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

# FORM 10-Q

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

**For the quarterly period ended September 30, 2011**

OR

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

Commission file number 1-14287

# USEC Inc.

*(Exact name of registrant as specified in its charter)*

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

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

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

Indicate by check mark whether the registrant 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 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. (Check one):

| | | | |
|---|---|---|---|
| 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 Exchange Act) Yes ☐ No ☒

As of October 31, 2011, there were 121,988,404 shares of the registrant's Common Stock issued and outstanding.

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This quarterly report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, Item 2, contains "forward-looking statements" – that is, statements related to future events. In this context, forward-looking statements may address our expected future business and financial performance, and often contain words such as "expects", "anticipates", "intends", "plans", "believes", "will" and other words of similar meaning. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For USEC, particular risks and uncertainties that could cause our actual future results to differ materially from those expressed in our forward-looking statements include, but are not limited to: risks related to the deployment of the American Centrifuge technology, including risks related to performance, cost, schedule and financing; 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; the potential for a decision to demobilize the project in the near term and the impact of such a decision on our business and prospects; 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; our ability to reach agreement with DOE on acceptable terms of a conditional commitment, including the timing of any decision and the determination of credit subsidy cost,

and our ability to meet all required conditions to funding; our ability to obtain additional financing beyond the $2 billion of DOE loan guarantee funding for which we have applied, including our success in obtaining Japanese export credit agency financing of $1 billion; 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 potential impacts to cost and schedule; the impact of delays in the American Centrifuge project and uncertainty regarding our ability to remobilize the project; the outcome of any discussions with DOE regarding modifications needed to the remaining milestones under the June 2002 DOE-USEC Agreement and the potential for DOE to seek to exercise its remedies under such 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, the failure to finalize any extension of the standstill agreement that expired on October 31, 2011 if an agreement is not reached between USEC and DOE on a framework for 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, 2012; 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; the economics of extended Paducah plant operations beyond May 2012, including our ability to negotiate an acceptable power arrangement, our ability to obtain a contract to enrich DOE's depleted uranium and sufficient market demand for the remaining output; 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 being a producer of LEU in the event of a decision to shut down Paducah operations; risks related to the implementing agreements needed for our new supply contract with TENEX to become effective; limitations on our ability to import the Russian LEU we buy under the new supply contract 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; 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 the March 2011 disaster in Fukushima on the nuclear industry and on our business, results of operations and prospects; the impact of volatile financial market conditions on our business, liquidity, prospects, pension assets and credit and insurance facilities; 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 and our deferred tax assets, including the potential for a valuation allowance; 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, including our Annual Report on Form 10-K for the year ended December 31, 2010 ("10-K"). 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 report and our 10-K, which are available on our website at www.usec.com. 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 except as required by law.

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

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents | $ 117.9 | $ 151.0 |
| Accounts receivable, net | 223.5 | 308.6 |
| Inventories | 1,721.5 | 1,522.5 |
| Deferred income taxes | 24.0 | 47.5 |
| Deferred costs associated with deferred revenue | 159.8 | 152.9 |
| Other current assets | 88.0 | 71.6 |
| Total Current Assets | 2,334.7 | 2,254.1 |
| Property, Plant and Equipment, net | 1,321.4 | 1,231.4 |
| Other Long-Term Assets | | |
| Deferred income taxes | 222.1 | 204.5 |
| Deposits for surety bonds | 144.4 | 140.8 |
| Deferred financing costs, net | 12.8 | 10.6 |
| Goodwill | 6.8 | 6.8 |
| Total Other Long-Term Assets | 386.1 | 362.7 |
| Total Assets | **$ 4,042.2** | **$ 3,848.2** |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | $ 153.0 | $ 172.4 |
| Payables under Russian Contract | 284.8 | 201.2 |
| Inventories owed to customers and suppliers | 843.2 | 715.8 |
| Deferred revenue and advances from customers | 192.1 | 179.1 |
| Credit facility term loan | 85.0 | - |
| Total Current Liabilities | 1,558.1 | 1,268.5 |
| Long-Term Debt | 530.0 | 660.0 |
| Convertible Preferred Stock | 85.9 | 78.2 |
| Other Long-Term Liabilities | | |
| Depleted uranium disposition | 139.7 | 125.4 |
| Postretirement health and life benefit obligations | 185.4 | 178.7 |
| Pension benefit liabilities | 143.0 | 145.4 |
| Other liabilities | 78.0 | 78.2 |
| Total Other Long-Term Liabilities | 546.1 | 527.7 |
| Commitments and Contingencies (Note 12) | | |
| Stockholders' Equity | 1,322.1 | 1,313.8 |
| Total Liabilities and Stockholders' Equity | **$ 4,042.2** | **$ 3,848.2** |

See notes to consolidated condensed financial statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Revenue: | | | | |
| Separative work units | $ 297.9 | $ 404.2 | $ 936.7 | $ 1,001.8 |
| Uranium | 21.3 | 79.3 | 103.1 | 164.5 |
| Contract services | 55.3 | 81.1 | 169.6 | 202.7 |
| Total Revenue | 374.5 | 564.6 | 1,209.4 | 1,369.0 |
| Cost of Sales: | | | | |
| Separative work units and uranium | 298.5 | 451.4 | 974.3 | 1,077.2 |
| Contract services | 49.1 | 75.2 | 161.1 | 183.0 |
| Total Cost of Sales | 347.6 | 526.6 | 1,135.4 | 1,260.2 |
| Gross profit | 26.9 | 38.0 | 74.0 | 108.8 |
| Advanced technology costs | 26.0 | 28.6 | 86.2 | 80.3 |
| Selling, general and administrative | 15.6 | 14.0 | 47.8 | 43.4 |
| Other (income) | - | (12.4) | (3.7) | (32.4) |
| Operating income (loss) | (14.7) | 7.8 | (56.3) | 17.5 |
| Preferred stock issuance costs | - | 4.8 | - | 4.8 |
| Interest expense | 0.2 | 0.3 | 0.3 | 0.4 |
| Interest (income) | (0.1) | (0.2) | (0.4) | (0.4) |
| Income (loss) before income taxes | (14.8) | 2.9 | (56.2) | 12.7 |
| Provision (benefit) for income taxes | (7.9) | 1.9 | (11.5) | 14.2 |
| Net income (loss) | **$ (6.9)** | **$ 1.0** | **$ (44.7)** | **$ (1.5)** |
| Net income (loss) per share – basic | $ (.06) | $ .01 | $ (.37) | $ (.01) |
| Net income (loss) per share – diluted | $ (.06) | $ .01 | $ (.37) | $ (.01) |
| Weighted-average number of shares outstanding: | | | | |
| Basic | 121.3 | 113.2 | 120.7 | 112.6 |
| Diluted | 121.3 | 166.4 | 120.7 | 112.6 |

See notes to consolidated condensed financial statements.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2011** | **2010** |
| **Cash Flows from Operating Activities** | | |
| Net (loss) | $ (44.7) | $ (1.5) |
| Adjustments to reconcile net (loss) to net cash provided byoperating activities: | | |
| Depreciation and amortization | 40.6 | 30.2 |
| Deferred income taxes | 2.2 | 31.9 |
| Other non-cash income on release of disposal obligation | (0.6) | (32.4) |
| Preferred stock issuance costs and capitalized dividends paid-in-kind | 7.7 | 5.6 |
| Gain on extinguishment of convertible senior notes | (3.1) | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable – decrease (increase) | 85.1 | (36.6) |
| Inventories, net – (increase) | (71.6) | (53.9) |
| Payables under Russian Contract – increase | 83.6 | 96.6 |
| Deferred revenue, net of deferred costs – increase | 6.5 | 4.1 |
| Accrued depleted uranium disposition – increase (decrease) | 14.3 | (36.4) |
| Accounts payable and other liabilities – (decrease) increase | (0.1) | 8.5 |
| Other, net | (12.7) | 13.9 |
| Net Cash Provided by Operating Activities | 107.2 | 30.0 |
| | | |
| **Cash Flows Used in Investing Activities** | | |
| Capital expenditures | (130.3) | (123.0) |
| Deposits for surety bonds – net (increase) decrease | (3.6) | 48.1 |
| Net Cash (Used in) Investing Activities | (133.9) | (74.9) |
| | | |
| **Cash Flows Used in Financing Activities** | | |
| Borrowings under revolving credit facility | - | 38.3 |
| Repayments under revolving credit facility | - | (38.3) |
| Proceeds from issuance of Series B-1 convertible preferred stock and warrants | - | 75.0 |
| Payments for deferred financing costs and preferred stock issuance costs | (4.7) | (13.2) |
| Common stock issued (purchased), net | (1.7) | (2.1) |
| Net Cash Provided by (Used in) Financing Activities | (6.4) | 59.7 |
| Net (Decrease) Increase | (33.1) | 14.8 |
| Cash and Cash Equivalents at Beginning of Period | 151.0 | 131.3 |
| Cash and Cash Equivalents at End of Period | **$ 117.9** | **$ 146.1** |
| Supplemental Cash Flow Information: | | |
| Interest paid, net of amount capitalized | $ - | $ - |
| Income taxes paid, net of refunds | 2.3 | 2.7 |

See notes to consolidated condensed financial statements.

## 1. BASIS OF PRESENTATION

The unaudited consolidated condensed financial statements as of and for the three and nine months ended September 30, 2011 and 2010 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. The unaudited consolidated condensed financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the financial results for the interim period. Certain information and notes normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been omitted pursuant to such rules and regulations.

Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and related notes and management's discussion and analysis of financial condition and results of operations included in the annual report on Form 10-K for the year ended December 31, 2010.

*New Accounting Standards*

In May 2011, the Financial Accounting Standards Board ("FASB") amended its guidance on fair value measurements and related disclosures. The amendments represent the converged guidance of the FASB and the International Accounting Standards Board and provide a consistent definition of fair value and common requirements for measurement and disclosure of fair value between GAAP and International Financial Reporting Standards ("IFRS"). The new amendments also change some fair value measurement principles and enhance disclosure requirements related to activities in Level 3 of the fair value hierarchy. The new provisions are effective for fiscal years and interim periods beginning after December 15, 2011 and are applied prospectively. This requirement will become effective for USEC beginning with the first quarter of 2012. USEC does not expect the adoption of the amended guidance will have a material effect on its consolidated financial statements.

In June 2011, the FASB amended its guidance on the presentation of comprehensive income. The new guidance requires companies to present the components of net income and other comprehensive income either in a single statement below net income or in a separate statement of comprehensive income immediately following the income statement. The provisions of this new guidance are effective for fiscal years and interim periods beginning after December 15, 2011 and are applied retrospectively for all periods presented. This requirement will become effective for USEC beginning with the first quarter of 2012. The new guidance relates to financial statement presentation and will have no effect on USEC's results of operations, cash flows or financial position.

In September 2011, the FASB amended its guidance on testing goodwill for impairment. Under the revised guidance, companies testing goodwill for impairment have the option of first performing a qualitative assessment to determine whether further quantitative assessments are warranted. In assessing qualitative factors, companies are to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test prescribed in the existing guidance. The provisions of this new guidance are effective for fiscal years and interim periods beginning after December 15, 2011 and early adoption is permitted. USEC is considering early adoption of the new provisions for its goodwill impairment testing in the fourth quarter of 2011. USEC does not expect the new guidance to have a material effect on its consolidated financial statements.

**2. INVENTORIES**

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

USEC holds uranium, principally at the Paducah gaseous diffusion plant ("GDP"), in the form of natural uranium and as the uranium component of LEU. USEC holds SWU as the SWU component of LEU. USEC may also hold title to the uranium and SWU components of LEU at fabricators to meet book transfer requests by customers. Fabricators process LEU into fuel for use in nuclear reactors.

Components of inventories follow (in millions):

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Current assets: | | |
| Separative work units | $ 1,020.6 | $ 947.4 |
| Uranium | 687.8 | 562.5 |
| Materials and supplies | 13.1 | 12.6 |
| | 1,721.5 | 1,522.5 |
| Current liabilities: | | |
| Inventories owed to customers and suppliers | (843.2) | (715.8) |
| Inventories, net | **$ 878.3** | **$ 806.7** |

*Inventories Owed to Customers and Suppliers*

Inventories owed to customers and suppliers relate primarily to SWU and uranium inventories owed to fabricators. Fabricators process LEU into fuel for use in nuclear reactors. Under inventory optimization arrangements between USEC and domestic fabricators, fabricators order bulk quantities of LEU from USEC based on scheduled or anticipated orders from utility customers for deliveries in future periods. As delivery obligations under actual customer orders arise, USEC satisfies these obligations by arranging for the transfer to the customer of title to the specified quantity of LEU at the fabricator. USEC's balances of SWU and uranium vary over time based on the timing and size of the fabricator's LEU orders from USEC. Balances can be positive or negative at the discretion of the fabricator. Fabricators have other inventory supplies and, where a fabricator has elected to order less material from USEC than USEC is required to deliver to its customers at the fabricator, the fabricator will use these other inventories to satisfy USEC's customer order obligations on USEC's behalf. In such cases, the transfer of title of LEU from USEC to the customer results in quantities of SWU and uranium owed by USEC to the fabricator. The amounts of SWU and uranium owed to fabricators are satisfied as future bulk deliveries of LEU are made.

