

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

**FORM 10-K**

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

**For the fiscal year ended December 31, 2011**

Commission file number 1-14287

**USEC Inc.**

**Delaware**  
*(State of incorporation)*

**52-2107911**  
*(I.R.S. Employer Identification No.)*

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$.10 per share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of Common Stock held by non-affiliates computed by reference to the price at which the Common Stock was last sold as reported on the New York Stock Exchange as of June 30, 2011, was \$395.4 million. As of February 29, 2012, there were 122,153,992 shares of Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 for the annual meeting of shareholders to be held on April 26, 2012, are incorporated by reference into Part III.

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This annual report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7, contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934 – that is, statements related to future events. In this context, forward-looking statements may address our expected future business and financial performance, and often contain words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “will” and other words of similar meaning. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For USEC, particular risks and uncertainties that could cause our actual future results to differ materially from those expressed in our forward-looking statements include, but are not limited to: risks related to the ongoing transition of our business, including uncertainty regarding the continued operation of the Paducah gaseous diffusion plant beyond May 2012 and uncertainty regarding continued funding for the American Centrifuge project and the impact of decisions we may make in the near term on our business and prospects; the impact of the March 2011 earthquake and tsunami in Japan on the nuclear industry and on our business, results of operations and prospects; the impact of excess supply in the market and the lack of uncommitted demand for low enriched uranium over the next 2-4 years; the potential impacts of a decision to cease enrichment operations at Paducah; the outcome of ongoing discussions with the U.S. Department of Energy (“DOE”) regarding the research, development and demonstration (“RD&D”) program, including uncertainty regarding the timing, amount and availability of funding for such RD&D program and the dependency of

government funding on Congressional appropriations and the potential for us to make a decision at any time to further reduce spending and demobilize the project based on the timing and likelihood of an agreement with DOE and any government funding; the impact of any conditions that are placed on us or on the American Centrifuge project in connection with or as a condition to the RD&D program or other funding, including a restructuring of our role and investment in the project; limitations on our ability to provide any required cost sharing under the RD&D program; the ultimate success of efforts to obtain a DOE loan guarantee for the American Centrifuge project, including the ability through the RD&D program or otherwise to address the concerns raised by DOE with respect to the financial and project execution depth of the project, and the timing and terms thereof; the impact of actions we have taken or may take to reduce spending on the American Centrifuge project, including the potential loss of key suppliers and employees, and impacts to cost and schedule; the impact of delays in the American Centrifuge project and uncertainty regarding our ability to remobilize the project; the potential for DOE to seek to exercise its remedies under the June 2002 DOE-USEC agreement; risks related to the completion of the remaining two phases of the three-phased strategic investment by Toshiba Corporation (“Toshiba”) and Babcock & Wilcox Investment Company (“B&W”), including uncertainty regarding the potential participation of Toshiba and B&W in any potential project structure that may be required under the RD&D program, and the potential for immediate termination of the securities purchase agreement governing their investments; certain restrictions that may be placed on our business as a result of the transactions with Toshiba and B&W; our ability to achieve the benefits of any strategic relationships with Toshiba and B&W; our ability to extend, renew or replace our credit facility that matures on May 31, 2013 and the impact of a failure to timely renew on our ability to continue as a going concern; restrictions in our credit facility that may impact our operating and financial flexibility and spending on the American Centrifuge project; our ability to actively manage and enhance our liquidity and working capital and the potential adverse consequences of any actions taken on the long term value of our ongoing operations; uncertainty regarding the cost of electric power used at our gaseous diffusion plant; our dependence on deliveries of LEU from Russia under a commercial agreement (the “Russian Contract”) with a Russian government entity known as Techsnabexport (“TENEX”) and on a single production facility and the potential for us to cease commercial enrichment of uranium in the event of a decision to shut down Paducah enrichment operations; limitations on our ability to import the Russian LEU we buy under the new supply agreement into the United States and other countries; our inability under many existing long-term contracts to directly pass on to customers increases in our costs; the decrease or elimination of duties charged on imports of foreign-produced low enriched uranium; pricing trends and demand in the uranium and enrichment markets and their impact on our profitability; movement and timing of customer orders; changes to, or termination of, our contracts with the U.S. government, risks related to delays in payment for our contract services work performed for DOE; changes in U.S. government priorities and the availability of government funding, including loan guarantees; our subsidiary NAC may not perform as expected; the impact of government regulation by DOE and the U.S. Nuclear Regulatory Commission; the outcome of legal proceedings and other contingencies (including lawsuits and government investigations or audits); the competitive environment for our products and services; changes in the nuclear energy industry; the impact of volatile financial market conditions on our business, liquidity, prospects, pension assets and credit and insurance facilities; risks related to the underfunding of our defined benefit pension plans and the impact of the potential requirement to accelerate the funding of these obligations on our liquidity; uncertainty regarding the continued capitalization of certain assets related to the American Centrifuge Plant and the impact of a potential impairment of these assets on our results of operations; the impact of potential changes in the ownership of our stock on our ability to realize the value of our deferred tax benefits; the timing of recognition of previously deferred revenue; and other risks and uncertainties discussed in this and our other filings with the Securities and Exchange Commission. Revenue and operating results can fluctuate significantly from quarter to quarter, and in some cases, year to year. For a discussion of these risks and uncertainties and other factors that may affect our future results, please see Item 1A entitled “Risk Factors” and the other sections of this annual report on Form 10-K. Readers are urged to carefully review and consider the various disclosures made in this report and in our other filings with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect our business. We do not undertake to update our forward-looking statements to reflect events or circumstances that may arise after the date of this annual report on Form 10-K except as required by law.

## Items 1 and 2. *Business and Properties*

### Overview

USEC, a global energy company, is a leading supplier of low enriched uranium (“LEU”) for commercial nuclear power plants. LEU is a critical component in the production of nuclear fuel for reactors to produce electricity. We:

- supply LEU to both domestic and international utilities for use in about 150 nuclear reactors worldwide;
- enrich uranium at the Paducah gaseous diffusion plant (“GDP”) that we lease from the U.S. Department of Energy (“DOE”);
- are the exclusive executive agent for the U.S. government under a nuclear nonproliferation program with Russia, known as Megatons to Megawatts;
- are working to deploy what we believe is the world’s most advanced uranium enrichment technology, known as the American Centrifuge;
- provide transportation and storage systems for spent nuclear fuel and provide nuclear and energy consulting services; and
- perform limited contract work for DOE and its contractors at the Paducah and Portsmouth sites.

Our business is in a state of significant transition. Managing this transition has been made more challenging by the events of 2011. In March 2011, an earthquake, tsunami and its aftermath caused irreparable damage to four reactors in Japan and subsequently resulted in more than 50 reactors in Japan and Germany being off-line at the start of 2012. The shutdown of these reactors has affected supply and demand for LEU over the next 2-4 years and this impact could grow more significant over time depending on the length and severity of delays or cancellations of deliveries. During 2011, we also experienced further delays in our efforts to finance a next generation uranium enrichment plant, the American Centrifuge project. As described below, we have significant decisions to make in 2012 regarding major aspects of our business. We also must continue to manage events that occur that are outside of our control, including actions that may be taken by vendors, customers, creditors, and other third parties in response to our decisions or based on their view of our financial strength and future business prospects. Events that unfold in 2012 will define our business into the future. For a discussion of the potential risks and uncertainties facing our business, see Item 1A, Risk Factors.

During 2011 we completed the transition of our Portsmouth contract services business. In September 2011 we transferred facilities at the former Portsmouth gaseous diffusion plant that we were maintaining for DOE to the DOE decontamination and decommissioning (“D&D”) contractor for the site. This was work we had been doing since the Portsmouth GDP ceased enrichment in 2001 and represented the bulk of our contract services work. Going forward, revenue from this segment will be substantially lower and will be derived primarily from our wholly owned subsidiary, NAC International (“NAC”). We believe NAC is well positioned to continue to participate in the growing spent fuel market worldwide.

We expect to make an important decision regarding the continued operation of the Paducah GDP by May 2012. A decision to shut down Paducah would result in our ceasing, for at least a period of time, commercial enrichment of uranium. Although we are working hard to identify a way to keep this plant open, we do not currently believe the factors are in place to support continued operation. In particular, based on current market conditions, we do not see any significant uncommitted demand for LEU over the next two to four years. In order to continue to operate beyond May 2012, we will need a combination of additional demand for LEU, an agreement with DOE for programs such as enriching a portion of DOE’s depleted uranium (“tails”) stockpile, and an acceptable power supply arrangement to support the plant production needed to operate the plant in an economic manner.

Based upon our assessment of current market conditions and discussions with utility customers, we do not believe there is sufficient uncommitted demand for LEU to support a Paducah extension even with an agreement with DOE for tails re-enrichment to absorb a significant portion of the plant production capacity. Therefore, at some point in the next 18 months we expect to cease commercial enrichment at the Paducah GDP but the facility may remain operational to meet other requirements. We have viewed continued Paducah operations as a bridge to our ultimate deployment of the American Centrifuge technology. A decision to shut down the Paducah GDP before we have established a definitive timeline for future deployment of the American Centrifuge Plant could significantly impact our competitive position. For a discussion of the potential implications of a decision to shut down Paducah operations and the risks of continued Paducah operations, see Item 1A, Risk Factors.

We are in a period of significant uncertainty regarding the American Centrifuge project. We cannot continue to fund the project on our own and we are working to secure funding for a two-year cost-sharing research, development and demonstration (“RD&D”) program with DOE to enable us to continue spending and determine our ability to successfully deploy the American Centrifuge project. Under the cost-sharing arrangement, DOE’s total contribution would be capped at \$300 million. In parallel, we are also making preparations for a potential demobilization of the project if DOE funding is not obtained for the RD&D program. We expect that any deployment will likely require restructuring of the project and our investment.

We are in the last two years of the 20-year contract implementing the Megatons to Megawatts program. In March 2011, we signed a commercial agreement with Russia that provides continued access to this important source of supply following the conclusion of the Megatons to Megawatts program. We have also agreed to conduct a feasibility study to explore the possible deployment of an enrichment plant in the United States employing Russian centrifuge technology.

USEC Inc. is organized under Delaware law. USEC was a U.S. government corporation until July 28, 1998, when the company completed an initial public offering of common stock. In connection with the privatization, the U.S. government transferred all of its interest in the business to USEC, with the exception of certain liabilities from prior operations of the U.S. government. However, our business continues to be highly dependent on the U.S. government. References to “USEC” or “we” include USEC Inc. and its wholly owned subsidiaries as well as the predecessor to USEC unless the context otherwise indicates. A glossary of certain terms used in our industry and herein is included in Part IV of this annual report.

## **Uranium and Enrichment**

In its natural state, uranium is principally comprised of two isotopes: uranium-235 (“U<sup>235</sup>”) and uranium-238 (“U<sup>238</sup>”). U<sup>238</sup> is the more abundant isotope, but it is not readily fissionable in light water nuclear reactors. U<sup>235</sup> is fissile, but its concentration in natural uranium is only 0.711% by weight. Most commercial nuclear power reactors require LEU fuel with a U<sup>235</sup> concentration greater than natural uranium and up to 5% by weight. Uranium enrichment is the process by which the concentration of U<sup>235</sup> is increased to that level.

The following outlines the steps for converting natural uranium into LEU fuel, commonly known as the nuclear fuel cycle:

*Mining and Milling* – Natural, or unenriched, uranium is removed from the earth in the form of ore and then crushed and concentrated.

*Conversion* – Uranium concentrates (“U<sub>3</sub>O<sub>8</sub>”) are combined with fluorine gas to produce uranium hexafluoride (“UF<sub>6</sub>”), a solid at room temperature and a gas when heated. UF<sub>6</sub> is shipped to an enrichment plant.

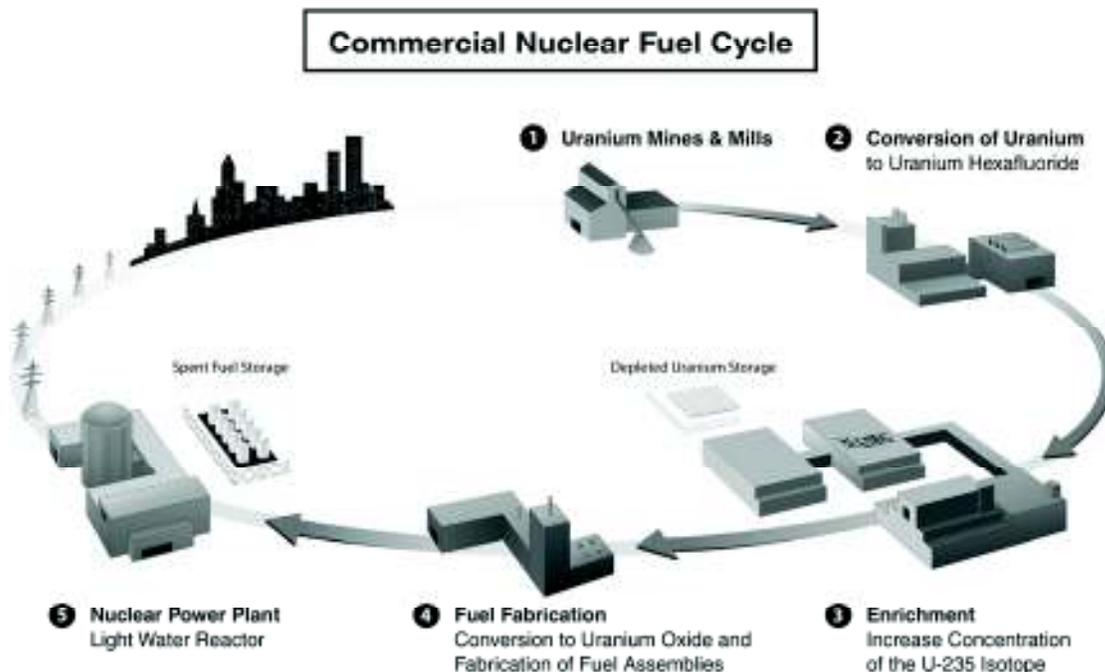
*Enrichment* –  $UF_6$  is enriched in a process that increases the concentration of the  $U^{235}$  isotope in the  $UF_6$  from its natural state of 0.711% up to 5%, which is usable as a fuel for light water commercial nuclear power reactors. Depleted uranium is a by-product of the uranium enrichment process. The standard measure of uranium enrichment is a separative work unit (“SWU”). A SWU represents the effort that is required to transform a given amount of natural uranium into two streams of uranium, one enriched in the  $U^{235}$  isotope and the other depleted in the  $U^{235}$  isotope. SWUs are measured using a standard formula derived from the physics of uranium enrichment. The amount of enrichment deemed to be contained in LEU under this formula is commonly referred to as its SWU component and the quantity of natural uranium deemed to be used in the production of LEU under this formula is referred to as its uranium component.

*Fuel Fabrication* – LEU is converted to uranium oxide and formed into small ceramic pellets by fabricators. The pellets are loaded into metal tubes that form fuel assemblies, which are shipped to nuclear power plants.

*Nuclear Power Plant* – The fuel assemblies are loaded into nuclear reactors to create energy from a controlled chain reaction. Nuclear power plants generate approximately 20% of U.S. electricity and 14% of the world’s electricity.

*Spent Fuel Storage* – After the nuclear fuel has been in a reactor for several years, its efficiency is reduced and the assembly is removed from the reactor’s core. The spent fuel is warm and radioactive and is kept in a deep pool of water for several years. Many utilities have elected to then move the spent fuel into steel or concrete and steel casks for interim storage.

*Consumers* – Businesses and homeowners rely on the steady, baseload electricity supplied by nuclear power and value its clean air qualities.



We currently produce or acquire LEU from two principal sources. We produce about half of our supply of LEU at the Paducah GDF in Paducah, Kentucky. Under the Megatons to Megawatts program, we acquire the other half of our LEU supply from Russia under a contract (“the Russian Contract”), whereby we purchase the SWU component of LEU derived from dismantled nuclear weapons from the former Soviet Union for use as fuel in commercial nuclear power plants.

## Products and Services

### *Low Enriched Uranium*

Revenue from our LEU segment is derived primarily from:

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

The majority of our customers are domestic and international utilities that operate nuclear power plants, with international sales constituting 23% of revenue from our LEU segment in 2011. Our agreements with electric utilities are primarily long-term, fixed-commitment contracts under which our customers are obligated to purchase a specified quantity of SWU from us or long-term requirements contracts under which our customers are obligated to purchase a percentage of their SWU requirements from us. Under requirements contracts, a customer only makes purchases when its reactor has requirements for additional fuel. Our agreements for uranium sales are generally shorter-term, fixed-commitment contracts.

### *Contract Services*

We perform and earn revenue from contract work through our subsidiary NAC and from contract work for DOE and DOE contractors at the Paducah GDP and the site of the former Portsmouth GDP in Piketon, Ohio. NAC provides nuclear energy services and technologies, specializing in:

- design, fabrication and implementation of spent nuclear fuel technologies including the high capacity MAGNASTOR<sup>®</sup> system,
- nuclear materials transportation, and
- nuclear fuel cycle consulting services.

Historically, the majority of revenues from our contract services segment resulted from work performed under contract with DOE to maintain and prepare the former Portsmouth GDP for decontamination and decommissioning (“D&D”). On September 30, 2011, our contracts for maintaining the Portsmouth facilities and performing services for DOE at Portsmouth expired and we completed the transition of facilities to a new DOE contractor responsible for the D&D of the Portsmouth site. Consequently, we ceased providing government contract services at Portsmouth on September 30, 2011. We will continue to provide some limited services to DOE and its contractors at our Paducah site and at the Portsmouth site related to facilities we continue to lease for the American Centrifuge Plant. Revenue from our contract services segment, however, will decrease significantly going forward compared to prior periods and will be comprised primarily of revenue generated by NAC.

## Revenue by Geographic Area, Major Customers and Segment Information

Revenue attributed to domestic and foreign customers, including customers in a foreign country representing 10% or more of total revenue (Japan in 2011 and 2009), follows (in millions):

	<u>Years Ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
United States .....	\$1,322.7	\$1,487.5	\$1,402.2
Foreign:			
Japan.....	200.0	199.7	305.0
Other.....	<u>149.1</u>	<u>348.2</u>	<u>329.6</u>
	<u>349.1</u>	<u>547.9</u>	<u>634.6</u>
Total revenue .....	<u><b>\$1,671.8</b></u>	<u><b>\$2,035.4</b></u>	<u><b>\$2,036.8</b></u>

In 2011, our 10 largest customers in the LEU segment represented 55% of total revenue and our three largest customers in the LEU segment represented 26% of total revenue. In 2011, 2010 and 2009, revenue from Exelon Corporation and in 2010, revenue from Entergy Corporation and from U.S. government contracts, each represented more than 10%, but less than 15%, of total revenue. No other customer represented more than 10% of total revenue in 2011, 2010 or 2009. Revenue by segment follows (in millions):

	<u>Years Ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
LEU segment revenue .....	\$1,462.7	\$1,757.5	\$1,827.7
Contract services segment revenue:			
DOE and DOE contractors .....	139.9	242.7	183.0
Other.....	<u>69.2</u>	<u>35.2</u>	<u>26.1</u>
	<u>209.1</u>	<u>277.9</u>	<u>209.1</u>
Total revenue.....	<u><b>\$1,671.8</b></u>	<u><b>\$2,035.4</b></u>	<u><b>\$2,036.8</b></u>

## SWU and Uranium Backlog

Backlog is the estimated aggregate dollar amount of SWU and uranium sales that we expect to recognize as revenue in future periods under contracts with customers. At December 31, 2011, we had contracts with customers aggregating an estimated \$5.8 billion, including \$1.5 billion expected to be delivered in 2012 and \$3.5 billion through 2015. Backlog was \$6.7 billion at December 31, 2010 and \$8.0 billion at December 31, 2009. Backlog is partially based on customers' estimates of their fuel requirements and other assumptions including our estimates of selling prices, which are subject to change. Depending on the terms of specific contracts, prices may be adjusted based on published SWU or uranium market price indicators prevailing at the time of delivery. Other pricing elements may include escalation based on a general inflation index, a power price index, or a multiplier of our actual unit power cost. We utilize external composite forecasts of future market prices and inflation rates in our pricing estimates. For a discussion of uncertainty related to our backlog, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – LEU Segment – Revenue from Sales of SWU and Uranium."

