPLIES. If the Contractor becomes aware of difficulty in providing the Supplies, the Contractor shall timely notify the Buyer, in writing, giving pertinent details of the difficulty. This notification shall not change any delivery schedule.

7. CONFLICT OF INTEREST

(a) Prohibited Activities. Without the Corporation's prior written consent, during performance of this contract (and if this Contract is terminated by Corporation due to an uncured Default of Contractor, or expires by its terms on or after December 31, 2012, for a period of two (2) years after such termination or expiration hereof), Contractor shall not (i) represent or otherwise perform work that is the same or substantially related to the Work for a competitor of the Corporation; or (ii) represent any other party, or otherwise perform work for a party that is the same or substantially related to the Work, where such representation or work would, in the Corporation's judgment, be materially adverse to the interests of the Corporation.

(b) Disclosure of Conflicts of Interest. In the event that Contractor discovers either a Conflict of Interest during the contract term or a material change in a Conflict of Interest that existed as of the date this Contract was awarded but that was waived by the Corporation, Contractor shall make an immediate end full disclosure thereof in writing to the Corporation including a description of the action that Contractor has taken or proposes to take to avoid or mitigate such new conflict or material change in a pre-existing conflict. Without limiting any other rights it may have under law or equity, the Corporation reserves the right to terminate this contract for default if it determines that the Contractor was aware of a Conflict of Interest prior to the award of this Contract and did not disclose the conflict in the Corporation prior to its award, or if the Contractor becomes aware of the Conflict of Interest after the award of this Contract and failed to promptly disclose such conflict to the Corporation.

(c) Subcontracts. The Contractor shall ensure that all subcontracts include protection against Conflicts of Interest acceptable to the Buyer.

8. INSPECTION AND REJECTION.

(a) Inspection by the Corporation. The Corporation shall have the right to inspect and test the Supplies, to the extent practical, at all times and places, including during manufacturing, to determine whether the Supplies meet all applicable Contract requirements. Inspection may occur before or after delivery or both. The Contractor shall give the Corporation reasonable access to the Contractor's facilities to permit such inspection. However, the Corporation's inspection or

failure to inspect shall not limit the Corporation's rights under any provision of this Contract or applicable law. If any inspection or test is made by the Corporation on the premises of the Contractor or a subcontractor, the Contractor, without additional charge shall provide all reasonable facilities and assistance for the safety and convenience of the inspectors in the performance of their duties. If the Corporation's inspection or testing of the Supplies is made at a point other than the premises of the Contractor or a subcontractor, it shall be at the expense of the Corporation except as otherwise provided in this Contract; provided, that in case of rejection the Corporation shall not be liable for any reduction in value of samples used in connection with such inspection or test. All inspections and tests by the Corporation shall be performed in such a manner as not to unduly delay the work. The Corporation reserves the right to charge to the Contractor any additional cost to the Corporation of inspection and testing when Supplies are not ready at the time inspection and testing is requested by the Corporation or when reinspection or retesting is necessitated by prior rejection. Acceptance or rejection of the Supplies shall be made as promptly as practicable after delivery, except as otherwise provided in this Contract; but failure to inspect and accept or reject Supplies shall neither relieve the Contractor from responsibility for Supplies that do not conform to Contract requirements nor impose liability on the Corporation. The inspection and testing by the Corporation of any Supplies or lots thereof does not relieve the Contractor from any responsibility regarding defects or other failures to meet the Contract requirements which may be discovered prior to acceptance. Except as otherwise provided in this Contract, acceptance shall be conclusive except for latent defects, fraud, or such gross mistakes as amount to fraud, and shall not relieve the Contractor of its responsibility under the paragraph entitled "Warranties."

(b) Rejection by the Corporation. The Corporation may, at any time up to thirty (30) days after delivery, reject any defective (i.e., non-conforming) Supplies tendered by the Contractor under this Contract. The Corporation shall not be obligated to accept or pay for any defective Supplies, but may elect to accept such defective Supplies and either (a) equitably reduce the price therefor or (b) exercise its warranty rights with respect to the defective Supplies (see the Paragraph entitled "Warranties"). The Corporation shall be deemed to have accepted the Supplies if it fails to notify the Contractor of a defect within the applicable thirty (30) day period, or if a substantial change occurs in the condition of the Supplies that is not due to the defect or inspection or testing by the Corporation. The provisions of Subparagraph (d) of the Paragraph entitled "Warranties" shall apply to any rejected Supplies that the Corporation elects to return to the Contractor. The Corporation's payment for Supplies shall not constitute acceptance thereof; and such payment shall (i) be refunded in full if the Corporation does not elect to accept such defective Supplies, or (ii) refunded in part if the Corporation elects an equitable reduction in price. The rights and remedies of the Corporation provided in this Paragraph are in addition to and do not limit any rights afforded to the Corporation by applicable law or any other term of this Contract.

9. WARRANTIES.

(a) The Contractor warrants that the Supplies provided to the Corporation under this Contract shall:

(i) conform to all item descriptions contained in the Specifications; and

(ii) conform to all standards or requirements expressly applicable thereto under the terms of this Contract.

(b) The Contractor warrants that the Supplies shall be new, not refurbished or reconditioned, preserved, packaged, marked and prepared for shipment in a manner conforming to the

requirements of applicable law and regulation and this Contract, and of an even kind, quality and quantity within each unit and among all units.

(c) The Contractor warrants that the Supplies shall be free and clear of any liens, encumbrances, security interests or other claims (collectively, "Liens"), other than those created by the Corporation, and, to the extent permitted by law and without regard to the degree of fault or negligence of either Party, the Contractor shall indemnify, hold harmless and (if requested by the Corporation) defend the Corporation against any such Liens of Contractor and any cost or expenses incurred by the Corporation (including reasonable attorney's fees) as result of such Liens or any claim thereto.

(d) The Contractor shall bear all costs and risk for correction or replacement of defective Supplies and for the cost of returning the defective Supplies to the Contractor and their return to the Corporation. Corrected or replacement Supplies shall also be subject to the terms of this paragraph to the same extent as the Supplies initially delivered.

(e) At the Corporation's option, the Contractor shall perform corrective work at the site where the Supplies were installed pursuant to this Contract and the Contractor shall be liable for all costs occasioned in the performance of such corrective work.

(f) The rights and remedies of the Corporation provided in this Paragraph are in addition to and do not limit any rights afforded to the Corporation by applicable law or any other term of this Contract.