*Uranium Provided by Customers and Suppliers*

USEC held uranium with estimated fair values of approximately $2.9 billion at September 30, 2011, and $3.3 billion at December 31, 2010, to which title was held by customers and suppliers and for which no assets or liabilities were recorded on the balance sheet. The reduction reflects a 17% decline in the uranium spot price indicator and a 4% increase in quantities. Utility customers provide uranium to USEC as part of their enrichment contracts. 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 title to uranium is transferred to USEC.

**3. PROPERTY, PLANT AND EQUIPMENT**

A summary of changes in property, plant and equipment follows (in millions):

| | December 31, 2010 | Capital Expenditures (Depreciation) | Transfers and Retirements | September 30, 2011 |
|---|---|---|---|---|
| Construction work in progress | $ 1,126.3 | $ 134.8 | $ (21.5) | $ 1,239.6 |
| Leasehold improvements | 187.3 | - | 4.0 | 191.3 |
| Machinery and equipment | 269.1 | - | (2.5) | 266.6 |
| | 1,582.7 | 134.8 | (20.0) | 1,697.5 |
| Accumulated depreciation and amortization | (351.3) | (35.0) | 10.2 | (376.1) |
| | **$ 1,231.4** | **$ 99.8** | **$ (9.8)** | **$ 1,321.4** |

Capital expenditures include items in accounts payable and accrued liabilities at September 30, 2011 for which cash is paid in subsequent periods.

USEC is working to deploy the American Centrifuge technology at the American Centrifuge Plant ("ACP") in Piketon, Ohio. Capital expenditures related to the ACP, which are primarily included in the construction work in progress balance, totaled $1,252.5 million at September 30, 2011 and $1,143.8 million at December 31, 2010. Capitalized asset retirement obligations included in construction work in progress totaled $19.3 million at September 30, 2011 and was unchanged from December 31, 2010.

During the second quarter of 2011, USEC expensed $9.6 million of previously capitalized construction work in progress costs. This expense was charged to advanced technology costs on the consolidated statement of operations and relates to a number of centrifuge machines and the related capitalized interest allocated to the centrifuge machines. The centrifuge machines expensed are no longer considered to have future economic benefit because they were irreparably damaged during lead cascade operations. There is no machine technology, machine design or machine manufacturing issue associated with this expense.

On September 30, 2011, USEC announced that in order to prudently manage its resources it would be reducing its spending on the American Centrifuge project during October 2011 by approximately 30% (as compared to the average monthly rate of spending in the prior months of 2011) as the Company continued working with the U.S. Department of Energy ("DOE") to achieve a conditional commitment for a DOE loan guarantee for the American Centrifuge project by November 1, 2011.

Subsequent to that action, USEC and DOE engaged in intense discussions throughout October and discussions are ongoing regarding a research, development and demonstration ("RD&D") program to reduce the technology and financial risk of commercializing the American Centrifuge technology. The RD&D program being discussed is currently anticipated to include up to $300 million of total U.S. government funding provided through a cost sharing arrangement. The RD&D program is expected to involve the manufacturing of additional production design centrifuge machines and construction and operation of at least one complete commercial cascade of 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. As a first step in the RD&D program, USEC and DOE are in discussions regarding a cooperative agreement to provide immediate funding to continue American Centrifuge RD&D activities over the next couple of months and to develop the scope for execution of the enhanced RD&D program. However, no agreement has been reached with DOE regarding any phase of the RD&D program. USEC is evaluating its spending on a day-to-day basis and could 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.

As previously disclosed in the second quarter of 2011, USEC is currently evaluating the ongoing utility of a number of earlier AC100 centrifuge machines that may not be compatible with the current commercial plant design that were previously capitalized as part of construction work in progress. If it is determined that these centrifuge machines have no future economic benefit, then USEC would expense up to $100 million in a subsequent quarter. USEC is evaluating several potential uses of these machines and the related economics for each scenario, such as use in the commercial plant as a production line, use of certain parts or subassemblies as operating spares, and use for operator training. The evaluation of these centrifuge machines is expected to be completed by the end of the fourth quarter of 2011.

USEC continues to believe that future cash flows generated by the ACP will exceed its capital investment and its capital investment is more likely than not fully recoverable. If conditions change and deployment was no longer probable or was delayed significantly from USEC's current projections, USEC could expense up to the full amount of previously capitalized costs related to the ACP of up to $1.3 billion as early as the fourth quarter of 2011. Events that could impact USEC's views as to the probability of deployment or USEC's projections include a failure to successfully enter into an agreement with DOE for the RD&D program, including the failure to timely enter into a cooperative agreement with DOE to provide immediate funding for the project, or an unfavorable determination in any initial scoping phase of the RD&D program regarding the restructuring of the project.

**4. DEFERRED REVENUE AND ADVANCES FROM CUSTOMERS**

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| | (millions) | |
| Deferred revenue | $ 166.1 | $ 176.1 |
| Advances from customers | 26.0 | 3.0 |
| | **$ 192.1** | **$ 179.1** |
| | | |
| Deferred costs associated with deferred revenue | **$ 159.8** | **$ 152.9** |

Advances from customers included $22.3 million as of September 30, 2011 and $1.2 million as of December 31, 2010 for services to be provided to DOE or to be applied to existing receivables balances due from DOE in USEC's contract services segment. DOE funded this work through an arrangement whereby DOE transferred uranium to USEC which USEC immediately sold in the market.

**5. PORTSMOUTH TRANSITION OF SERVICES**

USEC ceased uranium enrichment operations at the Portsmouth GDP, located in Piketon, Ohio, in 2001. Over the past decade, USEC maintained the Portsmouth site and performed services under contract with DOE. DOE now has a contract for the decontamination and decommissioning ("D&D") of the Portsmouth site with a joint venture between Fluor Corporation and The Babcock & Wilcox Company. USEC has returned to DOE all leased facilities at the Portsmouth site other than those used for the ACP and administrative purposes, and DOE has agreed to provide infrastructure services in support of the construction and operation of the ACP. USEC is permitted to re-lease certain facilities in the event they are needed to provide utility services to the ACP and DOE or its contractors are not continuing such services. On September 30, 2011, USEC's contracts for maintaining the Portsmouth facilities and performing services for DOE expired and USEC completed the transition of facilities to the D&D contractor. As part of the transition, NRC terminated USEC's certificate of compliance and USEC transferred certain assets to DOE and remains responsible for the costs of disposal of certain wastes. 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. USEC 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 ACP.

The transition of Portsmouth site contract services workers from USEC to the D&D contractor began in the first quarter of 2011 and was completed on September 30, 2011. Severance liabilities for those workers not offered employment by the D&D contractor is less than $1 million, with DOE owing a portion of this amount related to contract closeout, and is recorded as a current liability as of September 30, 2011. Severance amounts are expected to be paid in the fourth quarter of 2011.

For USEC's defined benefit pension plan and postretirement health and life benefit plans, the transfer of employees to the D&D contractor resulted in curtailment charges to cost of sales of $0.4 million in 2010 and $5.1 million in 2011.

**6. DEBT**

*Revolving Credit Facility and Term Loan due May 31, 2012*

Utilization of the credit facility at September 30, 2011 and December 31, 2010 follows:

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| | (millions) | |
| Borrowings under the revolving credit facility | $ - | $ - |
| Term loan | 85.0 | 85.0 |
| Letters of credit | 16.9 | 17.3 |
| Available credit | 208.1 | 207.7 |

The credit facility is secured by assets of USEC Inc. and its subsidiaries, excluding equity in, and assets of, subsidiaries created to carry out future commercial American Centrifuge activities. In addition to the $85.0 million term loan, the credit facility includes aggregate lender commitments under the revolving credit facility of $225.0 million, including up to $150.0 million in letters of credit. Borrowings under the credit facility are subject to limitations based on established percentages of qualifying assets such as eligible accounts receivable and inventory. The interest rate on the term loan as of September 30, 2011 was 9.5%.

*Convertible Senior Notes due 2014*

Convertible senior notes amounted to $530.0 million as of September 30, 2011 and $575.0 million as of December 31, 2010. The convertible senior notes are due October 1, 2014. Interest of 3.0% is payable semi-annually in arrears on April 1 and October 1 of each year. The notes were not eligible for conversion to common stock as of September 30, 2011 or December 31, 2010.

In January 2011, USEC executed an exchange with a noteholder whereby USEC received convertible notes with a principal amount of $45 million in exchange for 6,952,500 shares of common stock and cash for accrued but unpaid interest on the convertible notes. In connection with this exchange, USEC recognized a gain on debt extinguishment of $3.1 million.

**7. FAIR VALUE MEASUREMENTS**

Pursuant to the accounting guidance for fair value measurements, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, consideration is given to the principal or most advantageous market and assumptions that market participants would use when pricing the asset or liability.

*Fair Value Hierarchy*

The accounting guidance for fair value measurement also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities.
- Level 2 – inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3 – unobservable inputs in which little or no market data exists.

*Financial Instruments Recorded at Fair Value*

| | Fair Value Measurements (in millions) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2011 | | | | December 31, 2010 | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | | | | | |
| Deferred compensation asset (a) | - | $ 2.1 | - | $ 2.1 | - | $ 1.8 | - | $ 1.8 |
| **Liabilities:** | | | | | | | | |
| Deferred compensation obligation (a) | - | 2.3 | - | 2.3 | - | 2.0 | - | 2.0 |
| Convertible preferred stock (b) | - | - | 85.9 | 85.9 | - | - | 78.2 | 78.2 |

(a) The deferred compensation obligation represents the balance of deferred compensation plus net investment earnings. The deferred compensation plan is informally funded through a rabbi trust using variable universal life insurance. The cash surrender value of the life insurance policies is designed to track the deemed investments of the plan participants. Investment crediting options consist of institutional and retail investment funds. The deemed investments are classified within Level 2 of the valuation hierarchy because (i) of the indirect method of investing and (ii) unit prices of institutional funds are not quoted in active markets; however, the unit prices are based on the underlying investments which are traded in active markets.

(b) The estimated fair value of the convertible preferred stock is based on a market approach using a discount rate of 12.75%, which is unobservable (Level 3) since the instruments do not trade. Dividends on the convertible preferred stock are paid as additional shares of convertible preferred stock on a quarterly basis at an annual rate of 12.75%, which is consistent with current market prices and other market benchmarks. The estimated fair value equals the liquidation value of $1,000 per share.

The following is a reconciliation of the beginning and ending balances for items measured at fair value using significant unobservable inputs (Level 3) (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Convertible preferred stock: | | | | |
| Beginning balance | $ 83.3 | $ - | $ 78.2 | $ - |
| Less: paid-in-kind dividends payable, beginning balance | (2.6) | - | (2.4) | - |
| Issuances | 2.6 | 75.0 | 7.5 | 75.0 |
| Paid-in-kind dividends payable | 2.6 | 0.8 | 2.6 | 0.8 |
| Total gains or losses (realized/unrealized) | - | - | - | - |
| Ending balance | **$ 85.9** | **$ 75.8** | **$ 85.9** | **$ 75.8** |

*Other Financial Instruments*

As of September 30, 2011 and December 31, 2010, the balance sheet carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and payables under the commercial agreement (the "Russian Contract") with a Russian government entity known as Techsnabexport ("TENEX") approximate fair value because of the short-term nature of the instruments.

The balance sheet carrying amounts and estimated fair values of USEC's debt follow (in millions):

| | September 30, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Credit facility term loan, due May 31, 2012 | $ 85.0 | $ 74.4 | $ 85.0 | $ 85.6 |
| 3.0% convertible senior notes, due October 1, 2014 | 530.0 | 278.3 | 575.0 | 517.9 |

The estimated fair value of the term loan is based on the change in market value of an index of loans of similar credit quality based on published credit ratings. The estimated fair value of the convertible notes is based on the trading price as of the balance sheet date.

