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 September 30, 2023

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	**90-0607005**
(State or other jurisdiction of incorporation or organization)	(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	☒	Accelerated Filer	☐
Non-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 October 27, 2023, 39,723,456 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)

	Three Months Ended September 30		Nine Months Ended September 30	
(in millions, except per share amounts)	2023	2022	2023	2022
Sales and service revenues				
Product sales	$ 1,835	$ 1,774	$ 5,543	$ 5,327
Service revenues	981	852	2,734	2,537
Sales and service revenues	2,816	2,626	8,277	7,864
Cost of sales and service revenues				
Cost of product sales	1,541	1,517	4,711	4,511
Cost of service revenues	859	747	2,411	2,252
Income from operating investments, net	9	13	25	47
General and administrative expenses	253	244	711	688
Operating income	172	131	469	460
Other income (expense)				
Interest expense	(22)	(27)	(70)	(79)
Non-operating retirement benefit	37	71	111	209
Other, net	2	(13)	11	(30)
Earnings before income taxes	189	162	521	560
Federal and foreign income tax expense	41	24	114	104
Net earnings	$ 148	$ 138	$ 407	$ 456
Basic earnings per share	$ 3.70	$ 3.44	$ 10.18	$ 11.37
Weighted-average common shares outstanding	40.0	40.1	40.0	40.1
Diluted earnings per share	$ 3.70	$ 3.44	$ 10.18	$ 11.37
Weighted-average diluted shares outstanding	40.0	40.1	40.0	40.1
Dividends declared per share	$ 1.24	$ 1.18	$ 3.72	$ 3.54
Net earnings from above	$ 148	$ 138	$ 407	$ 456
Other comprehensive income (loss)				
Change in unamortized benefit plan costs	4	12	13	(61)
Other	—	(1)	—	(2)
Tax benefit (expense) for items of other comprehensive income	(2)	(3)	(4)	16
Other comprehensive income (loss), net of tax	2	8	9	(47)
Comprehensive income	$ 150	$ 146	$ 416	$ 409

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)	September 30, 2023	December 31, 2022
Assets		
Current Assets		
Cash and cash equivalents	**$ 109**	$ 467
Accounts receivable, net of allowance for doubtful accounts of $2 million as of 2023 and 2022	**698**	636
Contract assets	**1,300**	1,240
Inventoried costs	**194**	183
Income taxes receivable	**180**	170
Prepaid expenses and other current assets	**106**	50
Total current assets	**2,587**	2,746
Property, plant, and equipment, net of accumulated depreciation of $2,448 million as of 2023 and $2,319 million as of 2022	**3,201**	3,198
Operating lease assets	**248**	282
Goodwill	**2,618**	2,618
Other intangible assets, net of accumulated amortization of $977 million as of 2023 and $881 million as of 2022	**923**	1,019
Pension plan assets	**670**	600
Miscellaneous other assets	**374**	394
Total assets	**$ 10,621**	$ 10,857
Liabilities and Stockholders' Equity		
Current Liabilities		
Trade accounts payable	**$ 535**	$ 642
Accrued employees’ compensation	**361**	345
Current portion of long-term debt	**255**	399
Current portion of postretirement plan liabilities	**134**	134
Current portion of workers’ compensation liabilities	**223**	229
Contract liabilities	**878**	766
Other current liabilities	**431**	380
Total current liabilities	**2,817**	2,895
Long-term debt	**2,213**	2,506
Pension plan liabilities	**219**	214
Other postretirement plan liabilities	**257**	260
Workers’ compensation liabilities	**452**	463
Long-term operating lease liabilities	**212**	246
Deferred tax liabilities	**341**	418
Other long-term liabilities	**377**	366
Total liabilities	**6,888**	7,368
Commitments and Contingencies (Note 10)		
Stockholders’ Equity		
Common stock, $0.01 par value; 150,000,000 shares authorized; 53,595,352 shares issued and 39,779,936 shares outstanding as of September 30, 2023, and 53,503,317 shares issued and 39,863,456 shares outstanding as of December 31, 2022	**1**	1
Additional paid-in capital	**2,038**	2,022
Retained earnings	**4,532**	4,276
Treasury stock	**(2,248)**	(2,211)
Accumulated other comprehensive loss	**(590)**	(599)
Total stockholders’ equity	**3,733**	3,489
Total liabilities and stockholders’ equity	**$ 10,621**	$ 10,857

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)	Nine Months Ended September 30 2023	2022
Operating Activities		
Net earnings	**$ 407**	$ 456
Adjustments to reconcile to net cash used in operating activities		
Depreciation	**163**	158
Amortization of purchased intangibles	**96**	105
Amortization of debt issuance costs	**6**	6
Provision for doubtful accounts	**—**	(7)
Stock-based compensation	**27**	28
Deferred income taxes	**(81)**	(14)
Loss (gain) on investments in marketable securities	**(10)**	34
Change in		
Accounts receivable	**(62)**	(281)
Contract assets	**(60)**	(254)
Inventoried costs	**(12)**	(13)
Prepaid expenses and other assets	**(66)**	(4)
Accounts payable and accruals	**45**	48
Retiree benefits	**(55)**	(99)
Other non-cash transactions, net	**10**	2
Net cash provided by operating activities	**408**	165
Investing Activities		
Capital expenditures		
Capital expenditure additions	**(164)**	(179)
Grant proceeds for capital expenditures	**14**	—
Investment in affiliates	**(24)**	(5)
Proceeds from equity method investments	**61**	6
Other investing activities, net	**2**	—
Net cash used in investing activities	**(111)**	(178)
Financing Activities		
Repayment of long-term debt	**(455)**	(300)
Dividends paid	**(149)**	(142)
Repurchases of common stock	**(37)**	(41)
Employee taxes on certain share-based payment arrangements	**(13)**	(14)
Other financing activities, net	**(1)**	—
Net cash used in financing activities	**(655)**	(497)
Change in cash and cash equivalents	**(358)**	(510)
Cash and cash equivalents, beginning of period	**467**	627
Cash and cash equivalents, end of period	**$ 109**	$ 117
Supplemental Cash Flow Disclosure		
Cash paid for income taxes (net of refunds)	**$ 227**	$ 107
Cash paid for interest	**$ 63**	$ 61
Non-Cash Investing and Financing Activities		
Capital expenditures accrued in accounts payable	**$ 6**	$ 5

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 September 30, 2023 and 2022 ($ in millions)	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance as of June 30, 2022	$ 1	$ 2,002	$ 4,113	$ (2,186)	$ (978)	$ 2,952
Net earnings	—	—	138	—	—	138
Dividends declared ($1.18 per share)	—	—	(48)	—	—	(48)
Stock-based compensation	—	12	—	—	—	12
Other comprehensive income, net of tax	—	—	—	—	8	8
Treasury stock activity	—	—	—	(14)	—	(14)
Balance as of September 30, 2022	$ 1	$ 2,014	$ 4,203	$ (2,200)	$ (970)	$ 3,048
Balance as of June 30, 2023	$ 1	$ 2,030	$ 4,434	$ (2,227)	$ (592)	$ 3,646
Net earnings	**—**	**—**	**148**	**—**	**—**	**148**
Dividends declared ($1.24 per share)	**—**	**—**	**(50)**	**—**	**—**	**(50)**
Stock-based compensation	**—**	**8**	**—**	**—**	**—**	**8**
Other comprehensive income, net of tax	**—**	**—**	**—**	**—**	**2**	**2**
Treasury stock activity	**—**	**—**	**—**	**(21)**	**—**	**(21)**
Balance as of September 30, 2023	**$ 1**	**$ 2,038**	**$ 4,532**	**$ (2,248)**	**$ (590)**	**$ 3,733**

Nine Months Ended September 30, 2023 and 2022 ($ 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, 2021	$ 1	$ 1,998	$ 3,891	$ (2,159)	$ (923)	$ 2,808
Net earnings	—	—	456	—	—	456
Dividends declared ($3.54 per share)	—	—	(142)	—	—	(142)
Stock-based compensation	—	16	(2)	—	—	14
Other comprehensive loss, net of tax	—	—	—	—	(47)	(47)
Treasury stock activity	—	—	—	(41)	—	(41)
Balance as of September 30, 2022	$ 1	$ 2,014	$ 4,203	$ (2,200)	$ (970)	$ 3,048
Balance as of December 31, 2022	$ 1	$ 2,022	$ 4,276	$ (2,211)	$ (599)	$ 3,489
Net earnings	**—**	**—**	**407**	**—**	**—**	**407**
Dividends declared ($3.72 per share)	**—**	**—**	**(149)**	**—**	**—**	**(149)**
Stock-based compensation	**—**	**16**	**(2)**	**—**	**—**	**14**
Other comprehensive income, net of tax	**—**	**—**	**—**	**—**	**9**	**9**
Treasury stock activity	**—**	**—**	**—**	**(37)**	**—**	**(37)**
Balance as of September 30, 2023	**$ 1**	**$ 2,038**	**$ 4,532**	**$ (2,248)**	**$ (590)**	**$ 3,733**

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 a global, all-domain defense partner, building and delivering the world's most powerful, survivable naval ships and technologies that safeguard America's seas, sky, land, space, and cyber. HII is organized into three reportable segments: Ingalls Shipbuilding ("Ingalls"), Newport News Shipbuilding ("Newport News"), and Mission Technologies. 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, making HII America's largest shipbuilder. The Mission Technologies segment develops integrated solutions that enable today's connected, all-domain force.

