

**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 quarterly period ended March 31, 2021

or

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

For the transition period from _____ to _____

Commission file number 001-34910

HUNTINGTON INGALLS INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

90-0607005

(I.R.S. Employer
Identification No.)

4101 Washington Avenue Newport News, Virginia 23607

(Address of principal executive offices and zip code)

(757) 380-2000

(Registrant's telephone number, including area code)

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

Title of each class

Trading Symbol(s)

Name of each exchange on which registered

Common Stock

HII

New York Stock Exchange

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large Accelerated Filer ☒

Non-Accelerated Filer ☐

Accelerated Filer ☐

Smaller Reporting Company ☐

Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of April 30, 2021, 40,232,340 shares of the registrant's common stock were outstanding.

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HUNTINGTON INGALLS INDUSTRIES, INC.
PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (UNAUDITED)

(in millions, except per share amounts)	Three Months Ended March 31	
	2021	2020
Sales and service revenues		
Product sales	\$ 1,721	\$ 1,624
Service revenues	557	639
Sales and service revenues	2,278	2,263
Cost of sales and service revenues		
Cost of product sales	1,454	1,290
Cost of service revenues	482	550
Income from operating investments, net	8	6
Other income and gains	3	—
General and administrative expenses	206	214
Operating income	147	215
Other income (expense)		
Interest expense	(21)	(16)
Non-operating retirement benefit	46	30
Other, net	1	(13)
Earnings before income taxes	173	216
Federal and foreign income taxes	25	44
Net earnings	\$ 148	\$ 172
Basic earnings per share	\$ 3.68	\$ 4.23
Weighted-average common shares outstanding	40.2	40.7
Diluted earnings per share	\$ 3.68	\$ 4.23
Weighted-average diluted shares outstanding	40.2	40.7
Dividends declared per share	\$ 1.14	\$ 1.03
Net earnings from above	\$ 148	\$ 172
Other comprehensive income		
Change in unamortized benefit plan costs	29	23
Other	2	(2)
Tax expense for items of other comprehensive income	(7)	(6)
Other comprehensive income, net of tax	24	15
Comprehensive income	\$ 172	\$ 187

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

HUNTINGTON INGALLS INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(\$ in millions)	March 31, 2021	December 31, 2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 407	\$ 512
Accounts receivable, net of allowance for doubtful accounts of \$2 million as of 2021 and 2020	407	397
Contract assets	1,288	1,049
Inventoried costs, net	142	137
Income taxes receivable	133	171
Assets held for sale	—	133
Prepaid expenses and other current assets	66	45
Total current assets	2,443	2,444
Property, plant, and equipment, net of accumulated depreciation of \$2,055 million as of 2021 and \$2,024 million as of 2020	2,988	2,978
Operating lease assets	195	192
Goodwill	1,604	1,617
Other intangible assets, net of accumulated amortization of \$668 million as of 2021 and \$655 million as of 2020	512	512
Deferred tax assets	95	133
Miscellaneous other assets	377	281
Total assets	\$ 8,214	\$ 8,157
Liabilities and Stockholders' Equity		
Current Liabilities		
Trade accounts payable	\$ 397	\$ 460
Accrued employees' compensation	302	293
Current portion of postretirement plan liabilities	133	133
Current portion of workers' compensation liabilities	227	225
Contract liabilities	700	585
Liabilities held for sale	—	68
Other current liabilities	531	462
Total current liabilities	2,290	2,226
Long-term debt	1,688	1,686
Pension plan liabilities	869	960
Other postretirement plan liabilities	397	401
Workers' compensation liabilities	515	511
Long-term operating lease liabilities	159	157
Other long-term liabilities	317	315
Total liabilities	6,235	6,256
Commitments and Contingencies (Note 14)		
Stockholders' Equity		
Common stock, \$0.01 par value; 150 million shares authorized; 53.4 million shares issued and 40.3 million shares outstanding as of March 31, 2021, and 53.3 million shares issued and 40.5 million shares outstanding as of December 31, 2020	1	1
Additional paid-in capital	1,974	1,972
Retained earnings	3,635	3,533
Treasury stock	(2,108)	(2,058)
Accumulated other comprehensive loss	(1,523)	(1,547)
Total stockholders' equity	1,979	1,901
Total liabilities and stockholders' equity	\$ 8,214	\$ 8,157

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

HUNTINGTON INGALLS INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(\$ in millions)	Three Months Ended March 31	
	2021	2020
Operating Activities		
Net earnings	\$ 148	\$ 172
Adjustments to reconcile to net cash provided by (used in) operating activities		
Depreciation	52	47
Amortization of purchased intangibles	13	11
Amortization of debt issuance costs	2	1
Stock-based compensation	9	7
Deferred income taxes	31	18
Gain on disposition of business	(3)	—
Loss (gain) on investments in marketable securities	(4)	16
Change in		
Accounts receivable	(10)	(93)
Contract assets	(239)	(140)
Inventoried costs	(5)	(6)
Prepaid expenses and other assets	(6)	(1)
Accounts payable and accruals	116	46
Retiree benefits	(65)	(13)
Other non-cash transactions, net	4	3
Net cash provided by operating activities	43	68
Investing Activities		
Capital expenditures		
Capital expenditure additions	(60)	(71)
Grant proceeds for capital expenditures	1	5
Acquisitions of businesses, net of cash received	—	(378)
Investment in affiliates	(12)	—
Proceeds from disposition of business	25	—
Net cash used in investing activities	(46)	(444)
Financing Activities		
Proceeds from revolving credit facility borrowings	—	385
Repayment of revolving credit facility borrowings	—	(5)
Net borrowings on commercial paper	—	88
Dividends paid	(46)	(42)
Repurchases of common stock	(49)	(84)
Employee taxes on certain share-based payment arrangements	(7)	(13)
Net cash provided by (used in) financing activities	(102)	329
Change in cash and cash equivalents	(105)	(47)
Cash and cash equivalents, beginning of period	512	75
Cash and cash equivalents, end of period	\$ 407	\$ 28
Supplemental Cash Flow Disclosure		
Cash paid for income taxes (net of refunds)	\$ (42)	\$ 2
Cash paid for interest	\$ 1	\$ 1
Non-Cash Investing and Financing Activities		
Capital expenditures accrued in accounts payable	\$ 12	\$ 10
Accrued repurchases of common stock	\$ 1	\$ —

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

HUNTINGTON INGALLS INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

Three Months Ended March 31, 2021 and 2020 (\$ in millions)	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance as of December 31, 2019	\$ 1	\$ 1,961	\$ 3,009	\$ (1,974)	\$ (1,409)	\$ 1,588
Net earnings	—	—	172	—	—	172
Dividends declared (\$1.03 per share)	—	—	(42)	—	—	(42)
Stock compensation	—	(6)	—	—	—	(6)
Other comprehensive income, net of tax	—	—	—	—	15	15
Treasury stock activity	—	—	—	(84)	—	(84)
Balance as of March 31, 2020	<u>\$ 1</u>	<u>\$ 1,955</u>	<u>\$ 3,139</u>	<u>\$ (2,058)</u>	<u>\$ (1,394)</u>	<u>\$ 1,643</u>
Balance as of December 31, 2020	\$ 1	\$ 1,972	\$ 3,533	\$ (2,058)	\$ (1,547)	\$ 1,901
Net earnings	—	—	148	—	—	148
Dividends declared (\$1.14 per share)	—	—	(46)	—	—	(46)
Stock compensation	—	2	—	—	—	2
Other comprehensive income, net of tax	—	—	—	—	24	24
Treasury stock activity	—	—	—	(50)	—	(50)
Balance as of March 31, 2021	<u>\$ 1</u>	<u>\$ 1,974</u>	<u>\$ 3,635</u>	<u>\$ (2,108)</u>	<u>\$ (1,523)</u>	<u>\$ 1,979</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

HUNTINGTON INGALLS INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. DESCRIPTION OF BUSINESS

Huntington Ingalls Industries, Inc. ("HII" or the "Company") is one of America's largest military shipbuilding companies and a provider of professional services to partners in government and industry. HII is organized into three reportable segments: Ingalls Shipbuilding ("Ingalls"), Newport News Shipbuilding ("Newport News"), and Technical Solutions. For more than a century, the Company's Ingalls segment in Mississippi and Newport News segment in Virginia have built more ships in more ship classes than any other U.S. naval shipbuilder. The Technical Solutions segment provides a range of services to government and commercial customers.

HII conducts most of its business with the U.S. Government, primarily the Department of Defense ("DoD"). As prime contractor, principal subcontractor, team member, or partner, the Company participates in many high-priority U.S. defense programs. Through its Ingalls segment, HII is a builder of amphibious assault and expeditionary warfare ships for the U.S. Navy, the sole builder of National Security Cutters for the U.S. Coast Guard, and one of only two companies that builds the Navy's current fleet of *Arleigh Burke* class (DDG 51) destroyers. Through its Newport News segment, HII is the nation's sole designer, builder, and refueler of nuclear-powered aircraft carriers, and one of only two companies currently designing and building nuclear-powered submarines for the U.S. Navy. The Technical Solutions segment provides a wide range of professional services and products, including defense and federal solutions ("DFS"), nuclear and environmental services, and unmanned systems.

2. BASIS OF PRESENTATION

Principles of Consolidation - The unaudited condensed consolidated financial statements of HII and its subsidiaries have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and the instructions to Form 10-Q promulgated by the Securities and Exchange Commission ("SEC"). All intercompany transactions and balances are eliminated in consolidation. For classification of current assets and liabilities related to its long-term production contracts, the Company uses the duration of these contracts as its operating cycle, which is generally longer than one year.

These unaudited condensed consolidated financial statements include all adjustments of a normal recurring nature considered necessary by management for a fair presentation of the unaudited condensed consolidated financial position, results of operations, and cash flows and should be read in conjunction with the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

The quarterly information is labeled using a calendar convention; that is, first quarter is consistently labeled as ending on March 31, second quarter as ending on June 30, and third quarter as ending on September 30. It is management's long-standing practice to establish interim closing dates using a "fiscal" calendar, which requires the businesses to close their books on a Friday near these quarter-end dates in order to normalize the potentially disruptive effects of quarterly closings on business processes. The effects of this practice only exist for interim periods within a reporting year.

Accounting Estimates - The preparation of the Company's unaudited condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information, and actual results could differ materially from those estimates.

Additionally, the Company has incorporated realized and estimated future effects of the global outbreak of coronavirus disease 2019 ("COVID-19"), including, among other things, orders of civil authorities associated with COVID-19 and steps taken to mitigate the effects of COVID-19 (collectively, "COVID-19 Events"), with respect to contract costs and revenue recognition, effective income tax rates, and the fair values of the Company's long-lived assets, financial instruments, intangible assets, and goodwill recorded at our reporting units. While costs related to COVID-19 Events are allowable under U.S. Government contracts, the Company's estimates of the effects of COVID-19 Events reflect uncertainty regarding the Company's ability to recover the full costs related to COVID-19 Events under government relief actions such as the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and U.S. Department of Defense ("DoD") guidance.

Government Grants - The Company recognizes incentive grants, inclusive of transfers of depreciable assets, from federal, state, and local governments at fair value upon compliance with the conditions of their receipt and reasonable assurance that the grants will be received or the depreciable assets will be transferred. Grants in recognition of specific expenses are recognized in the same period as an offset to those related expenses. Grants related to depreciable assets are recognized over the periods and in the proportions in which depreciation expense on those assets is recognized.

For the three months ended March 31, 2021, the Company recognized cash grant benefits of approximately \$1 million in other long-term liabilities in the unaudited condensed consolidated statements of financial position. For the three months ended March 31, 2020, the Company recognized cash grant benefits of approximately \$5 million in other long-term liabilities in the unaudited condensed consolidated statements of financial position.

Fair Value of Financial Instruments - Except for the Company's long-term debt, the carrying amounts of the Company's financial instruments recorded at historical cost approximate fair value due to the short-term nature of the instruments and low credit risk associated with the respective counterparties.

The Company maintains multiple grantor trusts to fund certain non-qualified pension plans. These trusts were valued at \$191 million and \$182 million as of March 31, 2021, and December 31, 2020, respectively, and are presented within miscellaneous other assets within the unaudited condensed consolidated statements of financial position. These trusts consist primarily of investments in marketable securities, which are held at fair value within Level 1 of the fair value hierarchy.

Loan Receivable - The Company holds a loan receivable in connection with a seller financed transaction involving its previously owned Avondale Shipyard facility. The receivable is carried at amortized cost of \$34 million, net of \$15 million of loan discount as of each of March 31, 2021, and December 31, 2020, which approximates fair value and is recorded in miscellaneous other assets on the unaudited condensed consolidated statements of financial position. Interest income is recognized on an accrual basis using the effective yield method. The discount is accreted into income using the effective yield method over the estimated life of the loan receivable.

Other Current Liabilities - Other current liabilities were \$531 million as of March 31, 2021, and \$462 million as of December 31, 2020. Payroll taxes payable, which is a component of other current liabilities, was \$127 million as of March 31, 2021, and \$125 million as of December 31, 2020. No other component of other current liabilities was more than 5% of total current liabilities.

Related Party Transactions - The Company had \$84 million outstanding under Industrial Revenue Bonds issued by the Mississippi Business Finance Corporation as of each of March 31, 2021, and December 31, 2020. Prior to the Company's spinoff from Northrop Grumman Corporation, repayment of principal and interest was guaranteed by Northrop Grumman Systems Corporation. The guaranty remains in effect, and the Company has agreed to indemnify Northrop Grumman Systems Corporation for any losses related to the guaranty pursuant to the Separation and Distribution Agreement with Northrop Grumman Corporation.