**8. PENSION AND POSTRETIREMENT HEALTH AND LIFE BENEFITS**

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

| | Defined Benefit Pension Plans | | | | Postretirement Health and Life Benefits Plans | | | |
|---|---|---|---|---|---|---|---|---|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Service costs | $ 4.0 | $ 4.8 | $ 12.0 | $ 14.5 | $ 0.7 | $ 1.2 | $ 3.4 | $ 3.7 |
| Interest costs | 12.6 | 12.3 | 37.7 | 36.7 | 2.9 | 3.0 | 9.0 | 8.9 |
| Expected return on plan assets (gains) | (13.5) | (12.2) | (40.4) | (36.6) | (1.0) | (0.9) | (2.8) | (2.7) |
| Amortization of prior service costs (credits) | 0.4 | 0.4 | 1.2 | 1.3 | - | (2.1) | - | (6.3) |
| Amortization of actuarial losses | 2.2 | 4.0 | 6.9 | 12.0 | 0.7 | 0.7 | 2.0 | 2.0 |
| Curtailment losses | - | - | 3.2 | - | - | - | 1.9 | - |
| Net benefit costs | **$ 5.7** | **$ 9.3** | **$ 20.6** | **$ 27.9** | **$ 3.3** | **$ 1.9** | **$ 13.5** | **$ 5.6** |

USEC expects total cash contributions to the plans in 2011 will be as follows: $15.1 million for the defined benefit pension plans and $4.8 million for the postretirement health and life benefit plans. Of those amounts, contributions made as of September 30, 2011 were $14.9 million and $4.8 million related to the defined benefit pension plans and postretirement health and life benefit plans, respectively.

The elimination of expected years of future service for certain employees at the Portsmouth site (see Note 5) in the actuarial calculation resulted in a curtailment loss of $3.2 million for the defined benefit pension plan in the first quarter of 2011. Similarly, a curtailment loss of $1.9 million for the postretirement health and life benefit plans was recognized in the second quarter of 2011 based on greater clarity of employee decisions regarding the plan offered by the new employer and further refinement of actuarial assumptions. The curtailment losses are included in cost of sales for the contract services segment.

**9. STOCKHOLDERS' EQUITY**

A summary of the changes in stockholders' equity for the nine months ended September 30, 2010 and 2011 follows (in millions, except per share data):

| | Common Stock, Par Value $.10 per Share | Excess of Capital over Par Value | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| **Nine Months Ended September 30, 2010** | | | | | | |
| **Balance at December 31, 2009** | $ 12.3 | $ 1,179.6 | $ 322.4 | $ (71.3) | $ (167.4) | $ 1,275.6 |
| Amortization of actuarial losses and prior service costs (credits), net of income tax of $3.0 million | - | - | - | - | 6.0 | 6.0 |
| Net (loss) | - | - | (1.5) | - | - | (1.5) |
| Comprehensive (loss) | | | | | | 4.5 |
| Restricted and other common stock issued, net of amortization | - | (8.3) | - | 13.8 | - | 5.5 |
| **Balance at September 30, 2010** | **$ 12.3** | **$ 1,171.3** | **$ 320.9** | **$ (57.5)** | **$ (161.4)** | **$ 1,285.6** |
| **Nine Months Ended September 30, 2011** | | | | | | |
| **Balance at December 31, 2010** | $ 12.3 | $ 1,172.8 | $ 329.9 | $ (57.1) | $ (144.1) | $ 1,313.8 |
| Amortization of actuarial losses and prior service costs (credits), net of income tax of $3.7 million | - | - | - | - | 6.4 | 6.4 |
| Net (loss) | - | - | (44.7) | - | - | (44.7) |
| Comprehensive (loss) | | | | | | (38.3) |
| Common stock issued in exchange for convertible senior notes | 0.7 | 40.5 | - | - | - | 41.2 |
| Restricted and other common stock issued, net of amortization | - | (1.1) | - | 6.5 | - | 5.4 |
| **Balance at September 30, 2011** | **$ 13.0** | **$ 1,212.2** | **$ 285.2** | **$ (50.6)** | **$ (137.7)** | **$ 1,322.1** |

Amortization of actuarial losses and prior service costs (credits), net of tax, are those related to pension and postretirement health and life benefits as presented on a pre-tax basis in Note 8.

**10. STOCK-BASED COMPENSATION**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Total stock-based compensation costs (millions): | | | | |
| Restricted stock and restricted stock units | $ 1.6 | $ 1.3 | $ 6.0 | $ 6.2 |
| Stock options, performance awards and other | 0.3 | 0.4 | 1.1 | 1.5 |
| Less: costs capitalized as part of inventory | - | (0.1) | (0.4) | (0.3) |
| Expense included in selling, general and administrative and advanced technology costs | **$ 1.9** | **$ 1.6** | **$ 6.7** | **$ 7.4** |
| Total after-tax expense | **$ 1.2** | **$ 1.1** | **$ 4.3** | **$ 4.8** |
| | | | | |
| Additional information: | | | | |
| Stock options exercised | - | 92,754 | - | 115,630 |
| Intrinsic value of stock options exercised (millions) | - | $ 0.1 | - | $ 0.2 |
| Cash received from exercise of stock options (millions) | - | $ 0.4 | - | $ 0.5 |

Assumptions used in the Black-Scholes option pricing model to value option grants follow. There were no stock options granted in the three and nine months ended September 30, 2011.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Risk-free interest rate | - | 0.78% | - | 0.78 – 1.43% |
| Expected dividend yield | - | - | - | - |
| Expected volatility | - | 75% | - | 72 – 75% |
| Expected option life (years) | - | 4.1 | - | 4 – 4.1 |
| Weighted-average grant date fair value | - | $ 3.09 | - | $ 2.81 |
| Options granted | 0 | 6,968 | 0 | 773,018 |

As of September 30, 2011, there was $8.7 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based payments granted, of which $7.7 million relates to restricted shares and restricted stock units, and $1.0 million relates to stock options. That cost is expected to be recognized over a weighted-average period of 1.8 years.

*Revised Long-Term Incentive Program*

In February 2011, the Board of Directors approved a revised long-term incentive program under the 2009 Equity Incentive Plan for certain participating executives. The revised long-term incentive plan has three components: (1) time-based restricted stock that vests over three years, (2) performance-based restricted stock that, subject to being earned, vests over three years, and (3) a three-year performance-based cash incentive program.

The performance-based restricted stock vests over three years and is subject to being earned based on performance during 2011. Actual awards will be determined by performance during the period January 1, 2011 through December 31, 2011 against a performance goal relating to USEC's total shareholder return compared to the Russell 2000 total shareholder return (without dividends). This award is classified as equity and is valued at the award date using a Monte Carlo model. The target number of shares of restricted stock was calculated based on USEC's stock price on March 1, 2011. Award valuation factors associated with the underlying performance of USEC's stock price and shareholder returns over the term of the award include:

- Total stock return volatility based on historical volatility over one year using daily stock price observations,
- Risk-free interest rate reflecting the yield on the one-year Treasury bonds on grant date,
- Beta calculated using one year of daily returns and comparing the risk of the individual securities to the Russell 2000 Index, and
- For USEC and each of the companies in the Russell 2000 index, actual stock return from the beginning of the performance period through the grant date (January 1, 2011 – March 1, 2011) has been incorporated in the projection of the ultimate payout.

The new three-year performance-based cash incentive program includes a new overlapping three-year performance period each year. The first performance period runs from January 1, 2011 through December 31, 2013. Actual payout of awards will be determined by the performance of the Company during the performance period against two pre-determined performance goals. Cash awards earned will be granted following the completion of the performance period. This award is classified as a liability. The liability will be re-measured each reporting period based on the status of the performance against the performance goals.

**11. NET INCOME PER SHARE**

Basic net income per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period, excluding any unvested restricted stock. In calculating diluted net income per share, the numerator is increased by interest expense on the convertible notes, net of amount capitalized and net of tax, and the denominator is increased by the weighted average number of shares resulting from potentially dilutive securities, assuming full conversion, consisting of stock compensation awards, convertible notes, convertible preferred stock and warrants.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (in millions) | | | |
| Numerator: | | | | |
| Net income (loss) | $ (6.9) | $ 1.0 | $ (44.7) | $ (1.5) |
| Net interest expense on convertible notes and convertible preferred stock dividends (a) | (b) | - | (b) | (b) |
| Net income (loss) if-converted | **$ (6.9)** | **$ 1.0** | **$ (44.7)** | **$ (1.5)** |
| | | | | |
| Denominator: | | | | |
| Weighted average common shares | 123.0 | 115.1 | 122.4 | 114.6 |
| Less: Weighted average unvested restricted stock | 1.7 | 1.9 | 1.7 | 2.0 |
| Denominator for basic calculation | **121.3** | **113.2** | **120.7** | **112.6** |
| | | | | |
| Weighted average effect of dilutive securities: | | | | |
| Stock compensation awards | - | 0.4 | 2.1 | 0.4 |
| Convertible notes | 44.3 | 48.1 | 44.5 | 48.1 |
| Convertible preferred stock: | | | | |
| Equivalent common shares (c) | 25.2 | 4.7 | 17.9 | 1.6 |
| Less: share issuance limitation (d) | 2.4 | - | - | - |
| Net allowable common shares | 22.8 | 4.7 | 17.9 | 1.6 |
| Subtotal | 67.1 | 53.2 | 64.5 | 50.1 |
| Less: shares excluded in a period of a net loss (e) | 67.1 | - | 64.5 | 50.1 |
| Weighted average effect of dilutive securities | - | 53.2 | - | - |
| Denominator for diluted calculation | **121.3** | **166.4** | **120.7** | **112.6** |
| | | | | |
| Net income (loss) per share – basic | **$ (.06)** | **$ .01** | **$ (.37)** | **$ (.01)** |
| Net income (loss) per share – diluted | **$ (.06)** | **$ .01** | **$ (.37)** | **$ (.01)** |

(a) Interest expense on convertible notes and convertible preferred stock dividends net of amount capitalized and net of tax.

(b) No dilutive effect is recognized in a period in which a net loss has occurred. In addition, there was no net interest expense in the three and nine months ended September 30, 2011. In the nine months ended September 30, 2010, net interest expense on convertible notes and convertible preferred stock dividends was less than $0.1 million.

(c) The number of equivalent common shares is based on the arithmetic average of the daily volume weighted average prices per share of common stock for each of the last 20 trading days, and is determined as of the beginning of the period for purposes of calculating diluted earnings per share.

(d) Prior to obtaining shareholder approval, the preferred stock may not be converted into an aggregate number of shares of common stock in excess of 19.99% of the shares of our common stock outstanding on May 25, 2010 (approximately 22.8 million shares), in compliance with the rules of the New York Stock Exchange. If a share issuance limitation were to exist at the time of share conversion, any preferred stock shares subject to the share issuance limitation would be subject to optional or mandatory redemption for, at USEC's option, cash or SWU consideration.

(e) No dilutive effect is recognized in a period in which a net loss has occurred.

Options and warrants to purchase shares of common stock having an exercise price greater than the average share market price are excluded from the calculation of diluted earnings per share (options and warrants in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Options excluded from diluted earnings per share | 3.1 | 2.6 | 3.1 | 2.6 |
| Warrants excluded from diluted earnings per share | 6.3 | 6.3 | 6.3 | 6.3 |
| Exercise price of excluded options | $3.72 to $14.28 | $5.18 to $16.90 | $3.72 to $14.28 | $5.18 to $16.90 |
| Exercise price of excluded warrants | $7.50 | $7.50 | $7.50 | $7.50 |

**12. COMMITMENTS AND CONTINGENCIES**

**American Centrifuge Plant**

*Project Funding*

USEC needs significant additional financing in order to complete the American Centrifuge Plant ("ACP"). USEC believes a loan guarantee under the DOE Loan Guarantee Program, which was established by the Energy Policy Act of 2005, is essential to obtaining the funding needed to complete the ACP. In July 2008, USEC applied under the DOE Loan Guarantee Program for $2 billion in U.S. government guaranteed debt financing for the ACP.

During the third quarter of 2011, USEC reached a critical point regarding continued funding for the American Centrifuge project. On September 30, 2011, USEC announced that in order to prudently manage its resources it would be reducing its spending on the American Centrifuge project during October 2011 by approximately 30% (as compared to the average monthly rate of spending in the prior months of 2011) as USEC continued working with DOE to achieve a conditional commitment for a DOE loan guarantee for the American Centrifuge project by November 1, 2011. USEC also sent Worker Adjustment and Retraining Notification ("WARN") Act notices to all of the approximately 450 American Centrifuge workers informing them of potential future layoffs. In connection with the decision to curtail spending, USEC 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 in November 2011.