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"). As used in the Notes to the Condensed Consolidated Financial Statements (Unaudited), the terms "HII" and "the Company" refer to HII and its subsidiaries. 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. Additionally, certain prior year amounts have been reclassified to conform to the current year presentation.

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, 2022 (the "2022 Annual Report on Form 10-K").

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.

Fair Value of Financial Instruments - Except for the Company's long-term debt, the carrying amounts of the Company's financial instruments that are 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 $211 million and $209 million as of September 30, 2023, and December 31, 2022, 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.

The estimated fair values of the Company's total long-term debt (including current portion), excluding finance lease liabilities, as of September 30, 2023, and December 31, 2022, were $2,264 million and $2,703 million, respectively. The estimated fair values of the current portion of the Company's long-term debt were $253 million and $390 million as of September 30, 2023 and December 31, 2022, 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.

Debt - In April 2023, the Company amended its existing $1.5 billion credit facility (the "Revolving Credit Facility") and term loan due August 19, 2024 (the "Term Loan") to change the benchmark interest rate from the London Interbank Offered Rate to the Secured Overnight Financing Rate (“SOFR”). The current interest rate is based on SOFR plus an interest spread based on the Company's credit rating, plus an additional 0.10%. The Company does not expect the transition to the SOFR benchmark to materially impact its financial results. For further information on the Company's debt, see the Company's 2022 Annual Report on Form 10-K.

Goodwill Impairment and Annual Assessment Date Change - During the second quarter of 2023, the Company elected to change the measurement date of its annual goodwill impairment test from November 30 to October 31. The change is not material to the consolidated financial statements as it does not result in the delay, acceleration or avoidance of an impairment charge and the test is still performed in the fourth quarter. The Company continues to perform a quarterly assessment for impairment between annual tests for impairment.

Sale of Equity Method Investment - In June 2023, the Company sold its investment in an unconsolidated ship repair and specialty fabrication joint venture, Titan Acquisition Holdings, L.P. ("Titan"). The Company received $61 million in proceeds and recognized an immaterial loss on sale.

3. ACCOUNTING STANDARDS UPDATES

Accounting pronouncements issued but not effective until after December 31, 2023, are not expected to have a material impact on the Company's consolidated financial position, results of operations, and cash flows.

4. 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 nine months ended September 30, 2023, the Company repurchased 175,555 shares at an aggregate cost of $37 million. For the nine months ended September 30, 2022, the Company repurchased 196,850 shares at an aggregate cost of $41 million. The cost of purchased shares is recorded as treasury stock in the unaudited condensed consolidated statements of financial position.

Dividends - The Company paid cash dividends totaling $149 million and $142 million for the nine months ended September 30, 2023 and 2022, 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 was comprised of unamortized benefit plan costs of $590 million and $599 million as of September 30, 2023 and December 31, 2022, respectively.

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The changes in accumulated other comprehensive loss by component for the three and nine months ended September 30, 2023 and 2022, were as follows:

($ in millions)	Benefit Plans	Other	Total
Balance as of June 30, 2022	$ (977)	$ (1)	$ (978)
Other comprehensive income (loss) before reclassifications	3	(1)	2
Amounts reclassified from accumulated other comprehensive loss			
Amortization of prior service cost[1]	5	—	5
Amortization of net actuarial loss[1]	8	—	8
Settlement gain[1]	(4)	—	(4)
Tax (expense) benefit for items of other comprehensive income	(4)	1	(3)
Net current period other comprehensive income	8	—	8
Balance as of September 30, 2022	$ (969)	$ (1)	$ (970)
Balance as of June 30, 2023	$ (592)	$ —	$ (592)
Amounts reclassified from accumulated other comprehensive loss			
Amortization of prior service cost[1]	**3**	**—**	**3**
Amortization of net actuarial loss[1]	**1**	**—**	**1**
Tax expense for items of other comprehensive income	**(2)**	**—**	**(2)**
Net current period other comprehensive income	**2**	**—**	**2**
Balance as of September 30, 2023	**$ (590)**	**$ —**	**$ (590)**

($ in millions)	Benefit Plans	Other	Total
Balance as of December 31, 2021	$ (923)	$ —	$ (923)
Other comprehensive loss before reclassifications	(94)	(2)	(96)
Amounts reclassified from accumulated other comprehensive loss			
Amortization of prior service credit[1]	13	—	13
Amortization of net actuarial loss[1]	24	—	24
Settlement gain[1]	(4)	—	(4)
Tax benefit for items of other comprehensive loss	15	1	16
Net current period other comprehensive loss	(46)	(1)	(47)
Balance as of September 30, 2022	$ (969)	$ (1)	$ (970)
Balance as of December 31, 2022	$ (599)	$ —	(599)
Amounts reclassified from accumulated other comprehensive loss			
Amortization of prior service cost[1]	**11**	**—**	**11**
Amortization of net actuarial loss[1]	**2**	**—**	**2**
Tax expense for items of other comprehensive income	**(4)**	**—**	**(4)**
Net current period other comprehensive income	**9**	**—**	**9**
Balance as of September 30, 2023	**$ (590)**	**$ —**	**$ (590)**

[1] These accumulated comprehensive loss components are included in the computation of net periodic benefit cost. See Note 12: Employee Pension and Other Postretirement Benefits. The tax expense recorded in stockholders' equity for the amounts reclassified from accumulated other comprehensive loss for each of the three months ended September 30, 2023 and 2022, was $2 million. The tax expense recorded in stockholders' equity for the amounts reclassified from accumulated other comprehensive loss for the nine months ended September 30, 2023 and 2022, was $4 million and $8 million, respectively.

5. EARNINGS PER SHARE

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

(in millions, except per share amounts)	Three Months Ended September 30 2023	Three Months Ended September 30 2022	Nine Months Ended September 30 2023	Nine Months Ended September 30 2022
Net earnings	**$ 148**	$ 138	**$ 407**	$ 456
Weighted-average common shares outstanding	**40.0**	40.1	**40.0**	40.1
Net dilutive effect of stock awards	**—**	—	**—**	—
Dilutive weighted-average common shares outstanding	**40.0**	40.1	**40.0**	40.1
Earnings per share - basic	**$ 3.70**	$ 3.44	**$ 10.18**	$ 11.37
Earnings per share - diluted	**$ 3.70**	$ 3.44	**$ 10.18**	$ 11.37

Under the treasury stock method, the Company has excluded from the diluted share amounts presented above the effects of 0.4 million Restricted Performance Stock Rights ("RPSRs") for each of the three and nine months ended September 30, 2023, and 2022.

6. REVENUE

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. For more information on the Company's contracts, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of the Company's 2022 Annual Report on Form 10-K.

The following tables present revenues on a disaggregated basis:

($ in millions)	Three Months Ended September 30, 2023 Ingalls	Newport News	Mission Technologies	Intersegment Eliminations	Total
Revenue Type					
Product sales	$ 637	$ 1,170	$ 28	$ —	$ 1,835
Service revenues	73	281	627	—	981
Intersegment	1	2	30	(33)	—
Sales and service revenues	$ 711	$ 1,453	$ 685	$ (33)	$ 2,816
Customer Type					
Federal	$ 710	$ 1,451	$ 647	$ —	$ 2,808
Commercial	—	—	7	—	7
State and local government agencies	—	—	1	—	1
Intersegment	1	2	30	(33)	—
Sales and service revenues	$ 711	$ 1,453	$ 685	$ (33)	$ 2,816
Contract Type					
Firm fixed-price	$ —	$ 1	$ 77	$ —	$ 78
Fixed-price incentive	637	779	3	—	1,419
Cost-type	73	671	521	—	1,265
Time and materials	—	—	54	—	54
Intersegment	1	2	30	(33)	—
Sales and service revenues	$ 711	$ 1,453	$ 685	$ (33)	$ 2,816

($ in millions)	Three Months Ended September 30, 2022 Ingalls	Newport News	Mission Technologies	Intersegment Eliminations	Total
Revenue Type					
Product sales	$ 577	$ 1,185	$ 12	$ —	$ 1,774
Service revenues	41	259	552	—	852
Intersegment	5	1	31	(37)	—
Sales and service revenues	$ 623	$ 1,445	$ 595	$ (37)	$ 2,626
Customer Type					
Federal	$ 618	$ 1,444	$ 554	$ —	$ 2,616
Commercial	—	—	9	—	9
State and local government agencies	—	—	1	—	1
Intersegment	5	1	31	(37)	—
Sales and service revenues	$ 623	$ 1,445	$ 595	$ (37)	$ 2,626
Contract Type					
Firm fixed-price	$ 1	$ 1	$ 59	$ —	$ 61
Fixed-price incentive	577	723	—	—	1,300
Cost-type	40	720	437	—	1,197
Time and materials	—	—	68	—	68
Intersegment	5	1	31	(37)	—
Sales and service revenues	$ 623	$ 1,445	$ 595	$ (37)	$ 2,626