## **Gaseous Diffusion Process**

Two existing technologies are currently used commercially to enrich uranium for nuclear power plants: gaseous diffusion and gas centrifuge. We currently use the older gaseous diffusion technology and are working to deploy gas centrifuge technology to replace our gaseous diffusion operations. See “Business and Properties – The American Centrifuge Plant.”

The uranium enrichment process separates the lighter  $U^{235}$  isotope from the heavier  $U^{238}$  isotope. The fundamental building block of the gaseous diffusion enrichment process is known as a stage, consisting of a compressor, a converter, a control valve and associated piping. Compressors driven by large electric motors are used to circulate the process gas and maintain flow. Converters contain porous tubes known as a barrier through which process gas is diffused. Stages are grouped together in series to form an operating unit called a cell. A cell is the smallest group of stages that can be removed from service for maintenance. Gaseous diffusion plants are designed so that cells can be taken off line with little or no interruption in the process.

The process begins with the heating of solid  $UF_6$  to form a gas that is forced through the barrier. Because  $U^{235}$  is lighter than  $U^{238}$ , it moves through the barrier more easily. As the gas moves, the two isotopes are separated, increasing the  $U^{235}$  concentration and decreasing the concentration of  $U^{238}$  in the finished product. The gaseous diffusion process requires significant amounts of electric power to push uranium through the barrier.

## **Paducah GDP**

We operate the Paducah GDP located in Paducah, Kentucky. The Paducah GDP includes four process buildings and is one of the largest industrial facilities in the world. The process buildings have a total floor area of 150 acres, and the site covers 750 acres. We estimate that the maximum capacity of the existing equipment is about 8 million SWU per year. In 2011, we produced more than 5 million SWU at the Paducah GDP for both LEU production and underfeeding uranium, as described below under “Raw Materials—Uranium.” The Paducah GDP has been certified by the U.S. Nuclear Regulatory Commission (“NRC”) to produce LEU up to an assay of 5.5%  $U^{235}$ .

We lease the Paducah GDP from DOE. The lease covers the buildings and facilities relating to gaseous diffusion activities. Major provisions of the lease follow:

- except as provided in the 2002 DOE-USEC Agreement (described under “Business and Properties – 2002 DOE-USEC Agreement and Related Agreements with DOE”), we have the right to renew the lease indefinitely in six-year increments and can adjust the property under lease to meet our changing requirements. The current lease term expires in 2016. Under the terms of the lease, we can terminate the lease prior to expiration upon two year’s prior notice. We can also de-lease portions of the property under lease upon 60 days prior notice with DOE’s consent, which cannot be unreasonably withheld;
- we may leave the property in an “as is” condition at termination of the lease, but must remove wastes we generate and must place the plant in a safe shutdown condition;
- the U.S. government is responsible for environmental liabilities associated with plant operations prior to July 28, 1998;
- DOE is responsible for the costs of decontamination and decommissioning of the plant;
- title to capital improvements not removed by us will transfer to DOE at the end of the lease term, and if we elect to remove any capital improvements, we are required to pay any increases in DOE’s decontamination and decommissioning costs that are a result of our removing the capital improvements;

- DOE must indemnify us for costs and expenses related to claims asserted against us or incurred by us arising out of the U.S. government's operation, occupation, or use of the plant prior to July 28, 1998; and
- DOE must indemnify us against claims for public liability (as defined in the Atomic Energy Act of 1954, as amended) from a nuclear incident or precautionary evacuation in connection with activities under the lease. Under the Price-Anderson Act, DOE's financial obligations under the indemnity are capped at approximately \$12 billion for each nuclear incident or precautionary evacuation occurring inside the United States to which the indemnity applies.

There is also a stand-alone amendment to the GDP facility lease for our long-term use of facilities at the Portsmouth site for the American Centrifuge Plant. Further details are provided in "Business and Properties – The American Centrifuge Plant."

## **Raw Materials**

### *Electric Power*

The gaseous diffusion process uses significant amounts of electric power to enrich uranium. Costs for electric power are approximately 70% of production costs at the Paducah GDP. In 2011, the power load at the Paducah GDP averaged 1,376 megawatts. We purchase most of the electric power for the Paducah GDP from Tennessee Valley Authority ("TVA") under a power purchase agreement that expires May 31, 2012. The base price under the TVA power contract increased moderately during the term of the contract based on a fixed, annual schedule, and is subject to a fuel cost adjustment provision to reflect changes in TVA's fuel costs, purchased-power costs, and related costs. The impact of the fuel cost adjustment has imposed an average increase over base contract prices of about 12% in 2011, 10% in 2010, and 6% in 2009. The average fuel cost adjustment in 2011 was affected by TVA's temporary power generating capacity losses during April and May, which were caused by severe tornado and thunderstorm damage, necessitating the purchase of significant volumes of higher cost replacement power. Fuel cost adjustments in a given period are based in part on TVA's estimates as well as revisions of estimates for electric power delivered in prior periods. We expect the fuel cost adjustment to continue to cause our purchase cost to remain above base contract prices for the remainder of the power contract through May 2012.

The monthly quantities of power purchased by USEC under the TVA power contract are fixed. Under the terms of the agreement, beginning September 1, 2010, we began to buy 1,650 megawatts instead of the 2,000 megawatts we had been purchasing in non-summer months since 2007. This reduction was included in the contract to provide a transition for the TVA power system for the end of the power contract in 2012. In addition, as a result of flood conditions near the Paducah plant, we coordinated with TVA to ramp down power purchases in 2011 to summer operation levels earlier than planned. Some of this power that was deferred in 2011 due to the flood conditions was purchased by us as supplemental power in February 2012. In the summer months (June – August), we supplemented the 300 megawatts we buy under the TVA contract with additional power purchased at market-based prices.

As discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations," as part of our transition planning, we are evaluating possible sources of power for delivery after May 31, 2012. We have been in discussions with TVA and potential alternate sources of electricity. However, we have not been willing to commit to any power purchases until we believe the plant economics can support a decision to extend Paducah commercial enrichment operations. Without extended operations, we would require significantly less power as we gradually transition to a level where we would maintain the facility at a non-production electricity load that is 2% to 3% of our current power purchase.

We are required to provide financial assurance to support our payment obligations to TVA. These include a letter of credit and weekly prepayments based on TVA's estimate of the price and our usage of power.

### *Uranium*

Uranium is a naturally occurring element and is mined from deposits located in Canada, Australia and other countries. According to the World Nuclear Association, there are adequate measured resources of uranium to fuel nuclear power at current usage rates for at least 80 years. In 2011, the Paducah GDP used the equivalent of approximately 7 million kilograms of uranium in the production of LEU.

Mined uranium ore is crushed and concentrated and sent to a uranium conversion facility where it is converted to UF<sub>6</sub>, a form suitable for uranium enrichment. Two commercial uranium converters in North America, Cameco Corporation and ConverDyn, deliver and hold title to uranium at the Paducah GDP.

Utility customers provide uranium to us as part of their enrichment contracts or purchase the uranium required to produce LEU from us. Customers who provide uranium to us generally do so by acquiring title to uranium from Cameco, ConverDyn and other suppliers at the Paducah GDP. At December 31, 2011, we held uranium to which title was held by customers and suppliers with a value of \$2.9 billion based on published price indicators. The uranium is fungible and commingled with our uranium inventory. Title to uranium provided by customers generally remains with the customer until delivery of LEU, at which time title to LEU is transferred to the customer and we take title to the uranium.

The quantity of uranium used in the production of LEU is to a certain extent interchangeable with the amount of SWU required to enrich the uranium. Underfeeding is a mode of operation that uses or feeds less uranium. Underfeeding supplements our supply of uranium, but requires more SWU in the enrichment process, which requires more electric power. In producing the same amount of LEU, we vary our production process to underfeed uranium based on the economics of the cost of electric power relative to the prices of uranium and enrichment. Underfeeding the enrichment process provides us with our primary source for uranium that we sell.

### *Coolant*

The Paducah GDP uses Freon as the primary process coolant. The production of Freon in the United States was terminated in 1995 and Freon is no longer commercially available. We estimate that our current supply of Freon would be sufficient to support at least 10 years of continued operations at current use rates.

### *GDP Equipment*

GDP equipment components (such as compressors, coolers, motors and valves) requiring maintenance are removed from service and repaired or rebuilt on site. Common industrial components, such as the breakers, condensers and transformers in the electrical system, are procured as needed. Some components and systems are no longer produced, and spare parts may not be readily available. In these situations, replacement components or systems are identified, tested, and procured from existing commercial sources, or the plants' technical and fabrication capabilities are used to design and build replacements. Spare parts were also salvaged as part of cleanup efforts at the Portsmouth site for use in the Paducah GDP.

Equipment utilization at the Paducah GDP averaged 96% in 2011 compared to 97% in 2010. Equipment utilization is based on a measure of cells in operation. The utilization of equipment is highly dependent on power availability and costs. We reduce equipment utilization and the related power load in the summer months when the cost of electric power is high. Equipment utilization is also affected by repairs and maintenance activities. In 2011, we reduced equipment utilization to summer operation levels earlier than planned due to Ohio River flooding and its impact on our power suppliers.

### **Russian Contract (“Megatons to Megawatts”)**

We are the U.S. government’s exclusive executive agent (“Executive Agent”) in connection with a government-to-government nonproliferation agreement between the United States and the Russian Federation. Under the agreement, we have been designated by the U.S. government to order LEU derived from dismantled Soviet nuclear weapons. In January 1994, USEC signed a commercial agreement (“Russian Contract”) with a Russian government entity known as OAO Technobexport (“TENEX”), to implement the program. We expect the Russian Contract to be completed by the end of 2013. Purchases under the Russian Contract constitute approximately one-half of our supply mix. Over the life of the Russian Contract, we expect to purchase a total of 92 million SWU contained in LEU derived from 500 metric tons of highly enriched uranium, the equivalent of about 20,000 nuclear warheads. Refer to “Russian Supply Agreement” below regarding access to Russian LEU after the Megatons to Megawatts program concludes.

Prices under the Russian Contract are determined using a discount from an index of published price points, including both long-term and spot prices, as well as other pricing elements. The pricing methodology, which includes a multi-year retrospective view of market-based price points, is intended to enhance the stability of pricing and minimize the disruptive effect of short-term market price swings. The price per SWU under the Russian Contract for 2012 is 2% higher compared to 2011, and in 2011 was 3% higher compared to 2010.

Under the Russian Contract, we are obligated to provide to TENEX an amount of uranium equivalent to the uranium component of LEU delivered to us by TENEX, totaling about 9 million kilograms per year. We credit the uranium to an account at the Paducah GDP maintained on behalf of TENEX. TENEX holds the uranium or sells or otherwise exchanges this uranium in transactions with other suppliers or utility customers. From time to time, TENEX may take physical delivery of uranium supplied by a uranium converter that would otherwise deliver such uranium to us. Under these arrangements, the converter provides uranium to TENEX for shipment back to Russia, and the converter receives an equivalent amount of uranium in its account at the Paducah GDP.

Under the terms of a 1997 memorandum of agreement between USEC and the U.S. government, we can be terminated, or resign, as the U.S. Executive Agent, or one or more additional executive agents may be named. Any new executive agent could represent a significant new competitor. However, under the 1997 memorandum of agreement, we have the right and obligation to pay for and take delivery of LEU that is to be delivered in the year of the date of termination and in the following year if USEC and TENEX have agreed upon a price and quantity.

### **Russian Supply Agreement**

On March 23, 2011, USEC signed an agreement with TENEX for the 10-year supply of Russian LEU, which became effective in December 2011. Unlike the Megatons to Megawatts program, the quantities supplied under the new agreement will come from Russia’s commercial enrichment activities rather than from downblending of excess Russian weapons material. Under the terms of the new agreement, the supply of LEU to USEC will begin in 2013 and increase until it reaches a level in 2015 that includes a quantity of SWU equal to approximately one-half the level currently supplied by TENEX to USEC under the Megatons to Megawatts program. Beginning in 2015, TENEX and

USEC also may mutually agree to increase the purchases and sales of SWU by certain additional optional quantities of SWU up to an amount equal to the amount USEC now purchases each year under the Megatons to Megawatts program. Deliveries under the new supply agreement are expected to continue through 2022. The pricing terms for SWU under the agreement are based on a mix of market-related price points and other factors. Similar to the Megatons to Megawatts program, USEC will purchase the SWU component of the LEU and deliver natural uranium to TENEX for the LEU's uranium component.

The LEU that we obtain from TENEX under the new agreement will be subject to quotas and other restrictions applicable to commercial Russian LEU that do not apply to LEU supplied to us under the Megatons to Megawatts program. Refer to "Competition and Foreign Trade – Limitations on Imports of LEU from Russia."

## **2002 DOE-USEC Agreement and Related Agreements with DOE**

On June 17, 2002, USEC and DOE signed an agreement in which both parties made long-term commitments directed at resolving issues related to the stability and security of the domestic uranium enrichment industry (such agreement, as amended, the "2002 DOE-USEC Agreement"). We and DOE have entered into subsequent agreements relating to these commitments and have amended the 2002 DOE-USEC Agreement, most recently in February 2011. The following is a summary of material provisions and an update of activities under the 2002 DOE-USEC Agreement and related agreements:

### *Advanced Enrichment Technology*

The 2002 DOE-USEC Agreement provides that we will begin operation of an enrichment facility using advanced enrichment technology in accordance with certain milestones. A discussion of our American Centrifuge uranium enrichment technology and those milestones is included under the caption "Business and Properties—The American Centrifuge Plant —Project Milestones under the 2002 DOE-USEC Agreement."

### *Domestic Enrichment Facilities*

Under the 2002 DOE-USEC Agreement, we agreed to operate the Paducah GDP at a production rate at or above 3.5 million SWU per year. In 2011, we produced more than 5 million SWU for both LEU production and underfeeding uranium. The Paducah GDP operates most efficiently in the range of 5 to 6 million SWU per year. Operating the Paducah GDP at levels below 5 million SWU would have a negative impact on plant economics. Under the 2002 DOE-USEC Agreement, production at Paducah may not be reduced below a minimum of 3.5 million SWU per year until six months before we have completed an enrichment facility using advanced technology such as centrifuge technology capable of producing LEU containing 3.5 million SWU per year. If the Paducah GDP is operated at less than the specified 3.5 million SWU in any given fiscal year, we may cure the defect by increasing LEU production to the 3.5 million SWU level in the next fiscal year. We may only use the right to cure once in each six-year lease period. If we do not maintain the requisite level of operations at the Paducah GDP and have not cured the deficiency, we are required to waive our exclusive rights to lease the Paducah GDP and portions of the Portsmouth site. Under the 2002 DOE-USEC Agreement, if we believe the enrichment market is otherwise stable and viable but that a significant change has taken place in the domestic or international enrichment markets such that continued operation of the Paducah GDP at or above the 3.5 million SWU per year level is commercially impractical, we have the right under the 2002 DOE-USEC Agreement to present our position to DOE. However, we have no assurance that DOE will agree with our position or agree to amend the 2002 DOE-USEC Agreement.

In addition to the requirements to produce LEU containing 3.5 million SWU per year described above, if we “cease operations” at the Paducah GDP or lose our certification from the NRC, DOE may take actions it deems necessary to transition operation of the plant from us to ensure the continuity of domestic enrichment operations and the fulfillment of supply contracts. We will be deemed to have “ceased operations” at the Paducah GDP if we (1) make a determination to cease enrichment at the plant, (2) produce less than 1 million SWU per year or (3) fail to meet specific maintenance and operational criteria established in the 2002 DOE-USEC Agreement. As part of transitioning operations under the 2002 DOE-USEC Agreement, (1) DOE may designate an alternate operator, (2) DOE may terminate all or any portion of leasehold and/or require return of leased facilities in good and operable condition, (3) we would be obligated to waive our right to lease the GDP, and (4) we would be obligated to not oppose legislation sought by DOE to permit implementation of DOE’s rights under the 2002 DOE-USEC Agreement.

#### *Megatons to Megawatts*

The 2002 DOE-USEC Agreement provides that DOE will recommend against removal, in whole or in part, of us as the U.S. Executive Agent under the government-to-government nonproliferation agreement between the United States and the Russian Federation as long as we order the specified amount of LEU from TENEX and comply with our obligations under the 2002 DOE-USEC Agreement and the Russian Contract. Remedies provided to DOE under the 2002 DOE-USEC Agreement related to USEC’s role under the Megatons to Megawatts program do not apply to the new commercial Russian Supply Agreement.

#### *Other*

The 2002 DOE-USEC Agreement contains force majeure provisions that excuse our failure to perform under the agreement if such failure arises from causes beyond our control and without our fault or negligence.

### **The American Centrifuge Plant**

We are working to deploy the American Centrifuge technology, a highly efficient uranium enrichment gas centrifuge technology. The American Centrifuge technology requires 95% less electricity to produce low enriched uranium on a per SWU unit basis than our existing gaseous diffusion technology. The deployment of this technology would significantly reduce both our production costs and our exposure to price volatility for electricity, the largest production cost component of our current gaseous diffusion technology. We are working to deploy this technology in the American Centrifuge Plant (“ACP”) in Piketon, Ohio. This new facility would modernize our production capacity and position us to be competitive in the long term.

As of December 31, 2011, we have invested approximately \$2.2 billion in the American Centrifuge program, which includes \$1.0 billion charged to expense over several years for technology development and demonstration. We began construction on the ACP in May 2007 after being issued a construction and operating license by the NRC. We have operated centrifuges as part of our lead cascade test program for more than 100 machine years since August 2007. This experience gives us confidence in the performance of our technology, and provides operating data and expertise for future commercial deployment. The American Centrifuge technology is a disciplined evolution of classified U.S. centrifuge technology originally developed by DOE and successfully demonstrated during the 1980s. DOE invested \$3 billion over 10 years to develop the centrifuge technology, built approximately 1,500 machines and accumulated more than 10 million machine hours of run time. USEC has improved the DOE technology through advanced materials, updated electronics and design enhancements based on highly advanced computer modeling capabilities.