3. ACCOUNTING STANDARDS UPDATES

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which amends and simplifies the requirements for income taxes. The ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years, with early adoption permitted. The adoption did not result in a material impact to the Company's financial results or disclosures.

Accounting pronouncements issued but not effective until after December 31, 2021, are not expected to have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

4. ACQUISITIONS AND DIVESTITURES

Acquisitions

In December 2020, the Company acquired the autonomy business of Spatial Integrated Systems, Inc. ("SIS"), a leading provider of autonomous technology, for approximately \$40 million in cash. The acquisition further expanded the Company's unmanned systems capabilities. In connection with this acquisition, the Company preliminarily

recorded \$40 million of goodwill, which included the value of SIS's workforce, all of which was allocated to the Company's Technical Solutions segment. For the three months ended March 31, 2021, the Company recorded a decrease in goodwill of \$13 million, due to a reallocation to intangible assets related to technology and existing contract backlog. The Company has not completed the purchase price allocation, because the fair value calculations for certain assets and liabilities have not been finalized. See Note 10: Goodwill and Other Intangible Assets. The assets, liabilities, and results of operations of SIS are not material to the Company's consolidated financial position, results of operations, or cash flows.

In March 2020, the Company acquired Hydroid, Inc. ("Hydroid"), a leading provider of advanced marine robotics to the defense and maritime markets, for approximately \$377 million in cash, net of \$2 million of acquired cash. The acquisition expanded the Company's capabilities in the strategically important and rapidly growing autonomous and unmanned maritime systems market. In connection with this acquisition, the Company recorded \$239 million of goodwill, which included the value of Hydroid's workforce, and \$76 million of intangible assets related to technology and existing contract backlog. See Note 10: Goodwill and Other Intangible Assets. The assets, liabilities, and results of operations of Hydroid are not material to the Company's consolidated financial position, results of operations, or cash flows.

The Company funded each of these acquisitions using cash on hand, issuances of commercial paper, or borrowings on its revolving credit facility. The acquisition costs incurred in connection with these acquisitions were not material. The operating results of these businesses have been included in the Company's consolidated results as of the respective closing dates of the acquisitions. In allocating the purchase prices of these businesses, the Company considered the estimated fair value of net tangible and intangible assets acquired, with any excess purchase price recorded as goodwill. The total amount of goodwill resulting from these acquisitions is expected to be amortizable for tax purposes. These acquisitions are not material either individually or in the aggregate, and pro forma revenues and results of operations have therefore not been provided.

Divestitures

On February 1, 2021, the Company divested its San Diego Shipyard ("SDSY") business in exchange for a non-controlling interest in Titan Acquisition Holdings, L.P. ("Titan"). Titan is a leading provider of ship repair and specialty fabrication services to government and commercial customers. The divestiture was completed as part of the Company's operating strategy. The Company recognized its interest in Titan at fair value, which approximates \$83 million. No gain or loss was recognized in the transaction. The assets and liabilities divested were previously reported in assets and liabilities held for sale. For the three months ended March 31, 2021, the Company transferred \$12 million to Titan as part of the exchange.

On February 1, 2021, the Company completed the sale of its oil and gas business. The divestiture was completed as part of the Company's plan to exit this part of the oil and gas industry and focus on its core services and customers. In connection with the sale, the Company received \$25 million net cash and recorded a net pre-tax gain of \$3 million in other income and gains within operating income in the unaudited condensed consolidated statements of operations. The assets and liabilities divested were previously reported in assets and liabilities held for sale.

5. STOCKHOLDERS' EQUITY

Treasury Stock - In November 2019, the Company's board of directors authorized an increase in the Company's stock repurchase program from \$2.2 billion to \$3.2 billion and an extension of the term of the program to October 31, 2024. Repurchases are made from time to time at management's discretion in accordance with applicable federal securities laws. For the three months ended March 31, 2021, the Company repurchased 291,581 shares at an aggregate cost of \$50 million, of which approximately \$1 million was not yet settled for cash as of March 31, 2021. For the three months ended March 31, 2020, the Company repurchased 390,904 shares at an aggregate cost of \$84 million. The cost of purchased shares is recorded as treasury stock in the unaudited condensed consolidated statements of financial position.

Dividends - The Company declared cash dividends per share of \$1.14 and \$1.03 for the three months ended March 31, 2021 and 2020, respectively. The Company paid cash dividends totaling \$46 million and \$42 million for the three months ended March 31, 2021 and 2020, respectively.

Accumulated Other Comprehensive Loss - Other comprehensive income (loss) refers to gains and losses recorded as an element of stockholders' equity but excluded from net earnings. The accumulated other comprehensive loss as of March 31, 2021, was comprised of unamortized benefit plan costs of \$1,524 million and other comprehensive income items of \$1 million. The accumulated other comprehensive loss as of December 31, 2020, was comprised of unamortized benefit plan costs of \$1,546 million and other comprehensive loss items of \$1 million.

The changes in accumulated other comprehensive income (loss) by component for the three months ended March 31, 2021 and 2020, were as follows:

(\$ in millions)	Benefit Plans	Other	Total
Balance as of December 31, 2019	\$ (1,407)	\$ (2)	\$ (1,409)
Other comprehensive loss before reclassifications	—	(2)	(2)
Amounts reclassified from accumulated other comprehensive loss			
Amortization of prior service credit ¹	(2)	—	(2)
Amortization of net actuarial loss ¹	25	—	25
Tax expense for items of other comprehensive income	(6)	—	(6)
Net current period other comprehensive income (loss)	17	(2)	15
Balance as of March 31, 2020	<u>\$ (1,390)</u>	<u>\$ (4)</u>	<u>\$ (1,394)</u>
Balance as of December 31, 2020	\$ (1,546)	\$ (1)	\$ (1,547)
Other comprehensive income before reclassifications	—	2	2
Amounts reclassified from accumulated other comprehensive loss			
Amortization of prior service cost ¹	3	—	3
Amortization of net actuarial loss ¹	26	—	26
Tax expense for items of other comprehensive income	(7)	—	(7)
Net current period other comprehensive income	22	2	24
Balance as of March 31, 2021	<u>\$ (1,524)</u>	<u>\$ 1</u>	<u>\$ (1,523)</u>

¹ These accumulated comprehensive loss components are included in the computation of net periodic benefit cost. See Note 15: Employee Pension and Other Postretirement Benefits. The tax benefit associated with amounts reclassified from accumulated other comprehensive loss for the three months ended March 31, 2021 and 2020, was \$7 million and \$6 million, respectively.

6. EARNINGS PER SHARE

Basic and diluted earnings per common share were calculated as follows:

(in millions, except per share amounts)	Three Months Ended March 31	
	2021	2020
Net earnings	\$ 148	\$ 172
Weighted-average common shares outstanding	40.2	40.7
Net dilutive effect of stock awards	—	—
Dilutive weighted-average common shares outstanding	<u>40.2</u>	<u>40.7</u>
Earnings per share - basic	\$ 3.68	\$ 4.23
Earnings per share - diluted	<u>\$ 3.68</u>	<u>\$ 4.23</u>

Under the treasury stock method, the Company has excluded from the diluted share amounts presented above the effects of 0.4 million and 0.3 million Restricted Performance Stock Rights ("RPSRs") for the three months ended March 31, 2021 and 2020, respectively.

7. REVENUE

The following is a description of principal activities from which the Company generates its revenues. For more detailed information regarding reportable segments, see Note 8: Segment Information.

U.S. Government Contracts

The Ingalls and Newport News segments generate revenue primarily from performance under multi-year contracts with the U.S. Government, generally the U.S. Navy and U.S. Coast Guard, or prime contractors to contracts with the U.S. Government, relating to the advance planning, design, construction, repair, maintenance, refueling, overhaul, or inactivation of nuclear-powered ships and non-nuclear ships. The period over which the Company performs may extend past five years. The Technical Solutions segment also generates the majority of its revenue from contracts with the U.S. Government, including U.S. Government agencies. The Company generally invoices and receives related payments based upon performance progress no less frequently than monthly.

Shipbuilding - For most of the Company's shipbuilding contracts, the customer contracts with the Company to provide a comprehensive service of designing, procuring long-lead-time materials, manufacturing, and integrating complex equipment and technologies into a single ship or project, often resulting in a single performance obligation. Contract modifications to account for changes in specifications and requirements are recognized when approved by the customer. In the majority of circumstances, modifications do not result in additional performance obligations that are distinct from the existing performance obligations in the contract and the effects of the modifications are recognized as an adjustment to revenue on a cumulative catch-up basis. Alternatively, in instances where the performance obligations in the modifications are deemed distinct, contract modifications are accounted for prospectively.

The Company considers incentive and award fees to be variable consideration and includes in the transaction price at inception the consideration to which the Company expects to be entitled under the terms and conditions of the contract, generally estimated using a most likely amount approach. Transaction price is limited to the extent of funding allotted by the customer and available for performance, and estimated revenues represent those amounts for which the Company believes a significant reversal of revenue is not probable.

The Company recognizes revenues related to shipbuilding contracts as it satisfies the related performance obligations over time using a cost-to-cost input method to measure performance progress, which best reflects the transfer of control to the customer.

Services - The Technical Solutions segment generates revenue primarily under U.S. Government contracts from the provision of DFS services. Contracts generally are structured using either an Indefinite Delivery/Indefinite Quantity ("IDIQ") vehicle, under which orders are issued, or a standalone contract. Contracts may be fixed-price or cost-type, include variable consideration such as incentives and awards, and structured as task orders under an IDIQ contract vehicle or requirements contract vehicle. In either case, the Company generally performs services over a shorter duration and may continue to perform upon exercise of related period of performance options that are also shorter in duration. The Company's performance obligations vary in nature and may be stand-ready, in which case the Company responds to the customer's needs on the basis of its demand, a recurring service, typically recurring maintenance services, or a single performance obligation that does not comprise a series of distinct services.

In determining transaction price, the Company considers incentives and other contingencies to be variable consideration and includes in the initial transaction price the consideration to which the Company expects to be entitled under the terms and conditions of the contract, generally estimated using a most likely amount approach. Transaction price is limited to the extent of funding allotted by the customer and available for performance, and estimated revenues represent those amounts for which the Company believes a significant reversal of revenue is not probable. Where a series of distinct services has been identified, the Company generally allocates variable consideration to distinct time increments of service.

The Company generally recognizes revenue as it satisfies the related performance obligations over time using a cost-to-cost input method to measure performance progress, because, even where the Company has identified a series of services, its cost incurrence pattern generally is not ratable given the complex nature of the services the Company provides. Invoices are issued and related payments are received, on the basis of performance progress, no less frequently than monthly. In addition, many of the Company's U.S. Government services contracts are time and material arrangements. As a result, the Company often utilizes the practical expedient allowing the recognition

of revenue in the amount the Company invoices, which corresponds with the value provided to the customer and to which the Company is entitled to payment for performance to date.

Non-U.S. Government Contracts

Revenues generated under commercial and state and local government agency contracts are primarily derived from the provision of nuclear and environmental services. Non-U.S. Government contracts typically are one or two years in duration.

In determining transaction price, the Company considers incentives and other contingencies to be variable consideration and includes in the initial transaction price the consideration to which the Company expects to be entitled under the terms and conditions of the contract, generally estimated using a most likely amount approach. In the context of variable consideration, the Company limits the transaction price to amounts for which the Company believes a significant reversal of revenue is not probable. Such amounts may relate to transaction price in excess of funding, a lack of history with the customer, a lack of history with the goods or services being provided, or other items.

Revenue generally is recognized over time given the terms and conditions of the related contracts. The Company generally utilizes a cost-to-cost input method to measure performance progress, which best depicts the transfer of control to the customer. The Company's non-U.S. Government contract portfolio is comprised of a large number of time and material arrangements. As a result, the Company often utilizes the practical expedient allowing the recognition of revenue in the amount the Company invoices, which corresponds with the value provided to the customer and to which the Company is entitled to payment for performance to date.

Disaggregation of Revenue

The following tables present revenues on a disaggregated basis, in a manner that reconciles with the Company's reportable segment disclosures, for the following categories: product versus service type, customer type, contract type, and major program. The Company believes that this level of disaggregation provides investors with information to evaluate the Company's financial performance and provides the Company with information to make capital allocation decisions in the most appropriate manner.