(g) Without limiting the Contractor's liability under the warranties set out above, the Contractor shall assign to the Corporation all manufacturer's warranties for Supplies provided to the Corporation or other property acquired by the Contractor at the Corporation's expense to which the Corporation takes title under the Paragraph entitled "Title and Risk of Loss."

(h) Except as specifically set forth above, the Contractor hereby disclaims any and all express or implied warranties, including but not limited to, the warranties of merchantability and fitness for a particular purpose imposed by law or which could otherwise arise in connection with the Contractor's performance hereunder.

10. REMEDIES FOR BREACH OF WARRANTY.

(a) The Corporation shall give written notice to the Contractor of any breach of warranties within sixty (60) days after discovery of a defect.

(b) The Contractor shall have fifteen (15) days after receiving such written notice to provide to the Corporation a cure schedule and, unless otherwise agreed, such cure shall be completed within (30) days after the Contractor's receipt of such notice.

(c) If the Contractor fails to cure within the time established in this Paragraph, the Corporation may, by Contract or otherwise, correct or replace the nonconforming Supplies with similar Supplies from another source. The Contractor shall promptly reimburse the Corporation for any costs incurred by the Corporation in correcting or replacing the nonconforming Supplies (or if the Corporation has not yet fully paid for such Supplies, the amount by with such costs exceed the price that the Corporation has not previously paid).

(d) If the Contractor fails to cure or the Corporation determines that a cure is not feasible, the Corporation may obtain replacement Supplies from another source or waive the cure and accept the Supplies subject to an equitable reduction in the price for the nonconforming Supplies. If the Corporation has already paid for such Supplies, the Contractor shall promptly refund to the Corporation the price paid for the replaced Supplies or, in the case of an equitable reduction in price, the amount of the reduction.

(e) If the Contractor disputes the Corporation's warranty claim, the Contractor shall nevertheless proceed with any written request issued by the Buyer under this Paragraph to correct or replace the nonconforming Supplies. In the event it is later determined that the Supplies did, in fact, conform to the requirements of the Contract, the Corporation shall equitably adjust the Contract Price to account for any additional Supplies provided by the Contractor subject to offset for any conforming Supplies returned by the Corporation.

(f) The Contractor shall provide instructions for pick up or disposal of nonconforming Supplies. If the Contractor fails to furnish timely disposition instructions, the Corporation may dispose of the nonconforming Supplies in a reasonable manner. The Corporation is entitled to reimbursement from the Contractor, or from the proceeds of such disposal, for the reasonable expenses of the care and disposition of the nonconforming Supplies, as well as for excess costs incurred or to be incurred.

(g) The rights and remedies of the Corporation in this Paragraph are in addition to, and do not limit, any rights afforded to the Corporation by applicable law or any other term of this Contract.

(h) Any Supplies corrected or furnished in replacement under this Paragraph shall also be subject to the applicable warranty in the Paragraph entitled "Warranties."

11. TITLE AND RISK OF LOSS.

(a) Unless this Contract specifically provides otherwise, title to, and risk of loss of, Supplies shall remain with the Contractor until, and shall pass to the Corporation upon, delivery of the Supplies (i) to the carrier, if transportation is other than F.O.B. Destination; or (ii) the designated destination, if delivery is F.O.B. Destination. In the event that delivery is other than F.O.B. Destination, the Contractor shall, upon the Buyer's request, arrange for delivery of the Supplies to the destination requested by the Corporation at the Corporation's cost. If the Supplies are subsequently rejected by the Corporation, title to, and risk of loss of (other than any loss due to the gross negligence of the Corporation), the Supplies shall revert to the Contractor on the date of such rejection. Rejected Supplies shall be disposed of in accordance with Subparagraph (f) of the Paragraph entitled "Remedies for Breach of Warranty."

(b) Unless otherwise provided explicitly in this Contract, the Corporation shall be deemed to acquire title to all equipment, supplies and materials (collectively, "Property") acquired by the Contractor hereunder at the Corporation's expense, upon the Corporation's payment therefor.

(c) Notwithstanding this Paragraph, title to and risk of loss of defective Supplies that are returned for replacement or refund shall revert to the Contractor upon notice of the defect. If the Contractor fails to furnish timely disposition instructions, the Corporation may dispose of the defective Supplies for the Contractor's account in a reasonable manner.

12. HAZARDOUS MATERIAL AND ASBESTOS.

Unless otherwise authorized elsewhere in this Contract, all Supplies furnished hereunder shall not contain asbestos or any other hazardous material.

13. MATERIALS AND HEAT TREATMENT.

In the event that the Contract includes material and heat treatment requirements, the Contractor shall furnish a statement signed by an authorized person within its quality organization stating that such requirements have been met. When a choice of materials is authorized, the statement shall indicate which materials were used in performance of this Contract.

14. INDEMNIFICATION.

To the maximum extent permitted by law and without regard to the fault or negligence of either Contractor or the Corporation (except as specifically provided in this Paragraph entitled "Indemnification"), Contractor shall indemnify, save harmless and defend (if requested by the Corporation) the Corporation, its directors, officers, employees, contractors, affiliates and agents from and against any and all liabilities, claims, penalties, forfeitures and suits ("Liabilities") and the costs and expenses incident thereto (including costs of defense, settlement and reasonable attorneys' fees) ("Costs"), which they or any of them may hereafter incur, become responsible for or pay out as a result of death or bodily injuries to any person, destruction or damage to any property, contamination of or adverse effects on the environment, or any violation of laws, regulations or orders, caused by or arising out of, in whole or in part, Contractor's obligations under this Contract, or arising from the breach of any representation or warranty made by Contractor herein except to the extent such Liabilities and Costs arise from the willful misconduct or gross negligence of the Corporation.

15. PAYMENT.

(a) Upon the submission of an acceptable invoice and subject to acceptance by the Corporation of the Supplies covered thereby, the Corporation shall pay the Contractor the Contract Price for such Supplies, to the extent that the Contractor has not been previously paid therefor.

16. INVOICES.

(a) Unless otherwise specifically provided elsewhere in this Contract, the Contractor shall submit one invoice upon each delivery of Supplies.

(b) Invoices shall be submitted to the attention of the Corporation's Accounts Payable Group at the address shown on the face of the Contract.