($ in millions)	Nine Months Ended September 30, 2023 Ingalls	Newport News	Mission Technologies	Intersegment Eliminations	Total
Revenue Type					
Product sales	$ 1,775	$ 3,688	$ 80	$ —	$ 5,543
Service revenues	171	777	1,786	—	2,734
Intersegment	6	3	88	(97)	—
Sales and service revenues	$ 1,952	$ 4,468	$ 1,954	$ (97)	$ 8,277
Customer Type					
Federal	$ 1,946	$ 4,465	$ 1,836	$ —	$ 8,247
Commercial	—	—	29	—	29
State and local government agencies	—	—	1	—	1
Intersegment	6	3	88	(97)	—
Sales and service revenues	$ 1,952	$ 4,468	$ 1,954	$ (97)	$ 8,277
Contract Type					
Firm fixed-price	$ 2	$ 3	$ 236	$ —	$ 241
Fixed-price incentive	1,776	2,432	4	—	4,212
Cost-type	168	2,030	1,464	—	3,662
Time and materials	—	—	162	—	162
Intersegment	6	3	88	(97)	—
Sales and service revenues	$ 1,952	$ 4,468	$ 1,954	$ (97)	$ 8,277

($ in millions)	Nine Months Ended September 30, 2022 Ingalls	Newport News	Mission Technologies	Intersegment Eliminations	Total
Revenue Type					
Product sales	$ 1,766	$ 3,496	$ 65	$ —	$ 5,327
Service revenues	136	768	1,633	—	2,537
Intersegment	10	4	87	(101)	—
Sales and service revenues	$ 1,912	$ 4,268	$ 1,785	$ (101)	$ 7,864
Customer Type					
Federal	$ 1,902	$ 4,264	$ 1,665	$ —	$ 7,831
Commercial	—	—	32	—	32
State and local government agencies	—	—	1	—	1
Intersegment	10	4	87	(101)	—
Sales and service revenues	$ 1,912	$ 4,268	$ 1,785	$ (101)	$ 7,864
Contract Type					
Firm fixed-price	$ 7	$ 12	$ 192	$ —	$ 211
Fixed-price incentive	1,762	2,180	—	—	3,942
Cost-type	133	2,072	1,299	—	3,504
Time and materials	—	—	207	—	207
Intersegment	10	4	87	(101)	—
Sales and service revenues	$ 1,912	$ 4,268	$ 1,785	$ (101)	$ 7,864

($ in millions)	Three Months Ended September 30 2023	2022	Nine Months Ended September 30 2023	2022
Major Programs				
Amphibious assault ships	$ 396	$ 325	$ 1,093	$ 1,060
Surface combatants and coast guard cutters	313	291	853	840
Other	2	7	6	12
Total Ingalls	711	623	1,952	1,912
Aircraft carriers	782	762	2,447	2,318
Submarines	515	519	1,592	1,459
Other	156	164	429	491
Total Newport News	1,453	1,445	4,468	4,268
Mission based solutions	567	493	1,609	1,472
Other	118	102	345	313
Total Mission Technologies	685	595	1,954	1,785
Intersegment eliminations	(33)	(37)	(97)	(101)
Sales and service revenues	$ 2,816	$ 2,626	$ 8,277	$ 7,864

As of September 30, 2023, the Company had $49.4 billion of remaining performance obligations. The Company expects to recognize approximately 30% of its remaining performance obligations as revenue through 2024, an additional 30% through 2026, and the balance thereafter.

Cumulative Catch-up Revenue Adjustments

For the three months ended September 30, 2023, net cumulative catch-up revenue adjustments increased operating income and increased diluted earnings per share by $21 million and $0.41, respectively. For the three months ended September 30, 2022, net cumulative catch-up revenue adjustments increased operating income and increased diluted earnings per share by $27 million and $0.53, respectively. For the nine months ended September 30, 2023, net cumulative catch-up revenue adjustments increased operating income and increased diluted earnings per share by $50 million and $0.99, respectively. For the nine months ended September 30, 2022, net cumulative catch-up revenue adjustments increased operating income and increased diluted earnings per share by $140 million and $2.75, respectively.

For the three and nine months ended September 30, 2023, no individual favorable cumulative catch-up revenue adjustment was material to the Company's unaudited condensed consolidated statements of operations and comprehensive income. For the three and nine months ended September 30, 2023, no individual unfavorable cumulative catch-up revenue adjustment was material to the Company's unaudited condensed consolidated statements of operations and comprehensive income.

Cumulative catch-up revenue adjustments for the three months ended September 30, 2022, included a favorable adjustment of $41 million on a contract at the Company's Newport News segment, which increased diluted earnings per share by $0.80. For the nine months ended September 30, 2022, no individual favorable cumulative catch-up revenue adjustment was material to the Company's unaudited condensed consolidated statements of operations and comprehensive income. For the three and nine months ended September 30, 2022, no individual unfavorable cumulative catch-up revenue adjustment was material to the Company's unaudited condensed consolidated statements of operations and comprehensive income.

Contract Balances

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 decreased $52 million from December 31, 2022, to September 30, 2023, primarily resulting from billings on certain U.S. Navy contracts. For the three and nine months ended September 30, 2023, the Company recognized revenue of $5 million and $678 million, respectively, related to its contract liabilities as of December 31, 2022. For the three and nine months ended September 30, 2022, the Company recognized revenue of $17 million and $548 million, respectively, related to its contract liabilities as of December 31, 2021.

7. SEGMENT INFORMATION

The following table presents segment results for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30		Nine Months Ended September 30	
($ in millions)	**2023**	**2022**	**2023**	**2022**
Sales and Service Revenues				
Ingalls	**$ 711**	$ 623	**$ 1,952**	$ 1,912
Newport News	**1,453**	1,445	**4,468**	4,268
Mission Technologies	**685**	595	**1,954**	1,785
Intersegment eliminations	**(33)**	(37)	**(97)**	(101)
Sales and service revenues	**$ 2,816**	$ 2,626	**$ 8,277**	$ 7,864
Operating Income				
Ingalls	**$ 73**	$ 50	**$ 193**	$ 242
Newport News	**90**	102	**269**	277
Mission Technologies	**24**	14	**50**	48
Segment operating income	**187**	166	**512**	567
Non-segment factors affecting operating income				
Operating FAS/CAS Adjustment	**(19)**	(36)	**(55)**	(108)
Non-current state income taxes	**4**	1	**12**	1
Operating income	**$ 172**	$ 131	**$ 469**	$ 460

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 U.S. GAAP Financial Accounting Standards ("FAS") and our pension and other postretirement expense under U.S. Government Cost Accounting Standards ("CAS").

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

($ in millions)	September 30, 2023	December 31, 2022
Assets		
Ingalls	**$ 1,637**	$ 1,633
Newport News	**4,515**	4,344
Mission Technologies	**3,195**	3,347
Corporate	**1,274**	1,533
Total assets	**$ 10,621**	$ 10,857

8. INCOME TAXES

The Company's earnings are primarily domestic, and its effective income tax rates on earnings from operations for the three months ended September 30, 2023 and 2022, were 21.7% and 14.8%, respectively. For the nine months ended September 30, 2023 and 2022, the Company's effective income tax rates on earnings from operations were 21.9% and 18.6%, respectively. The higher effective tax rate for the three months ended September 30, 2023, was primarily attributable to prior period research and development tax credits recorded in 2022. The higher effective tax rate for the nine months ended September 30, 2023, was primarily attributable to prior period research and development tax credits recorded in 2022 and to a tax gain associated with the sale of the Company's interest in Titan.

For the three months ended September 30, 2023, the Company's effective income tax rate differed from the federal statutory corporate income tax rate primarily as a result of expenses that are not deductible for income tax purposes. For the nine months ended September 30, 2023, the Company's effective income tax rate differed from the federal statutory corporate income tax rate primarily as a result of tax gain associated with the sale of the Company’s interest in Titan. For the three and nine months ended September 30, 2022, the Company's effective income tax rates differed from the federal statutory corporate income tax rate primarily as a result of research and development tax credits for prior periods.

The Company's unrecognized tax benefits increased by $2 million and $6 million during the three and nine months ended September 30, 2023, respectively. As of September 30, 2023, the estimated amounts of the Company's unrecognized tax benefits, excluding interest and penalties, were liabilities of $96 million. Assuming a sustainment of these tax positions, a reversal of $72 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 and nine months ended September 30, 2023, interest resulting from the unrecognized tax benefits noted above increased income tax expense by $1 million and $3 million, respectively.

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.

9. 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 Financial Accounting Standards Board 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. The Company has also provided footnote disclosure for matters for which a material loss is reasonably possible but a reserve has not been accrued because the likelihood of a material loss is not probable.

Antitrust Complaint - On October 6, 2023, a class action antitrust lawsuit was filed against the Company and other defendants in the U.S. District Court for the Eastern District of Virginia. The lawsuit names several HII companies, among other companies, as defendants. The named plaintiffs generally allege that the defendant companies have adhered to a “gentlemen’s agreement” that prohibits any defendant from actively recruiting naval engineers from other defendants. The complaint seeks class certification, treble damages, and any other relief to which the plaintiffs are entitled. Depending on the outcome of the lawsuit, the Company could be subject to penalties and damages that could have a material adverse effect on its consolidated financial position, results of operations, or cash flows. The Company has not had an opportunity to respond to the complaint or engage in any discovery related to the issues set forth in the complaint. As a result, the Company currently is unable to estimate an amount or range of reasonably possible loss or to express an opinion regarding the ultimate outcome of the matter.

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 in September 2021, and the plaintiff appealed the dismissal to the United States Court of Appeals for the 11th Circuit. In August 2023, the 11th Circuit confirmed the district court’s dismissal of the complaint.