We need significant additional financing in order to complete the ACP. We applied for a \$2 billion loan guarantee under the DOE Loan Guarantee Program in July 2008 and our efforts since then and throughout most of 2011 focused on obtaining a conditional commitment for a loan guarantee so that we could move forward with the commercialization of the American Centrifuge technology. However, DOE raised concerns regarding the financial and project execution depth of the American Centrifuge project that we were not able to overcome to DOE's satisfaction during 2011. Instead of moving forward with a conditional commitment for a loan guarantee, in the fall of 2011, DOE proposed a two-year cost share research, development and demonstration ("RD&D") program for the project to enhance the technical and financial readiness of the centrifuge technology for commercialization. Under the cost-sharing arrangement, DOE's total contribution would be capped at \$300 million. DOE indicated that our application for a DOE loan guarantee would remain pending during the RD&D program but has given us no assurance that a successful RD&D program will result in a loan guarantee.

### *RD&D Program*

The RD&D program involves manufacturing and operating additional production-design machines so that key systems can be tested as they would actually operate at the scale necessary for full commercialization. The proposed program scope is to construct and operate at least one complete demonstration cascade of 120 commercial centrifuge machines. As initially planned, the American Centrifuge Plant would include 96 such cascades, each containing 120 machines. During late 2011 and early 2012, our American Centrifuge project efforts shifted to focus on the planning and implementation of the RD&D program and efforts that are currently underway in Piketon, Ohio and Oak Ridge, Tennessee are based upon the proposed RD&D program scope. We are currently building machines and parts that would be installed in the demonstration cascade that would be built and operated as part of the RD&D program.

The RD&D program is expected to be a two-year program implemented through a cost sharing arrangement whereby DOE would initially provide up to 80% of the costs of the program. DOE has proposed funding one half of its \$300 million contribution in government fiscal year 2012, with the remainder in government fiscal year 2013. We have been working with DOE and Congress to secure DOE funding for the RD&D program. However, DOE's share of funding for the program has not yet been provided and the source for such funding is uncertain. The current political environment in Washington has significantly slowed the legislative process. The two houses of Congress are each held by a different political party and in an election year the necessary bipartisan support will be difficult to achieve.

Due to constraints on our ability to continue to spend on the project, on March 13, 2012, we entered into an agreement with DOE that enables us to provide interim funding of \$44 million. This funding was provided by DOE acquiring from us U.S. origin LEU in exchange for the transfer of quantities of our depleted uranium ("tails") to DOE. This enables us to release encumbered funds of approximately \$44 million that were previously provided as financial assurance for the disposition of such depleted uranium. We expect that this LEU acquired by DOE could be returned to us as part of DOE's cost share under the RD&D program if government funding is provided for the RD&D program in government fiscal year 2012. However, if the RD&D program does not move forward, the LEU would not be returned to us, and DOE would not reimburse these ACP costs. The \$44 million of funding is expected to enable us to fund the ACP program activities through the end of March 2012. In order to stay within the \$44 million, we have further reduced our spending from the spending reductions implemented in October 2011.

Continuation of the RD&D program beyond the end of March 2012 will require additional funding. As described above, we are working with DOE and Congress to provide funding for government fiscal year 2012. Even if DOE funding were provided for the RD&D program for government fiscal year 2012, funding for the RD&D program beyond government fiscal year 2012

would be subject to future appropriations. President Obama's fiscal year 2013 budget proposal includes \$150 million for the RD&D program. However, we have no assurance that the President's budget will be passed in its current form or at all. We have no assurance that we will be able to reach agreement with DOE regarding any phase of the RD&D program or that any funding will be provided or that the LEU will be returned. We also have no assurance that we will ultimately be able to obtain a loan guarantee and the timing thereof. Any agreement for the RD&D program would likely require restructuring of the project and of our investment. In light of our inability to reach a conditional commitment for a DOE loan guarantee to date, and given the significant uncertainty surrounding our prospects for finalizing an agreement and obtaining funding from DOE for an RD&D program and the timing thereof, we continue to evaluate our options concerning the American Centrifuge project. If we are unable to secure funding for the RD&D program beyond March 31, 2012, we expect to begin demobilizing the project. Our evaluation of these options is ongoing and a decision could be made at any time.

#### *Potential Project Demobilization*

In light of uncertainty regarding our prospects for funding for the RD&D program, planning is continuing regarding a potential demobilization of the project. The initial actions that could be taken as part of a demobilization include:

- shutdown of the operation of centrifuge machines in the lead cascade in Piketon, Ohio as well as machines operating in test facilities in Oak Ridge, Tennessee;
- preparation for decontamination and decommissioning of lead cascade and Oak Ridge operations;
- development of a transportation, consolidation and storage plan for classified material and information;
- layoffs of American Centrifuge employees not needed to carry out demobilization; and
- continued suspension of work by suppliers under their contracts and discussions with suppliers regarding demobilization planning.

On September 30, 2011, the Company sent Worker Adjustment and Retraining Notification ("WARN") Act notices to all of the approximately 450 USEC American Centrifuge workers informing them of potential future layoffs and also suspended a number of contracts with suppliers and contractors involved in the American Centrifuge project and advised them that USEC may demobilize the project. An updated WARN Act notice was sent to these workers in November informing them that potential future layoffs could occur as early as January 2012. These WARN Act notices have now expired. In the event we demobilize the project, we may need to issue new notices under the WARN Act. We currently estimate that we could incur total employee related severance costs of approximately \$15 million for all American Centrifuge workers in the event of a full demobilization of the project. In addition, we currently estimate ongoing contractual commitments at December 31, 2011 of approximately \$38 million. This includes contractual termination penalties related to both prepayment and contractual commitment amounts of \$17 million in connection with a demobilization. Depending on the length of the demobilization period, we would also incur costs related to the execution of the demobilization of up to approximately \$55 million in addition to the severance costs, contractual commitments, contractual termination penalties and other related costs described above. These costs of demobilization do not reflect any offsets for salvage or other recovery value of American Centrifuge project assets. Due to the classified nature of the American Centrifuge technology and the license that we have from the Nuclear Regulatory Commission, we must develop and execute a transportation, consolidation and storage plan for classified material and information. We must also develop and have approved a decontamination and decommissioning plan for the lead cascade and other nuclear operations. See below regarding "—Financial Assurance for Decontamination and Decommissioning."

### *Oak Ridge Workforce Reduction*

The reduced project scope under the RD&D program does not support the full complement of centrifuge design and engineering workforce at Oak Ridge that was in place during 2011. In January 2012, we examined the needs of the RD&D program and the funding requirements to sustain the workforce at the existing level. Due to the limited level of funding available, we executed a reduction in force of 20 employees. A charge of approximately \$0.6 million will be incurred in the first quarter of 2012 for one-time termination benefits consisting of severance payments and short-term health care coverage. Related cash expenditures are expected primarily in the first quarter of 2012.

### *Project Spending*

Our spending on the American Centrifuge in 2011 was incrementally allocated as we continuously evaluated our spending plan and our path toward a DOE loan guarantee commitment or other funding for the project. Beginning in October 2011, we reduced our monthly spending on the American Centrifuge project by approximately 30% (as compared to the average monthly rate of spending in the prior months of 2011) and also suspended a number of contracts with suppliers and contractors involved in the American Centrifuge.

With the potential for cost sharing for the RD&D program and the agreement with DOE that enabled us to release encumbered funds of approximately \$44 million, we are continuing spending on the American Centrifuge project at a reduced rate into the first quarter of 2012. This rate of spending is lower than the spending resulting from the reductions implemented in October 2011. Our spending on ACP beyond amounts already committed to date will be dependent on our expectations regarding the success and timing of any agreement with DOE to provide for continued funding under the RD&D program and the amount of anticipated DOE funding in a given government fiscal year.

Although we have been funding the RD&D program on our own, restrictions in our new credit facility will significantly limit our spending on the American Centrifuge project going forward. In particular, without an agreement for the RD&D program, our credit facility significantly restricts our spending on the project beyond May 2012 (except for spending needed to carry out a project demobilization). In addition, continued spending on the ACP remains subject to our available liquidity, funding under the RD&D program, our willingness to invest further in the project absent funding commitments to complete the project, our ability following the RD&D program to obtain a DOE loan guarantee and additional capital, other risks related to the deployment of the ACP, as described in further detail in Item 1A, Risk Factors.

Beginning with the start of the fourth quarter of 2011, all project costs incurred have been expensed, including interest expense that previously would have been capitalized. Our spending at the reduced levels relates primarily to development and maintenance activities rather than capital asset creation. We also expect to expense costs under the RD&D program as incurred. Capitalization of expenditures related to ACP has ceased until commercial plant deployment resumes. If conditions change, including if the current path to commercial deployment were no longer probable or our anticipated role in the project were changed, we could expense up to the full amount of previously capitalized costs related to the ACP of up to \$1.1 billion as early as the first quarter of 2012. Events that could impact our views as to the probability of deployment or our projections include a failure to successfully enter into an agreement with DOE to provide funding for the project as part of the RD&D program or an unfavorable determination in any phase of the RD&D program regarding the restructuring of the project.

## *Project Cost and Schedule*

We expect that if we move forward with the RD&D program, we will be reevaluating the approach to the commercial deployment of the technology, including the development of a comprehensive revised cost estimate and schedule for the commercial deployment. The RD&D program is expected to take approximately two years to complete and commercial deployment would not be expected to commence before it is completed.

Based on our previous cost estimate of \$2.8 billion to complete the American Centrifuge project from the point of closing on financing, we continue to expect the funding needed to complete the project to be substantial. Our previous cost estimate was the basis of the update to our loan guarantee application submitted in July 2010. The estimate was a go-forward cost estimate and did not include our investment to date, spending from then until financial closing, overall project contingency, financing costs or financial assurance. There are significant carrying costs associated with the project and maintaining the manufacturing infrastructure. These costs could be substantial and, depending on the length of the RD&D program or any demobilization period, could threaten the overall economics of the project. In addition, continued delays in the project have made discussions with suppliers very challenging. We are not currently negotiating with suppliers regarding the transition to fixed cost or maximum cost contracts to complete the project and these efforts would have to be re-commenced in connection with any revised deployment plan that is developed during the RD&D program.

Any revised cost estimate and schedule for the project would depend on a large variety of factors, including how we ultimately deploy the project, the outcome of future discussions with suppliers, changes in commodity and other costs, the outcome of the RD&D program and the ability to develop and implement cost saving and value engineering actions. Further increases in the cost of the ACP would increase the amount of external capital we must raise and would adversely affect our ability to successfully finance and deploy the ACP. For a discussion of the uncertainties regarding financing for the American Centrifuge project, see Item 1A, Risk Factors.

## *Investment by Toshiba and B&W*

On May 25, 2010, we announced that Toshiba Corporation (“Toshiba”) and Babcock & Wilcox Investment Company (“B&W”) signed a definitive agreement to make a \$200 million investment over three phases upon the satisfaction at each phase of certain closing conditions. Under the terms of the agreement, Toshiba and B&W would invest equally in each of the phases in an aggregate amount of \$100 million each. On September 2, 2010, the first closing of \$75 million occurred. Toshiba and B&W purchased 75,000 shares of convertible preferred stock, and warrants to purchase 6.25 million shares of common stock at an exercise price of \$7.50 per share, which will be exercisable in the future. However, the remaining two phases of the investment were conditioned upon, among other things, progress in our obtaining a loan guarantee from DOE and so no additional investment has been made to date. During 2011, we agreed several times with the investors through a standstill agreement not to exercise our respective rights to terminate the securities purchase agreement and we continue to have discussions with the investors regarding their investment. Currently, we and the investors (as to such investor’s obligations) have the right to terminate the securities purchase agreement. If the securities purchase agreement governing the Transactions is terminated, each of Toshiba and B&W must elect to either convert its shares of preferred stock into a new class of common stock (or a new class of preferred stock) or to sell its shares of preferred stock pursuant to an orderly sale arrangement. As a result of certain NYSE limitations on our issuance of common stock, depending on the share price at the time of termination, some of Toshiba and B&W's preferred stock may not be able to be converted or sold and would remain outstanding. We could be required to redeem such shares for cash or SWU, at our election, at August 31, 2012, which could harm our financial condition. However, our ability to redeem may be limited by Delaware law, and if not limited may result in mandatory prepayment of our credit facility.

Additional information about the transactions, including a copy of the securities purchase agreement and other agreements, can be found in the Current Reports on Form 8-K filed by us on May 25, 2010 and on September 2, 2010.

### *Lead Cascade Test Program*

The lead cascade test program in Piketon, Ohio began operations in August 2007 and has accumulated over 100 machine years of runtime. Through the lead cascade test program, we demonstrate the performance of centrifuge machines, demonstrate the reliability of machine components, obtain data on machine-to-machine interactions, verify cascade performance models under a variety of operating conditions, and obtain operating experience for our plant operators and technicians. Data from this testing program has provided valuable assembly, operating and maintenance information, as well as operations experience for the American Centrifuge Plant staff. The initial lead cascade test program involving USEC-produced prototype machines was completed in early 2010. These centrifuge machines were expensed as constructed since we did not expect them to be used in a future commercial plant.

In parallel with the final operations of the prototype centrifuge machines, we began installing the first group of AC100 centrifuge machines. The AC100 series design has met the targeted performance goal of 350 SWU per machine, per year. Our strategic suppliers manufactured parts for the AC100 centrifuge machines, replicating on a commercial basis manufacturing that we previously self-performed in building our prototype centrifuge machines. Installation of these AC100 centrifuge machines further demonstrated the ability of our suppliers to build components, assemble the machines and successfully bring them into operation. These centrifuge machines operated successfully in a cascade configuration beginning in March 2010 and demonstrated the ability to produce the full range of commercial product assays required by our customers for low enriched uranium.

In order to keep our supplier base intact, we continued to manufacture AC100 centrifuge machines in 2011 which we used to replace the initial set of AC100 machines to optimize the use of the limited centrifuge machine positions available to us in the lead cascade test program. Costs related to the initial set of AC100 machines that were removed from the lead cascade totaling \$127.1 million were expensed in the fourth quarter of 2011 since we determined that these machines are no longer compatible with the current commercial plant design and we do not expect them to be used in a future commercial plant.

In June 2011, several lead cascade machines failed during an extended period of off-normal operating conditions. The off-normal conditions occurred as a result of a power interruption caused by an electrical fault in the lead cascade support systems and compounding issues experienced during the efforts to restore power. In the second quarter of 2011, we expensed \$9.6 million of costs related to the centrifuge machines damaged in the June event. Since the June event, the centrifuges being operated in the lead cascade facility in Piketon, Ohio have not been operated on UF<sub>6</sub> gas, and we have committed to the NRC not to reintroduce UF<sub>6</sub> gas into these machines until the NRC has completed its review of the event. Beginning in the first quarter of 2012, we have been modifying the current set of AC100 machines in the lead cascade to install a safety enhancement in response to the June event. Under the expected terms of the RD&D program, we would continue to install additional AC100 machines to the current set of machines to complete and operate a 120 machine commercial plant cascade configuration. We are also enhancing facility maintenance, operator training and procedures as corrective actions to the circumstances that resulted in the June event.

Continued lead cascade operations will accomplish two of the primary objectives of the proposed RD&D program. The first objective is to demonstrate sufficient run time on the AC100 centrifuges to establish the high confidence level in cascade reliability required by DOE to support loan guarantee financing for the commercial plant. A second objective is to build out and demonstrate the full level of balance of plant system redundancy designed for the commercial plant, which was not available for lead cascade operations during the June event.

### *Manufacturing Infrastructure*

We are working with our strategic suppliers to maintain the manufacturing infrastructure developed over the last several years. However, we are constrained by our reduced level of spending. The RD&D program would provide for the continued production of AC100 machines, which helps our suppliers gain additional cost experience and familiarity with the manufacturing process. Although we have delayed high-volume production of the AC100 machines, our strategic suppliers have demonstrated flexibility and initiative to keep their role in the project moving forward. However, we could face challenges with ensuring the ability and willingness of our strategic suppliers to continue at low rates of production for a prolonged period of time absent greater certainty on funding for the project and a definitive timeline for full remobilization.

As part of our effort to reduce or mitigate project risks, we established a joint company with Babcock & Wilcox Technical Services Group, Inc. for the manufacture and assembly of AC100 centrifuge machines. The joint company became effective May 1, 2011, and is known as American Centrifuge Manufacturing, LLC. It consolidates the authority and accountability for centrifuge machine manufacturing and assembly in one business unit which assumes contractual accountability over the family of centrifuge parts manufacturers. With this consolidation, the entire manufacturing program can be managed centrally for cost efficiency, lean manufacturing, and application of consistent standards of high quality across the entire machine manufacturing base. In addition, certain key suppliers and sub-suppliers conducted production runs in their facilities for a period of time to successfully demonstrate production of machine components and assembly at a sustained production rate that we expect to reach during high-volume machine manufacturing. The production demonstration was also intended to provide suppliers with experience that would facilitate a transition to fixed-price contracts.

### *Construction of the American Centrifuge Plant*

Most of the buildings required for the commercial plant were constructed in Piketon during the 1980s by DOE. These existing structures include a centrifuge assembly building, a uranium feed and withdrawal building, and two enrichment production buildings with space for approximately 11,500 centrifuges. We began renovating and building the ACP following receipt of a construction and operating license from the NRC in April 2007.

Construction of the physical plant includes various systems including electric, telecommunications, HVAC and water distribution. Other plant infrastructure that must be completed include the piping that enables UF<sub>6</sub> gas to flow throughout the enrichment production facility, process systems to support the centrifuge machines and cascades, a distributed control system to monitor and control the enrichment processing equipment, and facilities to feed natural uranium into the process system and withdraw enriched uranium product. We demobilized most construction activities in August 2009.

*Project Milestones under the 2002 DOE-USEC Agreement*

The 2002 DOE-USEC Agreement, as amended most recently in February 2011, provides that we will develop, demonstrate and deploy the American Centrifuge technology in accordance with 15 milestones as follows:

<b>Milestones under 2002 DOE-USEC Agreement</b>	<b>Milestone Date</b>	<b>Achievement Date</b>
Begin refurbishment of K-1600 centrifuge testing facility in Oak Ridge, Tennessee	December 2002	December 2002
Build and begin testing a centrifuge end cap	January 2003	January 2003
Submit license application for Lead Cascade to NRC	April 2003	February 2003
NRC docket Lead Cascade application	June 2003	March 2003
First rotor tube manufactured	November 2003	September 2003
Centrifuge testing begins	January 2005	January 2005
Submit license application for commercial plant to NRC	March 2005	August 2004
NRC docket commercial plant application	May 2005	October 2004
Begin Lead Cascade centrifuge manufacturing	June 2005	April 2005
Begin commercial plant construction and refurbishment	June 2007	May 2007
Lead Cascade operational and generating product assay in a range usable by commercial nuclear power plants	October 2007	October 2007
Secure firm financing commitment(s) for the construction of the commercial American Centrifuge Plant with an annual capacity of approximately 3.5 million SWU per year	November 2011	
Begin commercial American Centrifuge Plant operations	May 2014	
Commercial American Centrifuge Plant annual capacity at 1 million SWU per year	August 2015	
Commercial American Centrifuge Plant annual capacity of approximately 3.5 million SWU per year	September 2017	

In February 2011, we and DOE amended the 2002 DOE-USEC Agreement to revise the remaining four milestones relating to the financing and operation of the ACP. The amendment extended the financing milestone by one year to November 2011 and adjusted the remaining three milestones. In addition, we and DOE agreed to discuss further adjustment of the remaining three milestones as may be appropriate based on a revised deployment plan to be submitted by us to DOE by January 30, 2012 following the completion of the November 2011 financing milestone. Due to DOE's deferral of a decision on the loan guarantee until after completion of the RD&D program, we did not meet the November 2011 financing milestone or submit a revised deployment plan to DOE. In connection with the RD&D program described above, we have been engaging in discussions with DOE regarding the modification of the remaining milestones and other provisions of the 2002 DOE-USEC Agreement. DOE has acknowledged that since DOE and we are working in good faith toward the RD&D program and the adjustment of the milestones in the 2002 DOE-USEC Agreement is currently a part of the proposed terms of the RD&D program, it does not see the need at the present time for us to present our position on the missed November 2011 milestone to DOE or to provide a revised deployment plan by the specified time. However, we have no assurances that the RD&D

program will move forward and/or that DOE will agree to an adjustment of the milestones or other provisions of the 2002 DOE-USEC Agreement.