(c) Only invoices that are determined by the Corporation to be acceptable will be processed for payment. Invoices must include:

(i) The Contractor's name and address;

(ii) Invoice date;

(iii) Contract number and line item number;

(iv) Description, quantity, unit of measure, unit price and extended price of Supplies delivered;

(v) All federal, state and local taxes which must be paid by the Contractor (i.e. those taxes that the Corporation does not pay directly to a State or Commonwealth on its direct payment permits);

(vi) Shipping number and date of shipment including the bill of lading number and weight of shipment if shipped other than F.O.B. Destination;

(vii) Terms of any prompt payment discount offered;

(viii) Name, title and mailing address of person or office to whom payment is to be sent;

(ix) Name, title, phone number and mailing address of person to be notified in event of an unacceptable invoice; and

(x) Any information or document required by the other requirements of this Contract.

(d) If any invoice is determined to be unacceptable, the Corporation shall notify the Contractor of the defect within a reasonable time after receipt of the invoice by the Accounts Payable Group.

17. TAXES.

(a) Sales and Use Tax. The Contractor agrees that the prices, fees, charges (including expenses for which the Contractor seeks reimbursement to or other consideration (such prices, fees, charges and other consideration being referred to herein as "Consideration")) to be paid by the Corporation under the Contract shall not include any state sales or use taxes which shall be paid directly by the Corporation. Any state sales or use taxes applicable to this Contract for Supplies delivered in Ohio or Kentucky shall be paid directly to the State by the Corporation on a Direct Payment Permit. If Supplies are delivered in other states, sales or use taxes may be paid by the Contractor and billed to the Corporation.

(b) Prices Include Taxes. Except for taxes in Subparagraph (a) of this Paragraph, the Contractor agrees that amounts payable as Consideration under the Contract include all applicable federal, state and local taxes, duties and governmental charges ("Taxes") that the Contractor is legally obligated to charge to, and collect from, the Corporation. Taxes shall be listed separately on any invoice for Supplies provided under this Contract. The Contractor shall take any steps reasonably requested by the Corporation to lawfully minimize the Corporation's liability for taxes.

(c) Exclusive Liability for Certain Taxes. The Contractor hereby assumes sole and exclusive liability for income, franchise or other taxes associated with the Contractor's business operations and for all taxes and/or contributions, however they may be designated, the payment of which may be required under the Federal Social Security Act and under unemployment insurance laws or unemployment compensation laws, however they may be designated, of the several states, with respect to employees employed by the Contractor in the performance of services subject to this Contract.

(d) Disclosure. The Corporation (and each employee, representative, or other agent of the Corporation) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction and all materials of any kind (including opinions or other tax analyses) that are provided to the Corporation relating to such tax treatment and tax structure.

18. CONTRACT MANAGEMENT.

(a) Buyer. Unless otherwise stated in this Contract, any action that may be taken by the Corporation in this Contract may only be taken by the Buyer (such action shall bind the Corporation unless it exceeded the authority of the Buyer or violates applicable law or governmental regulations). In addition to the foregoing authority, the Buyer may also take any action expressly reserved for the Technical Representative (as described in subparagraph (b) of this Paragraph), if any, and may override any decision of the Technical Representative. All actions taken by the Buyer shall bind the Corporation unless such actions exceed the authority of the Buyer or violates applicable law or governmental regulations. The Buyer may replace the Technical Representative and shall provide written notice thereof to the Contractor.

(b) Technical Representative. The Technical Representative, if one is designated elsewhere in this Contract, shall be authorized to provide Technical Direction (as defined in Subparagraph (c)) relating to the performance of the Contractor's obligations under this Contract. All actions taken by the Technical Representative prior to his or her replacement hereunder shall bind the Corporation unless such action exceeded the authority of the Technical Representative under this Contract or violates applicable law or governmental regulations. If no Technical Representative is designated in this Contract, all actions shall be taken by the Buyer.

(c) Technical Direction. (i) The Contractor's performance of this Contract shall be subject to the Technical Direction of the Technical Representative if one is so designated or the Buyer if a Technical Representative is not designated. "Technical Direction" includes, without limitation: (A) directions to the Contractor that shift work emphasis between work areas of this Contract, require pursuit of certain lines of inquiry, fill in details or otherwise serve to accomplish performance of this Contract; (B) provision of written information to the Contractor that assists in the interpretation of drawings, specifications or technical portions of this Contract; and (C) review and acceptance, on the Corporation's behalf, of anything required to be provided by the Contractor under this Contract; provided, however that none of the foregoing Technical Direction shall be deemed to alter the status of the Contractor as an independent contractor and in no event may any Technical Direction alter or modify the terms and conditions of this Contract without the prior written consent of Contractor.

(ii) All Technical Direction must be within the scope of this Contract and significant Technical Direction shall be issued in writing by the Technical Representative or the Buyer. Any Technical Direction issued pursuant to this Subparagraph (c) shall not result in any additional payment to the Contractor. The Technical Representative does not have the authority to, and may not, issue any Technical Direction that: (A) requires additional services outside of the scope of this Contract; (B) alters any written performance schedule included in the Contract or agreed to by the Buyer; (C) changes the terms of this Contract; or (D) interferes with the Contractor's right to perform its obligations in accordance with this Contract.

(iii) The Contractor shall proceed promptly to perform any Technical Direction issued by the Technical Representative in the manner prescribed by and within the Technical Representative's authority. If, in the opinion of the Contractor, any Technical Direction violates Subparagraph (c)(ii) of this Paragraph, the Contractor shall: (A) notify the Buyer in writing promptly after receipt of any such Technical Direction; (B) request in writing that the Buyer modify this Contract accordingly; and (C) unless otherwise directed by the Buyer, continue performance of this Contract without complying with the Technical Direction in question, pending a decision by the Buyer. Upon receiving any such notification from the Contractor, the Buyer shall: (X) advise the Contractor in writing as soon as possible after receipt of the Contractor's letter that the Technical Direction is within the scope of this Contract and does not constitute a change; or (Y) advise the Contractor in writing within a reasonable time that the Corporation shall modify this Contract in accordance with the Paragraph entitled "Contract Modifications." Any disagreement between the Corporation and the Contractor regarding the Buyer's determination of whether a Technical Direction is within the scope of this Contract or whether, or in what amount, to allow for an equitable adjustment, shall be resolved in accordance with the Paragraph entitled "Dispute Resolution."