Subsequent to that action, USEC and DOE engaged in intense discussions throughout October and discussions are ongoing regarding a research, development and demonstration ("RD&D") program to reduce the technology and financial risk of commercializing the American Centrifuge technology. USEC's application for a DOE loan guarantee would remain pending during the RD&D program. The RD&D program being discussed is expected to involve the manufacturing of additional production design centrifuge machines and construction and operation of at least one complete commercial cascade of 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.

As a first step in the RD&D program, USEC and DOE are in discussions regarding a cooperative agreement to provide immediate funding to continue American Centrifuge RD&D activities over the next couple of months and to develop the scope for execution of the enhanced RD&D program. However, we have not reached an agreement with DOE regarding the cooperative agreement. USEC is evaluating its spending on a day-to-day basis and could make a decision at any time to further reduce spending and begin demobilizing the project based on the timing and likelihood of an agreement with DOE and any government funding. Continuation of the RD&D program in the government fiscal year 2012 beyond any initial scoping phase will require action by Congress to provide funding or from funds released from the transfer of additional quantities of depleted uranium from us to DOE. Funding for the RD&D program beyond government fiscal year 2012 would be subject to future appropriations. USEC has no assurance that it will be able to reach agreement with DOE regarding any phase of the RD&D program or that any funding will be provided. USEC also has no assurances that it will ultimately be able to obtain a loan guarantee and the timing thereof.

On June 30, 2011, USEC entered into a standstill agreement with its strategic investors Toshiba Corporation ("Toshiba") and Babcock & Wilcox Investment Company ("B&W") pursuant to which each party agreed not to exercise its right to terminate the securities purchase agreement governing Toshiba and B&W's investment prior to August 15, 2011. The securities purchase agreement provided that it may be terminated by USEC or each of the strategic investors (as to such investor's obligations) if the second closing did not occur by June 30, 2011. On August 15, 2011, the parties further extended this period of time through September 30, 2011 and then again to October 31, 2011. As of October 31, 2011, the parties have agreed in principle to further extend the standstill agreement through January 15, 2012 if DOE and USEC reach agreement on the framework for the RD&D program. However, since no agreement has been reached with DOE, the standstill agreement is not effective 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 conditions change and deployment was no longer probable or was delayed significantly from USEC's current projections, USEC could expense up to the full amount of previously capitalized costs related to the ACP of up to $1.3 billion as early as the fourth quarter of 2011. Events that could impact USEC's views as to the probability of deployment or USEC's projections include a failure to successfully enter into an agreement with DOE for the RD&D program, including the failure to timely enter into a cooperative agreement with DOE to provide immediate funding for the project, or an unfavorable determination in any initial scoping phase of the RD&D program regarding the restructuring of the project.

*Milestones under the 2002 DOE-USEC Agreement*

In 2002, USEC and DOE signed an agreement (such agreement, as amended, the "2002 DOE-USEC Agreement") in which USEC and DOE made long-term commitments directed at resolving issues related to the stability and security of the domestic uranium enrichment industry. The 2002 DOE-USEC Agreement contains specific project milestones relating to the ACP. In February 2011, USEC 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 by one year to November 2011 the financing milestone that required that USEC 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. The remaining three milestones were also adjusted by the February 2011 amendment. In addition, DOE and USEC agreed to discuss adjustment of the remaining three milestones as may be appropriate based on a revised deployment plan to be submitted to DOE by USEC by January 30, 2012 following the completion of the November 2011 financing milestone. In connection with discussions regarding the RD&D program described above, USEC anticipates that it will be engaging in discussions with DOE regarding modification of the remaining milestones and other provisions of the 2002 DOE-USEC Agreement. 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.

The 2002 DOE-USEC Agreement provides DOE with specific remedies if USEC fails to meet a milestone that would materially impact USEC's ability to begin commercial operations of the American Centrifuge Plant on schedule and such delay was within USEC's control or was due to USEC's fault or negligence. These remedies could include terminating the 2002 DOE-USEC Agreement, revoking USEC's access to DOE's U.S. centrifuge technology that USEC requires for the success of the American Centrifuge project and requiring USEC to transfer certain of its rights in the American Centrifuge technology and facilities to DOE, and to reimburse DOE for certain costs associated with the American Centrifuge project. DOE could also recommend that USEC be removed as the sole U.S. Executive Agent under the nonproliferation program between the United States and the Russian Federation known as "Megatons to Megawatts". As the U.S. Executive Agent, USEC signed the Russian Contract to implement the program. USEC currently purchases about one-half of its SWU supply from Russia under the Russian Contract. The 20-year Russian Contract expires at the end of 2013. Under the terms of a 1997 memorandum of agreement between USEC and the U.S. government, USEC can be terminated, or resign as the U.S. Executive Agent, or one or more additional executive agents may be named. If USEC were removed as the sole U.S. Executive Agent, it could reduce or terminate USEC's access to Russian LEU under the Megatons to Megawatts program in 2013. 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 remedies under the 2002 DOE-USEC Agreement could have a material adverse impact on USEC's business.

The 2002 DOE-USEC Agreement provides that if a delaying event beyond the control and without the fault or negligence of USEC occurs which would affect USEC's ability to meet an ACP milestone, DOE and USEC will jointly meet to discuss in good faith possible adjustments to the milestones as appropriate to accommodate the delaying event.

USEC's right to continue operating the Paducah GDP under its lease with DOE is not subject to meeting the ACP milestones. In addition, the new Russian Supply Agreement described below is not subject to any of the remedies related to the ACP under the 2002 DOE-USEC Agreement.

**Russian Supply Agreement**

On March 23, 2011, USEC signed a contract with TENEX for the 10-year supply of Russian LEU. Under the terms of the contract, the supply of LEU to USEC could begin as soon as 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. 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 beginning in 2015 equal to the amount USEC now purchases each year under the Megatons to Megawatts program. Unlike the Megatons to Megawatts program, the quantities supplied under the new contract will come from Russia's commercial enrichment activities rather than from downblending of excess Russian weapons material. As this new agreement is separate from the Megatons to Megawatts program, 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 purchase agreement. However, the LEU USEC obtains 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 USEC under the Megatons to Megawatts program.

Deliveries under the new supply contract are expected to continue through 2022. USEC will purchase the SWU component of the LEU and deliver natural uranium to TENEX for the LEU's uranium component. The pricing terms for SWU under the contract are based on a mix of market-related price points and other factors.

The new supply contract between TENEX and USEC was approved by the Russian State Atomic Energy Corporation ("Rosatom") on May 11, 2011. The effectiveness of the new contract is subject to completion of administrative arrangements between the U.S. and Russian governments under the agreement for cooperation in nuclear energy between the United States and the Russian Federation which, among other things, provides the framework for the return to Russia of natural uranium delivered by USEC to TENEX. If these approvals are not obtained by December 31, 2011, USEC has the right to not make any purchases in 2013.

**Legal Matters**

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

In June 2011, a complaint was filed in Federal court against USEC by a Portsmouth GDP employee claiming that USEC owes or will owe severance benefits to him and other similarly situated employees that have transitioned or will transition to the DOE decontamination and decommissioning ("D&D") contractor. The plaintiff amended its complaint in August 2011, among other things, to limit the purported class of similarly situated employees to salaried employees at the Portsmouth site. USEC believes it has meritorious defenses against the suit and has not accrued any amounts for this matter. An estimate of the possible loss or range of loss from the litigation cannot be made because, among other things, (i) the plaintiff has failed to state the amount of damages sought, (ii) the plaintiff purports to represent a class of claimants the size and composition of which remains unknown and (iii) the certification of the class is uncertain. As disclosed in its Annual Report on Form 10-K for the year ended December 31, 2010, USEC's severance liability could have been up to $25 million if severance was required to be paid to all employees (both salaried and hourly employees) ceasing employment with USEC as a result of the transition to the DOE D&D contractor. In such an event, DOE would have owed a portion of this amount, estimated at $18.5 million. The potential severance liability associated with the transition of services at the Portsmouth site has decreased as workers accepted equivalent positions with the D&D contractor. Severance liabilities associated with the employee transition at the Portsmouth site for those workers not offered employment by the D&D contractor is less than $1 million, with DOE owing a portion of this amount related to contract closeout, and is recorded as a current liability as of September 30, 2011. Severance amounts are expected to be paid in the fourth quarter of 2011.

**13. SEGMENT INFORMATION**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (millions) | | | |
| **Revenue** | | | | |
| LEU segment: | | | | |
| Separative work units | $ 297.9 | $ 404.2 | $ 936.7 | $ 1,001.8 |
| Uranium | 21.3 | 79.3 | 103.1 | 164.5 |
| | 319.2 | 483.5 | 1,039.8 | 1,166.3 |
| Contract services segment | 55.3 | 81.1 | 169.6 | 202.7 |
| | **$ 374.5** | **$ 564.6** | **$ 1,209.4** | **$ 1,369.0** |
| | | | | |
| **Segment Gross Profit** | | | | |
| LEU segment | $ 20.7 | $ 32.1 | $ 65.5 | $ 89.1 |
| Contract services segment | 6.2 | 5.9 | 8.5 | 19.7 |
| Gross profit | 26.9 | 38.0 | 74.0 | 108.8 |
| Advanced technology costs | 26.0 | 28.6 | 86.2 | 80.3 |
| Selling, general and administrative | 15.6 | 14.0 | 47.8 | 43.4 |
| Other (income) | - | (12.4) | (3.7) | (32.4) |
| Operating income (loss) | (14.7) | 7.8 | (56.3) | 17.5 |
| Interest expense (income) and issuance costs, net | 0.1 | 4.9 | (0.1) | 4.8 |
| Income (loss) before income taxes | **$ (14.8)** | **$ 2.9** | **$ (56.2)** | **$ 12.7** |

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

*The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated condensed financial statements and related notes set forth in Part I, Item 1 of this report as well as the risks and uncertainties presented in Part II, Item 1A of this report and Part I, Item IA of the annual report on Form 10-K for the year ended December 31, 2010.*

**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;
- perform contract work for DOE and its contractors at the Paducah and Portsmouth sites; and
- provide transportation and storage systems for spent nuclear fuel and provide nuclear and energy consulting services.

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

We produce or acquire LEU from two principal sources. We produce about half of our supply of LEU at the Paducah GDP in Paducah, Kentucky, and we acquire the other portion under a contract with Russia (the "Russian Contract") under the Megatons to Megawatts program. Under the Russian Contract, 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.

*Our View of the Business Today*

Nuclear power is an essential component of the world's electricity generation mix. A global fleet of approximately 430 nuclear reactors provide about 14% of the world's electricity. The United States has the largest number of reactors with 104 operating units that provide approximately 20% of the nation's electricity. The World Nuclear Association reports that more than 60 reactors are currently under construction. In China, two dozen new units are being built and another 50 reactors are in the planning stage. However, the impacts of the March 2011 Fukushima disaster in Japan on the nuclear fuel industry are being felt in the near term and uncertainty exists regarding the long term impact of the events.

Recovery efforts at the Fukushima Daiichi plant are continuing and its six reactors are not expected to reopen. In addition, reactors in Japan typically undergo maintenance or refueling outages every 12 to 13 months, and we are closely monitoring the return to service of those reactors that have been offline since the March 2011 earthquake. The approximately 50 reactors in Japan not damaged by the earthquake are subject to governmental inspection and local government restart approval that have caused these outages to be extended. As of September 30, 2011, only 10 of Japan's 54 nuclear reactors were in service. This prolonged outage has caused excess SWU supply in the market. However, we believe Japan requires the carbon-free, base load electricity that these units generate to meet industrial, business and residential demand. USEC has long been a leading supplier of LEU to Japan. Over the last three years, sales to Japan have accounted for approximately 10% to 15% of our revenue.

Following the event at Fukushima, some European governments have taken actions to limit the use of nuclear power in their nations. 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 USEC does not serve any of the German reactors, our European competitors that serve the German reactors will now have excess nuclear fuel available to sell. The event at Fukushima and its aftermath have negatively affected the balance of supply and demand in the near term, as reflected in lower nuclear fuel prices in recent months.

We believe the longer term effect on the market for our product is unclear and subject to changes in countries' energy strategies. We see continued growth in the number of nuclear power reactors internationally, but that growth may be at a slower pace than previously anticipated or may be concentrated more in emerging markets that may be more difficult to enter. The approximately 60 reactors currently under construction will likely be finished, adding at least 6 million SWU of annual demand. China has outlined an ambitious schedule for building new reactors that is unlikely to be significantly reduced, although a transition to the inherently safer Generation III reactors in China may lengthen plant construction timelines and China is also expanding its own enrichment capacity. The economic fundamentals for building additional uranium enrichment capacity are still in place: the successful Megatons to Megawatts program will come to an end in 2013, the gaseous diffusion plants operating in the United States and France will likely be closed over the next several years and new reactors are being built to meet growing demand for electricity. Importantly, the centrifuge enrichment technology employed by the nuclear fuel industry is a modular technology that allows for incremental expansion. Western uranium enrichers have been entering into contract terms of a decade or longer with utility customers, assuring that uranium enrichment capacity expansion is tied directly to existing reactors or ones under construction. However, all of our 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.