Insurance Claims - In September 2020, the Company filed a complaint against 32 reinsurers 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. The Company also has initiated arbitration proceedings against six other reinsurers seeking similar relief. In July 2021, the Vermont court granted the reinsurers’ motion for judgment on the pleadings, which would have ended the Company’s claim. The Company appealed the decision to the Vermont Supreme Court, which reversed and remanded the lower court’s decision in September 2022, allowing the Company’s claim to proceed. No assurances can be provided regarding the ultimate resolution of this matter.

In September 2021, the Company filed a complaint in the Superior Court of Delaware, seeking a judgment against certain insurers for breach of contract and breach of the implied covenant of good faith and fair dealing under three representations and warranties insurance policies purchased in connection with the Company’s acquisition of Hydroid. The policies insure the Company against losses relating to the seller’s breach of certain representations and warranties in the Hydroid acquisition agreement. The coverage limit under the insurance policies is $70 million, and the Company believes it has incurred losses equal to at least that amount as a result of breaches of the acquisition agreement. 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. In some instances, partial or full insurance coverage is available for the Company's liabilities. The costs to resolve cases during the nine months ended September 30, 2023 and 2022, were not material individually or in the aggregate. The Company’s estimate of asbestos-related liabilities is subject to uncertainty because liabilities are influenced by many variables that are inherently difficult to predict. Although the Company believes the ultimate resolution of current cases will not have a material effect on its condensed 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 - 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. Following an arbitration proceeding between the parties, 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 condensed 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.

10. 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. The Company believes its outstanding customer settlements will be resolved without material impact to its financial position, results of operations, or cash flows.

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 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. Management estimates that as of September 30, 2023, the probable estimable future cost for environmental remediation was not material. Although management cannot predict whether new information gained as remediation progresses or the Company incurs additional remediation obligations 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 September 30, 2023, the Company had $12 million in issued but undrawn letters of credit and $360 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 December 2020, a U.S. Navy 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. The Company and the Navy agreed upon a CAS compliant resolution of the matter under which the Company will recover the cumulative billable costs not yet recovered under the 1985 settlement agreement. The resolution did not have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

The Company has been in negotiations with a Mission Technologies customer since January 2023 to address issues related to a manufacturing contract. The Company has recorded provisions for contract losses that were not material to the Company's consolidated financial position, results of operations, or cash flows. The parties have not agreed upon a resolution of the matter, and the Company could incur additional future losses on the contract. The Company therefore cannot predict or give assurances regarding the ultimate outcome of this matter.

The Company previously disclosed an issue regarding the degree of corrosion of certain steel plates used to fabricate *Friedman* (NSC 11). The Company’s expectation regarding the resolution of the matter with the customer is included in contract cost and profit estimates. Those estimates include management's best assessment of the underlying causal events, contractual entitlements, and the probability of successful resolution with the customer. The Company does not expect the final resolution of the matter to have a material impact to the Company's consolidated financial position, results of operations, or cash flows.

Collective Bargaining Agreements - Of the Company's approximately 44,000 employees, approximately 45% are covered by a total of nine collective bargaining agreements and one site stabilization agreement. The Company believes its relationship with its employees is satisfactory.

11. EMPLOYEE PENSION AND OTHER POSTRETIREMENT BENEFITS

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

The costs of the Company's defined benefit pension plans and other postretirement benefit plans for the three and nine months ended September 30, 2023 and 2022, were as follows:

	Three Months Ended September 30				Nine Months Ended September 30			
	Pension Benefits		Other Benefits		Pension Benefits		Other Benefits	
($ in millions)	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Components of net periodic benefit cost								
Service cost	**$ 28**	$ 45	**$ 1**	$ 2	**$ 84**	$ 135	**$ 4**	$ 7
Interest cost	**85**	65	**6**	3	**257**	194	**16**	10
Expected return on plan assets	**(132)**	(148)	**—**	—	**(397)**	(446)	**—**	—
Amortization of prior service cost (credit)	**4**	6	**(1)**	(1)	**13**	16	**(2)**	(3)
Amortization of net actuarial loss (gain)	**5**	8	**(4)**	—	**13**	26	**(11)**	(2)
Settlement gain	**—**	(4)	**—**	—	**—**	(4)	**—**	—
Net periodic benefit (income) cost	**$ (10)**	$ (28)	**$ 2**	$ 4	**$ (30)**	$ (79)	**$ 7**	$ 12

The Company made the following contributions to its defined benefit pension plans and other postretirement benefit plans for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended September 30	
($ in millions)	**2023**	**2022**
Pension plans		
Discretionary		
Qualified	**$ —**	$ —
Non-qualified	**9**	7
Other benefit plans	**23**	25
Total contributions	**$ 32**	$ 32

As of September 30, 2023, the Company anticipates no further significant cash contributions to its qualified defined benefit pension plans in 2023.

In 2022, the Company purchased annuity contracts to transfer $32 million of gross defined benefit pension obligations and related plan assets to an insurance company for approximately 500 retirees and beneficiaries. The annuity contracts were purchased using assets from the pension master trust, and no additional funding contribution was required. This transaction had no impact on the amount, timing, or form of the monthly retirement benefit payments to the affected retirees and beneficiaries. In connection with this transaction, the Company recognized a noncash, non-operating pension settlement gain of $4 million for the affected plan, which represents the accelerated recognition of actuarial losses that were included in accumulated other comprehensive loss within stockholders' equity.

12. STOCK COMPENSATION PLANS

During the nine months ended September 30, 2023 and 2022, the Company issued new stock awards as follows:

Restricted Performance Stock Rights - For the nine months ended September 30, 2023, the Company granted approximately 0.2 million RPSRs at a weighted average share price of $215.13. These rights are subject to cliff vesting on December 31, 2025. For the nine months ended September 30, 2022, the Company granted approximately 0.2 million RPSRs at a weighted average share price of $201.48. These rights are subject to cliff vesting on December 31, 2024. 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 the nine months ended September 30, 2023 and 2022, awards of approximately 0.1 million and 0.2 million shares of stock vested, respectively, of which less than 0.1 million for each period 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 September 30, 2023:

	Stock Awards (in thousands)	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in years)
Total stock awards	528	$ 189.85	1.1

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 of $9 million and $12 million for the three months ended September 30, 2023 and 2022, respectively. The Company recorded stock-based compensation for the value of awards granted to the Company's employees and non-employee members of the board of directors of $27 million and $28 million for the nine months ended September 30, 2023 and 2022, respectively.

The Company recorded tax benefits related to stock awards of $1 million and $3 million for the three months ended September 30, 2023 and 2022, respectively. The Company recorded tax benefits related to stock awards of $4 million and $5 million for the nine months ended September 30, 2023 and 2022, respectively. The Company recognized tax benefits associated with the issuance of stock in settlement of stock awards of $1 million and less than $1 million for the three months ended September 30, 2023 and 2022, respectively. The Company recognized tax benefits associated with the issuance of stock in settlement of stock awards of $4 million for each of the nine months ended September 30, 2023 and 2022.

Unrecognized Compensation Expense

As of September 30, 2023, the Company had $2 million of unrecognized compensation expense associated with Restricted Stock Rights granted in 2023, 2022, and 2021, which will be recognized over a weighted average period of approximately one year, and $39 million of unrecognized compensation expense associated with RPSRs granted in 2023, 2022, and 2021, which will be recognized over a weighted average period of 1.3 years.

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 a global, all-domain defense partner, building and delivering the world's most powerful, survivable naval ships and technologies that safeguard America's seas, sky, land, space, and cyber. For more than a century, our Ingalls Shipbuilding segment ("Ingalls") in Mississippi and Newport News Shipbuilding segment ("Newport News") in Virginia have built more ships in more ship classes than any other U.S. naval shipbuilder, making us America's largest shipbuilder. Our Mission Technologies segment develops integrated solutions that enable today's connected, all-domain force. Headquartered in Newport News, Virginia, HII employs approximately 44,000 people domestically and internationally.

We conduct most of our business with the U.S. Government, primarily the Department of Defense ("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 Mission Technologies segment provides a wide range of services and products, including command, control, computers, communications, cyber, intelligence, surveillance, and reconnaissance ("C5ISR") systems and operations; the application of Artificial Intelligence and machine learning to battlefield decisions; defense and offensive cyberspace strategies and electronic warfare; unmanned autonomous systems; live, virtual, and constructive training solutions; platform modernization; and critical nuclear operations.

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, 2022 (our "2022 Annual Report on Form 10-K").

Business Environment

We continue to see uncertainty in the economy, our industry, and our company, with challenges for customers and suppliers, labor shortages, supply chain challenges, and inflation, among other impacts.

U.S. Government Contracts - Congressional consideration of the fiscal year 2024 President's Budget Request began following its release in March 2023. All four defense oversight committees have acted on their respective bills. The House and Senate have each passed their respective National Defense Authorization bills for fiscal year 2024, both of which support our shipbuilding programs, including the authorization of the additional LPD 33 Flight II amphibious ship. Both bills also authorize funding for two *Virginia* class (SSN 774) submarines, one *Columbia* class (SSBN 826) ballistic missile submarine and two *Arleigh Burke* class (DDG 51) destroyers. Additionally, both bills authorize multiyear procurement authority for the Block VI *Virginia* class (SSN 774) submarine contract. The Armed Services Committees will now work to adjudicate differences between the House and Senate authorization bills.