19. CONTRACT MODIFICATIONS.

The Buyer may at any time by written order and without advance notice or notice to any sureties, make changes within the general scope of this Contract. If any such modification results in a change in the cost of, or the time required for, performance of this Contract (including any delay or postponement of the schedule for purchase of Casings by Corporation), Corporation and Contractor shall in good faith mutually agree upon an equitable adjustment to the Contract Price, delivery schedule or other affected Contract terms; provided, that the Contractor has requested an equitable adjustment within thirty (30) days from receipt of the written order and prior to final payment under this Contract. A dispute involving any equitable adjustment shall not excuse the

Contractor from performing the Contract, as modified, so long as Corporation is negotiating the equitable adjustment in good faith.

20. DISPUTE RESOLUTION.

(a) Mutual Agreement. Any controversy or claim (a "Dispute") between the Parties arising out of or relating to this Contract, or the breach, termination or validity hereof that is not resolved by mutual agreement shall be decided by the Buyer. The Buyer shall, in writing, notify the Contractor of its final decision ("Final Decision") and designate such notice as the "Final Decision Notice." In the event the Contractor disagrees with the Buyer's Final Decision, the Contractor shall notify the Buyer of its disagreement within thirty (30) days after receipt of the Final Decision Notice; otherwise, the Final Decision shall be final and no action shall lie against the Corporation arising out of said Dispute.

(b) Disputes Subject to Arbitration. In the event the Contractor notifies the Buyer of its disagreement with the Final Decision within the time period in Subparagraph (a) of this Paragraph, the Dispute shall be finally settled by binding arbitration in accordance with the CPR Non-Administered Arbitration Rules (the "Rules") as in effect on the effective date of this Contract, as modified by this Paragraph, and by a single arbitrator appointed in accordance with the Rules. The arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. §1 et seq., (the "Act") and shall be held in Columbus, Ohio or Indianapolis, Indiana, as determined by the Buyer.

(c) Hearings and Award. To the extent feasible (as determined by the arbitrator), all hearings shall be held within ninety (90) days following the appointment of the arbitrator. At a time designated by the arbitrator, each Party shall simultaneously submit to the arbitrator and exchange with the other Party its final proposal for damages and/or any other applicable remedy. Either Party may elect by notice given no later than ten (10) days after appointment of the arbitrator to require that, in rendering the final award, the arbitrator shall be limited to choosing the award proposed by a Party without modification. In no event shall the arbitrator award damages inconsistent with any of the terms and conditions of this Contract. Absent (i) a determination by the arbitrator that extraordinary circumstances require additional time or (ii) agreement of the Parties, the arbitrator shall issue the final award no later than thirty (30) days after completion of the hearings. Judgment on any award may be entered in any court having jurisdiction thereof.

(d) Confidentiality. The fact that either Party has invoked the provisions of this Paragraph, and the proceedings of, and award resulting from, an arbitration hereunder shall be considered to be confidential information subject to the confidentiality provisions of this Contract.

(e) Arbitration Award Binding Upon Successors. This agreement to arbitrate and any award made hereunder shall be binding upon the successors and assigns and any trustee or receiver of each Party.

21. TERMINATION AND SUSPENSION OF THIS CONTRACT.

(a) Termination or Suspension. The Corporation may terminate or suspend this Contract, in whole or in part, (i) at the Corporation's discretion, upon forty-five (45) days prior written notice to the Contractor or (ii) if the Contractor Defaults (as defined in Subparagraph (b) of this Paragraph) and, where a right of cure is provided, fails to cure such Default within the applicable

cure period, if one is provided, or if none is provided, forty-five (45) days (unless extended in writing by the Buyer) after receiving notice from the Buyer specifying the Default.

(b) Definition of Default. "Default" includes: (i) the Contractor is adjudged bankrupt or insolvent; (ii) the Contractor makes a general assignment for the benefit of its creditors; (iii) a trustee or receiver is appointed for the Contractor or any of its property; (iv) the Contractor files a 30-day cure petition to take advantage of any debtor's act or to reorganize under the bankruptcy or similar laws; (v) the Contractor fails to make prompt payments to subcontractors or suppliers for labor, materials or equipment (except to the extent a good faith dispute exists with any such person provided Contractor promptly obtains a full release of any liens or attachments claimed in any property, materials or equipment to be delivered under the Contract or necessary to perform the Contract); or (vi) except to the extent caused by Force Majeure, the Contractor fails to make progress in the work so as to endanger performance of this Contract, (vii) the Contractor fails to cure a defect that it is required to cure under the provisions of this Contract, (viii) the Contractor breaches in any material respect any warranty or representation made in this Contract; or (ix) the Contractor breaches any other term of this Contract and such breach has or could have a material adverse effect on the performance of this Contract. Force Majeure shall excuse a Default by the Contractor under item (vi) if the Contractor promptly gives notice to the Buyer of the effect of such Force Majeure on performance of this Contract and the likely duration thereof, if reasonably known, and keeps the Buyer informed of any changes in such circumstances, including when such Force Majeure ends; Provided, the Contractor uses all reasonable efforts to continue to perform this Contract, to remedy the circumstances constituting the Force Majeure and to mitigate the adverse effects of such Force Majeure on performance of this Contract. For these purposes, "Force Majeure" means an unforeseeable occurrence beyond the reasonable control of the Contractor and without its fault or negligence such as, acts of God or the public enemy, acts of the U.S. Government in its sovereign capacity, fires, floods, epidemics, quarantine restrictions, unusually severe weather and any labor disputes, stoppages, slow-downs or strikes or material shortages.

(c) Contractor's Obligations Upon Termination or Suspension. (i) Upon the Corporation's termination or suspension of this Contract, the Contractor shall (A) cease work on the terminated or suspended portions of this Contract on and as of the effective date of termination or suspension, and shall not incur further expenses in connection with the terminated or suspended portions of this Contract, until, in the event of suspension, the Buyer notifies the Contractor that the suspension has been lifted and that the Contractor may resume work; (B) continue to perform those portions of this Contract that are not terminated or suspended; (C) terminate and/or assign to the Corporation or to an affiliate, contractor or a supplier of the Corporation (at the Corporation's discretion) all of the Contractor's right, title and interest in subcontracts and purchase orders relating to the terminated or suspended portion of this Contract; (D) take actions necessary to protect, preserve and (in the case of a termination of this Contract) promptly transfer title to and possession of all work, materials and information (regardless of form), but not equipment or facilities owned by Contractor, related to performance of this Contract, to the Corporation or (if so directed by the Buyer) to an affiliate, contractor or a supplier of the Corporation; and (E) in the case of termination or suspension for any reason other than an uncured Default, provide supporting cost data as requested by the Corporation and to permit Corporation auditors access to all records within the Contractor's custody or control and that of its subcontractors to verify such cost data in order to facilitate the determination of the appropriate compensation due to Contractor.