With this backdrop, we expect to be making significant decisions in the next few months regarding the future strategic path of the Company. We continue to believe that the best path to maximizing long term shareholder value is to maintain a viable path to the deployment of the American Centrifuge Plant and that a DOE loan guarantee is critical to financing the American Centrifuge Plant. Despite our continued efforts to obtain a conditional commitment for a loan guarantee from DOE, we have not yet been successful in satisfying DOE's concerns regarding the financial and project execution depth of the American Centrifuge project and have not yet been able to obtain a conditional commitment. 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, including a cooperative agreement to provide immediate funding to enable us to continue spending on the project in the short term as we work with DOE to define the scope, schedule, cost, and funding sources for the RD&D program. However, notwithstanding our extensive discussions with DOE concerning an RD&D program, we have not yet finalized an agreement and obtained funding for such a program. Moreover any agreement would likely also 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 currently are evaluating our options concerning the American Centrifuge project, including whether to further reduce our spending on the project and begin demobilizing the project. Our evaluation of these options is ongoing and a decision could be made at any time. See "American Centrifuge Plant Update" below for a full discussion of developments in the third quarter regarding the American Centrifuge project. See also "Risk Factors" in Item 1A of this report and of our Annual Report on Form 10-K for a discussion of risks and uncertainties relating to the American Centrifuge project and the potential impacts of a decision to demobilize.

We are also facing a near term decision regarding the continuation of operations at the Paducah gaseous diffusion plant beyond May 2012. Our production facility in Paducah, Kentucky is leased from the U.S. government and was built in the 1950s for defense purposes. Although the plant is operating at its highest efficiency in 30 years, the technology uses significant amounts of electric power that is increasingly putting us at a competitive disadvantage compared to our foreign-owned competitors who operate gas centrifuge plants. We will base our decision on whether to extend operations beyond May 2012 upon economic considerations and the ability of the plant to operate profitably. Factors affecting our decision include SWU supply and demand and the outcome of discussions with customers about their near term SWU supply needs, our success in obtaining a contract on satisfactory terms with DOE for programs such as enriching a portion of DOE's depleted uranium stockpile, and our ability to negotiate an acceptable power arrangement with the Tennessee Valley Authority ("TVA") or other suppliers of power. In the past, the Paducah GDP has been needed to meet market demand for SWU, but the Fukushima event and subsequent responses have reduced the near-term demand in the market. Based upon our current outlook for demand and discussions with customers, we do not believe there is sufficient demand to support a Paducah extension absent an agreement with DOE for tails re-enrichment to absorb a portion of the plant production capacity, and even if we obtain an agreement for tails re-enrichment, there still may not be sufficient demand from our customers.

We have proposed a program to DOE to re-enrich a portion of DOE's stored depleted uranium. Such a program would reduce DOE's costs of ultimately disposing of the depleted uranium. Depleted uranium re-enrichment would create a valuable uranium asset that could help fund DOE programs while providing production load to our enrichment operations at the Paducah GDP. In June 2011, the Government Accountability Office estimated the value of DOE's depleted uranium to the government was $4.2 billion. Legislation requiring DOE to enter into such a program is being considered by Congress, but enactment of such legislation and timing is uncertain. Without sufficient demand for enrichment, the depleted uranium re-enrichment program and competitive power pricing beyond May 2012, extension of Paducah GDP operations may not be economic.

Because approximately 70% of our cost of production is electricity, we are sharply focused on the price we pay for power at Paducah. Our power supply contract with TVA expires May 31, 2012 and we are evaluating additional power purchases from TVA and other sources. We expect to make decisions regarding an extension of Paducah GDP operations in the next few months. A decision to cease operations at the Paducah GDP could have a material adverse effect on our business and prospects. Without operations at Paducah beyond May 2012, we would cease being a producer of enriched uranium during any transition period to centrifuge technology. This could have an adverse impact on our relationships with customers and prospects. Risks and uncertainties regarding the extension of Paducah operations and the potential impacts of a shutdown of Paducah operations are described in "Risk Factors" in Item 1A of this report.

The 104 reactors in the United States and approximately 330 additional reactors around the world will need fuel for many years. In March 2011, we announced a multi-year commercial contract with a Russian government entity known as TENEX that provides for continued access to Russian LEU after the Megatons to Megawatts program concludes. This will provide us with continued access to an important part of our existing LEU supply mix through 2022 for our customers as we continue to deploy the American Centrifuge Plant ("ACP"). By supplementing our domestic capacity at Paducah with continued access to Russian LEU, we seek to maintain our market position as we transition to the ACP. Pricing under the new agreement is determined using a formula that combines a mix of market-related price points and other factors. The new contract between USEC and TENEX was approved by the Russian State Atomic Energy Corporation on May 11, 2011. Subject to the effectiveness of the new supply contract, which is conditioned upon completion of administrative arrangements between the U.S. and Russian governments, USEC and TENEX have agreed to conduct a feasibility study to explore the possible deployment of an enrichment plant in the United States utilizing Russian centrifuge technology. Any decision to proceed with such a project would depend on the results of the feasibility study and would be subject to further agreement between the two parties and their respective governments.

One area of industry focus coming out of the events at Fukushima has been the amount of used nuclear fuel stored underwater in pools at nuclear facilities around the world. In the United States alone, there are many tens of thousands of spent fuel assemblies being stored in large pools in protected areas at the power plants. The federal government had focused on Yucca Mountain as the nation's used fuel repository site and Congress confirmed DOE's selection of the site in 2002. However, now DOE is seeking to halt the repository by requesting to withdraw a license application with the NRC. The future of the repository is highly uncertain. Regulators in the United States have continued to assert the safety of both wet and dry storage of used nuclear fuel; however, in this operating environment, plant operators may increasingly turn to dry cask storage technology to off-load older and cooler nuclear fuel assemblies from their spent fuel pools. This may increase near-term demand for dry cask storage systems. NAC International Inc. ("NAC"), a wholly owned USEC subsidiary, has a full range of dry cask storage systems, including the MAGNASTOR® System, which has among the largest storage capacities of any cask system approved to date.

In the United States, NAC competes with two companies and has a market share that is roughly 30% of installed, multi-purpose canister concrete storage systems. We estimate the accessible and uncommitted global market over the next 10 years for used fuel storage systems to be roughly $1.5 billion, and this market could increase if utilities' used fuel storage plans are revised to transfer more fuel stored in pools into dry storage casks to reduce pool heat loads.

NAC is well prepared to support the market if there is expanded interest from utilities seeking to proactively move additional used fuel out of storage pools or if there are regulatory-driven mandates. Revenue for NAC is reported by the Company as part of the contract services segment and as services at the former Portsmouth plant wind down going forward, NAC's operations will account for a majority of revenue in the contract services segment.

We ceased uranium enrichment operations at the Portsmouth GDP, located in Piketon, Ohio, in 2001. Over the past decade, we maintained the Portsmouth site and performed services under contract with DOE. DOE now has a contract for the decontamination and decommissioning ("D&D") of the Portsmouth site with a joint venture between Fluor Corporation and The Babcock & Wilcox Company. On September 30, 2011, USEC's contracts for maintaining the Portsmouth facilities and performing services for DOE expired and USEC completed the transition of facilities to the D&D contractor. Without the Portsmouth site services contracts, revenue for our contract services segment will decrease significantly going forward compared to prior periods. For additional details, refer to the "Contract Services Segment" section below.

*American Centrifuge Plant Update*

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 currently are evaluating our options concerning the American Centrifuge project, including whether to further reduce our spending on the project and begin demobilizing the project. Our evaluation of these options is ongoing and a decision could be made at any time.

During the third quarter we reached a critical point regarding continued funding for the American Centrifuge project. On September 30, 2011, we announced that in order to prudently manage our resources we would be reducing our spending on the American Centrifuge project during October 2011 by approximately 30% (as compared to the average monthly rate of spending in the prior months of 2011) as we continued working with DOE to achieve a conditional commitment for a DOE loan guarantee for the American Centrifuge project by November 1, 2011. We also sent Worker Adjustment and Retraining Notification ("WARN") Act notices to all of the approximately 450 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 in November 2011.

Subsequent to that action, we and DOE engaged in intense discussions throughout October and discussions are ongoing regarding a research, development and demonstration ("RD&D") program to reduce the technology and financial risk of commercializing the American Centrifuge technology. Our application for a DOE loan guarantee would remain pending during the RD&D program. The RD&D program being discussed is currently anticipated to include up to $300 million of total U.S. government funding provided through a cost sharing arrangement. The RD&D program is expected to involve the manufacturing of additional production design centrifuge machines and constructing and operating at least one complete commercial cascade of 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. As initially planned, the American Centrifuge Plant would include 96 cascades each containing 120 machines, so operation of a cascade enables the demonstration and testing of certain systems as they would actually operate at the scale necessary for full commercialization.

It is anticipated that the RD&D program would include an initial scoping phase followed by a technical verification phase including constructing and operating one complete commercial cascade and then a build-out phase involving continued building of centrifuge machines beyond one cascade toward a train of six cascades to the extent of available funds. It is anticipated that during these first two phases, DOE would provide funding for up to 80% of the costs with USEC (or a new joint company formed by a consortium of USEC, our strategic investors Babcock & Wilcox Investment Company ("B&W") and Toshiba Corporation ("Toshiba") and other potential third party investors) contributing the remaining funds. During the build-out phase, DOE would provide funding for up to 20% of the costs with USEC (or such new joint company) contributing the funding for the remaining costs. DOE's total contribution for all three phases would be capped at $300 million.

We are in discussions with DOE regarding a cooperative agreement to provide immediate funding to continue American Centrifuge RD&D activities over the next couple of months and to develop the scope for execution of the enhanced RD&D program. The cooperative agreement currently being discussed with DOE would provide for 80% DOE and 20% USEC cost sharing for work performed over the next couple of months with a total estimated cost of approximately $55 million. The cooperative agreement would provide for the cost of ongoing ACP activities during this period as well as for the scoping work. It is anticipated that, similar to the cooperative agreement entered into between USEC and DOE in March 2010, under the cooperative agreement, DOE would accept title to quantities of depleted uranium that would enable us to release encumbered funds for DOE's share of the total estimated cost of the ACP work during this period. Depleted uranium is generated as a result of operation of our gaseous diffusion plant in Paducah, Kentucky. Under our license with the Nuclear Regulatory Commission, we must guarantee the disposition of this depleted uranium with financial assurance. We would remain responsible, at our expense, for the storage of the transferred depleted uranium until DOE takes custody and possession of the material. We would provide cost sharing equal to 20% of the total estimated cost of $55 million, or $11 million. It is currently anticipated that USEC's 20% contribution of $11 million during the initial scoping phase could include credit for certain expenditures previously made by USEC for ongoing demonstration activities. However, we have not reached an agreement with DOE regarding the cooperative agreement and continuation of the RD&D program in the government fiscal year 2012 beyond any initial scoping phase will require action by Congress to provide funding or from funds released from the transfer of additional quantities of depleted uranium from us to DOE. Funding for the RD&D program beyond government fiscal year 2012 would be subject to future appropriations.

It is anticipated that during the initial scoping phase, we would work with DOE and our strategic investors B&W and Toshiba to define the scope, schedule, cost, and funding sources for the RD&D program, and finalize financial and technical milestones for the RD&D program. We would also work with our strategic investors to determine how best to structure ongoing investment in the project and move forward with the RD&D program and future commercialization. If, following any cooperative agreement, an agreement is reached with DOE and a decision is made to proceed with the RD&D program beyond the initial scoping phase, we would then enter into an omnibus agreement with DOE for the second two phases of the RD&D program for the remaining approximately $256 million. However, no decision has yet been made regarding the RD&D program, including the sources of DOE funding or the structure of any ongoing USEC investment. We have no assurance that the terms required by DOE will be acceptable, that we will be able to reach agreement with DOE or our strategic investors regarding any phase of the RD&D program or that any funding will be provided.