	Three Months Ended March 31, 2021				
(\$ in millions)	Ingalls	Newport News	Technical Solutions	Intersegment Eliminations	Total
Revenue Type					
Product sales	\$ 604	\$ 1,101	\$ 16	\$ —	\$ 1,721
Service revenues	42	304	211	—	557
Intersegment	3	2	32	(37)	—
Sales and service revenues	<u>\$ 649</u>	<u>\$ 1,407</u>	<u>\$ 259</u>	<u>\$ (37)</u>	<u>\$ 2,278</u>
Customer Type					
Federal	\$ 646	\$ 1,405	\$ 206	\$ —	\$ 2,257
Commercial	—	—	21	—	21
Intersegment	3	2	32	(37)	—
Sales and service revenues	<u>\$ 649</u>	<u>\$ 1,407</u>	<u>\$ 259</u>	<u>\$ (37)</u>	<u>\$ 2,278</u>
Contract Type					
Firm fixed-price	\$ 11	\$ 8	\$ 39	\$ —	\$ 58
Fixed-price incentive	595	722	3	—	1,320
Cost-type	40	675	120	—	835
Time and materials	—	—	65	—	65
Intersegment	3	2	32	(37)	—
Sales and service revenues	<u>\$ 649</u>	<u>\$ 1,407</u>	<u>\$ 259</u>	<u>\$ (37)</u>	<u>\$ 2,278</u>

	Three Months Ended March 31, 2020				
(\$ in millions)	Ingalls	Newport News	Technical Solutions	Intersegment Eliminations	Total
Revenue Type					
Product sales	\$ 578	\$ 1,046	\$ —	\$ —	\$ 1,624
Service revenues	50	293	296	—	639
Intersegment	1	2	21	(24)	—
Sales and service revenues	<u>\$ 629</u>	<u>\$ 1,341</u>	<u>\$ 317</u>	<u>\$ (24)</u>	<u>\$ 2,263</u>
Customer Type					
Federal	\$ 628	\$ 1,339	\$ 228	\$ —	\$ 2,195
Commercial	—	—	68	—	68
Intersegment	1	2	21	(24)	—
Sales and service revenues	<u>\$ 629</u>	<u>\$ 1,341</u>	<u>\$ 317</u>	<u>\$ (24)</u>	<u>\$ 2,263</u>
Contract Type					
Firm fixed-price	\$ 15	\$ 2	\$ 59	\$ —	\$ 76
Fixed-price incentive	523	638	—	—	1,161
Cost-type	90	699	133	—	922
Time and materials	—	—	104	—	104
Intersegment	1	2	21	(24)	—
Sales and service revenues	<u>\$ 629</u>	<u>\$ 1,341</u>	<u>\$ 317</u>	<u>\$ (24)</u>	<u>\$ 2,263</u>

	Three Months Ended March 31	Three Months Ended March 31
(\$ in millions)	2021	2020
Major Programs		
Amphibious assault ships	\$ 357	\$ 347
Surface combatants and coast guard cutters	287	279
Other	5	3
Total Ingalls	649	629
Aircraft carriers	758	698
Submarines	457	455
Other	192	188
Total Newport News	1,407	1,341
Government and energy services	245	253
Oil and gas services	14	64
Total Technical Solutions	259	317
Intersegment eliminations	(37)	(24)
Sales and service revenues	<u>\$ 2,278</u>	<u>\$ 2,263</u>

As of March 31, 2021, the Company had \$48.8 billion of remaining performance obligations. The Company expects to recognize approximately 30% of its remaining performance obligations as revenue through 2022, an additional 30% through 2024, and the balance thereafter.

Cumulative Catch-up Adjustments

For the three months ended March 31, 2021, net cumulative catch-up adjustments increased operating income and increased diluted earnings per share by \$50 million and \$0.98, respectively. For the three months ended March 31, 2020, net cumulative catch-up adjustments increased operating income and increased diluted earnings per share by

\$32 million and \$0.62, respectively.

Cumulative catch-up adjustments for the three months ended March 31, 2021, included a favorable adjustment of \$25 million on a contract at the Company's Ingalls segment, which increased diluted earnings per share by \$0.50. No individual adjustment was material to the Company's unaudited condensed consolidated statements of operations and comprehensive income for the three months ended March 31, 2020.

Contract Balances

Contract balances include accounts receivable, contract assets, and contract liabilities associated with customer contracts. Accounts receivable represent an unconditional right to consideration and include amounts billed and currently due from customers. Contract assets primarily relate to the Company's rights to consideration for work completed but not billed as of the reporting date when the right to payment is not just subject to the passage of time. Fixed-price contracts are generally billed to the customer using either progress payments, whereby amounts are billed monthly as costs are incurred or work is completed, or performance based payments, which are based upon the achievement of specific, measurable events or accomplishments defined and valued at contract inception. Cost-type contracts are typically billed to the customer on a monthly or semi-monthly basis. Contract liabilities relate to advance payments, billings in excess of revenues, and deferred revenue amounts.

The Company reports contract balances in a net contract asset or contract liability position on a contract-by-contract basis at the end of each reporting period. The Company's net contract assets increased \$124 million from December 31, 2020, to March 31, 2021, primarily resulting from an increase in contract assets due to revenue on certain U.S. Navy contracts. For the three months ended March 31, 2021, the Company recognized revenue of \$397 million related to its contract liabilities as of December 31, 2020. For the three months ended March 31, 2020, the Company recognized revenue of \$274 million related to its contract liabilities as of December 31, 2019.

8. SEGMENT INFORMATION

The Company is organized into three reportable segments: Ingalls, Newport News, and Technical Solutions, consistent with how management makes operating decisions and assesses performance.

The following table presents segment results for the three months ended March 31, 2021 and 2020:

(\$ in millions)	Three Months Ended March 31	
	2021	2020
Sales and Service Revenues		
Ingalls	\$ 649	\$ 629
Newport News	1,407	1,341
Technical Solutions	259	317
Intersegment eliminations	(37)	(24)
Sales and service revenues	<u>\$ 2,278</u>	<u>\$ 2,263</u>
Operating Income		
Ingalls	\$ 91	\$ 68
Newport News	93	95
Technical Solutions	7	(7)
Segment operating income	191	156
Non-segment factors affecting operating income		
Operating FAS/CAS Adjustment	(40)	63
Non-current state income taxes	(4)	(4)
Operating income	<u>\$ 147</u>	<u>\$ 215</u>

Operating FAS/CAS Adjustment - The Operating FAS/CAS Adjustment represents the difference between the service cost component of our pension and other postretirement benefit plan expense determined in accordance with GAAP ("FAS") and our pension and other postretirement expense under CAS.

The following table presents the Company's assets by segment:

(\$ in millions)	March 31, 2021	December 31, 2020
Assets		
Ingalls	\$ 1,666	\$ 1,612
Newport News	4,302	4,124
Technical Solutions	1,349	1,379
Corporate	897	1,042
Total assets	\$ 8,214	\$ 8,157

9. INVENTORIED COSTS, NET

Inventoried costs were comprised of the following:

(\$ in millions)	March 31, 2021	December 31, 2020
Production costs of contracts in process ¹	\$ 20	\$ 17
Raw material inventory	122	120
Total inventoried costs, net	\$ 142	\$ 137

¹ Includes amounts capitalized pursuant to applicable provisions of the FAR and CAS.

10. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

HII performs impairment tests for goodwill as of November 30 of each year and between annual impairment tests if an event occurs or circumstances change that would more likely than not reduce the fair values of the Company's reporting units below their carrying values.

Accumulated goodwill impairment losses as of each of March 31, 2021, and December 31, 2020, were \$2,906 million. The accumulated goodwill impairment losses for Ingalls as of each of March 31, 2021, and December 31, 2020, were \$1,568 million. The accumulated goodwill impairment losses for Newport News as of each of March 31, 2021, and December 31, 2020, were \$1,187 million. The accumulated goodwill impairment losses for Technical Solutions as of each of March 31, 2021, and December 31, 2020, were \$151 million.

For the three months ended March 31, 2021, the carrying amounts of goodwill changed as follows:

(\$ in millions)	Ingalls	Newport News	Technical Solutions	Total
Balance as of December 31, 2020	\$ 175	\$ 721	\$ 721	\$ 1,617
Adjustments	—	—	(13)	(13)
Balance as of March 31, 2021	\$ 175	\$ 721	\$ 708	\$ 1,604

As of March 31, 2021, the Company recorded goodwill adjustments of \$13 million relating to the acquisition of SIS, primarily related to allocations to intangible assets.

Other Intangible Assets

The Company's purchased intangible assets are amortized on a straight-line basis or a method based on the pattern of benefits over their estimated useful lives. Net intangible assets consist primarily of amounts relating to nuclear-powered aircraft carrier and submarine program intangible assets, with an aggregate weighted-average useful life of 40 years based on the long life cycle of the related programs. Aggregate amortization expense was \$13 million and \$11 million for the three months ended March 31, 2021 and 2020, respectively.

In connection with the SIS purchase in 2020, the Company recorded \$13 million of intangible assets pertaining to technology and existing contract backlog, which is being amortized using the pattern of benefits method over a weighted-average life of ten years.

In connection with the Hydroid purchase in 2020, the Company recorded \$76 million of intangible assets pertaining to existing contract backlog, customer relationships, and technology, which is being amortized using the pattern of benefits method over a weighted-average life of nine years.

The Company expects amortization expense for purchased intangible assets of approximately \$52 million in 2021, \$46 million in 2022, \$37 million in 2023, \$28 million in 2024, and \$28 million in 2025.

11. INCOME TAXES

The Company's earnings are primarily domestic, and its effective income tax rates on earnings from operations for the three months ended March 31, 2021 and 2020, were 14.5% and 20.4%, respectively. The lower effective tax rate for the three months ended March 31, 2021, was primarily attributable to the tax loss associated with the sale of the Company's oil and gas business resulting in a reduction in the effective tax rate of 5.5%.

For the three months ended March 31, 2021, the Company's effective tax rate differed from the federal statutory tax rate primarily as a result of the tax loss associated with the sale of its oil and gas business. For the three months ended March 31, 2020, the Company's effective tax rate did not differ materially from the federal statutory corporate income tax rate of 21%.

The Company's unrecognized tax benefits increased by \$3 million during the three months ended March 31, 2021. As of March 31, 2021, the estimated amounts of the Company's unrecognized tax benefits, excluding interest and penalties, were liabilities of \$50 million. Assuming a sustainment of these tax positions, the reversal of \$36 million of the accrued amounts would favorably affect the Company's effective federal income tax rate in future periods.

The Company recognizes interest and penalties related to unrecognized tax benefits as income tax expense. For the three months ended March 31, 2021, interest resulting from the unrecognized tax benefits noted above increased income tax expense less than \$1 million.

Non-current state income taxes include deferred state income taxes, which reflect the change in deferred state tax assets and liabilities, and the tax expense or benefit associated with changes in unrecognized state tax benefits in the relevant period. These amounts are recorded within operating income. Current period state income tax expense is charged to contract costs and included in cost of sales and service revenues in segment operating income.

12. DEBT

Long-term debt consisted of the following:

(\$ in millions)	March 31, 2021	December 31, 2020
Senior notes due December 1, 2027, 3.483%	\$ 600	\$ 600
Senior notes due May 1, 2025, 3.844%	500	500
Senior notes due May 1, 2030, 4.200%	500	500
Mississippi economic development revenue bonds due May 1, 2024, 7.81%	84	84
Gulf opportunity zone industrial development revenue bonds due December 1, 2028, 4.55%	21	21
Less unamortized debt issuance costs	(17)	(19)
Total long-term debt	<u>\$ 1,688</u>	<u>\$ 1,686</u>

Credit Facility - The Company's credit facility (the "Credit Facility") includes a revolving credit facility of \$1,250 million, which may be drawn upon during a period of five years from November 22, 2017. The revolving credit facility includes a letter of credit subfacility of \$500 million.

The Credit Facility contains customary affirmative and negative covenants, as well as a financial covenant based on a maximum total leverage ratio. Each of the Company's existing and future material wholly owned domestic subsidiaries, except those that are specifically designated as unrestricted subsidiaries, are and will be guarantors under the Credit Facility. See Note 17: Subsidiary Guarantors.

As of March 31, 2021, the Company had \$15 million in issued but undrawn letters of credit and \$1,235 million unutilized under the Credit Facility. The Company had unamortized debt issuance costs associated with its credit facilities of \$3 million and \$5 million as of March 31, 2021, and December 31, 2020, respectively.

The terms of the Company's senior notes limit the Company's ability and the ability of certain of its subsidiaries to create liens, enter into sale and leaseback transactions, sell assets, and effect consolidations or mergers. The Company had unamortized debt issuance costs associated with its senior notes of \$14 million as of each of March 31, 2021, and December 31, 2020.

Under the Company's unsecured commercial paper program, the Company may issue up to \$1 billion of unsecured commercial paper notes.

The Company's debt arrangements contain customary affirmative and negative covenants. The Company was in compliance with all debt covenants during the three months ended March 31, 2021.

The estimated fair values of the Company's total long-term debt as of March 31, 2021, and December 31, 2020, were \$1,874 million and \$1,943 million, respectively. The fair values of the Company's long-term debt were calculated based on recent trades of the Company's debt instruments in inactive markets, which fall within Level 2 under the fair value hierarchy.

As of March 31, 2021, the aggregate amounts of principal payments due on long-term debt within the next five years consisted of \$84 million due in 2024 and \$500 million due in 2025.

13. INVESTIGATIONS, CLAIMS, AND LITIGATION

The Company is involved in legal proceedings before various courts and administrative agencies, and is periodically subject to government examinations, inquiries and investigations. Pursuant to FASB Accounting Standards Codification 450 *Contingencies*, the Company has accrued for losses associated with investigations, claims, and litigation when, and to the extent that, loss amounts related to the investigations, claims, and litigation are probable and can be reasonably estimated. The actual losses that might be incurred to resolve such investigations, claims, and litigation may be higher or lower than the amounts accrued. For matters where a material loss is probable or reasonably possible and the amount of loss cannot be reasonably estimated, but the Company is able to reasonably estimate a range of possible losses, the Company will disclose such estimated range in these notes. This estimated range is based on information currently available to the Company and involves elements of judgment and significant uncertainties. Any estimated range of possible loss does not represent the Company's maximum possible loss exposure. For matters as to which the Company is not able to reasonably estimate a possible loss or range of loss, the Company will indicate the reasons why it is unable to estimate the possible loss or range of loss. For matters not specifically described in these notes, the Company does not believe, based on information currently available to it, that it is reasonably possible that the liabilities, if any, arising from such investigations, claims, and litigation will have a material effect on its consolidated financial position, results of operations, or cash flows. The Company has, in certain cases, provided disclosure regarding certain matters for which the Company believes at this time that the likelihood of material loss is remote.