Both House and Senate appropriations bills have been passed out of committee, and the House defense appropriations bill has been approved by the full House. The House voted out a defense appropriations measure that broadly supports the President's budget request, including funding for two *Virginia* class (SSN 774) submarines, one *Columbia* class (SSBN 826) ballistic missile submarine and two *Arleigh Burke* class (DDG 51) destroyers. The Senate Appropriations Committee included $500 million in advance procurement for LPD 33 (unnamed) and advance procurement for a third *Arleigh Burke* class (DDG 51) destroyer in fiscal year 2025, as well as full funding for two *Arleigh Burke* class (DDG 51) destroyers, two *Virginia* class (SSN 774) submarines, and one *Columbia* class (SSBN 826) submarine in fiscal year 2024.

Appropriations to fund the federal government for fiscal year 2024 have not been enacted. To provide Congress additional time to reach agreements on funding levels for federal agencies, a Continuing Resolution extending funding through November 17, 2023, at fiscal year 2023 levels was enacted on September 30, 2023. We cannot predict the outcome of the fiscal year 2024 budget process or whether additional short-term funding will be required in the event annual appropriations measures are not finalized by the November 17, 2023, the expiration date of the current Continuing Resolution.

Political and Economic Environment - The global geopolitical and economic environment continues to be impacted by uncertainty, heightened geopolitical tensions, and instability. Geopolitical relationships have changed, and are continuing to change, and the U.S. and its allies face a global security environment that includes threats from state and non-state actors, including major global powers, as well as terrorist organizations, emerging nuclear tensions, diverse regional security concerns, and political instability. These global threats persist across all domains, from undersea to space to cyber, and the global market for defense products, services, and solutions is driven by these complex and evolving security challenges. Our current operating environment exists in the broader context of political and socioeconomic priorities and reflects, among other things, the continued impact of and uncertainty surrounding geopolitical tensions, financial market volatility, inflation, and a challenging labor market.

For further information on our business environment, see the discussion under Business Environment under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of our 2022 Annual Report on Form 10-K.

Critical Accounting Policies, Estimates, and Judgments

As discussed in our 2022 Annual Report on Form 10-K, we consider our policies relating to the following matters to be critical accounting policies and estimates:

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

As of September 30, 2023, there had been no material changes to the foregoing critical accounting policies, estimates, and judgments since December 31, 2022.

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

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 resulting from changes in contract financial 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.

Key Financial Measures

The following table presents selected financial highlights:

($ in millions)	Three Months Ended September 30 2023	Three Months Ended September 30 2022	2023 vs. 2022 Dollars	2023 vs. 2022 Percent	Nine Months Ended September 30 2023	Nine Months Ended September 30 2022	2023 vs. 2022 Dollars	2023 vs. 2022 Percent
Sales and service revenues	**$ 2,816**	$ 2,626	$ 190	7 %	**$ 8,277**	$ 7,864	$ 413	5 %
Cost of product sales and service	**2,400**	2,264	136	6 %	**7,122**	6,763	359	5 %
Income from operating investments, net	**9**	13	(4)	(31)%	**25**	47	(22)	(47)%
General and administrative expenses	**253**	244	9	4 %	**711**	688	23	3 %
Operating income	**172**	131	41	31 %	**469**	460	9	2 %
Other income (expense)								
Interest expense	**(22)**	(27)	5	19 %	**(70)**	(79)	9	11 %
Non-operating retirement benefit	**37**	71	(34)	(48)%	**111**	209	(98)	(47)%
Other, net	**2**	(13)	15	115 %	**11**	(30)	41	137 %
Federal and foreign income taxes	**41**	24	17	71 %	**114**	104	10	10 %
Net earnings	**$ 148**	$ 138	$ 10	7 %	**$ 407**	$ 456	$ (49)	(11)%

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 profit margin rate for a particular contract.

Sales and service revenues for the three months ended September 30, 2023, increased $190 million, or 7%, compared to the same period in 2022, primarily due to higher volumes at Mission Technologies and Ingalls. Sales and service revenues for the nine months ended September 30, 2023, increased $413 million, or 5%, compared to the same period in 2022, primarily due to higher volumes at Newport News and Mission Technologies.

Cost of Sales and Service Revenues

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 each contract. Unusual fluctuations in operating performance driven by changes in a specific cost element across multiple contracts are described in our analysis.

Refer to "Segment Operating Results" and "Product and Service Revenues and Cost Analysis" in this section for details related to cost of sales for both product sales and service revenues.

Income 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.

Refer to "Segment Operating Results" in this section for details related to income from operating investments.

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 and nine months ended September 30, 2023, increased $9 million and $23 million, respectively, from the same periods in 2022, primarily due to higher overhead costs and state income taxes.

Operating Income

We consider operating income an important measure for evaluating our operating performance, and, consistent with industry practice, we define operating income as revenues less the related costs 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 contract 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. Refer to "Segment Operating Results" in this section for details related to segment operating income, as well as activity within each segment.

The following table reconciles operating income to segment operating income:

	Three Months Ended September 30		2023 vs. 2022		Nine Months Ended September 30		2023 vs. 2022	
($ in millions)	**2023**	**2022**	**Dollars**	**Percent**	**2023**	**2022**	**Dollars**	**Percent**
Operating income	**$ 172**	$ 131	$ 41	31 %	**$ 469**	$ 460	$ 9	2 %
Operating FAS/CAS Adjustment	**19**	36	(17)	(47)%	**55**	108	(53)	(49)%
Non-current state income taxes	**(4)**	(1)	(3)	(300)%	**(12)**	(1)	(11)	(1,100)%
Segment operating income	**$ 187**	$ 166	$ 21	13 %	**$ 512**	$ 567	$ (55)	(10)%

Operating income for the three months ended September 30, 2023, increased $41 million compared with the same period in 2022, primarily due to higher segment operating income, favorable changes in the Operating FAS/CAS Adjustment, and non-current state income taxes. Operating income for the nine months ended September 30, 2023, increased $9 million compared with the same period in 2022, primarily due to favorable changes in the Operating FAS/CAS Adjustment and non-current state income taxes, partially offset by lower segment operating income.

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 U.S. GAAP Financial Accounting Standards ("FAS") and the expenses for these items included in segment operating income in accordance with U.S. Government 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.

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

	Three Months Ended September 30		2023 vs. 2022		Nine Months Ended September 30		2023 vs. 2022	
($ in millions)	**2023**	**2022**	**Dollars**	**Percent**	**2023**	**2022**	**Dollars**	**Percent**
FAS benefit	**$ 8**	$ 24	$ (16)	(67)%	**$ 23**	$ 67	$ (44)	(66)%
CAS cost	**10**	11	(1)	(9)%	**33**	34	(1)	(3)%
FAS/CAS Adjustment	**18**	35	(17)	(49)%	**56**	101	(45)	(45)%
Non-operating retirement benefit	**(37)**	(71)	34	48 %	**(111)**	(209)	98	47 %
Operating FAS/CAS Adjustment	**$ (19)**	$ (36)	$ 17	47 %	**$ (55)**	$ (108)	$ 53	49 %

The Operating FAS/CAS Adjustment was a net expense of $19 million and $36 million for the three months ended September 30, 2023 and 2022, respectively. The Operating FAS/CAS Adjustment was a net expense of $55 million and $108 million for the nine months ended September 30, 2023 and 2022, respectively. The favorable changes in the Operating FAS/CAS Adjustment of $17 million and $53 million for the three and nine months ended September 30, 2023, respectively, were primarily driven by the more immediate recognition of higher interest rates under FAS.

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 benefit was $4 million and $1 million for the three months ended September 30, 2023 and 2022, respectively. Non-current state income tax benefit was $12 million and $1 million for the nine months ended September 30, 2023 and 2022, respectively. The favorable change in non-current state income taxes for each period was driven by a decrease in deferred state income tax expense, primarily attributable to the timing of long-term contract income for tax purposes.

SEGMENT OPERATING RESULTS

Our discussion of business segment performance focuses on sales and service revenues and operating income, consistent with our approach for managing our business. We are aligned into three reportable segments: Ingalls, Newport News, and Mission Technologies.