Although we will continue to pursue a $2 billion loan guarantee through the DOE's Loan Guarantee Program, our efforts in the immediate future are focused on working together with DOE and Congress on support for the RD&D program. Our loan guarantee application is expected to remain pending during this period. If we determine that there is support for federal funding for such a program and a cooperative agreement could be agreed to with DOE to provide for immediate funding, we would expect to then focus on implementing the cooperative agreement, including the scoping and other activities described above. However, if we determine that such support does not exist or that our prospects for finalizing an agreement and obtaining funding from DOE for the RD&D program is not achievable in the near term, we expect to further reduce our spending on the project and begin demobilizing the project. A decision could be made at any time. We are also continuing to work with our financial and other advisors to review structuring options and strategic alternatives. However, we have no assurances that we will ultimately be able to obtain a loan guarantee and the timing thereof or that any of the structuring options or strategic alternatives can be implemented.

In support of our DOE loan guarantee application, we have continued to operate a lead cascade test and demonstration program with AC100 commercial plant machines at the Piketon, Ohio plant. By increasing the number of operating machine hours we continue to provide DOE with additional assurance of performance, reliability and plant availability. In addition, 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. Under applicable law, our license will not expire pending NRC's review of a complete application.

As part of our effort to reduce or mitigate project risks, we established a joint company with B&W for the manufacture and assembly of AC100 centrifuge machines. The joint company became effective May 1, 2011, and is known as American Centrifuge Manufacturing, 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.

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. The second closing was conditioned upon receipt of a $2 billion conditional commitment and has not occurred. As previously reported on June 30, 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 prior to August 15, 2011. On August 15, 2011, the parties further extended this period of time through September 30, 2011 and then again to October 31, 2011. As of October 31, 2011, the parties have agreed in principle to further extend the standstill agreement through January 15, 2012 if DOE and USEC reach agreement on the framework for the RD&D program. However, since no agreement has been reached with DOE, the standstill agreement is not effective and USEC and each of the strategic investors (as to such investor's obligations) currently have the right to terminate the securities purchase agreement.

Significant risks exist regarding our ability to continue to deploy the American Centrifuge project and the potential for demobilization. Please see "Risk Factors" in Part II, Item 1A of this report.

**LEU Segment**

*Revenue from Sales of SWU and 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 31% of revenue from our LEU segment in 2010. 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.

Our revenues and operating results can fluctuate significantly from quarter to quarter, and in some cases, year to year. Revenue is recognized at the time LEU or uranium is delivered under the terms of contracts with domestic and international electric utility customers. Customer demand is affected by, among other things, reactor operations, maintenance and the timing of refueling outages. Utilities typically schedule the shutdown of their reactors for refueling to coincide with the low electricity demand periods of spring and fall. Thus, some reactors are scheduled for annual or two-year refuelings in the spring or fall, or for 18-month cycles alternating between both seasons.

Customer payments for the SWU component of LEU typically average approximately $20 million per order. As a result, a relatively small change in the timing of customer orders for LEU due to a change in a customer's refueling schedule may cause operating results to be substantially above or below expectations. Customer orders that are related to their requirements for enrichment may be delayed due to outages, changes in refueling schedules or delays in the initial startup of a reactor. Customer requirements and orders are more predictable over the longer term, and we believe our performance is best measured on an annual, or even longer, business cycle. Our revenue could be adversely affected by actions of the NRC or nuclear regulators in foreign countries issuing orders to modify, delay, suspend or shut down nuclear reactor operations within their jurisdictions.

In order to enhance our liquidity and manage our working capital in light of anticipated sales and inventory levels and to respond to customer-driven changes, we work periodically with customers regarding the timing of their orders, including the advancement of those orders. Rather than selling material into the limited spot market for enrichment, USEC has advanced orders from 2011 into 2010 and orders from 2012 into 2011. Based on our outlook for demand and our anticipated liquidity and working capital needs, we anticipate continuing to work with customers to advance orders in the near term. If customers agree to advance orders without delivery, a sale is recorded as deferred revenue. Alternatively, if customers agree to advance orders and delivery, revenue is recorded in an earlier than originally anticipated period. The advancement of orders has the effect of accelerating our receipt of cash from such advanced sales, although the amount of cash we receive from such sales may be reduced as a result of the terms mutually agreed with customers in connection with advancement. This will have the effect of reducing backlog and revenues in future years if we do not replace these orders with additional sales. Future sales will also be a function of our future supply, including decisions with respect to the extension of Paducah plant operations. Looking a few years out, we expect an increase in uncommitted demand that could provide the opportunity to make additional sales to supplement our backlog and thus decrease the need to advance orders in the future. However, the amount of any demand and our ability to capture that demand is uncertain. Our ability to advance orders depends on the willingness of our customers to agree to advancement on terms that we find acceptable. In light of the order advancements that we have done in the past, we expect additional order advancements to be increasingly challenging.

Our financial performance over time can be significantly affected by changes in prices for SWU and uranium. The long-term SWU price indicator, as published by TradeTech, LLC in *Nuclear Market Review*, is an indication of base-year prices under new long-term enrichment contracts in our primary markets. Since our backlog includes contracts awarded to us in previous years, the average SWU price billed to customers typically lags behind the current price indicators by several years. Following are TradeTech's long-term SWU price indicator, the long-term price for uranium hexafluoride ("$UF_6$"), as calculated by USEC using indicators published in *Nuclear Market Review*, and TradeTech's spot price indicator for $UF_6$:

| | September 30, 2011 | December 31, 2010 | September 30, 2010 |
|---|---|---|---|
| Long-term SWU price indicator ($/SWU) | $ 155.00 | $ 158.00 | $ 160.00 |
| $UF_6$: | | | |
| Long-term price composite ($/KgU) | 181.36 | 190.07 | 175.00 |
| Spot price indicator ($/KgU) | 144.00 | 173.00 | 135.00 |

A substantial portion of our earnings and cash flows in recent years has been derived from sales of uranium, including uranium generated by underfeeding the production process at the Paducah GDP. We may also purchase uranium from suppliers in connection with specific customer contracts, as we have in the past. Underfeeding is a mode of operation that uses or feeds less uranium but requires more SWU in the enrichment process, which requires more electric power. In producing the same amount of LEU, we may 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, resulting in excess uranium that we can sell. We expect uranium sales to have less of an impact on earnings going forward compared to prior years. Our average unit cost for uranium inventory has risen over the past several years as production costs are allocated to uranium from underfeeding based on its net realizable value. We will continue to monitor and optimize the economics of our production based on the cost of power and market conditions for SWU and uranium.

In a number of sales transactions, title to uranium or LEU is transferred to the customer and USEC receives payment under normal credit terms without physically delivering the uranium or LEU to the customer. This may occur because the terms of the agreement require USEC to hold the uranium to which the customer has title, or because the customer encounters brief delays in taking delivery of LEU at USEC's facilities. In such cases, recognition of revenue does not occur at the time title to uranium or LEU transfers to the customer but instead is deferred until LEU to which the customer has title is physically delivered. The proportion of uranium sales to SWU sales comprising the deferred revenue balance has declined as uranium sales are declining.

*Cost of Sales for SWU and Uranium*

Cost of sales for SWU and uranium is based on the amount of SWU and uranium sold and delivered during the period and is determined by a combination of inventory levels and costs, production costs, and purchase costs. Under the monthly moving average inventory cost method that we use, an increase or decrease in production or purchase costs will have an effect on inventory costs and cost of sales over current and future periods.

We produce about one-half of our SWU supply at the Paducah GDP. Production costs consist principally of electric power, labor and benefits, long-term depleted uranium disposition cost estimates, materials, depreciation and amortization, and maintenance and repairs. The quantity of uranium that is added to uranium inventory from underfeeding is accounted for as a byproduct of the enrichment process. Production costs are allocated to the uranium added to inventory based on the net realizable value of the uranium, and the remainder of production costs is allocated to SWU inventory costs.

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. We purchase most of the electric power for the Paducah GDP under a power purchase agreement with TVA that expires May 31, 2012. The base price under the TVA power contract increases moderately 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 14% in first nine months of 2011, 10% in 2010, 6% in 2009, and 15% in 2008. The average fuel cost adjustment in the first nine months of 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. The impact of future fuel cost adjustments, which are substantially influenced by coal, gas and purchased-power prices and hydroelectric power availability, is uncertain and our cost of power could fluctuate in the future above or below the agreed increases in the base energy price. We expect the fuel cost adjustment to continue to cause our purchase cost to remain above base contract prices, but the magnitude and the impact is uncertain given volatile energy prices and electricity demand.

Under the terms of our contract with TVA, 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 our planned transition to production at the ACP in Ohio. 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. 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. We continue to evaluate our TVA load profile and production requirements through the end of the contract period with a goal of optimizing power purchases and decreasing our exposure to TVA fuel cost volatility. As part of our planning for continued operations of the Paducah GDP, we are evaluating possible sources of power for delivery after May 31, 2012, including negotiations with TVA and discussions with potential alternate sources of electricity.

We store depleted uranium generated from our operations at the Paducah GDP and accrue estimated costs for its future disposition. Under federal law, we have the option to send our depleted uranium to DOE for disposition, but are continuing to explore a number of competitive alternatives. DOE has constructed new facilities at Paducah and Portsmouth to process large quantities of depleted uranium owned by DOE. Test operations at these DOE facilities have been completed and preliminary operations have begun. If we were to dispose of our depleted uranium with DOE, we would be required to reimburse DOE for the related costs of disposing of our depleted uranium, including our pro rata share of DOE's capital costs. Processing DOE's depleted uranium is expected to take about 25 years. The method and timing of the disposal of our depleted uranium has not been determined. DOE has taken from USEC the disposal obligation for specific quantities of depleted uranium in past years, most recently through a cooperative agreement signed in March 2010 that provided for pro-rata cost sharing support for the funding of certain American Centrifuge activities in 2010. Our long-term liability for depleted uranium disposition is dependent upon the volume of depleted uranium that we generate, projected methods of disposition and estimated disposition costs. Our estimates of processing, transportation and disposal costs are based primarily on estimated cost data obtained from DOE without consideration given to contingencies or reserves. The NRC requires that we guarantee the disposition of our depleted uranium with financial assurance (refer to "Liquidity and Capital Resources – Financial Assurance and Related Liabilities"). Our estimate of the unit disposition cost for accrual purposes is approximately 30% less than the unit disposition cost for financial assurance purposes, which includes contingencies and other potential costs as required by the NRC. Our estimated cost and accrued liability as well as financial assurance we provide for the disposition of depleted uranium are subject to change as additional information becomes available.

We purchase about one-half of our SWU supply under the Russian Contract. We have agreed to purchase approximately 5.5 million SWU each calendar year for the remaining term of the Russian Contract through 2013. Prices are determined using a discount from an index of international and U.S. 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 2011 is 3% higher compared to 2010.

**Contract Services Segment**

*Revenue from Contract Services*

We perform services 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 Portsmouth site. USEC ceased uranium enrichment operations at the Portsmouth GDP, located in Piketon, Ohio, in 2001. Over the past decade, we maintained the Portsmouth site and performed services under contract with DOE. As previously reported, DOE awarded a contract for the decontamination and decommissioning ("D&D") of the Portsmouth site in August 2010 to a new contractor. Revenue from Portsmouth's government contract services activities comprised approximately 80% of the total revenue for the contract services segment in 2010. On September 30, 2011, contracts for maintaining the Portsmouth facilities and performing services for DOE expired and we completed the transition of facilities to the D&D contractor. Consequently our Portsmouth government contract services operations ceased 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 ACP. Revenue from our contract services segment, however, will decrease significantly going forward compared to prior periods. See "– Portsmouth Facility Update" below.

Revenue from U.S. government contracts is based on allowable costs for work performed in accordance with government cost accounting standards ("CAS"). Allowable costs include direct costs as well as allocations of indirect plant and corporate overhead costs and are subject to audit by the Defense Contract Audit Agency ("DCAA"), or such other entity that DOE authorizes to conduct the audit. As a part of performing contract work for DOE, certain contractual issues, scope of work uncertainties, and various disputes arise from time to time. Issues unique to USEC can arise as a result of our history of being privatized from the U.S. government and our lease and other contracts with DOE.

DOE funded a portion of the work at Portsmouth through an arrangement whereby DOE transferred uranium to us which we immediately sold. We completed six competitive sales of uranium between the fourth quarter of 2009 and the first quarter of 2011. Our receipt of the uranium is not considered a purchase by us and no revenue or cost of sales is recorded upon its sale. This is because we have no significant risks or rewards of ownership and no potential profit or loss related to the uranium sale. The value of the contract work is based on the cash proceeds from the uranium sales less our selling and handling costs. The net cash proceeds from the uranium sales were recorded as deferred revenue, and revenue is recognized in our contract services segment as services are provided.