False Claims Act Complaint - In 2016, the Company was made aware that it is a defendant in a *qui tam* False Claims Act lawsuit pending in the U.S. District Court for the Middle District of Florida related to the Company's purchases of allegedly non-conforming parts from a supplier for use in connection with U.S. Government contracts. In August 2019, the Department of Justice ("DoJ") declined to intervene in the lawsuit, and the lawsuit was unsealed. The court dismissed the complaint, but the plaintiff was permitted to refile the complaint and did so. The case is at an early stage, and the Company has filed a motion to dismiss the Second Amended Complaint. As a

result, the Company is unable to estimate an amount or range of reasonably possible loss or to express an opinion regarding the ultimate outcome of the matter.

Insurance Claims - In September 2020, the Company filed a complaint in the Superior Court, State of Vermont, Franklin Unit, seeking a judgment declaring that the Company's business interruption and other losses associated with COVID-19 are covered by the Company's property insurance program. A total of 32 reinsurers are named as defendants in the complaint. The Company also has initiated arbitration proceedings against six other reinsurers seeking similar relief. Prior to filing the complaint and initiating the arbitration proceedings, the Company provided a notice of loss to the reinsurers, but, to date, none of the reinsurers have acknowledged coverage. The full extent of the Company's losses resulting from COVID-19 have not yet been determined, and the process of calculating losses is continuing. Although the Company believes its position is well-founded, no assurances can be provided regarding the ultimate resolution of this matter.

U.S. Government Investigations and Claims - Departments and agencies of the U.S. Government have the authority to investigate various transactions and operations of the Company, and the results of such investigations may lead to administrative, civil, or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments or compensatory, treble, or other damages. U.S. Government regulations provide that certain findings against a contractor may also lead to suspension or debarment from future U.S. Government contracts or the loss of export privileges. Any suspension or debarment would have a material effect on the Company because of its reliance on government contracts.

Asbestos Related Claims - HII and its predecessors-in-interest are defendants in a longstanding series of cases that have been and continue to be filed in various jurisdictions around the country, wherein former and current employees and various third parties allege exposure to asbestos containing materials while on or associated with HII premises or while working on vessels constructed or repaired by HII. The cases allege various injuries, including those associated with pleural plaque disease, asbestosis, cancer, mesothelioma, and other alleged asbestos related conditions. In some cases, several of HII's former executive officers are also named as defendants. In some instances, partial or full insurance coverage is available to the Company for its liability and that of its former executive officers. The costs to resolve cases during the three months ended March 31, 2021 and 2020, were immaterial individually and in the aggregate. The Company's estimate of asbestos-related liabilities is subject to uncertainty because liabilities are influenced by numerous variables that are inherently difficult to predict. Key variables include the number and type of new claims, the litigation process from jurisdiction to jurisdiction and from case to case, reforms made by state and federal courts, and the passage of state or federal tort reform legislation. Although the Company believes the ultimate resolution of current cases will not have a material effect on its consolidated financial position, results of operations, or cash flows, it cannot predict what new or revised claims or litigation might be asserted or what information might come to light and can, therefore, give no assurances regarding the ultimate outcome of asbestos related litigation.

Other Litigation - In March 2019, a new dry dock being transported for delivery to Ingalls by a heavy lift ship struck an Ingalls work barge, which in turn was pushed into *Delbert D. Black* (DDG 119) causing damage to *Delbert D. Black* (DDG 119), the work barge, and the new dry dock. At the time of the incident, responsibility for the new dry dock remained with the builder and the transport company. Repair work on *Delbert D. Black* (DDG 119) was completed at U.S. Navy direction. The Company is working with the U.S. Navy to ascertain whether third parties will pay for the repairs to *Delbert D. Black* (DDG 119) or whether the repairs will be paid under the builder's risk insurance included in the *Delbert D. Black* (DDG 119) contract. Claims were tendered to the Company's insurers, and the Company has received all outstanding claim proceeds. In April 2019, the Company filed suit in the U.S. District Court for the Southern District of Mississippi seeking, among other relief, damages from negligent third parties. Based on information currently available, management believes it will collect sufficient funds from one or more third parties to compensate for the resulting direct and consequential damages, but failure to collect sufficient funds or the length of time required to collect such funds could result in a material effect on the Company's financial position, results of operations, or cash flows.

The Company and its predecessor-in-interest have been in litigation with the Bolivarian Republic of Venezuela (the "Republic") since 2002 over a contract for the repair, refurbishment, and modernization at Ingalls of two foreign-built frigates. In March 2014, the Company filed an arbitral statement of claim asserting breaches of the contract. The Republic denied the Company's allegations and asserted counterclaims. In February 2018, the arbitral tribunal awarded the Company approximately \$151 million on its claims and awarded the Republic approximately \$22 million on its counterclaims. The Company is seeking to enforce and execute upon the award in multiple jurisdictions. No assurances can be provided regarding the ultimate resolution of this matter.

The Company is party to various other claims, legal proceedings and investigations that arise in the ordinary course of business, including U.S. Government investigations that could result in administrative, civil, or criminal proceedings involving the Company. The Company is a contractor with the U.S. Government, and such proceedings can therefore include False Claims Act allegations against the Company. Although the Company believes that the resolution of these other claims, legal proceedings and investigations will not have a material effect on its consolidated financial position, results of operations, or cash flows, the Company cannot predict what new or revised claims or litigation might be asserted or what information might come to light and can, therefore, give no assurances regarding the ultimate outcome of these matters.

14. COMMITMENTS AND CONTINGENCIES

Contract Performance Contingencies - Contract profit margins may include estimates of revenues for matters on which the customer and the Company have not reached agreement, such as settlements in the process of negotiation, contract changes, claims, and requests for equitable adjustment for unanticipated contract costs. These estimates are based upon management's best assessment of the underlying causal events and circumstances and recognized to the extent of expected recovery based upon contractual entitlements and the probability of successful negotiation with the customer. As of March 31, 2021, amounts recognized in connection with claims and requests for equitable adjustment were not material individually or in the aggregate.

Guarantees of Performance Obligations - From time to time in the ordinary course of business, HII enters into joint ventures, teaming agreements, and other business arrangements in connection with the Company's products and services or to pursue strategic objectives. The Company attempts to limit its exposure under these arrangements to its investment or the extent of obligations under the applicable contract. In some cases, however, HII may be required to guarantee performance of the arrangement's obligations and, in such cases, generally obtains cross-indemnification from the other members of the arrangement.

In the ordinary course of business, the Company may guarantee obligations of its subsidiaries under certain contracts. Generally, the Company is liable under such guarantees only if its subsidiary is unable to perform its obligations. Historically, the Company has not incurred any substantial liabilities resulting from these guarantees. As of March 31, 2021, the Company was not aware of any existing event of default that would require it to satisfy any of these guarantees.

Environmental Matters - The estimated cost to complete environmental remediation has been accrued when it is probable that the Company will incur such costs in the future to address environmental conditions at currently or formerly owned or leased operating facilities, or at sites where it has been named a Potentially Responsible Party ("PRP") by the Environmental Protection Agency or similarly designated by another environmental agency, and the related costs can be estimated by management. These accruals do not include any litigation costs related to environmental matters, nor do they include amounts recorded as asset retirement obligations. To assess the potential impact on the Company's consolidated financial statements, management estimates the range of reasonably possible remediation costs that could be incurred by the Company, taking into account currently available facts on each site, as well as the current state of technology and prior experience remediating contaminated sites. These estimates are reviewed periodically and adjusted to reflect changes in facts and technical and legal circumstances. Management estimates that as of March 31, 2021, the probable estimable future cost for environmental remediation was immaterial. Factors that could result in changes to the Company's estimates include: modification of planned remedial actions, increases or decreases in the estimated time required to remediate, changes to the determination of legally responsible parties, discovery of more extensive contamination than anticipated, changes in laws and regulations affecting remediation requirements, and improvements in remediation technology. Should other PRPs not pay their allocable share of remediation costs, the Company may incur costs exceeding those already estimated and accrued. In addition, there are certain potential remediation sites where the costs of remediation cannot be reasonably estimated. Although management cannot predict whether new information gained as remediation progresses will materially affect the estimated liability accrued, management does not believe that future remediation expenditures will have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

Financial Arrangements - In the ordinary course of business, HII uses letters of credit issued by commercial banks to support certain leases, insurance policies, and contractual performance obligations, as well as surety bonds issued by insurance companies principally to support the Company's self-insured workers' compensation plans. As

of March 31, 2021, the Company had \$15 million in issued but undrawn letters of credit, as indicated in Note 12: Debt, and \$272 million of surety bonds outstanding.

U.S. Government Claims - From time to time, the U.S. Government communicates to the Company potential claims, disallowed costs, and penalties concerning prior costs incurred by the Company with which the U.S. Government disagrees. When such preliminary findings are presented, the Company and U.S. Government representatives engage in discussions, from which the Company evaluates the merits of the claims and assesses the amounts being questioned. Although the Company believes that the resolution of any of these matters will not have a material effect on its consolidated financial position, results of operations, or cash flows, it cannot predict the ultimate outcome of these matters.

Other Matters - In 1985, the Company and the U.S. Navy entered into a settlement agreement to resolve disputes associated with billing and allocating to contracts the cost of workers' compensation self-insurance, among other matters. In 2016, the Defense Contract Audit Agency ("DCAA") opined that the 1985 settlement agreement did not comply with certain CAS standards and referred the matter to a U.S. Navy's Contracting Officer. In December 2020, the Contracting Officer issued a determination that the 1985 settlement agreement did not comply with CAS and directed the Company to develop and implement a different process to bill and allocate the cost of workers' compensation self-insurance. Cumulatively, under the 1985 settlement agreement, the Company has not recognized as allowable billable costs of approximately \$120 million due to the difference between CAS and U.S. GAAP Financial Accounting Standards ("FAS") treatment of workers' compensation cost. Under the 1985 settlement agreement, these costs would be recognized as allowable billable costs in future periods. Though the Company believes the 1985 settlement agreement is CAS-compliant and cannot be unilaterally terminated, the Company will seek to negotiate a resolution of the matter with the Contracting Officer. If a resolution results in the use of a different treatment or billing methodology that does not provide for the Company to recognize as allowable the CAS to FAS difference, the resolution could have a material effect on the Company's consolidated financial position, results of operations, or cash flows, including an inability to recover any or all of the \$120 million of costs not yet billed to the customer.

Collective Bargaining Agreements - Of the Company's approximately 42,000 employees, approximately 50% are covered by a total of nine collective bargaining agreements and one site stabilization agreement. Newport News has three collective bargaining agreements covering represented employees, which expire in November 2021, December 2022, and April 2024. The collective bargaining agreement that expires in November 2021 covers approximately 50% of Newport News employees. Newport News craft workers employed at the Kesselring Site near Saratoga Springs, New York are represented under an indefinite Department of Energy ("DoE") site agreement. Ingalls has five collective bargaining agreements covering represented employees, all of which expire in March 2022. Approximately 25 Technical Solutions employees in Klamath Falls, Oregon are covered by a collective bargaining agreement that expires in June 2021. The Company believes its relationship with its employees is satisfactory. Collective bargaining agreements generally expire after three to five years and are subject to renegotiation at that time. The Company does not expect the results of these negotiations, either individually or in the aggregate, to have a material effect on the Company's consolidated results of operations.

Purchase Obligations - Periodically the Company enters into agreements to purchase goods or services that are enforceable and legally binding on the Company and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. These obligations are primarily comprised of open purchase order commitments to vendors and subcontractors pertaining to funded contracts.

15. EMPLOYEE PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company provides eligible employees defined benefit pension plans, other postretirement benefit plans, and defined contribution pension plans.

The costs of the Company's defined benefit pension plans and other postretirement benefit plans for the three months ended March 31, 2021 and 2020, were as follows:

(\$ in millions)	Three Months Ended March 31			
	Pension Benefits		Other Benefits	
	2021	2020	2021	2020
Components of Net Periodic Benefit Cost				
Service cost	\$ 50	\$ 45	\$ 3	\$ 2
Interest cost	60	64	3	4
Expected return on plan assets	(138)	(121)	—	—
Amortization of prior service cost (credit)	4	3	(1)	(5)
Amortization of net actuarial loss (gain)	27	27	(1)	(2)
Net periodic benefit cost	<u>\$ 3</u>	<u>\$ 18</u>	<u>\$ 4</u>	<u>\$ (1)</u>

The Company made the following contributions to its defined benefit pension plans and other postretirement benefit plans for the three months ended March 31, 2021 and 2020:

(\$ in millions)	Three Months Ended March 31	
	2021	2020
Pension plans		
Discretionary		
Qualified	\$ 60	\$ 20
Non-qualified	2	2
Other benefit plans	10	8
Total contributions	<u>\$ 72</u>	<u>\$ 30</u>

As of March 31, 2021, the Company anticipates no further significant cash contributions to its qualified defined benefit pension plans in 2021.