The following table presents segment sales and segment operating results:

($ in millions)	Three Months Ended September 30 2023	Three Months Ended September 30 2022	2023 vs. 2022 Dollars	2023 vs. 2022 Percent	Nine Months Ended September 30 2023	Nine Months Ended September 30 2022	2023 vs. 2022 Dollars	2023 vs. 2022 Percent
Sales and Service Revenues								
Ingalls	**$ 711**	$ 623	$ 88	14 %	**$ 1,952**	$ 1,912	$ 40	2 %
Newport News	**1,453**	1,445	8	1 %	**4,468**	4,268	200	5 %
Mission Technologies	**685**	595	90	15 %	**1,954**	1,785	169	9 %
Intersegment eliminations	**(33)**	(37)	4	11 %	**(97)**	(101)	4	4 %
Sales and service revenues	**$ 2,816**	$ 2,626	$ 190	7 %	**$ 8,277**	$ 7,864	$ 413	5 %
Operating Income								
Ingalls	**$ 73**	$ 50	$ 23	46 %	**$ 193**	$ 242	$ (49)	(20)%
Newport News	**90**	102	(12)	(12)%	**269**	277	(8)	(3)%
Mission Technologies	**24**	14	10	71 %	**50**	48	2	4 %
Segment operating income	**187**	166	21	13 %	**512**	567	(55)	(10)%
Non-segment factors affecting operating income								
Operating FAS/CAS Adjustment	**(19)**	(36)	17	47 %	**(55)**	(108)	53	49 %
Non-current state income taxes	**4**	1	3	300 %	**12**	1	11	1,100 %
Operating income	**$ 172**	$ 131	$ 41	31 %	**$ 469**	$ 460	$ 9	2 %

Segment Operating Income

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 profit margin rates. These changes typically relate to profit recognition associated with revisions to estimated costs at completion ("EAC") on a contract, which 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 Catch-up Revenue Adjustments

For the three and nine months ended September 30, 2023 and 2022, favorable and unfavorable cumulative catch-up revenue adjustments were as follows:

($ in millions)	Three Months Ended September 30 2023	Three Months Ended September 30 2022	Nine Months Ended September 30 2023	Nine Months Ended September 30 2022
Gross favorable adjustments	**$ 62**	$ 84	**$ 198**	$ 297
Gross unfavorable adjustments	**(41)**	(57)	**(148)**	(157)
Net adjustments	**$ 21**	$ 27	**$ 50**	$ 140

For the three and nine months ended September 30, 2023 and 2022, net cumulative catch-up revenue adjustments by segment were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
($ in millions)	2023	2022	2023	2022
Ingalls	**$ 23**	$ 7	**$ 54**	$ 104
Newport News	**(6)**	13	**(15)**	22
Mission Technologies	**4**	7	**11**	14
Net adjustments	**$ 21**	$ 27	**$ 50**	$ 140

Ingalls

	Three Months Ended September 30		2023 vs. 2022		Nine Months Ended September 30		2023 vs. 2022	
($ in millions)	2023	2022	Dollars	Percent	2023	2022	Dollars	Percent
Sales and service revenues	**$ 711**	$ 623	$ 88	14 %	**$ 1,952**	$ 1,912	$ 40	2 %
Segment operating income	**73**	50	23	46 %	**193**	242	(49)	(20)%
As a percentage of segment sales	***10.3 %***	*8.0 %*			***9.9 %***	*12.7 %*		

Sales and Service Revenues

Ingalls revenues, including intersegment sales, for the three months ended September 30, 2023, increased $88 million, or 14%, from the same period in 2022, primarily driven by higher volumes in amphibious assault ships and surface combatants.

Ingalls revenues, including intersegment sales, for the nine months ended September 30, 2023, increased $40 million, or 2%, from the same period in 2022, primarily driven by higher volumes in surface combatants and amphibious assault ships, partially offset by lower volumes in the *Legend* class National Security Cutter (“NSC”) program.

Segment Operating Income

Ingalls segment operating income for the three months ended September 30, 2023, was $73 million, compared to segment operating income of $50 million for the same period in 2022. The increase was primarily driven by higher volumes described above and favorable changes in contract estimates from facilities capital and economic price adjustment clauses.

Ingalls segment operating income for the nine months ended September 30, 2023, was $193 million, compared to segment operating income of $242 million for the same period in 2022. The decrease was primarily driven by lower risk retirement on USS *Fort Lauderdale* (LPD 28), delivered in 2022, and *Harrisburg* (LPD 30).

Newport News

	Three Months Ended September 30		2023 vs. 2022		Nine Months Ended September 30		2023 vs. 2022	
($ in millions)	2023	2022	Dollars	Percent	2023	2022	Dollars	Percent
Sales and service revenues	**$ 1,453**	$ 1,445	$ 8	1 %	**$ 4,468**	$ 4,268	$ 200	5 %
Segment operating income	**90**	102	(12)	(12)%	**269**	277	(8)	(3)%
As a percentage of segment sales	***6.2 %***	*7.1 %*			***6.0 %***	*6.5 %*		

Sales and Service Revenues

Newport News revenues, including intersegment sales, for the three months ended September 30, 2023, increased $8 million, or 1%, from the same period in 2022, primarily driven by higher volumes in aircraft carrier construction, partially offset by lower volumes in aircraft carrier refueling and complex overhaul ("RCOH").

Newport News revenues, including intersegment sales, for the nine months ended September 30, 2023, increased $200 million, or 5%, from the same period in 2022, primarily driven by higher volumes in aircraft carrier construction, the *Columbia* class (SSBN 826) submarine program, and the *Virginia* class (SSN 774) submarine program, partially offset by lower volumes in aircraft carrier RCOH and naval nuclear support services.

Segment Operating Income

Newport News segment operating income for the three months ended September 30, 2023, was $90 million, compared to segment operating income of $102 million for the same period in 2022. The decrease was primarily due to contract incentives on the *Columbia* class (SSBN 826) submarine program in 2022, partially offset by improved performance on the *Virginia* class (SSN 774) submarine program.

Newport News segment operating income for the nine months ended September 30, 2023, was $269 million, compared to segment operating income of $277 million for the same period in 2022. The decrease was primarily due to contract incentives on the *Columbia* class (SSBN 826) submarine program in 2022, partially offset by higher volumes described above.

Mission Technologies

	Three Months Ended September 30		2023 vs. 2022		Nine Months Ended September 30		2023 vs. 2022	
($ in millions)	2023	2022	Dollars	Percent	2023	2022	Dollars	Percent
Sales and service revenues	**$ 685**	$ 595	$ 90	15 %	**$ 1,954**	$ 1,785	$ 169	9 %
Segment operating income	**24**	14	10	71 %	**50**	48	2	4 %
As a percentage of segment sales	***3.5 %***	*2.4 %*			***2.6 %***	*2.7 %*		

Sales and Service Revenues

Mission Technologies revenues, including intersegment sales, for the three months ended September 30, 2023, increased $90 million, or 15%, from the same period in 2022, primarily due to higher volumes in mission based solutions.

Mission Technologies revenues, including intersegment sales, for the nine months ended September 30, 2023, increased $169 million, or 9%, from the same period in 2022, primarily due to higher volumes in mission based solutions.

Segment Operating Income

Mission Technologies segment operating income for the three months ended September 30, 2023, was $24 million, compared to segment operating income of $14 million for the same period in 2022. The increase was primarily driven by higher volumes in mission based solutions and improved performance in unmanned systems.

Mission Technologies segment operating income for the nine months ended September 30, 2023, was $50 million, compared to segment operating income of $48 million for the same period in 2022. The increase was primarily driven by higher volumes in mission based solutions, improved performance in unmanned systems, and higher equity income from nuclear and environmental joint ventures, partially offset by lower equity income from our investment in an unconsolidated ship repair and specialty fabrication joint venture, which was sold in June 2023, and lower performance in fleet sustainment.

PRODUCT AND SERVICE REVENUES AND COST ANALYSIS

The following tables present segment sales and service revenues and segment cost of sales and service revenues by both product and service:

($ in millions)	Sales and Service Revenues				Segment Cost of Product Sales and Service Revenues			
	Three Months Ended September 30		2023 vs. 2022		Three Months Ended September 30		2023 vs. 2022	
Segment Information	2023	2022	Dollars	Percent	2023	2022	Dollars	Percent
Ingalls								
Product	**$ 637**	$ 577	$ 60	10 %	**$ 514**	$ 482	$ 32	7 %
Service	**73**	41	32	78 %	**62**	34	28	82 %
Intersegment	**1**	5	(4)	(80)%	**1**	5	(4)	(80)%
Total Ingalls	**711**	623	88	14 %	**577**	521	56	11 %
Newport News								
Product	**1,170**	1,185	(15)	(1)%	**987**	992	(5)	(1)%
Service	**281**	259	22	8 %	**231**	216	15	7 %
Intersegment	**2**	1	1	100 %	**2**	1	1	100 %
Total Newport News	**1,453**	1,445	8	1 %	**1,220**	1,209	11	1 %
Mission Technologies								
Product	**28**	12	16	133 %	**24**	12	12	100 %
Service	**627**	552	75	14 %	**563**	492	71	14 %
Intersegment	**30**	31	(1)	(3)%	**30**	31	(1)	(3)%
Total Mission Technologies	**685**	595	90	15 %	**617**	535	82	15 %
Segment Totals								
Product	**$ 1,835**	$ 1,774	$ 61	3 %	**$ 1,525**	$ 1,486	$ 39	3 %
Service	**981**	852	129	15 %	**856**	742	114	15 %
Total Segment (1)	**$ 2,816**	$ 2,626	$ 190	7 %	**$ 2,381**	$ 2,228	$ 153	7 %

(1) Operating FAS/CAS Adjustment is excluded from segment cost of product sales and service revenues.