DOE has full remedies under the 2002 DOE-USEC Agreement if we fail to meet a milestone that would materially impact our ability to begin commercial operations of the American Centrifuge Plant on schedule and such delay was within our control or was due to our fault or negligence. To our knowledge, DOE has not taken any action to assert its remedies under the 2002 DOE-USEC Agreement. These remedies include terminating the 2002 DOE-USEC Agreement, revoking our access to DOE's U.S. centrifuge technology that we require for the success of the American Centrifuge project and requiring us to transfer certain of our rights in the American Centrifuge technology and facilities to DOE, and requiring us to reimburse DOE for certain costs associated with the American Centrifuge project. DOE could also recommend that we be removed as the sole U.S. Executive Agent under the Megatons to Megawatts program. Any of these actions could have a material adverse impact on our business and prospects. The 2002 DOE-USEC Agreement provides that once the financing milestone is met, DOE's remedies are limited to those circumstances where our gross negligence in project planning and execution is responsible for schedule delays or in the circumstance where we constructively or formally abandon the project or fail to diligently pursue the financing commitment(s). Uncertainty surrounding the milestones under the 2002 DOE-USEC Agreement or the initiation by DOE of any action or proceeding under the 2002 DOE-USEC Agreement could adversely affect our ability to obtain financing for the American Centrifuge project or to consummate the remaining transactions with Toshiba and B&W.

#### *Corporate Structure*

In September 2008, we created four wholly owned subsidiaries to carry out future commercial activities related to the American Centrifuge project. We anticipate that these subsidiaries will own the American Centrifuge Plant and equipment, provide operations and maintenance services, manufacture centrifuge machines and conduct ongoing centrifuge research and development. See the discussion above regarding the American Centrifuge Manufacturing joint venture. Subject to regulatory approvals, this corporate structure will separate ownership and control of centrifuge technology from ownership of the enrichment plant and also establish a separate operations subsidiary. This structure will facilitate DOE loan guarantee financing and potential third-party investment, while also facilitating any future plant expansion. By order dated February 2011, the NRC approved the transfer of the licenses for the Lead Cascade and the ACP to one of these wholly owned subsidiaries. We have requested and received from the NRC two extensions to the period to implement the transfer, most recently through February 8, 2013.

#### *NRC Operating Licenses*

On May 20, 2011, we submitted to the NRC a request to extend our operating license for the lead cascade, which was scheduled to expire on August 23, 2011. On July 15, 2011, the NRC concluded that our application was complete, but deferred conducting a review of our application unless we request to continue lead cascade operations beyond the summer of 2012. If we proceed with the RD&D program, lead cascade operations would be expected to continue for approximately two years. Under applicable law, our license will not expire pending NRC's review of a complete application.

In April 2007, the NRC issued a license to construct and operate the American Centrifuge Plant, and we began construction of the American Centrifuge Plant in May 2007. Our construction and operating license is for a term of 30 years and includes authorization to enrich uranium to a U<sup>235</sup> assay of up to 10%. Our license is based on a plant designed with an initial annual production capacity of 3.8 million SWU. Although we will need an amendment to our NRC license for any significant expansion of the American Centrifuge Plant, the environmental report submitted with our license application and the environmental impact statement issued by the NRC contemplated the

potential expansion of the plant to approximately double the initially designed capacity.

#### *American Centrifuge Plant Lease*

We lease the facilities in Piketon for the American Centrifuge Plant from DOE. The process buildings that will house the cascades of centrifuges encompass more than 14 acres under roof. The lease for these facilities and other support facilities is a stand-alone amendment to our lease with DOE for the gaseous diffusion plant facilities in Piketon and in Paducah. The current five-year lease term is through June 2014. We have the option to extend the lease term for additional five-year terms up to 2043. We must provide notice to DOE by June 2012 in order to extend the lease for the next five-year term. Our notice must also include certification that certain conditions have been met, including certifying compliance with the 2002 DOE-USEC Agreement and compliance with the terms of the lease. Depending on the outcome of discussions with DOE, including discussions regarding the 2002 DOE-USEC Agreement described above under “Project Milestones under the 2002 DOE-USEC Agreement,” we may be unable to make this certification. The lease also provides DOE with the right to terminate the lease in the event we fail to operate the ACP at an annual average rate of 1 million SWU. The requirement to operate is measured over a two-year period commencing in April 2011. Based on delays in deploying the American Centrifuge project, we do not expect to be in a position to operate the ACP at this rate during this timeframe. Accordingly, there can be no assurance that we will be able to meet the conditions for renewal or that DOE will not exercise its right to terminate the lease. If the lease is renewed, we also have the right to extend the lease for up to an additional 20 years, through 2063, if we agree to demolish the existing buildings leased to us after the lease term expires. We have the option, with DOE’s consent, to expand the leased property to meet our needs until the earlier of September 30, 2013 or the expiration or termination of the GDP lease. Rent is based on the cost of lease administration and regulatory oversight in Piketon and is approximately \$1.5 million per year, including estimates for additional charges by DOE for its subcontractors that may be allocated to the ACP. We may terminate the lease upon three years’ notice. DOE may terminate for default, including if DOE is able to exercise its remedies with respect to ACP under the 2002 DOE-USEC Agreement.

#### *Financial Assurance for Decontamination and Decommissioning*

We own all capital improvements at the American Centrifuge Plant and, unless otherwise consented to by DOE, must remove them by the conclusion of the lease term. This provision is unlike the lease for the gaseous diffusion plants where we may leave the property in an “as is” condition at termination of the lease. DOE generally only remains responsible for pre-existing conditions of the American Centrifuge leased facilities. At the conclusion of the lease, we are obligated to return these leased facilities to DOE in a condition that meets NRC requirements and in the same condition as the facilities were in when they were leased to us (other than due to normal wear and tear).

We are required to provide financial assurance to the NRC for the decontamination and decommissioning (“D&D”) of the American Centrifuge Plant. The amount of financial assurance is dependent on construction progress and D&D cost projections. We are also required to provide financial assurance to DOE in an amount equal to our current estimate of costs to comply with lease turnover requirements, less the amount of financial assurance required of us by the NRC for D&D. As of December 31, 2011, we have provided financial assurance to the NRC and DOE in the form of surety bonds totaling \$22.2 million that supports construction progress. The surety bonds are partially collateralized with interest-earning cash deposits.

If construction is resumed, the financial assurance requirements will increase each year commensurate with the status of facility construction and operations. As part of our license to operate the American Centrifuge Plant, we provide the NRC with a projection of the total D&D cost. The total D&D cost related to the NRC and the incremental lease turnover cost related to DOE is uncertain at this time and is dependent on many factors including the size of the plant. Financial

assurance will also be required for the disposition of depleted uranium generated from future commercial centrifuge operations. Since we operate the lead cascade in recycle mode, depleted uranium is not generated from lead cascade operations.

#### *DOE Technology License*

In December 2006, USEC and DOE signed an agreement licensing U.S. gas centrifuge technology to USEC for use in building new domestic uranium enrichment capacity. We will pay royalties to the U.S. government on annual revenues from sales of LEU produced in the American Centrifuge Plant. The royalty ranges from 1% to 2% of annual gross revenue from these sales and provide for a minimum payment of \$100,000 per year. Payments are capped at \$100 million over the life of the technology license. DOE may terminate the license if DOE is able to exercise its remedies with respect to ACP under the 2002 DOE-USEC Agreement.

#### *Risks and Uncertainties*

The successful deployment, construction and operation of the American Centrifuge Plant is dependent upon a number of factors, including the availability and timing of financing, performance of the American Centrifuge technology, overall cost and schedule, and the achievement of milestones under the 2002 DOE-USEC Agreement. Risks and uncertainties related to the American Centrifuge Plant are described in further detail in Item 1A, Risk Factors.

#### **Nuclear Regulatory Commission — Regulation**

Our operations are subject to regulation by the NRC. The Paducah GDP is required to be recertified by the NRC every five years and is currently certified through December 2013. The certificate of compliance represents NRC's determination that the GDP is in compliance with NRC safety, safeguards and security regulations. On September 30, 2011, our contracts for maintaining the former Portsmouth GDP facilities and performing services for DOE at Portsmouth expired and we completed the transition of facilities to a new contractor. As part of the transition, at our request, NRC terminated our certificate of compliance for the former Portsmouth GDP facilities. We will continue to provide some limited services to DOE and its contractors at the Portsmouth site related to facilities we continue to lease for the American Centrifuge project. The NRC regulates our operation of the American Centrifuge Demonstration Facility and the construction of the American Centrifuge Plant.

The NRC has the authority to issue notices of violation for violations of the Atomic Energy Act of 1954, NRC regulations, and conditions of licenses, certificates of compliance, or orders. The NRC has the authority to impose civil penalties for certain violations of its regulations. We have received notices of violation from NRC for violations of these regulations and certificate conditions. However, in each case, we took corrective action to bring the facilities into compliance with NRC regulations. As described above under "The American Centrifuge Plant," the NRC is currently conducting a review of a June 11, 2011 event in the lead cascade of the American Centrifuge Demonstration Facility and could issue a notice of violation related to this event. We do not expect that any proposed notices of violation we have received or anticipate receiving as a result of the June 11 event will have a material adverse effect on our financial position or results of operations.

Our operations require that we maintain security clearances that are overseen by the NRC and DOE. These security clearances could be suspended or revoked if we are determined by the NRC to be subject to foreign ownership, control or influence. In addition, statute and NRC regulations prohibit the NRC from issuing any license or certificate to us if it determines that we are owned, controlled or dominated by an alien, a foreign corporation, or a foreign government.

## **Environmental Compliance**

Our operations are subject to various federal, state and local requirements regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. Our operations generate low-level radioactive waste that is stored on-site at the Paducah GDP or is shipped off-site for disposal at commercial facilities. In addition, our operations generate hazardous waste and mixed waste (i.e., waste having both a radioactive and hazardous component), most of which is shipped off-site for treatment and disposal. In connection with the return of the Portsmouth facilities described above, DOE has agreed to accept ownership and possession of all nuclear material at the site, including waste requiring processing and disposal. USEC has agreed to pay DOE its cost of disposing of such wastes which was estimated to be \$7.8 million and is recorded as a current liability.

Our operations generate depleted uranium that is stored at the Paducah GDP. Depleted uranium is a result of the uranium enrichment process where the concentration of the U<sup>235</sup> isotope in depleted uranium is less than the concentration of .711% found in natural uranium. All liabilities arising out of the disposal of depleted uranium generated before July 28, 1998 are direct liabilities of DOE. The USEC Privatization Act requires DOE, upon our request, to accept for disposal the depleted uranium generated after the July 28, 1998 privatization date provided we reimburse DOE for its costs.

The Paducah GDP was operated by agencies of the U.S. government for approximately 40 years prior to July 28, 1998. As a result of such operation, there is contamination and other potential environmental liabilities associated with the plant. The Paducah site has been designated as a Superfund site under CERCLA and is undergoing investigations under the Resource Conservation and Recovery Act. Environmental liabilities associated with plant operations prior to July 28, 1998 are the responsibility of the U.S. government. The USEC Privatization Act and the lease for the plant provide that DOE remains responsible for decontamination and decommissioning of the Paducah site.

As described above under “Business and Properties – The American Centrifuge Plant – Financial Assurance for Decontamination and Decommissioning”, we will be responsible for the decontamination and decommissioning of the American Centrifuge Plant.

## **Occupational Safety and Health**

Our operations are subject to regulations of the Occupational Safety and Health Administration governing worker health and safety. We maintain a comprehensive worker safety program that establishes high standards for worker safety, directly involves our employees and monitors key performance indicators in the workplace environment.

## **Competition and Foreign Trade**

The highly competitive global uranium enrichment industry has four major producers of LEU:

- USEC,
- Urenco, a consortium of companies owned or controlled by the British and Dutch governments and by two German utilities,
- a multinational consortium controlled by Areva, a company approximately 90% owned by the French government, and
- the Russian government’s State Atomic Energy Corporation (“Rosatom”), which sells LEU through TENEX, a Russian government-owned entity.

Two of our three major competitors, Urenco and Areva, own a joint venture called the Enrichment Technology Company (“ETC”), which develops and manufactures centrifuge machines for both owners.

There are also smaller producers of LEU in China, Japan and Brazil that primarily serve a portion of their respective domestic markets. However, China is emerging as a growing producer and has begun to supply LEU to a limited foreign market. China has existing centrifuge production capacity that it purchased from Russia and is also developing its own centrifuge enrichment technology, which could be used for China's domestic needs or to export for sale in foreign markets. Depending on the rate of their development of centrifuge technology or other expansion and their plans for this supply, this could be a source of significant long-term competition.

Global LEU suppliers compete primarily in terms of price and secondarily on reliability of supply and customer service. We believe that customers are attracted to our reputation as a reliable long-term supplier of enriched uranium.

USEC and Areva currently use the gaseous diffusion process to produce LEU. Areva has begun initial operations of a centrifuge enrichment plant to replace their gaseous diffusion production. Urenco and Rosatom already use centrifuge technology. Gaseous diffusion plants generally have significantly higher operating costs than gas centrifuge plants due to the significant amounts of electric power required by the gaseous diffusion process.

We estimate that the enrichment industry market is currently about 50 million SWU per year. In the past five years, we have delivered LEU containing 9 to 13 million SWU per year, of which approximately 5.5 million SWU per year was obtained by us under the Russian Contract.

Urenco reported that total annual capacity of its European and U.S. enrichment facilities was 14.6 million SWU at the end of 2011. Urenco USA, a group controlled by Urenco, began operations of its gas centrifuge uranium enrichment plant in New Mexico in June 2010 and is increasing capacity although it has not yet shipped product from that facility. Urenco’s announced plans call for total capacity, including Urenco USA, of 18 million SWU by the end of 2015.

Areva’s new gas centrifuge enrichment plant in France (“Georges Besse II”) began commercial operations in 2011 with full capacity of 7.5 million SWU per year expected by 2016. Areva has announced that it plans to cease operating the Georges Besse gaseous diffusion plant in France by mid-2012. In addition, Areva announced in 2010 that it had received a conditional commitment for a DOE loan guarantee to build its proposed Eagle Rock centrifuge uranium enrichment plant near Idaho Falls, Idaho. In October 2011, the NRC awarded an operating license for the Eagle Rock plant. Areva’s original plan called for initial production in 2014 with a targeted production rate of 3.3 million SWU per year reached by 2018. In December 2011, Areva suspended plans for the Eagle Rock plant as part of an announced strategic overhaul to reduce Areva’s overall debt. While the project has been put on hold, Areva did not exclude the possibility that the Eagle Rock project could proceed under new partnerships. Furthermore, under the new strategic plan, Areva has suspended any planned capacity expansions for Georges Besse II beyond the 7.5 million SWU.

Areva and Urenco’s European centrifuge enrichment facilities, as well as their plants under construction or proposed in the U.S., use or will use centrifuge machines manufactured in Europe by ETC.

Rosatom/TENEX also uses centrifuge technology. The World Nuclear Association (“WNA”) estimates its production capacity to be approximately 25 million SWU per year, with the expansion to approximately 30 million SWU by 2015. However, not all of this capacity is currently available to the market since a portion of Russian capacity is used for downblending highly enriched uranium. However, this program ends in 2013 and that portion of Russian capacity would then be available to the market. Imports of LEU and other uranium products produced in the Russian Federation are subject to the restrictions described below under “Limitations on Imports of LEU from Russia.”

All of our current competitors are owned or controlled, in whole or in part, by foreign governments. These competitors may make business decisions in both domestic and international markets that are influenced by political or economic policy considerations rather than exclusively by commercial considerations.

In addition, GE Hitachi Global Laser Enrichment (“GLE”) has an agreement with Silex Systems Limited, an Australian company, to license Silex’s laser enrichment technology. USEC funded research and development of the Silex technology for several years but terminated the arrangement in April 2003 to focus on the American Centrifuge technology. Since 2008, GLE has taken a phased development process with the goal of constructing a commercial enrichment plant in Wilmington, North Carolina with a target capacity of between 3 and 6 million SWU per year. GLE’s NRC license application remains under review by the NRC. GLE is operating a test loop facility to determine performance and reliability data, which could be used to make a decision on whether or not to proceed with the construction of a commercial plant. GLE officials have said in published reports that such a decision will come after years of further testing is completed, regulatory approval is achieved, and analysis of market conditions is finalized.

In addition to enrichment, LEU may be produced by downblending government stockpiles of highly enriched uranium. Governments control the timing and availability of highly enriched uranium released for this purpose, and the release of this material to the market could impact market conditions. In the past, we have been the primary supplier of downblended highly enriched uranium made available by the U.S. and Russian governments. To the extent LEU from downblended highly enriched uranium is released into the market in future years for sale by others, these quantities would represent a source of competition. In December 2008, DOE published a plan for the multi-year disposition of its excess uranium inventories, stating its intention to minimize any material adverse impacts on the domestic uranium mining, conversion and enrichment industries. As part of this plan, DOE awarded a three-year contract in 2009 to Nuclear Fuel Services and WesDyne International to downblend 12.1 metric tons of highly enriched uranium to produce about 220 metric tons of LEU (containing roughly 1.5 million SWU). As payment, the contractors will receive a portion of the resulting LEU. The remainder will be stored for DOE at a U.S. nuclear fuel fabricator to provide fuel supply assurance for utilities that participate in the DOE’s mixed oxide program for disposition of surplus weapons plutonium.

LEU that we supply to foreign customers is exported under the terms of international agreements governing nuclear cooperation between the United States and the country of destination or other entities. For example, exports to countries comprising the European Union take place within the framework of an agreement for cooperation (the “Euratom Agreement”) between the United States and the European Atomic Energy Community, which, among other things, permits LEU to be exported from the United States to the European Union for as long as the Euratom Agreement is in effect. The Euratom Agreement also provides that nuclear equipment and material imported from Euratom countries cannot be used by the United States for defense purposes. This limitation will apply to centrifuges imported for the Urenco USA and Areva Eagle Rock plants. It does not apply to enrichment equipment produced in the United States using U.S. technology, such as the American Centrifuge technology.