(ii) In the case of a termination of this Contract for any uncured Default, the Contractor shall also take all other actions necessary to enable the Corporation or an affiliate, contractor or supplier of the Corporation to complete performance of this Contract or, if requested by the Corporation, sell or transfer to the Corporation any work or material related to this Contract and equipment purchased with the Start-Up Fee and pay the proceeds of any such sale and deliver any such work, material or equipment to the Corporation. All such activities shall be at the Contractor's cost.

(iii) In the case of a termination of this Contract for an uncured Default, the Contractor shall pay (A) the Corporation's reasonable costs (including reasonable attorney's fees) incurred in negotiating and executing a contract with a replacement contractor or supplier to provide the Supplies which the Contractor failed to provide under the Contract ("Terminated Supplies"); and (B) the price charged by, and costs reimbursed to, such replacement contractor or supplier for such Terminated Supplies, but only to the extent such price and costs exceed the amount that would have been paid to the Contractor under this Contract for the Terminated Supplies; and the Contractor shall refund to the Corporation any amounts already paid for the Terminated Supplies. If the Corporation elects to produce the Terminated Supplies itself or through an affiliate, the Contractor shall reimburse the Corporation for the costs thereof; but only to the extent the cost exceeds the amount that would have been paid to the Contractor under this Contract for such Terminated Supplies. The Corporation may elect to delay payment of any amount due to the Contractor until the Corporation, its affiliate or the replacement contractor or supplier produce the Terminated Supplies.

(d) The Corporation's Obligations Upon Termination or Suspension. Upon the Corporation's termination or suspension of this Contract for any reason other than an uncured Default, the Corporation shall pay (i) the Contractor's actual, reasonable and verifiable costs and expenses, including reasonable indirect, overhead and administrative costs (which is mutually agreed by the Parties to be an amount equal to *****) as a consequence of such termination or suspension, (ii) any costs which the Corporation is required to reimburse the Contractor under this Contract, and (iii) all amounts due and payable to Contractor under this Contract for performance prior to the date of termination or suspension. Except as provided above, Corporation shall not be liable for lost or anticipated profit or unabsorbed indirect costs or overheads; provided, however, notwithstanding anything in this Contract to the contrary, Corporation shall be obligated to pay Contractor, upon termination or suspension for any reason other than an uncured Default (x) prior to completion of the Casing production facility actual costs incurred or obligated to be paid for such facility up to $***** or (y) on or after completion of the Casing production facility an additional amount equal to $*****. In no event, shall the Corporation's liability for all such termination expenses exceed the unpaid balance that would have been payable by Corporation if both Parties had fully performed under this Contract through the scheduled expiration date of this Contract The right of reimbursement and compensation set forth herein shall be the Contractor's exclusive remedy in the event of such termination or suspension. Upon the Corporation's payment to the Contractor in accordance with this Subparagraph, title to any completed Supplies, manufacturing materials and other things for which the Corporation has paid (other than any equipment) shall vest in the Corporation, and the Contractor shall protect and preserve the property in its possession in which the Corporation has an interest and, upon the Buyer's direction, deliver same to the Corporation (at Corporation's expense). Alternatively, at the Buyer's option, the Contractor shall attempt to sell or dispose of all or part of the same,

whereupon the Corporation shall be entitled to the benefits of any value received (less any expenses of sale which shall be retained by Contractor).

(e) Limitation of Liability. The Corporation shall in no event have any liability to the Contractor for incidental, consequential, special, indirect or other damages except as provided in paragraph (d) above.

(f) Other Remedies. Nothing herein shall be deemed to limit any other remedy that the Corporation or Contractor may have under this Contract or applicable law.

22. APPLICABLE LAW.

This Contract shall be governed by the laws of the laws of the State or the Commonwealth from which this Contract was awarded. In no event shall the U.N. Convention on the International Sale of Goods apply to this Contract.

23. COMPLIANCE WITH LAWS.

(a) The Contractor shall comply with all applicable federal, state and local laws, rules, regulations, orders, codes and standards in performing this Contract. The cost of such compliance shall be borne by the Contractor.

(b) The Vendor represents that each chemical substance constituting or contained in the Supplies sold or otherwise transferred to the Corporation hereunder is on the list of chemical substances compiled and published by the Administrator of the Environmental Protection Administration pursuant to the Toxic Substances Control Act (15 U.S.C., Sec. 2601 et seq.) as amended.

(c) The Vendor shall provide to the Corporation with each delivery any Material Safety Data Sheet applicable to the Supplies in conformance with and containing such information as required by the Occupational Safety and Health Act of 1970 and regulations promulgated thereunder, or its state approved counterpart.

24. FURNISHED PROPERTY.

(a) The Corporation may provide to the Contractor property owned or controlled by the Corporation ("**Furnished Property**"). Furnished Property shall be used only for the performance of the Work.

(b) Title to Furnished Property shall not pass to Contractor. The Contractor shall clearly mark (if not so marked) all Furnished Property to show that it is Furnished Property. The Contractor, as part of the Work, shall (i) provide approved storage facilities for Furnished Property and (ii) unload, provide receipts for, and store all such Furnished Property. If such items are already in storage, the Contractor shall take custody of them when directed by the Buyer or his designee. The Contractor shall check, account and care for, and protect such items in accordance with good commercial practice and in the same manner as if such items were to be furnished by the Contractor under this Contract.

(c) Except for reasonable wear and tear or expected consumption of the Furnished Property in the performance of the Work, the Contractor shall be responsible for, and shall promptly notify the Corporation of, any loss or destruction of, or damage to, Furnished Property. The Contractor shall be liable for loss or destruction of, or damage to, Furnished Property and for expenses incidental to such loss, destruction or damage or replacement or repair of such property.

(d) At the Buyer's request and/or upon completion or term of this Contract, the Contractor shall submit in a form acceptable to the Buyer, inventory lists of Furnished Property and shall deliver

or make such other disposal of Furnished Property as may be directed by the Buyer, at Corporations' expense.

25. NON WAIVER OR DEFAULT.

Any failure by the Corporation at any time, or from time to time, to enforce or require the strict keeping and performance of any of the terms or conditions of this Contract shall not constitute a waiver of such terms or conditions and shall not affect or impair such terms or conditions in any way nor the right of the Corporation.