($ in millions)	Sales and Service Revenues				Segment Cost of Product Sales and Service Revenues			
	Nine Months Ended September 30		2023 vs. 2022		Nine Months Ended September 30		2023 vs. 2022	
Segment Information	**2023**	**2022**	**Dollars**	**Percent**	**2023**	**2022**	**Dollars**	**Percent**
Ingalls								
Product	**$ 1,775**	$ 1,766	$ 9	1 %	**$ 1,450**	$ 1,401	$ 49	3 %
Service	**171**	136	35	26 %	**145**	118	27	23 %
Intersegment	**6**	10	(4)	(40)%	**6**	10	(4)	(40)%
Total Ingalls	**1,952**	1,912	40	2 %	**1,601**	1,529	72	5 %
Newport News								
Product	**3,688**	3,496	192	5 %	**3,135**	2,959	176	6 %
Service	**777**	768	9	1 %	**651**	643	8	1 %
Intersegment	**3**	4	(1)	(25)%	**3**	4	(1)	(25)%
Total Newport News	**4,468**	4,268	200	5 %	**3,789**	3,606	183	5 %
Mission Technologies								
Product	**80**	65	15	23 %	**79**	59	20	34 %
Service	**1,786**	1,633	153	9 %	**1,607**	1,475	132	9 %
Intersegment	**88**	87	1	1 %	**88**	87	1	1 %
Total Mission Technologies	**1,954**	1,785	169	9 %	**1,774**	1,621	153	9 %
Segment Totals								
Product	**$ 5,543**	$ 5,327	$ 216	4 %	**$ 4,664**	$ 4,419	$ 245	6 %
Service	**2,734**	2,537	197	8 %	**2,403**	2,236	167	7 %
Total Segment [(1)]	**$ 8,277**	$ 7,864	$ 413	5 %	**$ 7,067**	$ 6,655	$ 412	6 %

(1) Operating FAS/CAS Adjustment is excluded from segment cost of product sales and service revenues.

Product Sales and Segment Cost of Product Sales

Product sales for the three months ended September 30, 2023, increased $61 million, or 3%, from the same period in 2022, primarily as a result of higher volumes at Ingalls in amphibious assault ships and at Newport News in aircraft carrier construction, partially offset by lower volumes at Newport News in aircraft carrier RCOH.

Segment cost of product sales for the three months ended September 30, 2023, increased $39 million, or 3%, compared with the same period in 2022, consistent with higher product sales described above.

Product sales for the nine months ended September 30, 2023, increased $216 million, or 4%, from the same period in 2022, primarily as a result of higher volumes at Newport News in aircraft carrier construction, the *Columbia* class (SSBN 826) submarine program, and the *Virginia* class (SSN 774) submarine program, and at Ingalls in amphibious assault ships and surface combatants, partially offset by lower volumes at Newport News in aircraft carrier RCOH, and at Ingalls in the NSC program.

Segment cost of product sales for the nine months ended September 30, 2023, increased $245 million, or 6%, compared with the same period in 2022, consistent with higher product sales described above.

Service Revenues and Segment Cost of Service Revenues

Service revenues for the three months ended September 30, 2023, increased $129 million, or 15%, from the same period in 2022, primarily as a result of higher volumes at Mission Technologies in mission based solutions services, at Ingalls in surface combatant services, and at Newport News in aircraft carrier services.

Segment cost of service revenues for the three months ended September 30, 2023, increased $114 million, or 15%, compared with the same period in 2022, consistent with higher service volumes described above.

Service revenues for the nine months ended September 30, 2023, increased $197 million, or 8%, from the same period in 2022, primarily as a result of higher volumes at Mission Technologies in mission based solutions services, at Newport News in aircraft carrier services, and at Ingalls in surface combatant services, partially offset by lower volumes at Newport News in naval nuclear support services.

Segment cost of service revenues for the nine months ended September 30, 2023, increased $167 million, or 7%, compared with the same period in 2022, consistent with higher service volumes described above.

OTHER FINANCIAL INFORMATION

Interest Expense

Interest expense for the three months ended September 30, 2023, was $22 million, compared with $27 million for the same period in 2022. Interest expense for the nine months ended September 30, 2023, was $70 million, compared with $79 million for the same period in 2022. The decreases in interest expense of $5 million and $9 million for the three and nine months ended September 30, 2023, respectively, were driven by a decrease in outstanding long-term debt from prior year periods.

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 September 30, 2023, the non-operating retirement benefit was $37 million, compared with $71 million for the same period in 2022. For the nine months ended September 30, 2023, the non-operating retirement benefit was $111 million, compared with $209 million for the same period in 2022. The unfavorable changes in the non-operating retirement benefit of $34 million and $98 million for the three and nine months ended September 30, 2023, respectively, were primarily driven by lower 2022 returns on plan assets.

Other, Net

Other, net income for the three months ended September 30, 2023, was $2 million, compared with other, net expense of $13 million for the same period in 2022. Other, net income for the nine months ended September 30, 2023, was $11 million, compared with other, net expense of $30 million for the same period in 2022. The increases in other, net of $15 million and $41 million for the three and nine months ended September 30, 2023, respectively, were primarily driven by unrealized net gains in investments.

Federal and Foreign Income Taxes

Our effective income tax rates on earnings from operations for the three months ended September 30, 2023 and 2022, were 21.7% and 14.8%, respectively. For the nine months ended September 30, 2023 and 2022, our effective income tax rates on earnings from operations were 21.9% and 18.6%, respectively. The higher effective tax rate for the three months ended September 30, 2023, was primarily attributable to prior period research and development tax credits recorded in 2022. The higher effective tax rate for the nine months ended September 30, 2023, was primarily attributable to prior period research and development tax credits recorded in 2022 and to a tax gain associated with the sale of our interest in an unconsolidated ship repair and specialty fabrication joint venture.

For the three months ended September 30, 2023, our effective income tax rate differed from the federal statutory corporate income tax rate primarily as a result of expenses that are not deductible for income tax purposes. For the nine months ended September 30, 2023, our effective income tax rate differed from the federal statutory corporate income tax rate primarily as a result of tax gain associated with the sale of our interest in an unconsolidated ship repair and specialty fabrication joint venture. For the three and nine months ended September 30, 2022, our effective income tax rate differed from the federal statutory rate primarily as a result of research and development tax credits for prior periods.

BACKLOG

Total backlog as of September 30, 2023, and December 31, 2022, was $49.4 billion and $47.1 billion, respectively. Total backlog includes both funded backlog (firm orders for which funding is contractually obligated by the customer) and unfunded backlog (firm orders for which funding is not currently contractually obligated by the customer).

Backlog excludes unexercised contract options and unfunded Indefinite Delivery/Indefinite Quantity 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 September 30, 2023, and December 31, 2022:

	September 30, 2023			December 31, 2022		
($ in millions)	Funded	Unfunded	Total Backlog	Funded	Unfunded	Total Backlog
Ingalls	**$ 13,100**	**$ 2,968**	**$ 16,068**	$ 9,231	$ 3,546	$ 12,777
Newport News	**11,931**	**16,012**	**27,943**	11,665	17,742	29,407
Mission Technologies	**1,905**	**3,499**	**5,404**	1,317	3,622	4,939
Total backlog	**$ 26,936**	**$ 22,479**	**$ 49,415**	$ 22,213	$ 24,910	$ 47,123

We expect approximately 20% of the $47.1 billion total backlog as of December 31, 2022, to be converted into sales in 2023. U.S. Government orders comprised substantially all of the backlog as of September 30, 2023, and December 31, 2022.

Contract Awards

The value of new contract awards during the nine months ended September 30, 2023, was $10.6 billion, including a funded award for the construction of two *Arleigh Burke* class (DDG 51) destroyers, an award for the Joint Network Engineering and Emerging Operations task order, an award modification for the detail design and construction of *Philadelphia* (LPD 32), an award modification for long-lead-time material and advance construction activities on the *Columbia* class (SSBN 826) submarine program, an award modification to the construction contract for *John F. Kennedy* (CVN 79), and an award modification for long-lead-time material for additional Block V boats of the *Virginia* class (SSN 774) submarine program.

LIQUIDITY AND CAPITAL RESOURCES

We seek to efficiently convert operating results into cash for deployment in operating our businesses, executing our business strategy, and maximizing stockholder value. We use various financial measures to inform our capital deployment strategy, 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:

	Nine Months Ended September 30		2023 vs. 2022
($ in millions)	2023	2022	Dollars
Net earnings	**$ 407**	$ 456	$ (49)
Depreciation and amortization	**265**	269	(4)
Provision for doubtful accounts	**—**	(7)	7
Stock-based compensation	**27**	28	(1)
Deferred income taxes	**(81)**	(14)	(67)
Loss (gain) on investments in marketable securities	**(10)**	34	(44)
Retiree benefits	**(55)**	(99)	44
Trade working capital increase	**(145)**	(502)	357
Net cash provided by operating activities	**$ 408**	$ 165	$ 243

We have historically maintained a capital structure comprised of a mix of equity and debt financing. We vary our leverage both to optimize our equity return and to pursue acquisitions. We expect to meet our current debt obligations as they come due through internally generated funds from current levels of operations and/or through refinancing in the debt markets prior to the maturity dates of our debt.

Cash Flows

We discuss below our significant operating, investing, and financing activities affecting cash flows for the nine months ended September 30, 2023 and 2022, as classified on our unaudited condensed consolidated statements of cash flows.

Operating Activities

Cash provided by operating activities for the nine months ended September 30, 2023, was $408 million, compared with $165 million provided by operating activities for the same period in 2022. The favorable change in operating cash flow was primarily due to a favorable change in trade working capital, partially offset by higher payments for income taxes. The change in trade working capital was primarily driven by the timing of receipts of accounts receivable.

We expect cash generated from operations in combination with our current cash and cash equivalents, as well as existing borrowing facilities, to be sufficient to service debt and retiree benefit plans, meet contractual obligations, and fund capital expenditures for at least the next 12 calendar months beginning October 1, 2023, and beyond such 12-month period based on our current business plans.