16. STOCK COMPENSATION PLANS

During the three months ended March 31, 2021 and 2020, the Company issued new stock awards as follows:

Restricted Performance Stock Rights - For the three months ended March 31, 2021, the Company granted approximately 0.2 million RPSRs at a weighted average share price of \$178.41. These rights are subject to cliff vesting on December 31, 2023. For the three months ended March 31, 2020, the Company granted approximately 0.1 million RPSRs at a weighted average share price of \$229.42. These rights are subject to cliff vesting on December 31, 2022. All of the RPSRs are subject to the achievement of performance-based targets at the end of the respective vesting periods and will ultimately vest between 0% and 200% of grant date value.

For each of the three months ended March 31, 2021 and 2020, approximately 0.1 million of stock awards vested, of which less than 0.1 million each year were transferred to the Company from employees in satisfaction of minimum tax withholding obligations.

The following table summarizes the status of the Company's outstanding stock awards as of March 31, 2021:

	Stock Awards (in thousands)	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in years)
Total stock awards	459	\$ 190.95	1.6

Compensation Expense

The Company recorded stock-based compensation for the value of awards granted to Company employees and non-employee members of the board of directors for the three months ended March 31, 2021 and 2020, of \$9 million and \$7 million, respectively.

The Company recorded tax benefits related to stock awards of \$2 million and \$1 million for the three months ended March 31, 2021 and 2020, respectively. The Company recognized tax benefits associated with the issuance of stock in settlement of stock awards of \$2 million for each of the three months ended March 31, 2021 and 2020.

Unrecognized Compensation Expense

As of March 31, 2021, the Company had less than \$1 million of unrecognized compensation expense associated with Restricted Stock Rights granted in 2021, 2020, 2019 and 2018, which will be recognized over a weighted average period of 1.1 years, and \$50 million of unrecognized compensation expense associated with RPSRs granted in 2021, 2020, and 2019, which will be recognized over a weighted average period of 1.8 years.

17. SUBSIDIARY GUARANTORS

As described in Note 12: Debt, the Company issued senior notes through the consolidating parent company, HII. Performance of the Company's obligations under its senior notes outstanding as of March 31, 2021, and December 31, 2020, including any repurchase obligations resulting from a change of control, is fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by each of HII's existing and future material domestic subsidiaries ("Subsidiary Guarantors"). The Subsidiary Guarantors are 100% owned by HII. Under SEC Regulation S-X Rule 3-10, each HII subsidiary that did not provide a guarantee ("Non-Guarantors") is minor and HII, as the parent company issuer, did not have independent assets or operations. There are no significant restrictions on the ability of the parent company and the Subsidiary Guarantors to obtain funds from their respective subsidiaries by dividend or loan, except those imposed by applicable law.

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

OVERVIEW

Our Business

Huntington Ingalls Industries, Inc. ("HII", "we", "us", or "our") is America's largest military shipbuilding company and a provider of professional services to partners in government and industry. For more than a century, our Ingalls segment in Mississippi and Newport News segment in Virginia have built more ships in more ship classes than any other U.S. naval shipbuilder. Our Technical Solutions segment provides a range of services to government and commercial customers. Headquartered in Newport News, Virginia, HII employs approximately 42,000 people both domestically and internationally.

We conduct most of our business with the U.S. Government, primarily the DoD. As prime contractor, principal subcontractor, team member, or partner, we participate in many high-priority U.S. defense programs. Ingalls includes our non-nuclear ship design, construction, repair, and maintenance businesses. Newport News includes all of our nuclear ship design, construction, overhaul, refueling, and repair and maintenance businesses. Our Technical Solutions segment provides a wide range of professional services and products, including defense and federal solutions ("DFS"), nuclear and environmental services, and unmanned systems.

The following discussion should be read along with the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the year ended December 31, 2020.

Business Environment

COVID-19 Pandemic - The COVID-19 global pandemic has had wide ranging effects on the global health environment and disrupted the global and U.S. economies and financial markets, including impacts to our employees, customers, suppliers, and communities (collectively, "COVID-19 Events"). COVID-19 Events have also

impacted our operations, and the continuing impacts are uncertain. The most significant elements of uncertainty have been the intensity and duration of the impact on our employees' ability to work effectively, disruption in our supply chain, disruption of the U.S. Government's and our other customers' abilities to perform their obligations, and impact on pension assets and other investment performance.

We are aggressively managing our response to the uncertainties regarding COVID-19 Events. Our primary focus has been to minimize the risk to our employees by updating leave policies, increasing telecommuting, and making benefits changes to provide employees maximum flexibility. We have also adjusted policies and workspaces to align with Centers for Disease Control and Prevention ("CDC") guidelines and to support social distancing, including increased sanitation efforts, personal protective equipment for employees, and suspension of all non-essential work travel. As a result, we have incurred and expect to continue incurring costs related to COVID-19 Events, including paid leave, quarantining employees, and recurring facility cleaning. Our shipyards and other facilities remained open and productive, but we experienced temporary decreases in workforce attendance, which impacted our operations due to delay and disruption from the lack of availability of critical skills and out-of-sequence work. As of March 31, 2021, our workforce was operating at normal attendance rates.

Under Section 3610 of the CARES Act, contractors may submit claims for employee paid time off caused by restrictions from COVID-19 Events in circumstances where the employee could not work remotely. Such instances may include paid time off for employees to allow for plant decontamination, idle time due to social distancing restrictions, paid time off to take care of dependents impacted by government ordered school or day care closures, and employee quarantines due to travel restrictions or coming into contact, being diagnosed, or taking care of someone diagnosed with COVID-19. We have taken steps to preserve our rights to pursue such claims for HII and our subcontractors, but we have no assurance that Congress will appropriate sufficient funds to cover the reimbursement of costs contemplated by the CARES Act.

While costs related to COVID-19 Events are allowable under U.S. Government contracts, our contract estimates reflect margin impact uncertainty, because such costs may not result in equitable adjustments, particularly on firm fixed price and fixed price incentive contracts, or may not be adequately covered by insurance. Our reinsurers have failed to acknowledge coverage for various losses related to COVID-19, and we filed a complaint in state court in Vermont seeking a judgment declaring that our business interruption and other losses associated with COVID-19 are covered by our property insurance program. We also initiated arbitration proceedings against other reinsurers seeking similar relief. Although we believe that our position is well-founded, no assurance can be provided regarding the ultimate resolution of this matter. See Note 13: Investigations, Claims, and Litigation.

We have also focused on actively supporting our customers, suppliers, and communities. We have been proactive in engaging with our U.S. Government customers regarding future contract adjustments. While there has been no change in contract terms or substantial degradation in timely payments from customers, we have experienced delays in decisions on certain contract awards. We are unable to predict how our customers will allocate resources in the future as they react to the evolving demands of the COVID-19 response. We have accelerated payments to small business suppliers in an effort to minimize supply chain disruption.

We temporarily halted stock repurchases in Q1 2020, but we resumed share repurchases during the first quarter of 2021. We also deferred certain payroll taxes pursuant to the CARES Act, which increased our cash from operations in 2020, but will reduce cash from operations in 2021 and 2022.

U.S. Government Contracts - Long-term uncertainty exists with respect to overall levels of defense spending across the future years' defense plan, and it is likely that U.S. Government discretionary spending levels will continue to be subject to significant pressure.

The fiscal year 2021 budget cycle ultimately concluded with the passage and enactment of defense authorization and defense appropriations measures. Both pieces of legislation broadly supported shipbuilding programs, including funding and authority for an additional *Virginia* class submarine, the bundled purchase of LHA 9 (unnamed) with LPD 32 (unnamed) and LPD 33 (unnamed), and long-lead material for an additional *Arleigh Burke* class (DDG 51) destroyer. The final bills also continued support of the dual purchase of *Enterprise* (CVN 80) and *Doris Miller* (CVN 81), as well as the Refueling and Complex Overhaul of USS *John C. Stennis* (CVN 74).

Long-term funding for certain programs in which we participate may be reduced, delayed, or canceled. In addition, spending cuts and/or reprioritization of defense investment could adversely affect the viability of our suppliers, subcontractors, and employee base. Our contracts or subcontracts under programs in which we participate may be

terminated or adjusted by the U.S. Government or the prime contractor as a result of lack of government funding or reductions or delays in government funding. Significant reductions in the number of ships procured by the U.S. Navy or significant delays in funding our ship programs would have a material effect on our financial position, results of operations, or cash flows.

The budget environment remains a significant long-term risk. Considerable uncertainty exists regarding how future budget and program decisions will develop and what challenges budget changes will present for the defense industry. We believe continued budget pressures will have serious implications for defense discretionary spending, the defense industrial base, including HII, and the customers, employees, suppliers, subcontractors, investors, and communities that rely on companies in the defense industrial base. Although it is difficult to determine specific impacts, we expect that over the longer term, the budget environment may result in fewer contract awards and lower revenues, profits, and cash flows from our U.S. Government contracts. It is likely budget and program decisions made in this environment will have long-term impacts on HII and the entire defense industry.

Critical Accounting Policies, Estimates, and Judgments

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2020, we consider our policies relating to the following matters to be critical accounting policies:

- Revenue recognition;
- Purchase accounting, goodwill, and intangible assets;
- Litigation, commitments, and contingencies;
- Retirement related benefit plans; and
- Workers' compensation.

As of March 31, 2021, there had been no material changes to the foregoing critical accounting policies, estimates, and judgments since December 31, 2020.

We have incorporated realized and estimated future effects of COVID-19 Events, based upon current conditions and our judgment of the future impacts of COVID-19 Events, with respect to contract costs and revenue recognition, effective income tax rates, and the fair values of our long-lived assets, financial instruments, intangible assets, and goodwill recorded at our reporting units. See Note 2: Basis of Presentation.

Contracts

We generate most of our revenues from long-term U.S. Government contracts for design, production, and support activities. Government contracts typically include the following cost elements: direct material, labor, and subcontracting costs, and certain indirect costs, including allowable general and administrative expenses. Unless otherwise specified in a contract, costs billed to contracts with the U.S. Government are treated as allowable and allocable costs under the Federal Acquisition Regulation ("FAR") and the U.S. Cost Accounting Standards ("CAS") regulations. Examples of costs incurred by us that are not allowable under the FAR and CAS regulations include certain legal costs, lobbying costs, charitable donations, interest expense, and advertising costs.

We monitor our policies and procedures with respect to our contracts on a regular basis to ensure consistent application under similar terms and conditions, as well as compliance with all applicable government regulations. In addition, the Defense Contract Audit Agency routinely audits the costs we incur that are allocated to contracts with the U.S. Government.

Our contracts typically fall into one of four categories: firm fixed-price, fixed-price incentive, cost-type, and time and materials. See Note 7: Revenue.

- *Firm Fixed-Price Contracts* - A firm fixed-price contract is a contract in which the specified scope of work is agreed to for a price that is predetermined by bid or negotiation and not generally subject to adjustment regardless of costs incurred by the contractor.

- **Fixed-Price Incentive Contracts** - Fixed-price incentive contracts provide for reimbursement of the contractor's allowable costs, but are subject to a cost-share limit that affects profitability. Fixed-price incentive contracts effectively become firm fixed-price contracts once the cost-share limit is reached.
- **Cost-Type Contracts** - Cost-type contracts provide for reimbursement of the contractor's allowable costs plus a fee that represents profit. Cost-type contracts generally require that the contractor use its reasonable efforts to accomplish the scope of the work within some specified time and some stated dollar limitation.
- **Time and Materials** - Time and materials contracts specify a fixed hourly billing rate for each direct labor hour expended and reimbursement for allowable material costs and expenses.

Contract Fees - Negotiated contract fee structures include: fixed fee amounts, cost sharing arrangements to reward or penalize contractors for under or over cost target performance, respectively, positive award fees, and negative penalty arrangements. Profit margins may vary materially depending on the negotiated contract fee arrangements, percentage-of-completion of the contract, the achievement of performance objectives, and the stage of performance at which the right to receive fees, particularly under incentive and award fee contracts, is finally determined.

Award Fees - Certain contracts contain award fees based on performance criteria such as cost, schedule, quality, and technical performance. Award fees are determined and earned based on an evaluation by the customer of our performance against such negotiated criteria. We consider award fees to be variable consideration and generally include these fees in the transaction price using a most likely amount approach. Award fees are limited to the extent of funding allotted by the customer and available for performance and those amounts for which a significant reversal of revenue is not probable.

Program Descriptions

For convenience, a brief description of certain programs discussed in this Quarterly Report on Form 10-Q is included in the "Glossary of Programs" in this section.

CONSOLIDATED OPERATING RESULTS

The following table presents selected financial highlights:

(\$ in millions)	Three Months Ended March 31		2021 over 2020	
	2021	2020	Dollars	Percent
Sales and service revenues	\$ 2,278	\$ 2,263	\$ 15	1 %
Cost of product sales and service revenues	1,936	1,840	96	5 %
Income from operating investments, net	8	6	2	33 %
Other income and gains	3	—	3	— %
General and administrative expenses	206	214	(8)	(4) %
Operating income	147	215	(68)	(32) %
Other income (expense)				
Interest expense	(21)	(16)	(5)	(31) %
Non-operating retirement benefit	46	30	16	53 %
Other, net	1	(13)	14	108 %
Federal and foreign income taxes	25	44	(19)	(43) %
Net earnings	\$ 148	\$ 172	\$ (24)	(14) %

Operating Performance Assessment and Reporting

We manage and assess the performance of our business based on our performance on individual contracts and programs using the financial measures referred to below, with consideration given to the Critical Accounting Policies, Estimates, and Judgments referred to in this section. Our portfolio of long-term contracts is largely flexibly-priced. Therefore, sales tend to fluctuate in concert with costs across our large portfolio of active contracts, with operating income being a critical measure of operating performance. Under FAR rules that govern our business with

the U.S. Government, most types of costs are allowable, and we do not focus on individual cost groupings, such as cost of sales or general and administrative expenses, as much as we do on total contract costs, which are a key factor in determining contract operating income. As a result, in evaluating our operating performance, we look primarily at changes in sales and service revenues, as well as operating income, including the effects of significant changes in operating income as a result of changes in contract estimates and the use of the cumulative catch-up method of accounting in accordance with GAAP. This approach is consistent with the long-term life cycle of our contracts, as management assesses the bidding of each contract by focusing on net sales and operating profit and monitors performance in a similar manner through contract completion. Consequently, our discussion of business segment performance focuses on net sales and operating profit, consistent with our approach for managing our business.