*Contract Services Receivables*

Payment for our contract work performed for DOE is subject to DOE funding availability and Congressional appropriations. DOE historically has not approved our provisional billing rates in a timely manner. DOE has approved provisional billing rates for 2004, 2006 and 2010 based on preliminary budgeted estimates even though updated provisional rates had been submitted based on more current information. In addition, we have finalized and submitted to DOE the Incurred Cost Submissions for Portsmouth and Paducah contract work for the six months ended December 31, 2002 and the years ended December 31, 2003, 2004, 2005, 2006, 2007, 2008, 2009 and 2010 . DCAA historically has not completed their audits of our Incurred Cost Submissions in a timely manner. DCAA has been periodically working on audits for the six months ended December 31, 2002 and the year ended December 31, 2003 since May 2008. In June 2011, a new DOE contractor began an audit for the year ended December 31, 2004. There is the potential for additional revenue to be recognized related to our valuation allowances pending the outcome of audits and DOE reviews. However, because these periods have not been audited, uncertainty exists and we have not yet recognized this additional revenue.

Our consolidated balance sheet includes receivables from DOE or DOE contractors of $80.4 million as of September 30, 2011. Of the $80.4 million, $28.3 million represents revenue recorded for amounts not yet billed due to the absence of approved billing rates referenced above (referred to as unbilled receivables). Past due receivables from DOE or DOE contractors increased from $10.9 million at December 31, 2010 to $24.6 million at September 30, 2011, of which $11.2 million is related to the 2002 through 2009 historical periods.

*Transition of Portsmouth Site Contract Services Workers*

The transition of Portsmouth site contract services workers from USEC to the new D&D contractor began in the first quarter of 2011 and was completed on September 30, 2011. Severance liabilities associated with the employee transition at the Portsmouth site for those workers not offered employment by the D&D contractor is less than $1 million, with DOE owing a portion of this amount related to contract closeout, and is recorded as a current liability as of September 30, 2011. Severance amounts are expected to be paid in the fourth quarter of 2011.

*Pension and Postretirement Benefit Costs related to Portsmouth Site Contract Services Workers*

The cessation of certain U.S. government contract activities and the transfer of employees in Portsmouth triggered certain curtailment charges related to USEC's defined benefit pension plan and postretirement health and life benefit plans. Since a substantial number of employees were expected to be leaving USEC as a result of the transitioning of our government services work to the D&D contractor, we recognized approximately $0.4 million in our cost of sales in December 2010 related to unamortized prior service costs based on our employee population at Portsmouth. Additionally, USEC recognized $5.1 million in cost of sales in 2011 for curtailment charges related to the pension plan and postretirement benefit plans based on additional information and clarification on the timing and number of employees leaving USEC and refined actuarial estimates. Our curtailment charges for both the pension and postretirement health and life benefit plans reflects terminations for all employees transitioning at the Portsmouth site to the D&D contractor. We do not expect additional one-time curtailment charges as a result of these employee transitions, absent a significant change in circumstances.

*Portsmouth Facility Update*

On September 30, 2011, we completed the transition of Portsmouth site facilities to the D&D contractor. As part of the transition, the NRC terminated our certificate of compliance for the Portsmouth site. We continue to lease facilities used for the ACP and administrative purposes. DOE has agreed to provide infrastructure services in support of the construction and operation of the ACP. USEC is permitted to re-lease certain facilities in the event they are needed to provide utility services to the ACP and DOE or its contractors are not continuing such services.

Under our lease agreement with DOE, ownership of capital improvements that we leave behind as well as responsibility for D&D transfers to DOE. The turnover requirements of the lease require us to remove certain uranium and USEC-generated waste, and we accrue amounts to cover these expected costs as part of our lease turnover cost estimate. In connection with the return of facilities, DOE has agreed to accept ownership of all nuclear material at the site, some of which required processing for waste 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.

Prior to September 30, 2011, we had inventories of nuclear material and equipment stored at the Portsmouth site. We agreed with DOE to swap certain of this material for material of like value located at the Paducah GDP during 2011. We elected to leave certain other material at Portsmouth as permitted under the lease. During 2010, we charged approximately $1.5 million to cost of sales for inventory deemed impaired due to the estimated costs exceeding the benefits required to move certain material to another USEC location.

*Estimated Contract Closeout Costs to be Billed to DOE*

Contract closeout related costs, as defined by applicable federal acquisition regulations and government cost accounting standards, are anticipated to be billed to DOE and recorded as revenue when contract closeout occurs and amounts are deemed probable of recovery. Our current estimate for these billable costs is approximately $35 million which includes an estimate to complete outstanding DOE audits within a reasonable period of time. This estimate is without considering ongoing cost reimbursable work being performed and amounts already included in our receivable balances. These contract closeout costs to be billed to DOE include DOE's share of costs for our defined benefit pension plan, our postretirement health and life benefit plans, DOE's share of severance, and other miscellaneous costs. The actual amounts are subject to a number of factors and therefore subject to significant uncertainty including uncertainty concerning the amount that may be reimbursable under contracts with DOE.

**Employees**

A summary of our employees by location follows:

| Location | | No. of Employees | |
|---|---|---|---|
| | | Sept. 30, 2011 | Dec. 31, 2010 |
| Paducah GDP | Paducah, KY | 1,192 | 1,185 |
| Portsmouth site | Piketon, OH | 118 | 1,157 |
| American Centrifuge | Primarily Oak Ridge, TN and Piketon, OH | 443 | 453 |
| NAC | Primarily Norcross, GA | 68 | 60 |
| Headquarters | Bethesda, MD | 96 | 94 |
| | **Total Employees** | **1,917** | **2,949** |

The United Steelworkers and the Security, Police, Fire Professionals of America represented 35% of our employees at September 30, 2011 and 43% of our employees at December 31, 2010.

Of the employees remaining at the Portsmouth site at September 30, 2011, approximately 30 are on extended leave of absence and their ultimate employment status is to be determined. The remainder are primarily related to administrative functions.

As discussed above in "Overview – American Centrifuge Plant Update", on September 30, 2011 we sent Worker Adjustment and Retraining Notification ("WARN") Act notices to the American Centrifuge workers informing them of potential future layoffs.

**Advanced Technology Costs**

*American Centrifuge*

Costs relating to the American Centrifuge technology are charged to expense or capitalized based on the nature of the activities and estimates and judgments involving the completion of project milestones. Costs relating to the demonstration of American Centrifuge technology are charged to expense as incurred. Demonstration costs historically have included NRC licensing of the American Centrifuge Demonstration Facility in Piketon, Ohio, engineering activities, and assembling and testing of centrifuge machines and equipment at centrifuge test facilities located in Oak Ridge, Tennessee and at the American Centrifuge Demonstration Facility.

Expenditures related to American Centrifuge technology for the nine months ended September 30, 2011 and 2010 as well as cumulative expenditures as of September 30, 2011, follow (in millions):

| | Nine Months Ended September 30, | | Cumulative as of September 30, |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Amount expensed (A) | $ 85.1 | $ 78.6 | $ 852.5 |
| Amount capitalized (B) | 107.4 | 91.4 | 1,285.6 |
| Total ACP expenditures, including accruals (C) | **$ 192.5** | **$ 170.0** | **$ 2,138.1** |

(A)Expense included as part of Advanced Technology Costs.

(B)Amounts capitalized as part of property, plant and equipment (primarily as part of construction work in progress) total $1,252.5 million as of September 30, 2011, including capitalized interest of $112.3 million. Prepayments to suppliers under existing agreements for materials and services not yet provided totaled $33.1 million as of September 30, 2011.

(C)Total ACP expenditures are all American Centrifuge costs including, but not limited to, demonstration facility, licensing activities, commercial plant facility, program management, interest related costs and accrued asset retirement obligations capitalized. This includes $7.6 million of accruals at September 30, 2011.

Capitalized costs relating to the American Centrifuge technology include NRC licensing of the American Centrifuge Plant, engineering activities, construction of AC100 centrifuge machines and equipment, process and support equipment, leasehold improvements and other costs directly associated with the commercial plant. Of the costs capitalized to date, approximately 60% relate to the American Centrifuge Plant in Piketon, Ohio and 40% relate to machine manufacturing and assembly efforts primarily occurring in Oak Ridge, Tennessee.

Deferred financing costs, net, includes approximately $6.8 million for costs related to the ACP project, such as loan guarantee application fees paid to DOE and third-party costs. Deferred financing costs related to the DOE Loan Guarantee Program will be amortized over the life of the loan or, if USEC does not receive a loan, charged to expense.

During the second quarter of 2011, we expensed $9.6 million of previously capitalized construction work in progress costs. This expense was charged to advanced technology costs on the consolidated statement of operations and relates to a number of centrifuge machines and the related capitalized interest allocated to the centrifuge machines. The centrifuge machines expensed are no longer considered to have future economic benefit because they were irreparably damaged during lead cascade operations. There is no machine technology, machine design or machine manufacturing issue associated with this expense.

On September 30, 2011, we announced that in order to prudently manage our resources we would be reducing our spending on the American Centrifuge project during October 2011 by approximately 30% (as compared to the average monthly rate of spending in the prior months of 2011) as we continued working with DOE to achieve a conditional commitment for a DOE loan guarantee for the American Centrifuge project by November 1, 2011. We also sent Worker Adjustment and Retraining Notification ("WARN") Act notices to all of the approximately 450 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 in November 2011.

Subsequent to that action, we and DOE engaged in intense discussions throughout October and discussions are ongoing regarding a research, development and demonstration ("RD&D") program to reduce the technology and financial risk of commercializing the American Centrifuge technology. The RD&D program being discussed is currently anticipated to include up to $300 million of total U.S. government funding provided through a cost sharing arrangement. The RD&D program is expected to involve the manufacturing of additional production design centrifuge machines and constructing and operating at least one complete commercial cascade of 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. If an agreement is reached, an initial scoping phase of the RD&D program could occur over the next several months. However, no agreement has been reached with DOE regarding any phase of the RD&D program and so USEC continues to evaluate its continued spending on the American Centrifuge project on a day-to-day basis based on ongoing discussions with DOE and the timing and likelihood of any government funding.

As we previously disclosed in the second quarter, we are currently evaluating the ongoing utility of a number of earlier AC100 centrifuge machines that may not be compatible with the current commercial plant design that were previously capitalized as part of construction work in progress. If we determine that these centrifuge machines have no future economic benefit, then we would expense up to $100 million in a subsequent quarter. We are evaluating several potential uses of these machines and the related economics for each scenario, such as use in the commercial plant as a production line, use of certain parts or subassemblies as operating spares, and use for operator training. The evaluation of these centrifuge machines is expected to be completed by the end of the fourth quarter of 2011.

We continue to believe that future cash flows generated by the ACP will exceed our capital investment and our capital investment is more likely than not to be fully recoverable. We will continue to evaluate this assessment as conditions change. If we do move forward with a cooperative agreement with DOE, due to the nature of activities that would be expected to be performed under such agreement, we would expect to charge to expense amounts spent under the cooperative agreement. If conditions change and deployment was no longer probable or was delayed significantly from our current projections, we could expense up to the full amount of previously capitalized costs related to the ACP of up to $1.3 billion as early as the fourth quarter of 2011. 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 for the RD&D program, including the failure to timely enter into a cooperative agreement with DOE to provide immediate funding for the project, or an unfavorable determination in any initial scoping phase of the RD&D program regarding the restructuring of the project.

We follow the asset and liability approach to account for deferred income taxes. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets may not be realized. Accounting for income taxes as well as determining the need for or the amount of a valuation allowance involves estimates and judgments relating to the tax bases of assets and liabilities and the future recoverability of deferred tax assets. We review historical results, forecasts of taxable income based upon business plans, eligible carryforward periods, periods over which deferred tax assets are expected to reverse, developments related to the American Centrifuge Plant, tax planning opportunities, and other relevant considerations. The underlying assumptions may change from period to period.

A valuation allowance is required if it is more likely than not that a deferred tax asset cannot be realized in the future. That realization is dependent on having sufficient taxable income to realize the deferred tax asset. In practice, positive and negative evidence is reviewed with objective evidence receiving greater weight. One of the most difficult forms of negative evidence to overcome is a cumulative three-year loss. Because of the large dollar amount of capitalized ACP related assets on our balance sheet, a full write-down will create a cumulative three-year loss for us. Without significant positive objective evidence to the contrary, the need to record a valuation allowance would be inevitable. In order to determine the amount of the valuation allowance, all sources of taxable income, including tax planning strategies, and all other sources of positive and negative evidence would need to be analyzed. Our inability to overcome the strong negative evidence of a cumulative three-year loss would require us to record a valuation allowance for the deferred tax asset created by the ACP book asset write-down, as well as all other previously recorded deferred tax assets, including state deferred taxes.