### *Limitations on Imports of LEU from Russia*

Imports of LEU and other uranium products produced in the Russian Federation (other than LEU imported under the Russian Contract) into the U.S. are subject to quotas imposed under legislation enacted into law in September 2008 and under the 1992 Russian Suspension Agreement, as amended. The September 2008 legislation provides that it supersedes the Russian Suspension Agreement in cases where they conflict.

The September 2008 legislation imposes annual quotas on imports of Russian LEU through 2020. From 2008-2011, the quotas only permitted a small amount of LEU to be imported. The quotas increase moderately in 2012 and 2013, and then from 2014-2020 are set at an amount equal to approximately 20% of projected annual U.S. consumption of LEU. These import quotas are substantially similar to the export quotas established under the Russian Suspension Agreement discussed below. However, the legislation also includes the possibility of expanded quotas of up to an additional 5% of the domestic market annually beginning in 2014 if the Russian Federation continues to downblend highly enriched uranium after the Russian Contract is complete. As with the Russian Suspension Agreement, the legislation also permits unlimited imports of Russian LEU for use in initial cores for any new U.S. nuclear reactor.

As amended in February 2008, the Russian Suspension Agreement permits the Russian government to sell a stockpile of LEU containing about 400,000 SWU located in the United States, and establishes annual export quotas for the sale of Russian uranium products to U.S. utilities substantially similar to those in the September 2008 legislation. It also permits unlimited exports to the United States of Russian LEU for use in initial cores for any U.S. nuclear reactors entering service for the first time. In 2021, the suspended investigation (and the Russian Suspension Agreement) will be terminated and the export quotas will no longer apply.

Both the Russian Suspension Agreement and the September 2008 legislation permit the Secretary of Commerce to increase the quotas for Russian LEU in situations where supply is insufficient to meet U.S. demand for LEU.

## Employees

A summary of our employees by location follows:

<u>Location</u>	<u>No. of Employees at December 31,</u>	
	<u>2011</u>	<u>2010</u>
Paducah, KY	1,194	1,185
Piketon, OH	335	1,411
Oak Ridge, TN	190	192
Norcross, GA	68	60
Bethesda, MD	<u>98</u>	<u>101</u>
<b>Total Employees</b>	<b>1,885</b>	<b>2,949</b>

As discussed in “Contract Services Segment”, the transition of Portsmouth site contract services workers located in Piketon, Ohio from USEC to the new D&D contractor began in the first quarter of 2011 and was completed on September 30, 2011.

The United Steelworkers (“USW”) and the Security, Police, Fire Professionals of America (“SPFPA”) represented 653 employees at the Paducah GDP as follows:

	<u>Number of Employees</u>	<u>Contract Term</u>
USW Local 5-550.....	570	July 2016
SPFPA Local 111 .....	83	March 2014

As discussed in “Business and Properties – The American Centrifuge Plant”, on September 30, 2011 we sent Worker Adjustment and Retraining Notification (“WARN”) Act notices to approximately 450 American Centrifuge workers located in Piketon, Ohio, Oak Ridge, Tennessee and Bethesda, Maryland, informing them of potential future layoffs. An updated WARN Act notice was sent to these workers in November 2011. In January 2012, we executed a reduction in force of 20 employees in Oak Ridge. The WARN Act notices have now expired. In the event we demobilize the project, we may need to issue new notices under the WARN Act.

### Available Information

Our Internet website is [www.usec.com](http://www.usec.com). We make available on our website, or upon request, without charge, access to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed with, or furnished to, the Securities and Exchange Commission, pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission.

Our code of business conduct provides a brief summary of the standards of conduct that are at the foundation of our business operations. The code of business conduct states that we conduct our business in strict compliance with all applicable laws. Each employee must read the code of business conduct and sign a form stating that he or she has read, understands and agrees to comply with the code of business conduct. A copy of the code of business conduct is available on our website or upon request without charge. We will disclose on the website any amendments to, or waivers from, the code of business conduct that are required to be publicly disclosed.

We also make available on our website or upon request, free of charge, our Board of Directors Governance Guidelines and our Board committee charters.

## Item 1A. Risk Factors

**Investors should carefully consider the risk factors below, in addition to the other information in this Annual Report on Form 10-K.**

***The effects of the March 11, 2011 earthquake and tsunami in Japan could materially and adversely affect our business, results of operations and prospects.***

The earthquake and tsunami in Japan on March 11, 2011 caused significant damage to a multi-unit nuclear power station at Fukushima operated by The Tokyo Electric Power Company of Japan, Inc. (“TEPCO”). At least four of the six reactors at the Fukushima plant are not expected to reopen. Japan has categorized the severity level of the Fukushima nuclear crisis at the maximum level 7 on the International Nuclear Event Scale (“INES”), which is the level of the Chernobyl, Ukraine accident in 1986. The long-term impact of the March 11 events on the nuclear fuel market is uncertain and subject to changes in the energy strategies of individual countries. However, the events have created significant uncertainty and our business, results of operations and prospects could be materially and adversely affected.

We have long been a leading supplier of low enriched uranium (“LEU”) to Japan. Over the last three years, sales to Japan have accounted for approximately 10% to 15% of our revenue. TEPCO has historically been one of our largest customers. We had already delivered the LEU to fuel fabricators expected to be used in 2011 for refueling of reactors by utility customers most directly affected by the earthquake. However, as of early 2012, nearly all of Japan’s reactors are shut down for maintenance and inspection outages and the timing of their return to service is uncertain. Our backlog during the years 2012-2013 includes sales to Japanese utility customers of approximately \$300 million. A portion of these contracts are requirements contracts and therefore sales to Japanese utility customers with such contracts could be delayed or ultimately canceled depending on how quickly their reactors return to service. As of December 31, 2011, estimated future revenue from Japanese utilities under contracts in our backlog during the period 2012 through 2020 is expected to be approximately 20% of the total backlog for that period. The shutdown of the Japanese reactors and the shutdown of reactors in other countries due to concerns raised by March 11 events have affected supply and demand for LEU over the next 2-4 years. This impact could grow more significant over time depending on the length and severity of delays or cancellations of deliveries. Prior to the events in Japan, Japanese demand was approximately 6 million SWU annually. The longer that this demand is reduced or absent from the market, the greater the cumulative impact on the market. Suppliers whose deliveries are cancelled or delayed due to shutdown reactors or delays in reactor refuelings could seek to sell that excess supply in the market. This could adversely affect our success in selling our LEU, including sales of output from the Paducah plant that are needed in order to support an extension of Paducah operations beyond May 2012 as described in the risk factor “*We do not currently believe the factors are in place to support continued Paducah GDP enrichment operations beyond May 2012*” below. These actions could have an adverse effect on our cash flow and results of operations.

The effects of the March 2011 earthquake and tsunami in Japan could also have an adverse impact on our ability to successfully finance and deploy the American Centrifuge project. In addition to the potential impact on cash flow discussed above, the Japanese situation could have an adverse impact on our success in obtaining third party financing in the timeframe needed. We are currently in discussions with DOE regarding a research, development and demonstration (“RD&D”) program to reduce the technology and financial risk of commercializing the American Centrifuge technology. We will continue to seek a loan guarantee conditional commitment from DOE following the RD&D program. However, the loan guarantee process has taken longer than anticipated and additional delays due to political or other concerns regarding nuclear power in light of the events in Japan could adversely affect our ability to successfully deploy the ACP. While we have had discussions with Japanese export credit agencies regarding financing \$1 billion of the cost of completing the ACP,

these discussions could also be adversely affected by the impacts of the events in Japan. We also have no assurance that the Japanese export credit agencies will not shift their priorities in the future or otherwise be unable to provide financing in the amount we need. If our ability to obtain Japanese export credit agency financing were adversely affected, this would also adversely affect our ability to obtain a DOE loan guarantee and complete the American Centrifuge project.

The March 2011 events in Japan could also have a material and adverse impact on the nuclear energy industry in the long term. The impact of the events could harm the public's perception of nuclear power and could raise public opposition to the planned future construction of nuclear plants. Some countries may delay or abandon deployment of nuclear power as a result of the events in Japan. For example, Germany has shut down 8 of its reactors and announced that it will be phasing out all of its 17 nuclear reactors by 2022. Although we do not serve any of the German reactors, our European competitors that serve the German reactors will now have excess nuclear fuel available to sell. In addition, Italy has renewed its moratorium on nuclear power and other European Union countries are reviewing their future plans for nuclear power. Countries have begun new safety evaluations of their plants and how well they operate in situations involving earthquakes and other natural disasters and other situations involving the loss of power. Demand for nuclear fuel could be negatively affected by such actions, which could have a material adverse effect on our results of operations and prospects. The events at Fukushima and its aftermath have negatively affected the balance of supply and demand for LEU over the next 2-4 years, as reflected in lower nuclear fuel prices in recent months. If deliveries under requirements contracts included in our backlog are significantly delayed, modified or canceled, or if our backlog of contracts is otherwise negatively affected, our future revenues and earnings may be materially and adversely impacted.

Any resulting increased public opposition to nuclear power could lead to political opposition and could slow the pace of global licensing and construction of new or planned nuclear power facilities or negatively impact existing facilities' efforts to extend their operating licenses. The events could also result in additional permitting requirements and burdensome regulations that increase costs or have other negative impacts. As events at the Japanese nuclear facilities continue to develop, they could raise concerns regarding potential risks associated with certain reactor designs or nuclear power production. The events in Japan have also raised concerns regarding how to deal with spent fuel, which could result in additional burdensome regulations or costs to the nuclear industry which could potentially impact demand for LEU. These events could adversely affect our business, results of operations and prospects.

***We do not currently believe the factors are in place to support continued Paducah GDP enrichment operations beyond May 2012.***

A decision regarding whether or not to extend enrichment operations at the Paducah GDP beyond May 2012 must be made in the next few months. Although our goal is to extend enrichment operations at the Paducah GDP, we do not currently believe the factors are in place to support continued enrichment operations. In order to continue enrichment beyond May 2012, we will need to be successful in the near term in the following three areas, none of which has been achieved to date, and all of which are subject to significant uncertainty:

- identifying additional demand for LEU needed to support continued Paducah enrichment operations at the production level necessary to make the plant economic;
- obtaining a contract with DOE for programs such as enriching a portion of the DOE's depleted uranium ("tails") stockpile on satisfactory terms and in sufficient amount to maintain plant production capacity at an economic level; and
- negotiating an acceptable power arrangement with TVA or other suppliers of power who have sufficient transmission capacity to supply the plant.

The supply needs of our traditional utility customers appear to be largely satisfied over the next several years. In addition, there is significant excess supply in the market due to the impacts of the Fukushima accident and the amount of excess supply in the market is increasing the longer that the majority of Japanese reactors are out of service. Based upon our current outlook for demand and discussions with utility customers, we do not believe there is sufficient demand to support a Paducah extension even with an agreement with DOE for tails re-enrichment to absorb a significant portion of the plant production capacity. Therefore, at some point in the next 18 months we expect to cease commercial enrichment at the Paducah GDP but the facility may remain operational to meet other requirements.

We also have no assurance that we will be successful in obtaining a contract with DOE for programs such as enriching a portion of the DOE's depleted uranium stockpile on satisfactory terms, in sufficient amount, or at all. Although we believe a tails re-enrichment program can be implemented without an adverse material impact on the domestic uranium mining industry and will provide substantial value for the U.S. government, we face opposition to such an arrangement and are reliant on DOE to make a decision to go forward with such a program. We have been pursuing a tails re-enrichment program with DOE for several years and have not been successful to date. While we believe that DOE has the authority to proceed with a tails re-enrichment program under existing law, legislation that we support regarding tails re-enrichment to confirm DOE authority and to direct the initiation of a pilot enrichment program has been introduced in Congress. However, we have no assurance that any legislation will be enacted, the timing of any legislation, or that if legislation is enacted that we will be selected to carry out any tails re-enrichment program. We could face competition for any tails re-enrichment program that DOE may pursue. The amount of revenue generated for the federal government from any tails re-enrichment program is dependent on the market value of uranium. Changes in uranium prices could adversely affect the perceived benefits of this arrangement to DOE, which would further reduce the prospects that DOE would proceed with this program. As an alternative, we have recently been in discussions regarding the potential for the Bonneville Power Administration ("BPA"), a federal agency within the DOE, to purchase a sufficient amount of SWU to support a potential one-year extension of Paducah enrichment operations. Under this arrangement, DOE would transfer some of its depleted uranium to BPA to be used as the feed material for the LEU produced under such an arrangement and BPA would pay us for the SWU component of the LEU produced. However, we have no assurances that we will reach an agreement regarding such an arrangement on acceptable terms or at all.

We also have no assurance that we will be successful in negotiating an acceptable power arrangement with TVA or other suppliers of power and delays in making a decision as to whether to extend Paducah enrichment operations makes this more difficult. Our power supply contract with TVA expires May 31, 2012 and we are evaluating additional power purchases from TVA and other sources. However, we have not been willing to commit to additional power purchases until we have greater certainty with respect to the other factors needed to support extended Paducah plant enrichment operations. Because of these delays, suppliers other than TVA who may be able to offer us power at more competitive rates or for a fixed price may not have sufficient available power or transmission capacity to meet all our significant power needs. Our perceived credit risk could also adversely affect the terms that we are able to negotiate with power suppliers, including additional requirements for financial assurance.

The Paducah GDP operates most efficiently in the range of 5 to 6 million SWU per year. Operating the Paducah GDP at levels below 5 million SWU would have a negative impact on plant economics. In addition, under the 2002 DOE-USEC Agreement, enrichment at the Paducah GDP may not be reduced below a minimum of 3.5 million SWU per year until six months before we have completed an enrichment facility using advanced technology such as centrifuge technology capable of producing LEU containing 3.5 million SWU per year. If the Paducah GDP is operated at less than the specified 3.5 million SWU in any given fiscal year, we may cure the defect by increasing enrichment operations to the 3.5 million SWU level in the next fiscal year. However, we may only

use the right to cure once in each six-year lease period. If we do not maintain the requisite level of operations at the Paducah GDP and have not cured the deficiency, we are required to waive our exclusive right to lease the facility. Under the 2002 DOE-USEC Agreement, if we believe the enrichment market is otherwise stable and viable but that a significant change has taken place in the domestic or international enrichment markets such that continued operation of the Paducah GDP at or above the 3.5 million SWU per year level is commercially impractical, we have the right under the 2002 DOE-USEC Agreement to present our position to DOE. However, we have no assurances that DOE will agree with our position or agree to amend the 2002 DOE-USEC Agreement.

In addition to the requirements to produce LEU containing 3.5 million SWU per year described above, if we “cease operations” at the Paducah GDP or lose our certification from the NRC, DOE may take actions it deems necessary to transition operation of the plant from us to ensure the continuity of domestic enrichment operations and the fulfillment of supply contracts. We will be deemed to have “ceased operations” at the Paducah GDP if we (1) make a determination to cease enrichment at the plant, (2) produce less than 1 million SWU per year or (3) fail to meet specific maintenance and operational criteria established in the 2002 DOE-USEC Agreement. As part of transitioning operations under the 2002 DOE-USEC Agreement, (1) DOE may designate an alternate operator, (2) DOE may terminate all or any portion of leasehold or require return of leased facilities in good and operable condition, (3) we would be obligated to waive our right to lease the GDP, and (4) we would be obligated to not oppose legislation sought by DOE to permit implementation of DOE’s rights under the 2002 DOE-USEC Agreement.

***A decision to cease enrichment operations at the Paducah GDP could have a material adverse effect on our business and prospects.***

Delays in financing construction of the American Centrifuge Plant have made continued efficient operation of our current enrichment plant an important element of our business as we transition to centrifuge production. Without enrichment operations at Paducah beyond May 2012, we would cease commercial enrichment of uranium during this transition period. Absent a definitive timeline for ACP deployment, this could adversely affect our efforts to pursue the American Centrifuge project, to implement the commercial agreement we entered into in March 2011 for the supply of commercial Russian LEU (the “Russian Supply Agreement”) or to pursue other options, and could threaten our overall viability.

The shutdown of Paducah enrichment operations could also adversely affect our relationships with customers. Customers could ask us to provide additional financial or other assurances of our ability to deliver under existing contracts that could adversely affect our business. A decision to shut down Paducah enrichment operations could also adversely affect our ability to enter into new contracts with customers, including our ability to contract for the output of the American Centrifuge Plant and for the material we purchase under the Russian Supply Agreement. We maintain substantial inventories of SWU that we carefully monitor to ensure we can meet our commitments. Our ability to maintain inventories and to monetize these inventories in order to meet our liquidity requirements could be adversely affected if we lost our right to lease the portions of the Paducah GDP where the inventories are held and could not find alternative space where inventories could be kept.

If we make a decision to not continue enrichment operations at the Paducah GDP beyond May 2012 or to continue for only a short period of time, we could accelerate expenses for certain assets such as previously capitalized leasehold improvements and machinery and equipment related to the Paducah GDP. As of December 31, 2011, net book value of property, plant and equipment included in our consolidated balance sheet was \$66.8 million related to Paducah operations. These assets are being depreciated over their estimated life based on the current lease term through 2016. We have accrued liabilities for lease turnover costs related to the Paducah GDP, included in our other long-term liabilities, of \$42.6 million at December 31, 2011 that could be accelerated from a cash standpoint and considered as current liabilities if we were to terminate the lease prior to the current

expiration date.

We would also expect to incur significant costs in connection with a decision to shut down Paducah enrichment operations, including potential severance costs and curtailment charges related to our defined benefit pension plan and postretirement health and life benefit plans. We could also incur potential liability under ERISA Section 4062(e) as described below under “*We could be required to accelerate the funding of our defined benefit pension plans that could adversely affect our liquidity.*”

If a decision is made to shut down Paducah enrichment operations, we would expect to de-lease the Paducah GDP except for certain facilities used for shipping and handling, inventory management and site services that are needed for our ongoing operations, including deliveries to customers of our inventory of LEU and handling of Russian material through 2013 under the Russian Contract or beyond under the Russian Supply Agreement. However, we have no assurance that DOE would accept facilities that we wish to de-lease in the timeframe desired, which could result in additional costs.

We also have no assurance that DOE would allow us to continue to lease portions of the Paducah GDP. Under the 2002 DOE-USEC Agreement, DOE can assume operations of Paducah in the event we cease enrichment operations. There can be no assurance that DOE will not exercise this right. If DOE decides to exercise its right to assume operation of Paducah under the 2002 DOE-USEC Agreement, there is no assurance that their exercise of their rights will not result in additional adverse impacts to us, including interfering with our deliveries to customers, interfering with our ability to sell our inventory and impacting our ability to make sales. All of these factors could have a significant adverse effect on our results of operations and financial condition.

The ongoing economics of the Paducah GDP are being increasingly challenged. Our inventories of SWU and uranium are valued at the lower of cost or market. Production costs are added to inventory using the monthly moving average cost method. We compare our inventory cost against market prices and if our inventory costs were to exceed market prices, we could be required to take an inventory impairment. A decision to shorten Paducah’s plant life could also adversely increase our cost of sales.