Cost of sales for both product sales and service revenues consists of materials, labor, and subcontracting costs, as well as an allocation of indirect costs for overhead. We manage the type and amount of costs at the contract level, which is the basis for estimating our total costs at completion of our contracts. Unusual fluctuations in operating performance driven by changes in a specific cost element across multiple contracts are described in our analysis.

Sales and Service Revenues

Sales and service revenues were comprised as follows:

(\$ in millions)	Three Months Ended March 31		2021 over 2020	
	2021	2020	Dollars	Percent
Product sales	\$ 1,721	\$ 1,624	\$ 97	6 %
Service revenues	557	639	(82)	(13) %
Sales and service revenues	<u>\$ 2,278</u>	<u>\$ 2,263</u>	<u>\$ 15</u>	<u>1 %</u>

Product sales for the three months ended March 31, 2021, increased \$97 million, or 6%, compared with the same period in 2020. Ingalls product sales increased \$26 million for the three months ended March 31, 2021, primarily as a result of higher volumes in surface combatants and amphibious assault ships, partially offset by lower volume in the *Legend* class NSC program. Newport News product sales increased \$55 million for the three months ended March 31, 2021, primarily as a result of higher volumes in aircraft carriers. Technical Solutions product sales increased \$16 million for the three months ended March 31, 2021, primarily as a result of the acquisition of Hydroid in March 2020 and higher volumes in DFS.

Service revenues for the three months ended March 31, 2021, decreased \$82 million, or 13%, compared with the same period in 2020. Ingalls service revenues decreased \$8 million for the three months ended March 31, 2021, primarily as a result of lower volumes in surface combatant and amphibious assault ship services. Newport News service revenues increased \$11 million for the three months ended March 31, 2021, primarily as a result of higher volumes in aircraft carriers. Technical Solutions service revenues decreased \$85 million for the three months ended March 31, 2021, primarily as a result of the divestitures of our oil and gas business and San Diego Shipyard, as well as lower volumes in DFS services.

Cost of Sales and Service Revenues

Cost of product sales, cost of service revenues, income from operating investments, net, and general and administrative expenses were as follows:

(\$ in millions)	Three Months Ended March 31		2021 over 2020	
	2021	2020	Dollars	Percent
Cost of product sales	\$ 1,454	\$ 1,290	\$ 164	13 %
% of product sales	84.5 %	79.4 %		
Cost of service revenues	482	550	(68)	(12) %
% of service revenues	86.5 %	86.1 %		
Income from operating investments, net	8	6	2	33 %
Other income and gains	3	—	3	— %
General and administrative expenses	206	214	(8)	(4) %
% of sales and service revenues	9.0 %	9.5 %		
Cost of sales and service revenues	\$ 2,131	\$ 2,048	\$ 83	4 %

Cost of Product Sales

Cost of product sales for the three months ended March 31, 2021, increased \$164 million, or 13%, compared with the same period in 2020. Ingalls cost of product sales increased \$1 million for the three months ended March 31, 2021, primarily as a result of the higher volumes described above, partially offset by risk retirement on *Bougainville* (LHA 8). Newport News cost of product sales increased \$64 million for the three months ended March 31, 2021, primarily as a result of volume increases described above. Technical Solutions cost of product sales increased \$15 million for the three months ended March 31, 2021, primarily as a result of the volume increases described above. Cost of product sales related to the Operating FAS/CAS Adjustment increased \$84 million for the three months ended March 31, 2021, as described below.

Cost of product sales as a percentage of product sales increased from 79.4% for the three months ended March 31, 2020, to 84.5% for the three months ended March 31, 2021. The increase was due to unfavorable change in the Operating FAS/CAS Adjustment and lower risk retirement on the RCOH of USS *George Washington* (CVN 73), partially offset by higher risk retirement on *Bougainville* (LHA 8) and Block IV of the *Virginia* class (SSN 774) submarine program and year-to-year variances in contract mix.

Cost of Service Revenues

Cost of service revenues for the three months ended March 31, 2021, decreased \$68 million, or 12%, compared with the same period in 2020. Ingalls cost of service revenues decreased \$7 million for the three months ended March 31, 2021, primarily as a result of lower volumes described above. Newport News cost of service revenues increased \$14 million for the three months ended March 31, 2021, primarily as a result of the volume increases described above. Technical Solutions cost of service revenues decreased \$94 million for the three months ended March 31, 2021, primarily as a result of the lower volumes described above and year-to-year variances in contract mix. Cost of service revenues related to the Operating FAS/CAS Adjustment increased \$19 million for the three months ended March 31, 2021, as described below.

Cost of service revenues as a percentage of service revenues increased from 86.1% for the three months ended March 31, 2020, to 86.5% for the three months ended March 31, 2021, primarily driven by an unfavorable change in the Operating FAS/CAS Adjustment, partially offset by improved performance on DFS services and year-to-year variances in contract mix.

Income (Loss) from Operating Investments, Net

The activities of our operating investments are closely aligned with the operations of the segments holding the investments. We therefore record income related to earnings from equity method investments in our operating income.

Income from operating investments, net for the three months ended March 31, 2021, increased \$2 million from the same period in 2020, primarily due to higher equity income from our nuclear and environmental joint ventures.

Other Income and Gains

For the three months ended March 31, 2021, we recognized a \$3 million gain on the sale of our oil and gas business.

General and Administrative Expenses

In accordance with industry practice and the regulations that govern the cost accounting requirements for government contracts, most general and administrative expenses are considered allowable and allocable costs on government contracts. These costs are allocated to contracts in progress on a systematic basis, and contract performance factors include this cost component as an element of cost.

General and administrative expenses for the three months ended March 31, 2021, decreased \$8 million from the same period in 2020, primarily driven by favorable changes in current state income tax expense and lower overhead costs.

Operating Income

We consider operating income to be an important measure for evaluating our operating performance, and, consistent with industry practice, we define operating income as revenues less the related cost of producing the revenues and general and administrative expenses.

We internally manage our operations by reference to "segment operating income," which is defined as operating income before the Operating FAS/CAS Adjustment and non-current state income taxes, neither of which affects segment performance. Segment operating income is not a recognized measure under GAAP. When analyzing our operating performance, investors should use segment operating income in addition to, and not as an alternative for, operating income or any other performance measure presented in accordance with GAAP. It is a measure we use to evaluate our core operating performance. We believe segment operating income reflects an additional way of viewing aspects of our operations that, when viewed with our GAAP results, provides a more complete understanding of factors and trends affecting our business. We believe the measure is used by investors and is a useful indicator to measure our performance. Because not all companies use identical calculations, our presentation of segment operating income may not be comparable to similarly titled measures of other companies.

The following table reconciles operating income to segment operating income:

(\$ in millions)	Three Months Ended March 31		2021 over 2020	
	2021	2020	Dollars	Percent
Operating income	\$ 147	\$ 215	\$ (68)	(32) %
Operating FAS/CAS Adjustment	40	(63)	103	163 %
Non-current state income taxes	4	4	—	— %
Segment operating income	<u>\$ 191</u>	<u>\$ 156</u>	<u>\$ 35</u>	<u>22 %</u>

Segment Operating Income

Segment operating income for the three months ended March 31, 2021, was \$191 million, compared with segment operating income of \$156 million for the same period in 2020. The increase was primarily driven by higher risk retirement on *Bougainville* (LHA 8) and on Block IV of the *Virginia* class (SSN 774) submarine program, improved performance on DFS services and nuclear and environmental services, partially offset by lower risk retirement on the RCOH of USS *George Washington* (CVN 73).

Activity within each segment is discussed in Segment Operating Results below.

FAS/CAS Adjustment and Operating FAS/CAS Adjustment

The FAS/CAS Adjustment reflects the difference between expenses for pension and other postretirement benefits determined in accordance with GAAP ("FAS") and the expenses for these items included in segment operating income in accordance with U.S. Cost Accounting Standards ("CAS"). The Operating FAS/CAS Adjustment excludes the following components of net periodic benefit costs: interest cost, expected return on plan assets, amortization of prior service cost (credit) and actuarial loss (gain), and settlement and curtailment effects.

Effective January 1, 2021, we adopted the Safe Harbor methodology used in determining CAS pension costs. Under the new methodology, the interest rates used to calculate pension liabilities under CAS are consistent with those used in the determination of minimum funding requirements under the Employee Retirement Income Security Act of 1974 ("ERISA").

The components of the Operating FAS/CAS Adjustment were as follows:

(\$ in millions)	Three Months Ended March 31		2021 over 2020	
	2021	2020	Dollars	Percent
FAS expense	\$ (7)	\$ (17)	\$ 10	59 %
CAS cost	13	110	(97)	(88) %
FAS/CAS Adjustment	6	93	(87)	(94) %
Non-operating retirement benefit	(46)	(30)	(16)	(53) %
Operating FAS/CAS Adjustment	<u>\$ (40)</u>	<u>\$ 63</u>	<u>\$ (103)</u>	<u>(163) %</u>

The Operating FAS/CAS Adjustment was a net expense of \$40 million and a net benefit of \$63 million for the three months ended March 31, 2021 and 2020, respectively. The unfavorable change in the Operating FAS/CAS Adjustment from 2020 to 2021 was primarily driven by the more immediate recognition of higher interest rates under CAS.

Non-current State Income Taxes

Non-current state income taxes include deferred state income taxes, which reflect the change in deferred state tax assets and liabilities, and the tax expense or benefit associated with changes in state unrecognized tax benefits in the relevant period. These amounts are recorded within operating income. Current period state income tax expense is charged to contract costs and included in cost of sales and service revenues in segment operating income.

Non-current state income tax expense was \$4 million for each of the three months ended March 31, 2021 and 2020.

Interest Expense

Interest expense for the three months ended March 31, 2021, increased \$5 million, compared with the same period in 2020, primarily due to interest on senior notes issued in 2020.

Non-Operating Retirement Benefit

The non-operating retirement benefit includes the following components of net periodic benefit costs: interest cost, expected return on plan assets, amortization of prior service cost (credit) and actuarial loss (gain), and settlement and curtailment effects. For the three months ended March 31, 2021, the favorable change in the non-operating retirement benefit of \$16 million, was primarily driven by higher 2020 returns on plan assets.

Other, Net

Other, net income increased \$14 million for the three months ended March 31, 2021, compared with the same period in 2020, primarily driven by gains on investments in marketable securities and interest income.

Federal and Foreign Income Taxes

Our effective income tax rates on earnings from operations for the three months ended March 31, 2021 and 2020, were 14.5% and 20.4%, respectively. The lower effective tax rate for the three months ended March 31, 2021, was primarily attributable to the tax loss associated with the sale of our oil and gas business resulting in a reduction in the effective tax rate of 5.5%.

For the three months ended March 31, 2021, our effective tax rate differed from the federal statutory tax rate primarily as a result of the tax loss associated with the sale of our oil and gas business. For the three months ended March 31, 2020, our effective tax rate did not differ materially from the federal statutory corporate income tax rate of 21%. See Note 11: Income Taxes.

SEGMENT OPERATING RESULTS

Basis of Presentation

We are aligned into three reportable segments: Ingalls, Newport News, and Technical Solutions.

The following table presents segment operating results:

(\$ in millions)	Three Months Ended March 31		2021 over 2020	
	2021	2020	Dollars	Percent
Sales and Service Revenues				
Ingalls	\$ 649	\$ 629	\$ 20	3 %
Newport News	1,407	1,341	66	5 %
Technical Solutions	259	317	(58)	(18) %
Intersegment eliminations	(37)	(24)	(13)	(54) %
Sales and service revenues	<u>\$ 2,278</u>	<u>\$ 2,263</u>	<u>\$ 15</u>	<u>1 %</u>
Operating Income				
Ingalls	\$ 91	\$ 68	\$ 23	34 %
Newport News	93	95	(2)	(2) %
Technical Solutions	7	(7)	14	200 %
Segment operating income	191	156	35	22 %
Non-segment factors affecting operating income (loss)				
Operating FAS/CAS Adjustment	(40)	63	(103)	(163) %
Non-current state income taxes	(4)	(4)	—	— %
Operating income	<u>\$ 147</u>	<u>\$ 215</u>	<u>\$ (68)</u>	<u>(32) %</u>

KEY SEGMENT FINANCIAL MEASURES

Sales and Service Revenues

Period-to-period revenues reflect performance under new and ongoing contracts. Changes in sales and service revenues are typically expressed in terms of volume. Unless otherwise described, volume generally refers to increases (or decreases) in reported revenues due to varying production activity levels, delivery rates, or service levels on individual contracts. Volume changes will typically carry a corresponding income change based on the margin rate for a particular contract.