26. SURVIVAL.

Upon expiration or termination (for any reason) of this Contract, all provisions of this Contract dealing with conflicts of interest, intellectual property, confidentiality, proprietary data and ownership rights, termination or suspension rights of either Party, as well as the provisions of the Paragraphs hereof entitled "Contractor's Representations," "Indemnification" "Termination and Suspension of This Contract" and " Waiver for Claims Due to Nuclear Incidents" and any other provision of this Contract that expressly states that it will survive expiration or termination hereof, shall survive and remain binding upon the Parties hereto and upon their successors and assigns.

27. HEADINGS.

The headings and subheadings of the Paragraphs contained in this Contract are inserted for convenience only and shall not affect the meaning or interpretation of this Contract or any provision hereof.

28. CONTRACTOR STATUS.

The Contractor is an independent Contractor. Without limiting (a) the Corporation's right to provide Technical Direction as set forth in the Paragraph entitled "Contract Management" or (b) any requirement in this Contract regarding subcontractors and consultants, the Corporation shall have no right to control or direct the details, means or methods by which the Contractor performs this Contract. The Contractor is not authorized to act for, or enter into any agreement on behalf of, the Corporation without written authorization therefor.

29. THIRD PARTY BENEFICIARIES.

Except as provided in the Paragraph entitled "Waiver for Claims Due to Nuclear Incidents," nothing in this Contract shall be interpreted as creating any right of enforcement of any provision herein by any person or entity that is not a Party to this Contract.

30. SEVERABILITY.

If any provision of this Contract is held invalid by a court of competent jurisdiction, such provision shall be severed from this Contract and, to the extent possible, this Contract shall continue without effect to the remaining provisions.

31. PRECEDENCE.

Any inconsistencies in this Contract shall be resolved in accordance with the following descending order of precedence: (a) face of the Contract and Articles I-XXVIII, (b) the General Terms and Conditions herein, (c) Specifications and (d) Drawings.

32. CONFIDENTIALITY.

(a) Information, in any form whether written, electronic oral or other, developed by, communicated to, or acquired (including by observation) by Contractor in the performance of the Work as well as the contents of this Contract (collectively "**USEC Proprietary Information**"), is of a highly confidential and proprietary nature. Without the Corporation's prior written consent, Contractor shall not (1) use any such USEC Proprietary Information for any purpose except to perform the Work under this Contract; or (2) disclose in any manner (oral, written or otherwise) any such USEC Proprietary Information either during or after the term of this Contract to any persons, other than (i) Contractor's employees who have a need for access to such USEC Proprietary Information in order to perform the Work under this Contract provided they are advised of the proprietary nature of the information, and are bound by a written agreement or by a legally enforceable code of professional responsibility to protect the confidentiality of the Proprietary Information; or (ii) other persons including subcontractors of Contractor who may be designated by the Corporation to work with Contractor. Contractor shall require in legally binding agreement that each of its subcontractors maintain the confidentiality of USEC Proprietary Information in the same manner as required in this Paragraph entitled "Confidentiality" and that the Corporation may enforce such agreement.

(b) The restrictions in this Paragraph entitled "Confidentiality" do not apply to information which:

(i) is in the public domain as of the date this Contract was awarded to Contractor or enters the public domain thereafter other than through a breach hereof by Contractor,

(ii) is disclosed to Contractor by a third party that is legally entitled to disclose such information,

(iii) was known by Contractor prior to its receipt from the Corporation, or is developed by Contractor independently of Contractor's Work under this Contract or any disclosures by the Corporation to Contractor of such information, or

(iv) is required to be disclosed by order of a court of competent jurisdiction, administrative agency or governmental body, or by subpoena, summons or other legal process, or by law, rule or regulation, or by applicable regulatory or professional standards.

(c) All Contractor Work Product and Corporation Technology shall be the property of the Corporation and treated by Contractor and its subcontractors as USEC Proprietary Information. Unless directed by the Corporation otherwise, Contractor may maintain a reasonable number of copies of Contractor Work Product for archival purposes only. All retained copies of Contractor Work Product shall be marked as confidential and protected from disclosure to third persons in accordance with the provisions of this Paragraph entitled "Confidentiality" for so long as Contractor retains such copies.

(d) If Contractor receives a request for USEC Proprietary Information pursuant to Section (b)(iv) of this Paragraph or is otherwise required by law to disclose USEC Proprietary Information, Contractor shall promptly notify the Corporation of such request prior to any disclosure by Contractor (unless such notification or disclosure is prohibited by applicable law, regulation or order). If the Corporation determines that such USEC Proprietary Information (or portions thereof) should not be disclosed, Contractor shall assist the Corporation (i) obtain relief from the requested disclosure or (ii) secure confidential treatment and minimization of any such USEC Proprietary Information that must be disclosed to the governmental authority.

(e) Subject to applicable law, Contractor shall not issue any press release or make any public statement regarding this Contract or performance hereunder without the prior written approval of the Corporation.

(f) Contractor agrees that (i) violation of this Paragraph entitled "Confidentiality" would cause irreparable harm to the Corporation which could not be adequately remedied by damages; and (ii) injunctive or other equitable relief is an appropriate remedy for violation of this Paragraph. Contractor also agrees to waive any requirement for the securing or posting of any bond by the Corporation in connection with such a remedy.

(g) If Contractor has previously executed a confidentiality agreement with the Corporation, the terms and conditions of this Paragraph entitled "Confidentiality" shall not be interpreted or construed to replace, modify or diminish the requirements of said confidentiality agreement, but shall be in addition thereto. In the event of a conflict, the more restrictive requirements shall apply.

33. INTELLECTUAL PROPERTY.

(a) All inventions, discoveries, improvements, documents, drawings, designs, specifications, notebooks, tracings, photographs, negatives, reports, findings, recommendations, data and memoranda of every description, including material maintained in any form or medium, concepts, ideas, methods, methodologies, procedures, processes, know-how and techniques (including without limitation, function, process, system and data models); templates, the generalized features of the structure, sequence and organization of software, user interfaces and screen designs; general purpose consulting and software tools, utilities and routines; and logic, coherence and methods of operation or systems (whether or not patentable, or copyrightable that are conceived or first actually reduced to practice or first prepared by Contractor, its personnel or its subcontractor(s), in the performance of the Work or prepared at the Corporation's expense (collectively, "**Contractor Work Product**") shall be the property of the Corporation and treated by Contractor and its subcontractor as confidential USEC Proprietary Information. Unless directed by the Corporation otherwise, Contractor may maintain a reasonable number of copies of Contractor Work Product for archival purposes only. All retained copies shall be marked as confidential and protected from disclosure to third persons in accordance with the provisions of the Paragraph of this Contract entitled "Confidentiality" for so long as Contractor retains such copies.