Alternatively, in lieu of a decision to cease Paducah enrichment operations, we could pursue reduced operating scenarios or take actions to reduce fixed costs at the Paducah plant, which could have negative consequences on our results of operations and financial condition.

***A decision to continue enrichment operations at the Paducah GDP beyond May 2012 could have a material adverse effect on our results of operations and financial condition.***

We will soon make a decision on extending enrichment operations at the Paducah GDP beyond May 2012. That decision will include assumptions regarding additional sales, prospects of reaching a contract with DOE for programs such as enriching a portion of DOE’s tails stockpile, power prices, and other factors, which may not be achieved.

New sales may not be achieved in a timeframe needed to support extended enrichment operations, or if achieved, may not be at a price needed to support continued economic plant operations. Assumptions regarding a contract with DOE may not materialize as planned or in the timeframe needed. We could also continue to be at risk for fuel cost adjustments in any power contract that we enter into for purchases beyond May 2012. We may also make assumptions that may not be achieved, including regarding the market price for power, or underfeeding based on expected uranium prices. We may also base a decision to continue enrichment operations of the Paducah GDP on an expectation for actions to reduce our fixed costs which may not be achieved in the timeframe or amount expected, or at all.

In addition, we could make a decision to continue enrichment operations of the Paducah GDP for considerations other than the plant economics. We could continue enrichment operations of the Paducah GDP in order to preserve certain rights under the 2002 DOE-USEC Agreement, which could have a material adverse effect on our results of operations and financial condition. As described above under “*We do not currently believe the factors are in place to support continued Paducah GDP enrichment operations beyond May 2012,*” under the 2002 DOE-USEC Agreement, in the event we do not meet the requisite level of operations, DOE may take actions that DOE deems necessary to transition operations away from USEC. We could also continue operations of the Paducah GDP for some limited period of time to limit or delay certain costs associated with ceasing operations or transitioning the facility to DOE or to avoid other negative consequences of ceasing operations, which could have an adverse impact on our results of operations and financial condition, as described in the risk factor above.

***There are potential demands on our liquidity that could cause us to restructure our business and our capital structure.***

Although the recent renewal of our credit facility significantly improved our liquidity view for 2012, we expect maintenance of adequate liquidity for our operations will be challenging in 2012. Key factors that can affect liquidity requirements for our existing operations include the timing and amount of customer sales, power purchases, and purchases under the Russian Contract. In addition, we expect to make a number of decisions during 2012 that could have significant consequences for our business, including whether to continue enrichment operations at the Paducah plant beyond May 2012 and the potential to demobilize the American Centrifuge project if DOE funding is not obtained for the RD&D program. These decisions, as well as actions that may be taken by vendors, customers, creditors and other third parties in response to our decisions or based on their view of our financial strengths and future business prospects, could give rise to events that individually, or in the aggregate, are likely to impose significant demands upon our liquidity. Among the events that could arise are:

- Unwillingness of customers to advance additional orders that may be needed to manage our liquidity and working capital;
- Costs that could be incurred in connection with a decision to cease Paducah commercial operations, including potential severance costs and curtailment charges related to our defined benefit pension plans and postretirement health and life benefit plans;
- Our inability to monetize our inventory as a result of actions DOE may take under the 2002 DOE-USEC Agreement to assume operations of the Paducah GDP and limit our rights to use portions of the Paducah GDP if we cease operations at the Paducah GDP, as described in the risk factor above “*A decision to cease enrichment operations at the Paducah GDP could have a material adverse effect on our business and prospects;*”
- Requests by customers that we provide additional financial or other assurance of our ability to deliver under existing contracts, or the potential of our customers to seek to modify or terminate our existing contractual arrangements;
- The outcome of any discussions with the PBGC that results in a requirement by the PBGC that we accelerate the funding of our defined benefit pension plans due to the transition of our Portsmouth site or due to potential future decisions to discontinue enrichment at Paducah or to demobilize the American Centrifuge project, as described in the risk factor below “*We could be required to accelerate the funding of our defined benefit pension plans that could adversely affect our liquidity;*” and
- Requirements that we provide additional collateral or financial assurance for the disposition of our depleted uranium and stored wastes or for the decontamination and decommissioning (“D&D”) of the American Centrifuge Plant as a result of (1) new information becoming available that increases the estimate of the liability, (2)

requirements by the NRC or DOE; or (3) requirements of our surety bond providers to provide additional collateral as a result of concerns regarding our financial condition or other factors such as a decision to cease Paducah enrichment or to demobilize the American Centrifuge project (as of December 31, 2011 we had cash collateral deposits of \$151.3 million for surety bonds of \$257.8 million) as described under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Financial Assurance and Related Liabilities*”; and

- Our ability to renew or replace our new credit facility (which expires in May 2013) in the timeframe and amount needed to provide liquidity for our ongoing operations, and restrictions in our new credit facility that may limit our flexibility, as described in the risk factor below “*The rights of our creditors under the documents governing our indebtedness may limit our operating and financial flexibility and increase the difficulty of complying with the obligations governing our indebtedness.*”

In light of these factors and our desire to improve our credit profile, we may pursue discussions with creditors and key stakeholders regarding the restructuring of our business and our capital structure. If one or more of these events arise, including as a result of our decision to cease enrichment operations at Paducah or demobilize the American Centrifuge project, any material demands upon our liquidity could limit our ability to pursue these restructuring alternatives. There can be no assurance that we will be successful in these efforts and if we are not successful, we could file for bankruptcy protection.

***We could be required to accelerate the funding of our defined benefit pension plans that could adversely affect our liquidity.***

We maintain qualified defined benefit pension plans covering approximately 7,200 current and former employees and retirees, including approximately 1,630 active employees. These pension plans are guaranteed by the Pension Benefit Guaranty Corporation (“PBGC”), a wholly owned U.S. government corporation that was created by the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). At December 31, 2011, these plans were underfunded (based on generally accepted accounting principles (“GAAP”)) by approximately \$260.0 million.

As described under “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Contract Services Segment—Portsmouth Site Transition”, on September 30, 2011, we completed the de-lease of the Portsmouth gaseous diffusion facilities and transition of employees performing government services work to DOE’s new decontamination and decommissioning (D&D) contractor. We notified the PBGC of this occurrence. Pursuant to ERISA Section 4062(e), if an employer ceases operations at a facility in any location and, as a result, more than 20% of the employer’s employees who are participants in a PBGC-covered pension plan established and maintained by the employer are separated, the PBGC has the right to require the employer to place an amount in escrow or furnish a bond to the PBGC to provide protection in the event the plan terminates within five years in an underfunded state. Alternatively, the employer and the PBGC may enter into an alternative arrangement with respect to any such requirement, such as accelerated funding of the plan or the granting of a security interest. The PBGC could also elect not to require any further action by the employer. The PBGC has informally advised us of its preliminary view that the Portsmouth site transition is a cessation of operations that triggers liability under ERISA Section 4062(e) and that its preliminary estimate is that the ERISA Section 4062(e) liability (computed taking into account the plan’s underfunding on a “termination basis”, which amount differs from that computed for GAAP purposes) for the Portsmouth site transition could exceed \$100 million. We have informed the PBGC that we do not agree that the de-lease of the Portsmouth gaseous diffusion facilities and transition of employees constituted a cessation of operations that triggered liability under ERISA Section 4062(e). We also dispute the amount of the preliminary PBGC calculation of the potential ERISA Section 4062(e) liability. However, there can be no assurance that the PBGC will agree with us, in which case, the PBGC could seek to require us to place an amount in escrow or furnish a bond to the PBGC or to negotiate with us to enter into an alternative arrangement, such as a

requirement to accelerate funding or provide security. If we are not successful in reaching a resolution with PBGC or defending against any pursuit by PBGC of a requirement for a bond or escrow, in light of the current demands on our liquidity, depending on the timing and amount of such requirement, we might not have the cash needed to satisfy such requirement, which could have a material adverse effect on our liquidity and prospects.

As we discuss elsewhere, we are facing a near term decision regarding the continuation of enrichment at the Paducah gaseous diffusion plant beyond May 2012. In addition, to date, we have not been able to obtain from DOE a conditional commitment for a \$2 billion loan guarantee for the American Centrifuge project and there remains uncertainty regarding our prospects for DOE funding of the RD&D program. Therefore, we continue to plan for a potential demobilization of the American Centrifuge project. The PBGC could take the position that a future decision to discontinue enrichment at Paducah, or to demobilize the American Centrifuge program, or both, could create additional potential liabilities under Section 4062(e) of ERISA. We would also seek to defend against this position based on the facts and circumstances at the time. However, given the significant number of current active employees at Paducah, the amount of any potential liability related to a future decision to discontinue enrichment at Paducah could be more significant than the potential liability in connection with the Portsmouth site transition. In the event that either the discontinuation of enrichment at Paducah, or the demobilization of the American Centrifuge program constitutes a cessation of operations that triggers liability under ERISA Section 4062(e), the potential amount of any liability would depend on various factors, including the amount of any future underfunding under each of our defined benefit pension plans (also computed based on the plan's underfunding on a "termination basis"), taking into account plan asset performance and changes in interest rates used to value liabilities, as well as the number of employees who are participants in the affected plan prior to any covered event and the number of such employees who leave the plan as a result of any such event, and whether the pension obligations are transferred to a subsequent employer on the site. In light of current demands on our liquidity, depending on the timing and amount of any requirement to satisfy any such liability, we might not have the cash needed to do so, which could have a material adverse effect on our liquidity and prospects.

***Our new credit facility contains limitations on our ability to invest in the American Centrifuge project, which could adversely affect our ability to deploy the American Centrifuge Plant.***

Under the terms of our credit facility entered into on March 13, 2012, we are subject to significant restrictions on our ability to spend on the American Centrifuge project. During March, April and May 2012, the credit facility restricts our spending on the American Centrifuge project to \$15 million per month. Unless we enter into an agreement with DOE for the RD&D program, our credit facility restricts our spending on the American Centrifuge project beyond May 2012 to \$1 million per month (except for spending needed to carry out a project demobilization or to maintain compliance with legal and regulatory requirements under certain circumstances, as described below). If we are unable to timely enter into the RD&D program with DOE, or if we experience delays in receiving government funding under the RD&D program, this will significantly limit our ability to spend on the project and could force us to demobilize the project even with an expectation of receipt of RD&D funding in the future.

Provisions in our credit facility relating to spending on the American Centrifuge project during the term of the credit facility were based on our view of the expected terms of any agreement we would enter into with DOE for the RD&D program, which requires agent approval. If the terms that we ultimately reach with DOE for the RD&D program are materially different, that could cause lender consent to be more difficult or costly to obtain, or could restrict our ability to implement the RD&D program.

If we enter into an agreement with DOE for the RD&D program, we are permitted to spend our 20% share of the costs under the RD&D program (up to \$75 million) as long as the amount we have spent that is due to be reimbursed to us under the RD&D program does not exceed \$50 million. Delays in reimbursement from DOE could limit our ability to spend on the American Centrifuge project even with an agreement for the RD&D program.

If we demobilize the American Centrifuge project, the credit facility permits us to pay the costs and expenses of a demobilization in accordance with a plan previously submitted to the agent for the lenders. This would restrict our ability to pay for demobilization expenses that are greater than anticipated at the time of entering into the credit facility without the approval of the administrative agent under the credit facility, which could be difficult or costly to obtain. If, as part of the exercise of DOE's remedies under the RD&D program, we are required to transfer the American Centrifuge project or the RD&D program assets to DOE or its designee, the credit facility also permits us to spend as needed to maintain compliance with legal and regulatory requirements. However, this is limited under the credit facility to up to \$5 million of proceeds of the revolving loans on such expenses. We may not spend any proceeds of revolving loans on American Centrifuge expenses if a default or event of default has occurred under the credit facility. These restrictions on spending could significantly restrict our flexibility and ability to implement the RD&D program and deploy the American Centrifuge project.

***The rights of our creditors under the documents governing our indebtedness may limit our operating and financial flexibility and increase the difficulty of complying with the obligations governing our indebtedness.***

Our new credit facility entered into on March 13, 2012 includes various operating and financial covenants that restrict our ability, and the ability of our subsidiaries, to, among other things, incur or prepay other indebtedness, grant liens, sell assets, make investments and acquisitions, consummate certain mergers and other fundamental changes, make certain capital expenditures and declare or pay dividends or other distributions. Most of these covenants are more restrictive than the corresponding covenants under our prior credit facility. The more restrictive nature of the covenants, combined with the smaller size of the credit facility from our prior credit facility, makes compliance with the covenants under the credit facility more difficult should we encounter unanticipated adverse events. Complying with these covenants may also limit our flexibility to successfully execute our business strategy. For example, as described in the risk factor above, these covenants limit the amount we can invest in the American Centrifuge project. In addition, the covenants do not permit us to enter into arrangements with DOE in which we barter SWU for non-cash consideration, such as uranium, without lender approval. Depending on how an agreement with DOE was structured, we could need lender consent in order to enter into an agreement with DOE for the re-enrichment of DOE tails at the Paducah GDP.

The credit agreement also requires that we maintain a minimum level of available borrowings and contains reserve provisions that may periodically reduce the available borrowings under the credit facility. In addition, beginning in December 2012, the aggregate revolving commitments and term loan will be reduced by \$5.0 million per month through the expiration of the credit facility. In addition, certain proceeds (including from sales of assets resulting from the cessation of operations at the Paducah GDP or a demobilization of the American Centrifuge project), will permanently reduce the revolving loan commitments and prepay the term loan. Both the revolving credit facility and the term loan must be fully prepaid prior to any redemption of the Company's Series B-1 preferred stock.

The new credit facility also contains higher fees and interest than our previous credit facility, which increases the overall cost of the credit facility. In addition, depending upon the amount of borrowings, these higher fees could have an adverse effect on our results of operations.

Most material modifications under the new credit facility require the consent of a majority of both the revolving credit facility lenders and the term loan lenders as a separate class. This could make any consent we may need, in particular in light of the significant uncertainties facing our business, difficult or costly to obtain.

Our failure to comply with obligations under the credit facility or other agreements such as the indenture governing our outstanding convertible notes, and surety bonds, or the occurrence of a “fundamental change” as defined in the indenture governing our outstanding convertible notes or the occurrence of a “material adverse effect” as defined in our credit facility, could result in an event of default under one or more of the documents governing our indebtedness. We cannot provide assurances that we would be able to cure any default and, in certain cases, the applicable documents governing our indebtedness may not provide us the opportunity to cure a default. A default, if not cured or waived, could result in the acceleration of our indebtedness and, in the case of the credit facility, could require us to fully cash collateralize all outstanding letters of credit. In addition, a default under one of the documents governing our indebtedness, such as our credit facility, could constitute a default under another document governing our indebtedness, such as the indenture governing our outstanding convertible notes. If, as a result of a default, our indebtedness is accelerated, we cannot be certain that we will have funds available to pay the accelerated indebtedness or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all. Further, even if we are able to pay or refinance the accelerated indebtedness, we may not be able to remedy the consequence of a default under the documents governing our other indebtedness or obligations, including the indenture governing our outstanding convertible notes.

***The long-term viability of our business depends on our ability to replace our current enrichment facility with competitive gas centrifuge enrichment technology.***

We currently use a gaseous diffusion uranium enrichment technology at the Paducah GDP for approximately one-half of the LEU that we need to meet our delivery obligations to our customers and to generate uranium through underfeeding to satisfy our obligations under the Russian Contract. However, our competitors utilize or are transitioning to centrifuge uranium enrichment technology. Centrifuge technology is more efficient and operationally cost-effective than gaseous diffusion technology, which requires substantial amounts of electric power to enrich uranium. We must transition to a lower operating cost technology in order to remain competitive in the long term and one that is less dependent on volatile energy markets.

We are working to deploy an advanced uranium enrichment centrifuge technology, which we refer to as the American Centrifuge technology, as a replacement for our gaseous diffusion technology. The construction and deployment of the American Centrifuge Plant (“ACP”) is a large and capital-intensive undertaking that is subject to significant risks and uncertainties.

If we are unable to successfully and timely deploy the ACP or an alternative enrichment technology on a cost-effective basis, due to the risks and uncertainties described in this section or for any other reasons, our gross profit margins, cash flows, liquidity and results of operations would be materially and adversely affected and our business likely would not remain viable over the long term.

***We have not yet reached an agreement with DOE regarding the RD&D program and without funding for such a program or other source of funding, we will likely need to begin demobilizing the American Centrifuge project in the near term.***

We are engaged in discussions with DOE regarding a RD&D program to reduce the technology and financial risk of commercializing the American Centrifuge technology. The RD&D program being discussed with DOE is currently anticipated to include up to \$300 million of total U.S. government funding. The RD&D program is expected to be a two-year program implemented through a cost-sharing arrangement whereby DOE would initially provide up to 80% of the costs of

the program. DOE has proposed funding one half of its \$300 million contribution in government fiscal year 2012, with the remainder in government fiscal year 2013. We have been working with DOE and Congress to secure DOE funding for the RD&D program. However, DOE's share of funding for the program has not yet been provided and the source for such funding is uncertain. The current political environment in Washington has significantly slowed the legislative process. The two houses of Congress are each held by a different political party and in an election year the necessary bipartisan support will be difficult to achieve.

Due to constraints on our ability to continue to spend on the project, on March 13, 2012, we entered into an agreement with DOE that enables us to provide interim funding of \$44 million. Under the agreement, we transferred a quantity of our depleted uranium ("tails") to DOE, which enabled us to release encumbered funds of approximately \$44 million that were previously provided as financial assurance for the disposition of such depleted uranium. In consideration for accepting title to the tails quantity, we transferred to DOE title to LEU containing SWU of equal value. We expect that this LEU could be returned to us as part of DOE's cost share under the RD&D program if government funding is provided for the RD&D program (this \$44 million would then be part of the \$150 million that DOE is seeking to fund in fiscal year 2012). However, if the RD&D program does not move forward, the LEU would not be returned to us, and DOE would not reimburse these ACP costs. The \$44 million of funding is expected to enable us to fund the ACP program activities through the end of March 2012 while we continue to work with DOE and Congress to secure funding for the RD&D program. However, this funding may not be sufficient to fund our efforts through the timeframe needed to secure DOE funding, including in the event of continuing delays with respect to our efforts to seek funding for the RD&D program. In addition, if we determine that DOE funding for the RD&D program is not likely to be achieved in the timeframe needed, we may determine not to continue spending on the project.

Even if DOE funding were provided for the RD&D program for government fiscal year 2012, funding for the RD&D program beyond government fiscal year 2012 would be subject to future appropriations, which is subject to significant uncertainty. We have no assurance that we will be able to reach agreement with DOE regarding any phase of the RD&D program or that any funding will be provided or that the LEU will be returned.

Our ability to provide funding for the project beyond the \$44 million is significantly limited. It is currently anticipated that USEC's 20% contribution during the initial phase of the RD&D program could include credit for certain expenditures previously made by USEC for ongoing demonstration activities. However, we have no assurances that we will be allowed a credit for these expenditures.