Segment Operating Income (Loss)

Segment operating income reflects the aggregate performance results of contracts within a segment. Excluded from this measure are certain costs not directly associated with contract performance, such as the Operating FAS/CAS Adjustment and non-current state income taxes. Changes in segment operating income are typically expressed in

terms of volume, as discussed above, or performance. Performance refers to changes in contract margin rates. These changes typically relate to profit recognition associated with revisions to estimated costs at completion ("EAC") that reflect improved or deteriorated operating performance on that contract. Operating income changes are accounted for on a cumulative to date basis at the time an EAC change is recorded. Segment operating income may also be affected by, among other things, contract performance, the effects of workforce stoppages, the effects of natural disasters such as hurricanes, resolution of disputed items with the customer, recovery of insurance proceeds, and other discrete events. At the completion of a long-term contract, any originally estimated costs not incurred or reserves not fully utilized, such as warranty reserves, could also impact contract earnings. Where such items have occurred and the effects are material, a separate description is provided.

Cumulative Adjustments

For the three months ended March 31, 2021 and 2020, favorable and unfavorable cumulative catch-up margin adjustments were as follows:

(\$ in millions)	Three Months Ended March 31	
	2021	2020
Gross favorable adjustments	\$ 86	\$ 61
Gross unfavorable adjustments	(36)	(29)
Net adjustments	\$ 50	\$ 32

For the three months ended March 31, 2021, favorable cumulative catch-up adjustments were related to risk retirement on *Bougainville* (LHA 8) and Block IV of the *Virginia* class (SSN 774) submarine program. During the same period, none of the unfavorable cumulative catch-up margin adjustments were individually significant.

For the three months ended March 31, 2020, favorable cumulative catch-up adjustments were related to risk retirement on the *Virginia* class (SSN 774) submarine program, the RCOH of USS *George Washington* (CVN 73), the *San Antonio* class (LPD 17) program, and other individually insignificant adjustments. During the same period, none of the unfavorable cumulative catch-up adjustments were individually significant.

Ingalls

(\$ in millions)	Three Months Ended March 31		2021 over 2020	
	2021	2020	Dollars	Percent
Sales and service revenues	\$ 649	\$ 629	\$ 20	3 %
Segment operating income	91	68	23	34 %
As a percentage of segment sales	14.0 %	10.8 %		

Sales and Service Revenues

Ingalls revenues for the three months ended March 31, 2021, increased \$20 million, or 3%, from the same period in 2020, primarily driven by higher revenues in surface combatants, partially offset by lower revenues in the *Legend* class NSC program. Surface combatant revenues increased due to higher volumes on *George M. Neal* (DDG 131), *Jeremiah Denton* (DDG 129), and *Jack H. Lucas* (DDG 125), partially offset by lower volumes on USS *Fitzgerald* (DDG 62) restoration and modernization following its redelivery and *Delbert D. Black* (DDG 119) following its delivery. Revenues on the *Legend* class NSC program decreased due to lower volumes on *Stone* (NSC 9) following its delivery. Amphibious assault ship revenues were flat as a result of higher volumes on *Pittsburgh* (LPD 31), *Bougainville* (LHA 8), and LHA 9 (unnamed), partially offset by lower volumes on *Richard M. McCool Jr.* (LPD 29), *Fort Lauderdale* (LPD 28), and USS *Tripoli* (LHA 7).

Segment Operating Income

Ingalls segment operating income for the three months ended March 31, 2021, was \$91 million, compared with \$68 million for the same period in 2020. The increase was primarily driven by higher risk retirement on *Bougainville* (LHA 8).

Newport News

(\$ in millions)	Three Months Ended March 31		2021 over 2020	
	2021	2020	Dollars	Percent
Sales and service revenues	\$ 1,407	\$ 1,341	\$ 66	5 %
Segment operating income	93	95	(2)	(2) %
As a percentage of segment sales	6.6 %	7.1 %		

Sales and Service Revenues

Newport News revenues for the three months ended March 31, 2021, increased \$66 million, or 5%, from the same period in 2020, primarily driven by higher revenues in aircraft carriers, naval nuclear support services, and submarines. Aircraft carrier revenues increased primarily as a result of higher volumes on *Enterprise* (CVN 80), the RCOH of USS *John C. Stennis* (CVN 74), and *Doris Miller* (CVN 81), partially offset by lower volumes on *Kennedy* (CVN 79) and the RCOH of USS *George Washington* (CVN 73). Naval nuclear support services revenues increased primarily as a result of higher volumes in carrier and submarine fleet support services, offset by lower volume in facility maintenance services. Submarine revenues increased primarily as a result of higher volumes on the *Columbia* class submarine program and the *Virginia* class (SSN 774) submarine program. The higher volume on the *Virginia* class (SSN 774) submarine program was due to higher volumes on Block V boats, offset by lower volumes on Block IV boats.

Segment Operating Income

Newport News segment operating income for the three months ended March 31, 2021, was \$93 million, compared with segment operating income of \$95 million for the same period in 2020. The decrease was primarily due to lower risk retirement on the RCOH of USS *George Washington* (CVN 73), partially offset by higher risk retirement on Block IV of the *Virginia* class (SSN 774) submarine program.

Technical Solutions

(\$ in millions)	Three Months Ended March 31		2021 over 2020	
	2021	2020	Dollars	Percent
Sales and service revenues	\$ 259	\$ 317	\$ (58)	(18) %
Segment operating income	7	(7)	14	200 %
As a percentage of segment sales	2.7 %	(2.2) %		

Sales and Service Revenues

Technical Solutions revenues for the three months ended March 31, 2021, decreased \$58 million, or 18%, from the same period in 2020, primarily due to the divestitures of our oil and gas business and San Diego Shipyard, as well as lower volumes in DFS services, partially offset by the acquisition of Hydroid in March 2020.

Segment Operating Income (Loss)

Technical Solutions segment operating income for the three months ended March 31, 2021, was \$7 million, compared with a loss of \$7 million for the same period in 2020. The increase was primarily driven by improved performance on DFS services and nuclear and environmental services, as well as a gain on the sale of our oil and gas business.

BACKLOG

Total backlog as of March 31, 2021, and December 31, 2020, was approximately \$48.8 billion and \$46.0 billion, respectively. Total backlog includes both funded backlog (firm orders for which funding is contractually obligated by the customer) and unfunded backlog (firm orders for which funding is not currently contractually obligated by the customer). Backlog excludes unexercised contract options and unfunded IDIQ orders. For contracts having no stated contract values, backlog includes only the amounts committed by the customer.

The following table presents funded and unfunded backlog by segment as of March 31, 2021, and December 31, 2020:

(\$ in millions)	March 31, 2021			December 31, 2020		
	Funded	Unfunded	Total Backlog	Funded	Unfunded	Total Backlog
Ingalls	\$ 10,516	\$ 1,687	\$ 12,203	\$ 10,443	\$ 1,758	\$ 12,201
Newport News	13,321	22,247	35,568	9,536	23,132	32,668
Technical Solutions	754	304	1,058	502	646	1,148
Total backlog	\$ 24,591	\$ 24,238	\$ 48,829	\$ 20,481	\$ 25,536	\$ 46,017

Approximately 16% of the \$46.0 billion total backlog as of December 31, 2020, is expected to be converted into sales in 2021. U.S. Government orders comprised substantially all of the backlog as of March 31, 2021, and December 31, 2020.

Awards

The value of new contract awards during the three months ended March 31, 2021, was approximately \$5.3 billion, comprised primarily of awards for the RCOH of the USS *John C. Stennis* (CVN 74), construction of a 10th boat of the *Virginia* class (SSN 774) submarine program, and construction of *John F. Lehman* (DDG 137).

LIQUIDITY AND CAPITAL RESOURCES

We seek to efficiently convert operating results into cash for deployment in operating our businesses, implementing our business strategy, and maximizing stockholder value. We use various financial measures to assist in capital deployment decision making, including net cash provided by operating activities and free cash flow. We believe these measures are useful to investors in assessing our financial performance.

The following table summarizes key components of cash flow provided by operating activities:

(\$ in millions)	Three Months Ended March 31		2021 over 2020
	2021	2020	Dollars
Net earnings	\$ 148	\$ 172	\$ (24)
Depreciation and amortization	67	59	8
Stock-based compensation	9	7	2
Deferred income taxes	31	18	13
Gain on disposition of business	(3)	—	(3)
Loss (gain) on investments in marketable securities	(4)	16	(20)
Retiree benefit funding less than (in excess of) expense	(65)	(13)	(52)
Trade working capital decrease (increase)	(140)	(191)	51
Net cash provided by operating activities	<u>\$ 43</u>	<u>\$ 68</u>	<u>\$ (25)</u>

Cash Flows

We discuss below our major operating, investing, and financing activities for the three months ended March 31, 2021 and 2020, as classified on our unaudited condensed consolidated statements of cash flows.

Operating Activities

Cash provided by operating activities for the three months ended March 31, 2021, was \$43 million, compared with \$68 million provided by operating activities for the same period in 2020. The unfavorable change in operating cash flow was primarily due to higher contributions to retiree benefit plans, partially offset by a federal income tax refund and changes in trade working capital. The change in trade working capital was primarily driven by the timing of receipts of accounts receivable and payments of accounts payable.

For the three months ended March 31, 2021, we made discretionary contributions to our qualified defined benefit pension plans totaling \$60 million, compared with \$20 million of discretionary contributions for the same period in 2020. As of March 31, 2021, we anticipate no further significant cash contributions to our qualified defined benefit pension plans in 2021.

We expect cash generated from operations in combination with our current cash and cash equivalents, as well as existing credit facilities, to be sufficient to service debt and retiree benefit plans, meet contractual obligations, and finance capital expenditures for at least the next 12 months.

Investing Activities

Cash used in investing activities for the three months ended March 31, 2021, was \$46 million, compared with \$444 million used in investing activities for the same period in 2020. The change in investing cash was driven by the acquisition of Hydroid in 2020, disposition of our oil and gas business in 2021, and lower capital expenditures in 2021, partially offset by the acquisition of a non-controlling interest in Titan in 2021. For 2021, we expect our capital expenditures for maintenance and sustainment to be approximately 1.0% of annual revenues and our discretionary capital expenditures to be approximately 2.0 % to 3.0% of annual revenues.

Financing Activities

Cash used in financing activities for the three months ended March 31, 2021, was \$102 million, compared with \$329 million provided by financing activities for the same period in 2020. The change in financing cash was primarily due to a decrease in net proceeds from revolving credit facility borrowings of \$380 million, a decrease of net proceeds from issuances of commercial paper of \$88 million, and a \$4 million increase in cash dividend payments, partially offset by a decrease of \$35 million from common stock repurchases and a decrease of \$6 million in employee taxes on certain share-based payment arrangements.

Free Cash Flow

Free cash flow represents cash provided by (used in) operating activities less capital expenditures net of related grant proceeds. Free cash flow is not a measure recognized under GAAP. Free cash flow has limitations as an analytical tool and should not be considered in isolation from, or as a substitute for, analysis of our results as reported under GAAP. We believe free cash flow is an important liquidity measure for our investors because it provides them insight into our current and period-to-period performance and our ability to generate cash from continuing operations. We also use free cash flow as a key operating metric in assessing the performance of our business and as a key performance measure in evaluating management performance and determining incentive compensation. Free cash flow may not be comparable to similarly titled measures of other companies.

The following table reconciles net cash provided by operating activities to free cash flow:

(\$ in millions)	Three Months Ended March 31		2021 over 2020
	2021	2020	Dollars
Net cash provided by operating activities	\$ 43	\$ 68	\$ (25)
Less capital expenditures:			
Capital expenditure additions	(60)	(71)	11
Grant proceeds for capital expenditures	1	5	(4)
Free cash flow	<u>\$ (16)</u>	<u>\$ 2</u>	<u>\$ (18)</u>

Free cash flow for the three months ended March 31, 2021, decreased \$18 million from the same period in 2020, primarily due to higher contributions to retiree benefit plans, partially offset by a federal income tax refund, changes in trade working capital, and lower capital expenditures.

Governmental Regulation and Supervision

The U.S. Government has the ability, pursuant to regulations relating to contractor business systems, to decrease or withhold contract payments if it determines significant deficiencies exist in one or more such systems. As of March 31, 2021 and 2020, the cumulative amounts of payments withheld by the U.S. Government under our contracts subject to these regulations were not material to our liquidity or cash flows.

Off-Balance Sheet Arrangements

In the ordinary course of business, we use letters of credit issued by commercial banks to support certain leases, insurance policies, and contractual performance obligations, as well as surety bonds issued by insurance companies principally to support our self-insured workers' compensation plans. As of March 31, 2021, \$15 million in letters of credit were issued but undrawn and \$272 million of surety bonds were outstanding. As of March 31, 2021, we had no other significant off-balance sheet arrangements.

ACCOUNTING STANDARDS UPDATES

See Note 3: Accounting Standards Updates in Part I, Item 1 for information related to accounting standards updates.

FORWARD-LOOKING STATEMENTS AND PROJECTIONS

Statements in this Quarterly Report on Form 10-Q and in our other filings with the Securities and Exchange Commission ("SEC"), as well as other statements we may make from time to time, other than statements of historical fact, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed in these statements. Factors that may cause such differences include:

- Changes in government and customer priorities and requirements (including government budgetary constraints, shifts in defense spending, and changes in customer short-range and long-range plans);

- Our ability to estimate our future contract costs and perform our contracts effectively;
- Changes in procurement processes and government regulations and our ability to comply with such requirements;
- Our ability to deliver our products and services at an affordable life cycle cost and compete within our markets;
- Natural and environmental disasters and political instability;
- Our ability to execute our strategic plan, including with respect to share repurchases, dividends, capital expenditures, and strategic acquisitions;
- Adverse economic conditions in the United States and globally;
- Health epidemics, pandemics and similar outbreaks, including the COVID-19 pandemic;
- Changes in key estimates and assumptions regarding our pension and retiree health care costs;
- Security threats, including cyber security threats, and related disruptions; and
- Other risk factors discussed herein and in our other filings with the SEC.