Investing Activities

Cash used in investing activities for the nine months ended September 30, 2023, was $111 million, compared with $178 million used in investing activities for the same period in 2022. The change in investing cash was primarily driven by the sale of an unconsolidated ship repair and specialty fabrication joint venture, partially offset by increased investment in one of our unconsolidated nuclear and environmental joint ventures. For 2023, 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% of annual revenues.

Financing Activities

Cash used in financing activities for the nine months ended September 30, 2023, was $655 million, compared with $497 million used in financing activities for the same period in 2022. The change in cash used in financing activities was primarily due to the repayment of $400 million of senior notes, offset by a $245 million decrease in prepayments of our Term Loan.

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, net earnings as a measure of our performance or net cash provided by operating activities as a measure of our liquidity. 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:

	Nine Months Ended September 30		2023 vs. 2022
($ in millions)	**2023**	**2022**	**Dollars**
Net cash provided by operating activities	**$ 408**	$ 165	$ 243
Less capital expenditures:			
Capital expenditure additions	**(164)**	(179)	15
Grant proceeds for capital expenditures	**14**	—	14
Free cash flow	**$ 258**	$ (14)	$ 272

Free cash flow for the nine months ended September 30, 2023, increased $272 million from the same period in 2022, primarily due to a favorable change in trade working capital and lower capital expenditures, partially offset by higher payments for income taxes.

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 September 30, 2023 and 2022, 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 September 30, 2023, $12 million in letters of credit were issued but undrawn and $360 million of surety bonds were outstanding. As of September 30, 2023, 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. You can generally identify forward-looking statements by words such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," and similar words or phrases or the negative of these words or phrases. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements. Although we believe the expectations reflected in the forward-looking statements are reasonable when made, we cannot guarantee future results, levels of activity, performance, or achievements. There are a number of important factors that could cause our actual results to differ materially from the results anticipated by our forward-looking statements, which include, but are not limited to:

- 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, including cost increases due to inflation, 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;
- Our ability to attract, train, and retain a qualified workforce;
- Disruptions impacting global supply, including those resulting from the ongoing conflict between Russia and Ukraine;
- 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.

Additional factors include those described in our 2022 Annual Report on Form 10-K, including under the captions "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business," in our subsequent quarterly reports on Form 10-Q, including under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in our subsequent filings with the Securities and Exchange Commission.

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
Aircraft 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 *John C. Stennis* (CVN 74) arrived at Newport News for the start of its RCOH in May 2021, and USS *George Washington* (CVN 73) was redelivered to the U.S. Navy in May 2023.
America 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 *America* class (LHA 6) ships, together with the *Wasp* class (LHD 1) ships, are the successors to the decommissioned *Tarawa* class (LHA 1) ships. The *America* class (LHA 6) ships optimize aviation operations and support capabilities. We are currently constructing *Bougainville* (LHA 8) and *Fallujah* (LHA 9).
Arleigh Burke class (DDG 51) destroyers	Build guided missile destroyers designed for conducting anti-air, anti-submarine, anti-surface, and strike operations. The Aegis-equipped *Arleigh Burke* class (DDG 51) destroyers are the U.S. Navy's primary surface combatant, and have been constructed in variants, allowing technological advances during construction. We delivered USS *Frank E. Petersen Jr.* (DDG 121), USS *Lenah H. Sutcliffe Higbee* (DDG 123), and *Jack H. Lucas* (DDG 125) in 2021, 2022, and 2023, respectively. We have contracts to construct the following *Arleigh Burke* class (DDG 51) destroyers: *Ted Stevens* (DDG 128), *Jeremiah Denton* (DDG 129), *George M. Neal* (DDG 131), *Sam Nunn* (DDG 133), *Thad Cochran* (DDG 135), *John F. Lehman* (DDG 137), *Telesforo Trinidad* (DDG 139), DDG 141 (unnamed), and DDG 142 (unnamed).
Columbia class (SSBN 826) submarines	Design and construct modules for *Columbia* class (SSBN 826) nuclear ballistic missile submarines ("SSBNs") as a subcontractor to Electric Boat. SSBNs are the most secure and survivable of our nation's nuclear deterrent triad. *Columbia* class SSBNs will carry approximately 70 percent of the nation's nuclear arsenal. The *Columbia* class (SSBN 826) program plan of record is to construct 12 new SSBNs to replace the current aging *Ohio* class. We have a teaming agreement with Electric Boat to build modules for the entire *Columbia* class (SSBN 826) submarine program that leverages our *Virginia* class (SSN 774) experience. We have been awarded contracts from Electric Boat for integrated product and process development, providing long–lead–time material and advance construction, and construction of the first two boats of the *Columbia* class (SSBN 826) submarine program. Construction of the first *Columbia* class (SSBN 826) submarine began in 2020. In 2023, we received an award modification for long-lead-time material and advance construction for the next five boats.
Fleet sustainment	Maintains and modernizes a significant majority of the U.S. Navy fleet, from small watercraft to submarines, combatants, and aircraft carriers, our systems and maintenance experts help the Navy maintain a high state of readiness. Ensures effective system operation and sustainment by actively supporting design and decision–making processes through studies, analyses, and reviews of program documents, and provides a wide range of logistics products.

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 ten ships have been delivered. *Friedman* (NSC 11) is currently under construction.
Mission based solutions	Develops integrated solutions that enable today's connected, all–domain force. Capabilities include: command, control, computers, communications, cyber, intelligence, surveillance, and reconnaissance ("C5ISR") systems and operations; the application of artificial intelligence and machine learning to battlefield decisions; defensive and offensive cyberspace strategies and electronic warfare ("CEWS"); and live, virtual, and constructive ("LVC") solutions.
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	Supports the national security mission of the Department of Energy ("DoE") through the management and operation of DOE sites, as well as the safe cleanup of legacy waste across the country. We meet our clients' toughest nuclear and environmental challenges and are positioned to serve the growing commercial nuclear power plant decommissioning market. 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. In 2022, we delivered USS *Fort Lauderdale* (LPD 28), and we were awarded a long-lead-time material contract for *Philadelphia* (LPD 32). In 2023, we received an award modification for the detail design and construction of *Philadelphia* (LPD 32). We are currently constructing *Richard M. McCool Jr.* (LPD 29), *Harrisburg* (LPD 30), and *Pittsburgh* (LPD 31).
Unmanned systems	Creates 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 certain market risks, including those relating to interest rates and inflation.

Interest Rates - Our floating rate financial instruments subject to interest rate risk include a Term Loan, a $1.5 billion Revolving Credit Facility, and a $1 billion commercial paper program. As of September 30, 2023, we had $170 million outstanding on the Term Loan and no indebtedness outstanding under our Revolving Credit Facility or our commercial paper program. Based on the amounts outstanding under our Term Loan as of September 30, 2023, an increase of 1% in interest rates would increase the interest expense on our debt by approximately $2 million on an annual basis.

Inflation - Macroeconomic factors have contributed, and we expect will continue to contribute, to cost inflation for raw materials, components, and supplies. We mitigate some cost inflation risk by negotiating long-term agreements with certain raw material suppliers and incorporating price escalation protection in customer contracts to the extent possible. We include assumptions of anticipated cost growth in the development of our contract cost of completion estimates, but our cost assumptions may not be sufficient to cover all cost escalation or may impact the availability of resources to execute the respective contracts. Persistent cost inflation over the long-term may have an adverse impact on our financial position, results of operations, or cash flows.

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 September 30, 2023. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2023, 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

There have been no changes in the Company's internal control over financial reporting that occurred in the quarterly period covered by this report that materially affected, or are reasonably likely to materially affect, its 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, carefully consider the factors discussed in Part I, Item 1A Risk Factors in the 2022 Annual Report on Form 10–K, which could materially affect our business, financial condition, or future results.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Securities

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 September 30, 2023.

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]
July 1, 2023 to July 31, 2023	4,684	$ 228.75	4,684	$ 971.8
August 1, 2023 to August 31, 2023	36,620	222.22	31,554	964.7
September 1, 2023 to September 30, 2023	63,491	211.26	63,468	951.3
Total	104,795	$ 215.87	99,706	$ 951.3

[1] We purchased an aggregate of 99,706 shares of our common stock in the open market pursuant to our repurchase program, and 5,089 shares were transferred to us from employees in satisfaction of minimum tax withholding obligations associated with the vesting of restricted stock rights during the period.

[2] From the stock repurchase program's inception through September 30, 2023, we have purchased 13,815,416 shares at an average price of $162.77 per share for a total of $2.2 billion.

[3] In October 2012, we commenced our stock repurchase program. In November 2019, we 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

(c) Adoption or Termination of Trading Arrangements

None of our directors or officers (as defined in Rule 16a-1(f)) adopted or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K) during the quarterly period covered by this report.

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	Certificate of Amendment to the Restated Certificate of Incorporation of Huntington Ingalls Industries, Inc., dated May 12, 2021 (incorporated by reference to Annex B to the Proxy Statement filed on March 19, 2021).
3.5	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 November 8, 2022).
10.1	Terms and Conditions Applicable to Non-Employee Director Stock Grants Under the 2022 Long-Term Incentive Stock Plan, as amended.
10.2	Terms and Conditions Applicable to Non-Employee Director Stock Units Granted Under the 2022 Long-Term Incentive Stock Plan.
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: November 2, 2023	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)