Even if we are successful in obtaining funding for the RD&D program, we will still need to reach agreement on the terms of the RD&D program. We would need to agree on the scope, schedule, cost, and funding sources for the RD&D program, and finalize financial conditions and technical milestones for the RD&D program. Any agreement for the RD&D program would likely require restructuring of the project and of our investment. We would also anticipate working with our strategic investors Toshiba Corporation ("Toshiba") and Babcock & Wilcox Investment Company ("B&W") to determine how best to structure ongoing investment in the project and move forward with this RD&D program and future commercialization. The RD&D program being discussed with DOE involves the manufacturing of additional production design centrifuge machines and constructing and operating at least one complete demonstration cascade of commercial centrifuge machines so that key systems associated with cascade operations of the American Centrifuge technology can be tested as they would actually operate at the scale necessary for full commercialization. However, an agreement has not been reached on the specific scope of the program, including the actual number of machines to be built, and the technical milestones for the RD&D program. The technical milestones that DOE requires could be substantial and could be difficult to achieve in light of the cap on the U.S. government funding of \$300 million and limitations on our ability to continue to spend on the project. If the project is unable to satisfy, on the agreed schedule, any technical or other milestones

that are negotiated, this could give DOE certain rights to terminate the RD&D program and to exercise certain remedies, which could materially impair our ability to deploy the project.

If we move forward with the RD&D program, we will be working with our strategic investors and with other potential third parties regarding the form and structure of further investment in the ACP and achievement of any financial conditions that may be required by DOE. However, we have no assurance that we will reach agreement with our strategic investors or any other potential third parties and that such parties will be willing to provide funding for the project and on what terms.

No decision has yet been made regarding the RD&D program and there are no assurances that we or DOE will elect to move forward with the RD&D program and on what terms. If we elect not to go forward with the RD&D program, our alternatives for the deployment of the American Centrifuge project would be very limited. In addition, DOE may seek to exercise remedies under the 2002 DOE-USEC Agreement described below.

***We have reduced spending on the American Centrifuge project and actions we have taken or may take to reduce spending may have adverse consequences on the American Centrifuge project.***

Beginning in October 2011, we reduced our monthly spending on the American Centrifuge project by approximately 30% (as compared to the average monthly rate of spending in the prior months of 2011) and also suspended a number of contracts with suppliers and contractors involved in the American Centrifuge. We sent Worker Adjustment and Retraining Notification (“WARN”) Act notices to all of the approximately 450 USEC American Centrifuge workers informing them of potential future layoffs. In connection with the decision to curtail spending, we also suspended a number of contracts with suppliers and contractors involved in the American Centrifuge project and advised them that we may demobilize the project. As discussed above, we are currently in discussions with DOE regarding a RD&D program and on March 13, 2012, we entered into an agreement with DOE that enables us to fund the project at a reduced level of spending through the end of March 2012. However, additional spending reductions may be needed to keep spending within available funding going forward. We also have no assurance that any additional funding for the American Centrifuge project will be made available.

Reductions in spending on the American Centrifuge project could:

- adversely affect our ability to execute the RD&D program if an agreement is reached;
- cause us to need to continue to suspend or possibly to terminate contracts with suppliers and contractors involved in the American Centrifuge project and make it more difficult for us to maintain key suppliers for the ACP and the manufacturing infrastructure developed over the last several years;
- cause us to implement worker layoffs and potentially lose key skilled personnel, some of whom have security clearances, which could be difficult to re-hire or replace, and incur severance and other termination costs;
- delay our efforts to reduce the centrifuge machine cost through value engineering; and
- delay our deployment of the American Centrifuge project and increase the overall cost of the project, which could adversely affect the overall economics of the project.

***We are heavily dependent on U.S. Government funding of \$300 million for the RD&D program. Delays in the budget process or the lack of approved funding for our project will adversely affect our ability to implement the RD&D program.***

We are working with DOE and Congress to obtain \$150 million in funding for the RD&D program for government fiscal year 2012. DOE has been seeking legislation to provide transfer authority to DOE in order to provide this funding for government fiscal year 2012. However, this transfer authority has not yet been provided by Congress. The current political environment in Washington has significantly slowed the legislative process. The two houses of Congress are each held by a different political party and in an election year the necessary bipartisan support will be difficult to achieve. Legislative vehicles that will be enacted in the necessary timeframe in 2012 are limited and it will be challenging to include provisions in any vehicle that will be acted upon to provide RD&D funding for the balance of government fiscal year 2012. Absent legislative action, DOE would have to take steps to accept tails liabilities to release USEC's encumbered funds or reprogram some of its existing budget allocations to fund the RD&D program after March 31 for the balance of government fiscal year 2012. Congressional support for these steps is also needed, and we have no assurance that such support will be provided or that DOE will take these steps.

Even if DOE funding were provided for the RD&D program for government fiscal year 2012, funding for the RD&D program beyond government fiscal year 2012 would be subject to future appropriations. The President's Fiscal Year 2013 budget includes \$150 million for the RD&D program within the DOE budget. The President's budget is currently being considered by Congress and we have no assurances that Congress will fund the RD&D program in the fiscal year 2013 appropriations legislation. In recent years, the U.S. government does not complete its budget process before the end of its fiscal year (September 30), and government operations typically are funded through a continuing resolution that authorizes agencies of the U.S. government to continue to operate. If the fiscal year 2013 appropriation for DOE is not signed into law prior to September 30, 2012 and the U.S. government operates under a continuing resolution for government fiscal year 2013, or a portion of fiscal year 2013, we could experience delays or an interruption in funding for the RD&D program, which would adversely affect the project. In light of our liquidity constraints and restrictions under our credit facility, we will not be able to continue RD&D program spending without U.S. government or other third party funding as the use of our own funds, would be limited.

***Even if we obtain the RD&D program and funding, we may not obtain a loan guarantee from DOE and other financing needed for the project and could demobilize or terminate the project.***

We have been working with DOE since October 2010 on the terms of a conditional commitment for a \$2 billion loan guarantee. However, we have not yet been able to obtain a conditional commitment. In April 2011, the DOE Loan Guarantee Program Office substantially completed the due diligence and negotiation stage of the application process, including a draft term sheet, and advanced the ACP application to the next phase for review in parallel by DOE's credit group and by the Office of Management and Budget, the Department of the Treasury and the National Economic Council. This review included the establishment of an estimated range of credit subsidy cost. As part of this review, DOE indicated that it believed that we needed to further improve our financial and project execution depth to achieve a manageable credit subsidy cost estimate and to proceed with the DOE loan guarantee.

Despite our continued efforts through most of 2011 to obtain a conditional commitment for a loan guarantee from DOE, we were not successful during 2011 in satisfying DOE's concerns regarding the financial and project execution depth of the American Centrifuge project. Instead of moving forward with a conditional commitment for a loan guarantee, DOE proposed the RD&D program, and we are focused on addressing DOE's remaining concerns through the RD&D program in order to move forward on the American Centrifuge project and to obtain a conditional commitment and DOE loan guarantee. However, we have no assurances that we will be able to address DOE's concerns to

DOE's satisfaction or that additional concerns will not be raised that we will be required to address to DOE's satisfaction in order to obtain a loan guarantee. There is also ongoing uncertainty regarding the DOE loan guarantee program as a result of high-profile defaults under the program and related investigations.

We have no assurances that we will be successful in obtaining a loan guarantee and the timing thereof, that the terms we previously negotiated with the DOE Loan Guarantee Program Office will be approved or that the credit subsidy cost will be reasonable. A high credit subsidy cost could result in a potential capital shortfall, which would require new sources of capital to close. New sources of capital could be difficult to obtain and result in additional delays.

We also cannot give any assurances that we will be able to demonstrate to DOE that we can obtain the capital needed to complete the project following the delays in our obtaining a loan guarantee, including any delays created by the pendency of our application during the RD&D program. Additional capital beyond the \$2 billion of DOE loan guarantee funding that we have applied for and our internally generated cash flow will be required to complete the project. We have had discussions with Japanese export credit agencies regarding financing up to \$1 billion of the cost of completing the ACP. However we have no assurances that we will be successful in obtaining this financing and that the delays we have experienced will not adversely affect these efforts.

The amount of additional capital that we will need will depend on a variety of factors, including our estimate of the total cost to complete the project, the input we receive from our suppliers as part of our negotiations, the amount of contingency or other capital DOE may require, the amount of the DOE credit subsidy cost we would be required to pay, the length of the demobilization period, and efficiencies and other cost savings that we are able to achieve. In order to obtain a DOE loan guarantee, we will have to demonstrate that sufficient capital is available to complete the project.

The second closing of the strategic investment by Toshiba and B&W is conditioned on our obtaining a conditional commitment for a loan guarantee of not less than \$2 billion from DOE. The securities purchase agreement governing the transactions with Toshiba and B&W provided that it may be terminated if the second closing did not occur by June 30, 2011, and the second closing did not occur. During 2011 we entered into a standstill agreement with Toshiba and B&W pursuant to which each party agreed not to exercise its right to terminate the securities purchase agreement for a limited period of time. However, that time period has expired and USEC and each of the strategic investors (as to such investor's obligations) currently have the right to terminate the securities purchase agreement. If either Toshiba or B&W were to terminate the securities purchase agreement, that could have a significant adverse impact on our ability to deploy ACP and on our business and prospects. Our loan guarantee application includes the \$200 million investment as part of the sources of funds for the American Centrifuge project. If the remaining two phases of the investment were not consummated, this would adversely affect our ability to obtain a loan guarantee. In addition, our ability to obtain Japanese export credit agency financing is highly dependent on the strategic investment by Toshiba. If our ability to obtain Japanese export credit agency financing were adversely affected, this would also adversely affect our ability to obtain a DOE loan guarantee and complete the American Centrifuge project. In the event the securities purchase agreement governing the Toshiba and B&W investment is terminated, each of Toshiba and B&W must elect to either convert its shares of preferred stock into a new class of common stock (or a new class of preferred stock) or to sell its shares of preferred stock pursuant to an orderly sale arrangement. As a result of certain NYSE limitations on our issuance of common stock, depending on the share price at the time of termination, some of Toshiba and B&W's preferred stock may not be able to be converted or sold and would remain outstanding. We could be required to redeem such shares for cash or SWU, at our election, at August 31, 2012, which could harm our financial condition. However, our ability to redeem may be limited by Delaware law, and if not limited may result in mandatory prepayment of our credit facility.

In light of our inability to obtain a conditional commitment for a DOE loan guarantee to date, and given the significant uncertainty surrounding our prospects for finalizing an agreement and obtaining funding from DOE for an RD&D program and the timing thereof, we continue to evaluate our options concerning the American Centrifuge project. Our evaluation of these options is ongoing and a decision could be made at any time. We may also take actions in the future if we determine at any time that we do not see a path forward to the receipt of loan guarantee conditional commitment or if we see further delay or increased uncertainty with respect to our prospects for obtaining a loan guarantee, or for other reasons, including as needed to preserve our liquidity. Further cuts in project spending and staffing could make it even more difficult to remobilize the project and could lead to more significant delays and increased costs and potentially make the project uneconomic. Termination of the ACP could have a material adverse impact on our business and prospects because we believe the long-term competitive position of our enrichment business depends on the successful deployment of competitive gas centrifuge enrichment technology.

***Our failure to meet milestones under the 2002 DOE-USEC Agreement could result in DOE exercising one or more remedies under the 2002 DOE-USEC Agreement.***

The 2002 DOE-USEC Agreement contains specific project milestones relating to the American Centrifuge Plant. As amended most recently in February 2011, the following four milestones remain under the 2002 DOE-USEC Agreement:

- November 2011 – Secure firm financing commitment(s) for the construction of the commercial American Centrifuge Plant with an annual capacity of approximately 3.5 million SWU per year;
- May 2014 – begin commercial American Centrifuge Plant operations;
- August 2015 – commercial American Centrifuge Plant annual capacity at 1 million SWU per year; and
- September 2017 – commercial American Centrifuge Plant annual capacity of approximately 3.5 million SWU per year.

In February 2011, DOE and we amended the 2002 DOE-USEC Agreement to revise the remaining four milestones relating to the financing and operation of the ACP. The amendment extended the financing milestone by one year to November 2011 and adjusted the remaining three milestones. In addition, we and DOE agreed to discuss further adjustment of the remaining three milestones as may be appropriate based on a revised deployment plan to be submitted by us to DOE by January 30, 2012 following the completion of the November 2011 financing milestone. Due to DOE's deferral of a decision on the loan guarantee until after completion of the RD&D program, we did not meet the November 2011 financing milestone or submit a revised deployment plan to DOE. In connection with the RD&D program described above, we have engaged in discussions with DOE regarding the modification of the remaining milestones and other provisions of the 2002 DOE-USEC Agreement. DOE has acknowledged that since DOE and we are working in good faith toward the RD&D program and the adjustment of the milestones in the 2002 DOE-USEC Agreement is currently a part of the proposed terms of the RD&D program, it does not see the need at the present time for us to present our position on the missed November 2011 milestone to DOE or to provide a revised deployment plan by the specified time. However, we have no assurances that the RD&D program will move forward or that DOE will agree to an adjustment of the milestones or other provisions of the 2002 DOE-USEC Agreement.

DOE has full remedies under the 2002 DOE-USEC Agreement if we fail to meet a milestone that would materially impact our ability to begin commercial operations of the American Centrifuge Plant on schedule and such delay was within our control or was due to our fault or negligence. These remedies include terminating the 2002 DOE-USEC Agreement, revoking our access to DOE's U.S. centrifuge technology that we require for the success of the American Centrifuge project and

requiring us to transfer certain of our rights in the American Centrifuge technology and facilities to DOE, and requiring us to reimburse DOE for certain costs associated with the American Centrifuge project. DOE could also recommend that we be removed as the sole U.S. Executive Agent under the Megatons to Megawatts program. The appointment of a substitute or additional executive agent pursuant to the U.S. government's compliance with the terms of the Executive Agent agreement under which USEC is designated the U.S. Executive Agent would require that all or part of the fixed quantity of LEU available each year under the Russian Contract be provided to the substitute or additional executive agent. This would not only reduce our access to LEU under the Russian Contract, but would also create a significant new competitor, which could impair our ability to meet our existing delivery commitments while reducing our ability to bid for new sales. Reduced access to LEU under the Russian Contract could also increase our costs and reduce our gross profit margins. However, under the 1997 memorandum of agreement, USEC has the right and obligation to pay for and take delivery of LEU that is to be delivered in the year of the date of termination and in the following year if USEC and TENEX have agreed on a price and quantity. USEC and TENEX have agreed on price and quantity for 2012.

Any of these actions could have a material adverse impact on our business and prospects. Uncertainty surrounding the milestones under the 2002 DOE-USEC Agreement or the initiation by DOE of any action or proceeding under the 2002 DOE-USEC Agreement could adversely affect our ability to obtain financing for the American Centrifuge project or to consummate the remaining transactions with Toshiba and B&W.

***Increased costs and cost uncertainty could adversely affect our ability to finance and deploy the American Centrifuge Plant.***

We expect that if we move forward with the RD&D program, we will be reevaluating the deployment approach to the project, including the development of a comprehensive revised cost estimate and schedule for the project. Based on our previous cost estimate of \$2.8 billion to complete the American Centrifuge project from the point of closing on financing, we continue to expect the funding needed to complete the project to be substantial. Our previous cost estimate was the basis of the update to our loan guarantee application submitted in July 2010. The estimate was a go-forward cost estimate and did not include our investment to date, spending from then until financial closing, overall project contingency, financing costs or financial assurance. There are significant carrying costs associated with the project and maintaining the manufacturing infrastructure. These costs could be substantial and, depending on the length of the RD&D program or any demobilization period, could threaten the overall economics of the project. In addition, continued delays in the project have made discussions with suppliers very challenging. We are not currently negotiating with suppliers regarding the transition to fixed cost or maximum cost contracts and these efforts would have to be re-commenced in connection with any revised deployment plan that is developed during the RD&D program.

Any cost estimate and schedule for the project would depend on a large variety of factors, including how we ultimately deploy the project, the outcome of future discussions with suppliers, changes in commodity and other costs, the outcome of the RD&D program, and the ability to develop and implement cost savings and value engineering actions.

Increases in the cost of the ACP increase the amount of external capital we must raise and could threaten our ability to successfully finance and deploy the ACP. We are seeking to fund the costs to complete the American Centrifuge project, including additional amounts that are needed to cover overall project contingency, financing costs and financial assurance through a combination of funding under the RD&D program, the \$2 billion of loan guarantee funding for which we have applied, the proceeds from the remaining \$125 million investment from Toshiba and B&W, additional funding of up to \$1 billion from Japanese export credit agencies or other third parties, cash on hand and prospective cash flow from existing USEC operations, and prospective reinvested

project cash. Many of these sources of capital are inter-related. For example, the third phase of the investment by Toshiba and B&W is contingent upon the closing of a DOE loan guarantee and in order to close on a DOE loan guarantee we will need to demonstrate that all sources of capital needed to complete the project are available. However, we have no assurance that we will be successful in raising this capital. Our ability to fund the ACP from cash flow from existing operations will be significantly reduced given delays in the deployment of the American Centrifuge project, including the two year delay related to the RD&D program.

The amount of additional capital that we will need will depend on a variety of factors, including the amount of any revised cost estimate and schedule for the project, the amount of contingency or other capital DOE may require as part of a loan guarantee, and the amount of the DOE credit subsidy cost we would be required to pay in connection with a loan guarantee.

We cannot assure investors that, if remobilized, the costs associated with the ACP will not be materially higher than anticipated or that efforts that we take to mitigate or minimize cost increases will be successful or sufficient. Our cost estimates and budget for the ACP have been, and will continue to be, based on many assumptions that are subject to change as new information becomes available or as events occur. Regardless of our success in obtaining and implementing the RD&D program, uncertainty surrounding our ability to accurately estimate costs or to limit potential cost increases could jeopardize our ability to successfully finance and deploy the ACP. Inability to finance and deploy the ACP could have a material adverse impact on our business and prospects because we believe the long-term competitive position of our enrichment business depends on the successful deployment of competitive gas centrifuge enrichment technology.

***The centrifuge machines and supporting equipment that we deploy in the American Centrifuge Plant may not meet our performance or availability targets over the life of the project, which would adversely affect the overall economics of the ACP.***

The target output for the ACP is based on assumptions regarding performance and availability of centrifuge machines and related equipment and actual performance may be different than we expect. Factors that can influence performance include:

- the performance and reliability of individual centrifuge components built by our strategic suppliers;
- the availability and performance of plant support systems;
- the operable lives of individual components and the level of maintenance required to sustain overall plant availability;
- our ability to acquire or manufacture replacement parts for centrifuges or plant support systems when needed; and
- differences in actual commercial plant conditions from the conditions used to establish and test our design criteria.

The AC100 machines we build as part of the RD&D program are expected to operate at our targeted performance level of 350 SWU per machine, per year over their 30-year lifetimes. We have achieved the 350 SWU performance target with the most recent AC100 centrifuges we have built and tested at Piketon. However, additional run time is required to confirm the reliability of centrifuge components, our ability to operate in a 120-centrifuge commercial plant cascade, and our ability to sustain production over an extended period of time. Our failure to achieve targeted performance could affect our ability to successfully complete milestones that are established as part of the RD&D program, the overall economics of the ACP and our ability to finance and successfully deploy the project. This could have a material adverse impact on our business and prospects.