There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material adverse effect on our business, and we undertake no obligation to update or revise any forward-looking statements. You should not place undue reliance on any forward looking statements that we may make.

GLOSSARY OF PROGRAMS

Included below are brief descriptions of some of the programs discussed in this Quarterly Report on Form 10-Q.

Program Name	Program Description
<i>America</i> class (LHA 6) amphibious assault ships	Design and build large deck amphibious assault ships that provide forward presence and power projection as an integral part of joint, interagency and multinational maritime expeditionary forces. The <i>America</i> class (LHA 6) ships, together with the <i>Wasp</i> class (LHD 1) ships, are the successors to the decommissioned <i>Tarawa</i> class (LHA 1) ships. The <i>America</i> class (LHA 6) ships optimize aviation operations and support capabilities. We delivered USS <i>Tripoli</i> (LHA 7) in February 2020, and we are currently constructing <i>Bougainville</i> (LHA 8).
<i>Arleigh Burke</i> class (DDG 51) destroyers	Build guided missile destroyers designed for conducting anti-air, anti-submarine, anti-surface, and strike operations. The Aegis-equipped <i>Arleigh Burke</i> class (DDG 51) destroyers are the U.S. Navy's primary surface combatant, and have been constructed in variants, allowing technological advances during construction. In 2019 we delivered USS <i>Paul Ignatius</i> (DDG 117), and in 2020 we delivered USS <i>Delbert D. Black</i> (DDG 119). We have contracts to construct the following <i>Arleigh Burke</i> class (DDG 51) destroyers: <i>Frank E. Petersen Jr.</i> (DDG 121), <i>Lenah H. Sutcliffe Higbee</i> (DDG 123), <i>Jack H. Lucas</i> (DDG 125), <i>Ted Stevens</i> (DDG 128), <i>Jeremiah Denton</i> (DDG 129), <i>George M. Neal</i> (DDG 131), <i>Sam Nunn</i> (DDG 133), <i>Thad Cochran</i> (DDG 135), and <i>John F. Lehman</i> (DDG 137).
Carrier RCOH	Perform refueling and complex overhaul ("RCOH") of nuclear-powered aircraft carriers, which is required at the mid-point of their 50-year life cycle. USS <i>Abraham Lincoln</i> (CVN 72) was redelivered to the U.S. Navy in the second quarter of 2017 and USS <i>George Washington</i> (CVN 73) arrived at Newport News for the start of its RCOH in August 2017.
<i>Columbia</i> class (SSBN 826) submarines	Newport News is participating in designing the <i>Columbia</i> class submarine as a replacement for the current aging <i>Ohio</i> class nuclear ballistic missile submarines, which were first introduced into service in 1981. The <i>Ohio</i> class SSBN includes 14 nuclear ballistic missile submarines and four nuclear cruise missile submarines. The <i>Columbia</i> class program plan of record is to construct 12 new ballistic missile submarines. The U.S. Navy has initiated the design process for the new class of submarines, and, in early 2017, the DOD signed the acquisition decision memorandum approving the <i>Columbia</i> class program's Milestone B, which formally authorizes the program's entry into the engineering and manufacturing development phase. We perform design work as a subcontractor to Electric Boat, and we have entered into a teaming agreement with Electric Boat to build modules for the entire <i>Columbia</i> class (SSBN 826) submarine program that leverages our <i>Virginia</i> class (SSN 774) experience. We have been awarded contracts from Electric Boat to begin integrated product and process development and provide long-lead-time material and advance construction for the <i>Columbia</i> class (SSBN 826) program. Construction of the first <i>Columbia</i> class (SSBN 826) submarine began in 2020.
Defense and federal solutions	DFS is focused on solving tough national security challenges for the DoD, the intelligence community, and federal civilian agencies around the globe. The group's expertise includes maritime fleet sustainment; intelligence, surveillance, and reconnaissance; cyber operations; secure enterprise information technology engineering and operations; advanced modeling, simulation, and training; and logistics management.

USS *Gerald R. Ford* class (CVN 78) aircraft carriers

Design and construction for the *Ford* class program, which is the aircraft carrier replacement program for the decommissioned *Enterprise* (CVN 65) and *Nimitz* class (CVN 68) aircraft carriers. USS *Gerald R. Ford* (CVN 78), the first ship of the *Ford* class, was delivered to the U.S. Navy in the second quarter of 2017. In June 2015, we were awarded a contract for the detail design and construction of *John F. Kennedy* (CVN 79), following several years of engineering, advance construction, and purchase of long-lead time components and material. In addition, we have received awards for detail design and construction of *Enterprise* (CVN 80) and *Doris Miller* (CVN 81). This category also includes the class' non-recurring engineering. The class is expected to bring improved warfighting capability, quality of life improvements for sailors, and reduced life cycle costs.

Legend class National Security Cutter

Design and build the U.S. Coast Guard's National Security Cutters ("NSCs"), the largest and most technically advanced class of cutter in the U.S. Coast Guard. The NSC is equipped to carry out maritime homeland security, maritime safety, protection of natural resources, maritime mobility, and national defense missions. The plan is for a total of 11 ships, of which the first nine ships have been delivered. *Calhoun* (NSC 10) and *Friedman* (NSC 11) are currently under construction.

Naval nuclear support services

Provide services to and in support of the U.S. Navy, ranging from services supporting the Navy's carrier and submarine fleets to maintenance services at U.S. Navy training facilities. Naval nuclear support services include design, construction, maintenance, and disposal activities for in service U.S. Navy nuclear ships worldwide through mobile and in-house capabilities. Services include maintenance services on nuclear reactor prototypes.

Nuclear and environmental services

Provide services in nuclear management and operations, including site management, nuclear and industrial facilities operations and maintenance, decontamination and decommissioning, radiological and hazardous waste management services, and technical engineering services. We participate in several joint ventures, including Newport News Nuclear BWXT Los Alamos, LLC ("N3B"), Mission Support and Test Services, LLC ("MSTS"), and Savannah River Nuclear Solutions, LLC ("SRNS"), and we are an integrated subcontractor to Triad National Security. N3B was awarded the Los Alamos Legacy Cleanup Contract at the DoE/National Nuclear Security Administration's Los Alamos National Laboratory. MSTS was awarded a contract for site management and operations at the Nevada National Security Site. SRNS provides site management and operations at the DoE's Savannah River Site near Aiken, South Carolina. Triad provides site management and operations at the DoE's Los Alamos National Laboratory.

San Antonio class (LPD 17) amphibious transport dock ships

Design and build amphibious transport dock ships, which are warships that embark, transport, and land elements of a landing force for a variety of expeditionary warfare missions, and also serve as the secondary aviation platform for Amphibious Readiness Groups. The *San Antonio* class (LPD 17) is the newest addition to the U.S. Navy's 21st century amphibious assault force, and these ships are a key element of the U.S. Navy's seabase transformation. We are currently constructing *Fort Lauderdale* (LPD 28), *Richard M. McCool Jr.* (LPD 29), and *Harrisburg* (LPD 30). In 2020 we were awarded a contract to construct *Pittsburgh* (LPD 31).

Unmanned systems

Our unmanned systems products and services create advanced unmanned maritime solutions for defense, marine research, and commercial applications. Serving customers in more than 30 countries, unmanned systems provides design, autonomy, manufacturing, testing, operations, and sustainment of unmanned systems, including unmanned underwater vehicles and unmanned surface vessels.

Virginia class (SSN 774) fast attack submarines

Construct attack submarines as the principal subcontractor to Electric Boat. The *Virginia* class (SSN 774) is a post-Cold War design tailored to excel in a wide range of warfighting missions, including anti-submarine and surface ship warfare; special operation forces; strike; intelligence, surveillance, and reconnaissance; carrier and expeditionary strike group support; and mine warfare.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk, primarily related to interest rates and foreign currency exchange rates.

Interest Rates - Our financial instruments subject to interest rate risk include commercial paper and floating rate borrowings under our credit facility. As of March 31, 2021, our \$1,250 million revolving credit facility was undrawn.

Foreign Currency - We currently have, and in the future may enter into, foreign currency forward contracts to manage foreign currency exchange rate risk related to payments to suppliers denominated in foreign currencies. As of March 31, 2021, the fair values of our outstanding foreign currency forward contracts were not significant.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of March 31, 2021. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2021, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in reports the Company files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) accumulated and communicated to management to allow their timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2021, no change occurred in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We have provided information about legal proceedings in which we are involved in the unaudited condensed consolidated financial statements in Part I, Item 1, which is incorporated herein by reference. In addition to the matters disclosed in Part I, Item 1, we are a party to various investigations, lawsuits, claims, and other legal proceedings that arise in the ordinary course of our business. Based on information available to us, we do not believe at this time that any of such other matters will individually, or in the aggregate, have a material adverse effect on our financial condition, results of operations, or cash flows. For further information on the risks we face from existing and future investigations, lawsuits, claims, and other legal proceedings, please see "Risk Factors" in Item 1A below.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10–Q, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors in the 2020 Form 10–K, which could materially affect our business, financial condition, or future results. There have been no material changes from the risk factors previously disclosed in the 2020 Form 10-K.

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

Repurchases under our stock repurchase program are made from time to time at management's discretion in accordance with applicable federal securities laws. All repurchases of HII common stock have been recorded as treasury stock. The following table summarizes information relating to purchases made by or on behalf of the Company of shares of the Company's common stock during the quarter ended March 31, 2021.

Period	Total Number of Shares Purchased ¹	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (in millions) ^{2, 3}
January 1, 2021 to January 31, 2021	135,560	\$ 167.34	135,560	\$ 1,119.6
February 1, 2021 to February 28, 2021	107,545	165.76	107,545	1,101.8
March 1, 2021 to March 31, 2021	102,696	186.14	48,476	1,092.3
Total	345,801	\$ 172.46	291,581	\$ 1,092.3

¹We purchased an aggregate of 291,581 shares of our common stock in the open market pursuant to our repurchase program and 54,220 shares were transferred to us from employees in satisfaction of minimum tax withholding obligations associated with the vesting of restricted performance stock rights during the period.

²From the stock repurchase program's inception through March 31, 2021, we purchased 13,142,441 shares at an average price of \$160.37 per share for a total of \$2.1 billion.

³In October 2012, the Company commenced its stock repurchase program. In November 2019, the Company announced an increase in the stock repurchase program to \$3.2 billion and an extension of the term to October 31, 2024.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

- 3.1 [Restated Certificate of Incorporation of Huntington Ingalls Industries, Inc., filed March 30, 2011 \(incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on April 4, 2011\).](#)
- 3.2 [Certificate of Amendment to the Restated Certificate of Incorporation of Huntington Ingalls Industries, Inc., dated May 28, 2014 \(incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2014\).](#)
- 3.3 [Certificate of Amendment to the Restated Certificate of Incorporation of Huntington Ingalls Industries, Inc., dated May 21, 2015 \(incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2015\).](#)
- 3.4 [Restated Bylaws of Huntington Ingalls Industries, Inc. \(incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 30, 2021\).](#)
- 31.1 [Certification of the Chief Executive Officer Pursuant to Exchange Act Rule 13a-14\(a\)/15d-14\(a\), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of the Chief Financial Officer Pursuant to Exchange Act Rule 13a-14\(a\)/15d-14\(a\), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certificate of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certificate of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101 The following financial information for the Company, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations and Comprehensive Income, (ii) the Condensed Consolidated Statements of Financial Position, (iii) the Condensed Consolidated Statements of Cash Flows, (iv) the Condensed Consolidated Statements of Changes in Equity, and (v) the Notes to Condensed Consolidated Financial Statements.
- 104 The cover page from the Company's Quarterly Report on Form 10-Q, formatted in Inline XBRL and contained in Exhibit 101.

SIGNATURES

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.

Date: May 6, 2021

Huntington Ingalls Industries, Inc.
(Registrant)

By: /s/ Nicolas Schuck
Nicolas Schuck
Corporate Vice President, Controller and Chief Accounting Officer
(Duly Authorized Officer and Principal Accounting Officer)

**CERTIFICATION PURSUANT TO
EXCHANGE ACT RULE 13A-14(A)/15D-14(A)
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, C. Michael Petters, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Huntington Ingalls Industries, 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.

Date: May 6, 2021

/s/ C. Michael Petters

C. Michael Petters

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
EXCHANGE ACT RULE 13A-14(A)/15D-14(A)
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas E. Stiehle, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Huntington Ingalls Industries, 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.

Date: May 6, 2021

/s/ Thomas E. Stiehle

Thomas E. Stiehle
Executive Vice President and Chief Financial Officer

**CERTIFICATION 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 of Huntington Ingalls Industries, Inc. (the "company") on Form 10-Q for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, C. Michael Petters, the President and Chief Executive Officer of the company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: May 6, 2021

/s/ C. Michael Petters

C. Michael Petters

President and Chief Executive Officer

**CERTIFICATION 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 of Huntington Ingalls Industries, Inc. (the "company") on Form 10-Q for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas E. Stiehle, Executive Vice President and Chief Financial Officer of the company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: May 6, 2021

/s/ Thomas E. Stiehle

Thomas E. Stiehle
Executive Vice President and Chief Financial Officer