(b) The Corporation shall acquire all of Contractor's right, title and interest in and to all Contractor Work Product by written assignment or as a work for hire. Contractor hereby assigns all its right, title and interest in such Contractor Work Product to the Corporation, and Contractor shall execute any documents and otherwise assist in obtaining, maintaining, or enforcing the Corporation's intellectual property rights in and to Contractor's Work Product, as the Corporation may reasonably require to preserve the Corporation's rights therein. No additional compensation shall be paid to Contractor for, or as result of, providing such assistance. To the extent Contractor Technology (as defined below) is incorporated into Contractor Work Product, Contractor hereby grants to the Corporation a fully-paid, world-wide, non-exclusive, irrevocable, transferable, perpetual license to make, have made, use, sell, offer to sell, reproduce, prepare derivative works, perform and/or display publicly, and sublicense such Contractor Technology to the extent necessary for the Corporation to exercise its rights of ownership in Contractor Work Product. No additional compensation shall be paid to Contractor for, or as result of, such license.

(c) The Corporation acknowledges that Contractor may have created, acquired or otherwise have rights in (and may, in connection with the performance of the Work, employ, provide, modify, acquire or otherwise obtain rights in) various inventions, discoveries, improvements, data, concepts, ideas, methods, methodologies, procedures, processes, know-how and techniques (including without limitation, function, process, system and data models); templates, the generalized features of the structure, sequence and organization of software, user interfaces and screen designs; general purpose consulting and software tools, utilities and routines; and logic, coherence and methods of operation or systems (collectively, the "**Contractor Technology**"). Contractor Technology shall not include any Contractor Work Product

(d) Even if used in connection with the performance of the Work, Contractor Technology shall remain the property of Contractor and the Corporation shall acquire no right or interest in such property, except for the license provided in Subparagraph (b) above in respect of Contractor Technology incorporated into Contractor Work Product. Similarly, property of the Corporation (including, without limitation, the Corporation Technology(as defined below) and any equipment, material, hardware and software of the Corporation) shall remain the property of the Corporation and Contractor shall acquire no right or interest in such property.

(e) The term **"Corporation Technology"** means all inventions, discoveries, improvements, documents, drawings, designs, specifications, notebooks, tracings, photographs, negatives, reports, findings, recommendations, data and memoranda of every description, including material maintained in any form or medium, concepts, ideas, methods, methodologies, procedures, processes, know-how and techniques (including without limitation, function, process, system and data models); templates, the generalized features of the structure, sequence and organization of software, user interfaces and screen designs; general purpose consulting and software tools, utilities and routines; and logic, coherence and methods of operation or systems (whether or not patentable, or copyrightable) owned by, or licensed to the Corporation or to which the Corporation otherwise has rights to use or possess.

(f) Nothing in this agreement shall be construed as expressly or impliedlly granting a license to Contractor of any Corporation Technology, including without limitation intellectual property rights, except for the limited purpose of performing its Work under the Contract.

34. SECURITY OF CLASSIFIED INFORMATION AND CONTROLLED AREAS.

(a) Classified Information Access. (i) "**Classified Information**" means any information or material, regardless of its physical form or characteristics, that has been determined pursuant to Executive Order 12356 or prior Executive Orders to require protection against unauthorized disclosure, and which is so designated; and all data concerning design, manufacture or utilization of atomic weapons, the production of special nuclear material, or the use of special nuclear material in the production of energy, but shall not include the data declassified or removed from the Restricted Data category pursuant to Section 142 of the Atomic Energy Act of 1954, as amended (the "**AEA**") unless protected under Section 142d of the AEA.

(ii) Security Clearance. The Parties recognize that the Department of Energy ("**DOE**") or the Nuclear Regulatory Commission may determine security classifications and issue security clearances required for performance of all or part of this Contract. Contractor shall follow the applicable rules and procedures of DOE, NRC and other responsible governmental authorities regarding access to and safeguarding of Classified Information, security clearances and other security matters, including the requirements of DOE Acquisition Regulations (the "**DEAR**") (see 48 C.F.R Chapter 9) 952.204-2, Security, DEAR 952.204-70 Classification/Declassification, 10

C.F.R. 95, and the procedures with respect to Foreign Ownership Control and Interest ("**FOCI**") in DEAR 904.7000 et seq. and DEAR 952.204-73, Facility Clearance. Contractor shall not permit any individual to have access to any level or category of classified information, except in accordance with applicable laws and procedures. Contractor shall not be granted access to any classified information until the Buyer has notified Contractor that such access has been approved by a DOE FOCI determination.

(b) Site Access. Certain Corporation Facilities are each enclosed by a perimeter fence establishing a controlled area. At the time of initial entrance to the site, Contractor's employees shall report to the applicable badge office for security processing. Processing of Contractor's employees will be done without charge to Contractor. All Contractor employees performing hereunder must be United States citizens. If naturalized, proper evidence must be furnished. All employees must have picture identification with them upon arrival at the applicable badge office. Unless informed by the Buyer of a different procedure, Contractor shall ensure that, once issued, badges are worn by Contractor's employees at all times while on site. The continued presence of Contractor's employees on-site is subject to review by the Corporation, DOE and/or other Corporation or DOE contractors based upon a check of appropriate records of law enforcement agencies.

(c) Technology Transfer Controls. Even if not classified, information related to enrichment, an enrichment facility or a component of an enrichment facility, are subject to U.S. Government restrictions on technology transfers, including, but not limited to, those found in 10 C.F.R. parts 110, 810, or 1017 or 15 C.F.R. part 779. Accordingly, Contractor shall not disclose such information in any manner inconsistent with any such U.S. Government restriction. Further, Contractor shall not use, nor permit any subcontractor to use, any non-U.S. national or non-U.S. owned entity in connection with (i) delivery to, or work at, a controlled area or (ii) Work involving information, Work or goods that are subject to U.S. government control, without first ensuring that such activities fully comply with all applicable restrictions.

(d) Foreign Nationals. Foreign nationals are not permitted to perform work at Corporation Facilities without prior written permission from the Buyer. Written requests for use of foreign nationals must be submitted to the Buyer at least ten (10) weeks prior to their anticipated work date. Failure of the Buyer to approve the use of a foreign national shall not constitute excusable delay nor entitle Contractor to an increase in the Contract Price.