***We rely on third-party suppliers for key components for our AC100 machine for the RD&D program and for the American Centrifuge Plant.***

We rely on third-party suppliers for key American Centrifuge components. Although spending on the American Centrifuge project has been reduced, we continue to purchase from suppliers key components for the AC100 machines that we are assembling and that will be built as part of the RD&D program. In the event we ramp up the project, our dependence on key suppliers will increase. The failure of any of our suppliers to provide their respective components as scheduled or at all or of the quality and the precise specifications we need could result in substantial delays in, or otherwise materially hamper, the deployment of the ACP.

There are a limited number of potential suppliers for these key components and finding alternate suppliers could be difficult, time consuming and costly. Because of this, our ability to obtain favorable contractual terms with these suppliers is limited. We may also have issues with respect to the retention of key suppliers as a result of our reduced spending, which could adversely affect our ability to remobilize.

We could face challenges with ensuring the ability and willingness of our strategic suppliers to continue at low rates of production for a prolonged period of time absent greater certainty on timing for financing and a definitive timeline for full remobilization. While executing the RD&D program, we expect to continue our current agreements with suppliers in which we bear certain cost, schedule and performance risk. Although we will seek to manage these risks, we cannot provide any assurance that we will be able to do so. This could result in cost increases and unanticipated delays. Our inability to effectively integrate these suppliers and other key third-party suppliers could also result in delays and otherwise increase our costs. Delays could also occur if we decide to search for alternate suppliers or to self-perform certain items that we previously anticipated outsourcing to third-party suppliers.

***We have capitalized significant amounts related to the ACP and if these amounts were no longer able to be capitalized and were charged to expense, our results of operations would be adversely affected.***

Additional delays in financing for the ACP, including delays in obtaining funding for the project as part of the RD&D program being discussed with DOE, or potential termination of the ACP could cause us to be required to charge to expense amounts previously capitalized related to the ACP. Capital expenditures related to the ACP totaled approximately \$1.1 billion at December 31, 2011, including capitalized interest of \$105.4 million, prepayments to suppliers under existing agreements for materials and services not yet provided of \$21.1 million, and \$6.7 million for deferred financing costs related to the DOE Loan Guarantee Program, such as loan guarantee application fees paid to DOE and third-party costs. During the second and fourth quarters of 2011, we expensed previously capitalized costs related to the ACP totaling \$146.6 million. This had a significant adverse impact on our results of operations for 2011.

Beginning with the start of the fourth quarter of 2011, all project costs incurred have been expensed, including interest expense that previously would have been capitalized. Capitalization of expenditures related to the ACP has ceased until commercial plant deployment resumes. If conditions change, including if the current path to commercial deployment were no longer probable or our anticipated role in the project were changed, we could expense up to the full amount of previously capitalized costs related to the ACP of up to \$1.1 billion as early as the first quarter of 2012, which would adversely affect our results of operations. Events that could impact our views as to the probability of deployment or our projections include a failure to successfully enter into an agreement with DOE to provide funding for the project as part of the RD&D program. Refer to “Critical Accounting Estimates” in Part II, Item 7 for a discussion of assumptions, estimates and judgments related to our accounting for American Centrifuge technology costs.

***We have entered into a securities purchase agreement with two investors, Toshiba Corporation and Babcock & Wilcox Investment Company, pursuant to which the investors will make a strategic investment in USEC of \$200 million in three phases. If we fail to consummate the remaining two phases of the transactions contemplated by the securities purchase agreement, we may be unable to raise capital from alternative sources, and our business and prospects may be substantially harmed.***

On May 25, 2010, we entered into a securities purchase agreement with Toshiba and B&W, pursuant to which they agreed to purchase, in three phases and for an aggregate amount of \$200 million, shares of a newly created series of preferred stock and warrants to purchase shares of a newly created series of preferred stock or class of common stock (the “Transactions”). On September 2, 2010, the first closing of \$75.0 million occurred under the securities purchase agreement. The remaining two phases of the Transactions (\$125.0 million) are subject to significant closing conditions, including the conditions listed in the risk factor below.

If the remaining Transactions are not completed, our ongoing business and financial results may be adversely affected and we would be subject to a number of risks, including the following:

- Matters relating to the Transactions require substantial commitments of time and resources by our management, whether or not the remaining Transactions are completed, which could otherwise have been devoted to other opportunities that may have been beneficial to us, including pursuing other strategic options or sources of capital;
- The second closing of the Transactions is conditioned on our obtaining a conditional commitment for a loan guarantee of not less than \$2 billion from DOE. If the second closing continues to be delayed because of continued delays in our obtaining a conditional commitment for a loan guarantee or is not consummated, including as a result of an investor exercising its right to terminate the securities purchase agreement (as to such investor’s obligations), our ability to continue to spend on the American Centrifuge could be affected;
- Our loan guarantee application includes the \$200 million investment as part of the sources of funds for the American Centrifuge project. The strategic investment was also intended in part to address financial concerns of DOE with respect to the ability of the American Centrifuge project to mitigate cost and other risk. If the remaining Transactions are not consummated or are delayed significantly, this would adversely affect our ability to obtain a loan guarantee (which is a condition to the third closing);
- We need significant additional financing to complete construction of the American Centrifuge Plant beyond the DOE loan guarantee and the proceeds of the Transactions, and we will need to demonstrate the availability of that funding in order to obtain the DOE loan guarantee (which is a condition of the third closing). We have initiated discussions with Japanese export credit agencies (“ECAs”) for additional financing of up to \$1 billion. Our ability to obtain Japanese ECA financing is highly dependent on the strategic investment by Toshiba. If the remaining Transactions are not consummated or are delayed significantly and our ability to obtain Japanese ECA financing is adversely affected, this would subsequently adversely affect our ability to obtain a DOE loan guarantee, consummate the third closing and complete the American Centrifuge project; and
- If the remaining Transactions are not consummated, we may be unable to raise capital from alternative sources on terms favorable to us, if at all. If the remaining Transactions are not consummated or are delayed significantly and we are unable to raise capital from alternative sources, our business and prospects (including the American Centrifuge project) may be substantially harmed and our stock price may decline.

We cannot provide any assurance that the remaining Transactions will be completed, that there will not be significant additional delay in the completion of the remaining Transactions or that all or any of the anticipated benefits of the Transactions will be achieved. In the event the remaining Transactions are materially delayed for any reason, our business and prospects may be substantially harmed.

***Completion of the remaining Transactions is subject to significant closing conditions, including governmental approvals and other conditions that may be difficult to obtain and are outside of our control.***

The completion of the remaining Transactions is subject to significant closing conditions, many of which may be difficult to obtain and are outside our control.

The Transactions are subject to significant conditions tied to our progress in obtaining a DOE loan guarantee for the American Centrifuge project. The obligations of the investors at the second closing of the Transactions is conditioned upon USEC having entered into a loan guarantee conditional commitment in an amount not less than \$2 billion for the American Centrifuge project with DOE. The obligations of the investors at the third closing of the Transactions is conditioned upon USEC achieving closing on a DOE loan guarantee in an amount not less than \$2 billion for the American Centrifuge project. Our ability to satisfy these conditions and to obtain a loan guarantee is subject to significant uncertainty as described in the risk factor *“Even if we obtain the RD&D program and funding, we may not obtain a loan guarantee from DOE and other financing needed for the project and could demobilize or terminate the project.”* In order to obtain a loan guarantee, we will have to demonstrate that any additional capital needed to complete the American Centrifuge project is available.

The obligations of the investors at the third closing are subject to the approval by our shareholders of (1) the amendment of our certificate of incorporation to create a new class of common stock and to increase our authorized shares of common stock and (2) the issuance of shares of common stock in the Transactions in excess of the threshold for requiring shareholder approval under the New York Stock Exchange listing requirements. We have no assurance that our shareholders will approve these matters. If we do not obtain shareholder approval, we could be required to redeem the investors’ shares for cash or separative work units (“SWU”), which could harm our financial condition.

The third closing is subject to the receipt of governmental approvals and determinations from the U.S. Nuclear Regulatory Commission (“NRC”), DOE and other relevant authorities related to foreign ownership, control, or influence (“FOCI”) and other matters. We have received confirmation from the NRC that NRC consent is not required for the second and third closings based on their review of the transaction and the current information concerning the parties. We cannot assure you that subsequent events will not occur that could cause NRC and DOE to re-evaluate their determinations, which could have the effect of preventing or delaying completion of the Transactions or imposing additional costs on us.

The Transactions may also be subject to the notification requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976. Under this statute, parties are required to make notification filings and to await the expiration of the statutory waiting period prior to completing certain types of transactions. Based on the Transactions and current regulations and guidance, Toshiba and B&W have informed us that the Federal Trade Commission has advised them that such notification is not required. If the facts and circumstances or regulations change or if the federal antitrust authorities otherwise revisit or modify their advice or otherwise challenge the Transactions, such notification filings may be required or the federal antitrust authorities could seek to enjoin the Transactions, impose conditions on the completion of the Transactions, or require changes to the terms of the Transactions. This could have the effect of preventing or delaying completion of the Transactions or imposing additional costs on us.

The second and third closings are also subject to other customary conditions to closing, including compliance with covenants, the accuracy of representations and warranties in the securities purchase agreement (including the absence of any action or proceeding by DOE under the 2002 DOE-USEC Agreement that has resulted or reasonably could be expected to result in a recommendation to exercise remedies), and that no material adverse effect shall have occurred with respect to USEC.

There were outside dates tied to the satisfaction of these conditions of June 30, 2011 for the second closing and December 31, 2011 (subject to a one year extension in certain circumstances) for the third closing. USEC and each of the strategic investors (as to such investor's obligations) currently have the right to terminate the securities purchase agreement. If either Toshiba or B&W were to terminate the securities purchase agreement, that could have a significant adverse impact on our business and prospects.

If the securities purchase agreement governing the Transactions is terminated, each of Toshiba and B&W must elect to either convert its shares of preferred stock into a new class of common stock (or a new class of preferred stock) or to sell its shares of preferred stock pursuant to an orderly sale arrangement. As a result of certain NYSE limitations on our issuance of common stock, depending on the share price at the time of termination, some of Toshiba and B&W's preferred stock may not be able to be converted or sold and would remain outstanding. We could be required to redeem such shares for cash or SWU, at our election, at August 31, 2012, which could harm our financial condition. However, our ability to redeem may be limited by Delaware law, and if not limited may result in mandatory prepayment of our credit facility.

***If Toshiba or B&W convert or sell their preferred shares or exercise their warrants, our stockholders will be diluted and our stock price may be negatively impacted.***

Following the first closing of the Transactions, Toshiba and B&W now hold shares of newly created preferred stock and warrants to purchase shares of a newly created series of preferred stock or class of common stock. Such shares are convertible into a newly created class of common stock (or a new class of preferred stock) at the market price at the time of conversion at the election of the holder at any time following a termination of the securities purchase agreement described above. Any remaining shares of preferred stock outstanding on December 31, 2016 will be automatically converted into the new class of common stock (or a new class of preferred stock) at the market price. The conversion of preferred stock or exercise of warrants may result in substantial dilution to our existing stockholders. Additionally, any sales by the investors could adversely affect prevailing market prices of our common stock. The potential for such dilution or adverse stock price impact may encourage short selling by market participants. Additional information about the Transactions and the conversion and other rights related to the preferred stock and warrants to be issued in the Transactions can be found in the Current Reports on Form 8-K filed by us on May 25, 2010 and September 2, 2010.

***We may not realize the expected benefits of any strategic relationships with Toshiba or B&W.***

In connection with the Transactions, we entered into a strategic relationship agreement with Toshiba and B&W that provides a process for us to explore potential business opportunities throughout the nuclear fuel cycle. However, the realization of the expected benefits of these strategic relationships is subject to a number of risks, including:

- success in potential efforts to sell our low enriched uranium in connection with Toshiba's nuclear power plant proposals, including Toshiba's success in nuclear reactor sales;
- success of efforts to identify potential opportunities in our contract services segment;
- success in achieving cost savings and other benefits through the manufacturing joint venture with B&W; and

- success in strengthening American Centrifuge project execution depth through our relationship with Toshiba and B&W.

We may not achieve the perceived benefits of the strategic relationships as rapidly or to the extent anticipated which could have an adverse impact on the perceived benefits of the Transactions and our prospects.

***Apart from a DOE loan guarantee and the strategic investment by Toshiba and B&W, deployment of the American Centrifuge technology will require additional external financial and other support that may be difficult to secure.***

We may not be able to attract the financing we need to complete the American Centrifuge project in a timely manner or at all. We have had discussions with Japanese export credit agencies (“ECAs”) regarding financing up to \$1 billion of the cost of completing the ACP. Any Japanese ECA financing will be subject to the terms and conditions negotiated with the lenders and we will need to satisfy any technical, financial and other conditions to funding in order to close on the financing. We are dependent on Toshiba's support for these discussions. In addition, our ability to obtain Japanese ECA financing is also dependent upon our success in obtaining a DOE loan guarantee. Therefore, we have no assurances that we will obtain this financing.

Factors that could affect our ability to obtain Japanese ECA financing or other financing needed to complete the ACP or the cost of such financing include:

- our ability to get loan guarantees or other support from the U.S. government,
- our ability to complete the remaining two phases of the \$200 million strategic transaction with Toshiba and B&W and to otherwise address the financial concerns identified by DOE,
- potential shifts in the priorities of Japanese ECAs as a result of the March 2011 events in Japan or other factors outside of our control,
- our ability to satisfy DOE that efforts we have taken, including with respect to the RD&D program and efforts to reduce risk have addressed their concerns,
- the estimated costs, efficiency, timing and return on investment of the deployment of the American Centrifuge Plant,
- our ability to secure and maintain a sufficient number of long-term SWU purchase commitments from customers on satisfactory terms, including adequate prices,
- the level of success of our current operations,
- SWU prices,
- USEC's perceived competitive position and investor confidence in our industry and in us,
- projected costs for the disposal of depleted uranium and the decontamination and decommissioning of the American Centrifuge Plant, and the impact of related financial assurance requirements,
- additional downgrades in our credit rating,
- market price and volatility of our common stock,
- general economic and capital market conditions,
- the continuing impact of the March 2011 events in Japan,
- conditions in energy markets,
- regulatory developments, including changes in laws and regulations,

- our reliance on LEU delivered to us under the Russian supply contracts and uncertainty regarding deliveries and market based components of prices under the Russian supply contracts, and
- restrictive covenants in the agreements governing our credit facility and in our outstanding notes and any future financing arrangements that limit our operating and financial flexibility.

***Restrictions on U.S. imports of LEU could adversely affect our ability to sell commercial Russian LEU that we purchase under the supply agreement with Joint Stock Company Techsnabexport (“TENEX”).***

On March 23, 2011 we entered into the Russian Supply Agreement with TENEX for the supply by TENEX of commercial Russian LEU to us over a 10-year period with deliveries that begin in 2013. We may not achieve the anticipated benefits from the Russian Supply Agreement because of restrictions on U.S. imports of LEU and other uranium products produced in the Russian Federation. These imports (other than LEU imported under the Russian Contract under the Megatons to Megawatts program) are subject to quotas imposed under legislation enacted into law in September 2008 and under the 1992 Russian Suspension Agreement, as amended. Under the new Russian Supply Agreement, we have the right to use a portion of the import quotas to support our sales in the United States of SWU purchased under the Russian Supply Agreement beginning in 2014. These quotas are subject to timely completion of the Megatons to Megawatts program by the end of 2013. Further, prior to the expiration of the quotas at the end of 2020, we will not be able to import for consumption in the United States LEU delivered to us under the Russian Supply Agreement in excess of the portion of the quotas available to us. This restriction does not apply to imports that are not subject to the quotas (e.g., for use in initial fuel cores for any U.S. nuclear reactors entering service for the first time). The LEU that we cannot sell for consumption in the United States will have to be sold for consumption by utilities outside the United States, but our ability to sell to those utilities may be limited by policies of foreign governments or regional institutions that seek to restrict the amount of Russian LEU purchased by utilities under their jurisdiction. Accordingly, we have no assurance that we will be successful in our efforts to sell this LEU in the United States or outside of the United States.

***Our efforts to explore the possible deployment of an enrichment plant in the United States employing Russian technology may not yield results.***

TENEX and we have agreed to conduct a feasibility study to explore the possible deployment of an enrichment plant in the United States employing Russian centrifuge technology. However, we cannot give any assurance that we will proceed with such a plant. As part of the feasibility study, Rosatom, TENEX and USEC will review international agreements, government approvals, licensing, financing, market demand, and commercial arrangements. Any decision to proceed with such a plant would depend on the results of the feasibility study and would be subject to further agreement between the parties and their respective governments, the timing and prospects of which are significantly uncertain.

***For as long as we continue to operate the Paducah GDP, we are at risk for power price volatility, which could increase our cost of sales to a level above the average prices we bill our customers.***

Electric power constitutes approximately 70% of the production cost at the Paducah GDP. We currently purchase most of our electric power for the Paducah GDP from the Tennessee Valley Authority (“TVA”) under a multi-year power contract with TVA that expires in May 2012. Power costs under the contract are subject to monthly adjustments to account for changes in TVA’s fuel costs, purchased-power costs, and related costs, which means that our actual power costs can be greater than we anticipate. The impact of the fuel cost adjustment has been negative for USEC, imposing an average increase over base contract prices of about 12% in 2011. The fuel cost

adjustment under the TVA contract for the remainder of the term through May 2012 could be greater than we experienced in the past, and could also be very volatile. Factors that could affect TVA's fuel and purchased-power costs and the amount of the fuel cost adjustment include coal and gas prices, purchased-power costs and hydroelectric power generation. In accordance with the TVA power contract, we provide financial assurance to support our payment obligations to TVA, including providing an irrevocable letter of credit and making weekly prepayments based on TVA's estimate of the price and our usage of power. A significant increase in the price we pay for power could increase the amount of this financial assurance, which could adversely affect our liquidity and reduce capital resources otherwise available to fund our operations.

Higher costs for power put significant pressure on our business and the economics of continued Paducah operations as described in the Risk Factor above *"We do not currently believe the factors are in place to support continued Paducah GDP enrichment operations beyond May 2012."* Increases in our power costs also reduce the value to us of underfeeding. If we want to purchase power to operate the Paducah GDP beyond May 2012, we may be unable to reach an acceptable agreement with TVA or other suppliers of power and we are at risk for additional power cost increases in the future. Some of our sales contracts (particularly older contracts) do not include provisions that permit us to pass through increases in power prices to our customers. As a result, our profit margins and cash flows under these older sales contracts are significantly reduced by higher power costs. Additionally, profit margins under sales contracts with power price adjusters may be similarly impacted to the extent the adjustments in the power cost index in those contracts are not sufficient to account for increases in our power costs.

Some form of additional government regulation may be forthcoming with respect to greenhouse gas emissions (including carbon dioxide) and such regulation could result in the creation of substantial additional costs for power suppliers in the form of taxes or emission allowances or other increased operating or capital costs. Most of these additional costs would likely be passed through to electricity consumers, in which case our power costs could increase in the future. In 2011, approximately half of TVA's electricity was generated by coal-fired power plants, which are producers of carbon dioxide and so would likely be affected by any regulation.

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

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