35. WAIVER FOR CLAIMS DUE TO NUCLEAR INCIDENTS.

Certain of the Corporation's contracts with its customers require the Corporation to seek from its suppliers a waiver of any claim against the Corporation's customers for loss, damage or loss of use of, property resulting from a nuclear incident (as defined in Section 11 of the Atomic Energy Act of 1954, as amended) (the "**AEA**") at the Corporation Facility. To facilitate the Corporation's compliance with the foregoing requirement, Contractor hereby waives any such claims it may now or hereafter have against any and all of the Corporation's customers (but not against the Corporation) resulting from a nuclear incident at the Corporation Facility to the extent such customers have also waived such claims against Contractor. Contractor shall include this Paragraph in any subcontract entered into by Contractor in connection with this Contract and shall require that this Paragraph be included in all lower tier subcontracts.

36. REPRESENTATION CONCERNING NUCLEAR HAZARDS INDEMNIFICATION AGREEMENT.

The Corporation shall not be liable to Contractor or its subcontractors for any loss or damage that they or any of them may suffer as a result of a nuclear incident (as defined in Section 11 of the AEA), at a Corporation Facility nor shall the Corporation indemnify Contractor or its subcontractors for public liability (as defined in the AEA) arising from such a nuclear incident. However, the Corporation represents that there is an indemnity agreement, entered into by the Corporation with the United States Department of Energy under the authority of Section 170 of the AEA for the areas leased by the Corporation from DOE at the Portsmouth, Ohio and Paducah Kentucky Gaseous Diffusion Plants and the K-1600 facility at the East Tennessee Technology Park in Oak Ridge Tennessee. Under such indemnity agreement, the Department of Energy has indemnified the Corporation and other persons indemnified under the AEA against claims for public liability brought against them arising out of in connection with activities under the Corporation's lease of the GDPs or K-1600 from the Department of Energy ("**DOE**"). The indemnity applies to covered nuclear incidents which (a) take place at one of the Gaseous Diffusion Plants or the K-1600 facility arising out of, or in connection with, activities under the lease; or (b) occur during uninterrupted transportation within the United States of source, special nuclear or byproduct material (all as defined under Section 11 of the AEA), to or from one of the GDPs or the K-1600 facility in connection with, or arising out of, activities under the lease. The obligation of the Department of Energy to indemnify is subject to the conditions stated in the indemnity agreement and the AEA.

EXHIBIT 10.4

AMENDMENT D

To

COOPERATIVE RESEARCH AND DEVELOPMENT AGREEMENT

(hereinafter "CRADA") No. ORNL00-0579

Development of an Economically Attractive Gas Centrifuge Machine and Enrichment Process

By and Between

UT-Battelle, LLC
Under its U. S. Department of Energy (DOE) Contract No. DE-AC05-00OR22725
(hereinafter "Contractor")

And

USEC Inc. (hereinafter "Participant")

This Amendment D to CRADA No. ORNL00-0579 by and between the Contractor and the Participant is made effective on the latter date of approval by DOE or the date of full execution of the Amendment by and between the Contractor and Participant. The Contractor and the Participant being hereinafter jointly referred to as the "Parties."

WHEREAS, the Parties hereby desire to amend said CRADA original approved by DOE on June 30, 2000, with an effective date of October 1, 2000, and amended as follows:

1. on June 23, 2002, with an effective date of July 12, 2002 (Amendment A);
2. on September 10, 2002 with an effective date of September 11, 2002 (Amendment B); and,
3. on February 12, 2007, with an effective date of February 28, 2007 (Amendment C, with no changes to the Statement of Work).

WHEREAS, the Parties hereby desire to amend said CRADA by revising Appendix A, Statement of Work increasing the total estimated funding funds-in and in-kind funding of the CRADA and extend the period of performance.

THEREFORE, the Parties hereto agree to be bound as follows:

A. **ARTICLE II: STATEMENT OF WORK** is revised to read as follows:

"Appendix A, Statement of Work, Amendment "B" dated September 10, 2002 is deleted and replaced by Appendix A, Statement of Work, Amendment "D" dated, June 6, 2007."

B. **ARTICLE III: TERM, FUNDING AND COST**, the last sentence of paragraph A is amended to read as follows:

"The work to be performed under this CRADA shall be completed with in one-hundred and forty-four (144) months from the effective date of the original CRADA, a sixty (60) month increase, expiring on September 30, 2012."

C. **ARTICLE III: TERM, FUNDING AND COST**, paragraph B is deleted in its entirety and substituted in lieu thereof by the following paragraph B.

"B. The total value of this CRADA is $336,000,000. The Participant's estimated contribution to this effort is $336,000,000 (with a maximum of $69,680,000 of that amount being total funds-in to ORNL). The Government's estimated contribution, which is provided through the Contractor's contract with DOE, is $0. Additionally, the Participant's funds-in contribution is usually subject to Federal Administrative Charges in the amount of three percent (3%). This charge for Participant has been waived by authority of blanket pricing exception listed in a memo from the DOE CFO dated October 25, 2002. The total authorized amount to be expended by the Contractor cannot exceed $69,680,000 which is funds-in from the Participant."

All other terms of the CRADA remain unchanged. This Amendment shall be effective on the later of the dates of: (1) the signatures below or, (2) until approval by DOE.

IN WITNESS WHEREOF, the Parties have executed two originals of this Amendment through their duly authorized representatives.

FOR CONTRACTOR:

By: /s/ Casey Porto

Name: Casey Porto, Director

Title: Technology Transfer

Date: August 10, 2007

FOR PARTICIPANT:

By: /s/ John K. Welch

Name: John K. Welch

Title: President and Chief Executive Officer

Date: August 1, 2007

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, John K. Welch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of USEC Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 2, 2007

/s/ John K. Welch

John K. Welch
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, John C. Barpoulis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of USEC Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 2, 2007

/s/ John C. Barpoulis

John C. Barpoulis
Senior Vice President and Chief Financial Officer

EXHIBIT 32

CERTIFICATION OF CEO AND CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of USEC Inc. for the quarter ended September 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), pursuant to 18 U.S.C. § 1350, John K. Welch, President and Chief Executive Officer, and John C. Barpoulis, Senior Vice President and Chief Financial Officer, each hereby certifies, that, to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of USEC Inc.

November 2, 2007 /s/ John K. Welch

John K. Welch
President and Chief Executive Officer

November 2, 2007 /s/ John C. Barpoulis

John C. Barpoulis
Senior Vice President and Chief Financial Officer