Risks and uncertainties related to the financing, construction and deployment of the American Centrifuge Plant and the continued capitalization of the ACP capital investment and potential for a valuation allowance are described in Item 1A, "Risk Factors" of this report and our 2010 Annual Report on Form 10-K.

*MAGNASTOR®*

Advanced technology costs also include research and development efforts undertaken by NAC, relating primarily to its new generation MAGNASTOR dual-purpose concrete dry storage system for spent fuel. In February 2009, the MAGNASTOR System was added to the NRC's list of dry storage casks approved for use under a general license. MAGNASTOR has among the largest storage capacities of any cask system approved to date. NAC continues to seek license amendments for the expanded use of the technology and submitted a license application to the NRC for certification of the MAGNASTOR transportation cask system, the MAGNATRAN™, in January 2011.

**Results of Operations – Three and Nine Months Ended September 30, 2011 and 2010**

***Segment Information***

We have two reportable segments measured and presented through the gross profit line of our income statement: the LEU segment with two components, SWU and uranium, and the contract services segment. The LEU segment is our primary business focus and includes sales of the SWU component of LEU, sales of both SWU and uranium components of LEU, and sales of uranium. The contract services segment includes work performed for DOE and its contractors at Portsmouth and Paducah as well as nuclear energy services and technologies provided by NAC. Intersegment sales between our reportable segments were less than $0.1 million in each period presented below and have been eliminated in consolidation.

The following table presents elements of the accompanying consolidated condensed statements of operations that are categorized by segment (dollar amounts in millions):

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2011 | 2010 | Change | % |
| **LEU segment** | | | | |
| Revenue: | | | | |
| SWU revenue | $ 297.9 | $ 404.2 | $ (106.3) | (26)% |
| Uranium revenue | 21.3 | 79.3 | (58.0) | (73)% |
| Total | 319.2 | 483.5 | (164.3) | (34)% |
| Cost of sales | 298.5 | 451.4 | 152.9 | 34% |
| Gross profit | $ 20.7 | $ 32.1 | $ (11.4) | (36)% |
| | | | | |
| **Contract services segment** | | | | |
| Revenue | $ 55.3 | $ 81.1 | $ (25.8) | (32)% |
| Cost of sales | 49.1 | 75.2 | 26.1 | 35% |
| Gross profit | $ 6.2 | $ 5.9 | $ 0.3 | 5% |
| | | | | |
| **Total** | | | | |
| Revenue | $ 374.5 | $ 564.6 | $ (190.1) | (34)% |
| Cost of sales | 347.6 | 526.6 | 179.0 | 34% |
| Gross profit | $ 26.9 | $ 38.0 | $ (11.1) | (29)% |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2011 | 2010 | Change | % |
| **LEU segment** | | | | |
| Revenue: | | | | |
| SWU revenue | $ 936.7 | $ 1,001.8 | $ (65.1) | (6)% |
| Uranium revenue | 103.1 | 164.5 | (61.4) | (37)% |
| Total | 1,039.8 | 1,166.3 | (126.5) | (11)% |
| Cost of sales | 974.3 | 1,077.2 | 102.9 | 10% |
| Gross profit | $ 65.5 | $ 89.1 | $ (23.6) | (26)% |
| | | | | |
| **Contract services segment** | | | | |
| Revenue | $ 169.6 | $ 202.7 | $ (33.1) | (16)% |
| Cost of sales | 161.1 | 183.0 | 21.9 | 12% |
| Gross profit | $ 8.5 | $ 19.7 | $ (11.2) | (57)% |
| | | | | |
| **Total** | | | | |
| Revenue | $ 1,209.4 | $ 1,369.0 | $ (159.6) | (12)% |
| Cost of sales | 1,135.4 | 1,260.2 | 124.8 | 10% |
| Gross profit | $ 74.0 | $ 108.8 | $ (34.8) | (32)% |

*Revenue*

Revenue from the LEU segment declined $164.3 million in the three months and $126.5 million in the nine months ended September 30, 2011, compared to the corresponding periods in 2010. The volume of SWU sales declined 31% in the three months and 11% in the nine months ended September 30, 2011, compared to the corresponding periods in 2010, reflecting the variability in timing of utility customer orders. The average price billed to customers for sales of SWU increased 7% in the three-month period and 5% in the nine-month period, reflecting the particular contracts under which SWU were sold during the periods as well as the general trend of higher prices under contracts signed in recent years.

The volume of uranium sold declined 79% in the three months and 52% in the nine months ended September 30, 2011, compared to the corresponding periods in 2010, reflecting declines in uranium inventory available for sale. The average price increased 26% in the three months and 30% in the nine months reflecting the particular price mix of contracts under which uranium was sold.

Revenue from the contract services segment declined $25.8 million in the three months and $33.1 million in the nine months ended September 30, 2011, compared to the corresponding periods in 2010. Contract service revenues at the Portsmouth site declined $36.0 million in the three-month period and $48.6 million in the nine-month period. These declines reflect reduced site services at Portsmouth as work was transferred to the new D&D contractor as well as fee recognition on certain contracts in the first quarter of 2010. Revenues by NAC increased $8.0 million in the three-month period and $18.7 million in the nine-month period primarily as a result of increased sales of dry cask storage systems.

*Cost of Sales*

Cost of sales for the LEU segment declined $152.9 million in the three months and $102.9 million in the nine months ended September 30, 2011, compared to the corresponding periods in 2010, primarily due to lower sales volumes, partially offset by higher unit costs.

Cost of sales per SWU was 7% higher in the three months and 8% higher in the nine months ended September 30, 2011 compared to the corresponding periods in 2010. Cost of sales was reduced by $2.2 million in the third quarter of 2010 due to a net reduction in projected lease turnover costs resulting from the return of certain Portsmouth GDP facilities to DOE in September 2010. Excluding the effect of this change in estimate, cost of sales per SWU was 6% higher in the three months ended September 30, 2011 compared to the corresponding period in 2010. In the second quarter of 2010, cost of sales and other long-term liabilities were reduced by $7.8 million due to a change in estimate of our share of future demolition and severance costs for a power plant that was built to supply power to the Paducah GDP. Excluding the effect of these changes in estimates in the second and third quarters of the prior year, cost of sales per SWU was 7% higher in the nine months ended September 30, 2011 compared to the corresponding period in 2010.

Under our monthly moving average cost method, new production and acquisition costs are averaged with the cost of inventories at the beginning of the period. An increase or decrease in production or purchase costs will have an effect on inventory costs and cost of sales over current and future periods. Production costs are also allocated to uranium from underfeeding based on its net realizable value, and the remainder is allocated to SWU inventory costs.

Production costs declined $1.0 million (or 1%) in the three months ended September 30, 2011 compared to the corresponding period in 2010. Production volume increased 1% and the unit production cost declined 2%. In the summer months (June – August), we supplemented the 300 megawatts we bought under the Tennessee Valley Authority ("TVA") contract with additional power purchased at market-based prices. In the three months ended September 30, 2011, the effect of higher prices under the TVA contract was offset by supplemental power purchases at low market-based prices. The average cost per megawatt hour declined 2% in the three-month period.

For nine months ended September 30, 2011, production costs declined $51.2 million (or 8%) compared to the corresponding period in 2010, as production volume declined to more closely match anticipated sales for the year. Production volume declined 15% in the nine-month period and the unit production cost increased 7%. Under our power contract with TVA, beginning September 1, 2010, the power that we purchase from TVA during the non-summer months (September – May) was reduced from 2,000 megawatts to 1,650 megawatts. As a result, megawatt hours purchased declined 16% in the nine-month period. The average cost per megawatt hour increased 5% in the nine-month period. The higher prices reflect higher TVA fuel cost adjustments as well as the fixed, annual increase in the TVA contract price, partially offset by supplemental power purchases in the summer months at lower market-based prices than the prior year.

We purchase approximately 5.5 million SWU per year under the Russian Contract. Purchase costs for the SWU component of LEU under the Russian Contract increased $14.3 million in the nine months ended September 30, 2011 compared to the corresponding period in 2010, reflecting a 3% increase in the market-based unit purchase cost.

Cost of sales for the contract services segment declined $26.1 million in the three months ended September 30, 2011, compared to the corresponding period in 2010, reflecting reduced contract services work at Portsmouth, partially offset by increased sales by NAC. Cost of sales for the contract services segment declined $21.9 million in the nine months ended September 30, 2011, compared to the corresponding period in 2010, reflecting reduced contract services work at Portsmouth and curtailment charges of $5.1 million for the pension plan and postretirement benefit plans in connection with the transition of Portsmouth site contract service workers to the new contractor, partially offset by increased sales by NAC.

*Gross Profit*

Gross profit declined $11.1 million in the three months ended September 30, 2011 compared to the corresponding period in 2010. Our gross profit margin was 7.2% in the three months ended September 30, 2011 compared to 6.7% in the corresponding period in 2010. Gross profit for the LEU segment declined $11.4 million in the three-month period due to lower sales volume for SWU and uranium. Gross profit for the contract services segment increased $0.3 million in the three months ended September 30, 2011.

Gross profit declined $34.8 million in the nine months ended September 30, 2011 compared to the corresponding period in 2010. Our gross profit margin was 6.1% in the nine months ended September 30, 2011 compared to 7.9% in the corresponding period in 2010. Gross profit for the LEU segment declined $23.6 million in the nine-month period due to lower sales volume and higher unit costs, partially offset by higher average selling prices. Gross profit for the contract services segment declined $11.2 million in the nine months ended September 30, 2011, compared to the corresponding period in 2010, reflecting fee recognition on certain contracts in the prior period as well as $5.1 million in pension plan and postretirement benefit plan curtailment charges in the current period, partially offset by increased gross profit for NAC.

***Non-Segment Information***

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

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | **2011** | **2010** | **Change** | **%** |
| Gross profit | $ 26.9 | $ 38.0 | $ (11.1) | (29)% |
| Advanced technology costs | 26.0 | 28.6 | 2.6 | 9% |
| Selling, general and administrative | 15.6 | 14.0 | (1.6) | (11)% |
| Other (income) | - | (12.4) | (12.4) | (100)% |
| Operating income (loss) | (14.7) | 7.8 | (22.5) | (288)% |
| Preferred stock issuance costs | - | 4.8 | 4.8 | 100% |
| Interest expense | 0.2 | 0.3 | 0.1 | 33% |
| Interest (income) | (0.1) | (0.2) | (0.1) | (50)% |
| Income (loss) before income taxes | (14.8) | 2.9 | (17.7) | (610)% |
| Provision (benefit) for income taxes | (7.9) | 1.9 | 9.8 | 516% |
| Net income (loss) | **$ (6.9)** | **$ 1.0** | **$ (7.9)** | (790)% |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | **2011** | **2010** | **Change** | **%** |
| Gross profit | $ 74.0 | $ 108.8 | $ (34.8) | (32)% |
| Advanced technology costs | 86.2 | 80.3 | (5.9) | (7)% |
| Selling, general and administrative | 47.8 | 43.4 | (4.4) | (10)% |
| Other (income) | (3.7) | (32.4) | (28.7) | (89)% |
| Operating income (loss) | (56.3) | 17.5 | (73.8) | (422)% |
| Preferred stock issuance costs | - | 4.8 | 4.8 | 100% |
| Interest expense | 0.3 | 0.4 | 0.1 | 25% |
| Interest (income) | (0.4) | (0.4) | - | - |
| Income (loss) before income taxes | (56.2) | 12.7 | (68.9) | (543)% |
| Provision (benefit) for income taxes | (11.5) | 14.2 | 25.7 | 181% |
| Net (loss) | **$ (44.7)** | **$ (1.5)** | **$ (43.2)** | (2880)% |

*Advanced Technology Costs*

Advanced technology costs declined $2.6 million in the three months and increased $5.9 million in the nine months ended September 30, 2011, compared to the corresponding periods in 2010. In the second quarter of 2011, we expensed $9.6 million of previously capitalized construction work in progress costs as previously described under "—Advanced Technology Costs." Advanced technology costs include expenses by NAC to develop and expand its MAGNASTOR storage and transportation technology of $1.1 million in the nine months ended September 30, 2011 and $1.7 million in the corresponding period of 2010.

*Selling, General and Administrative*

Selling, general and administrative expenses increased $1.6 million in the three months ended September 30, 2011 compared to the corresponding period in 2010, reflecting an increase of $0.8 million in salary, employee benefit and other compensation costs and an increase of $0.5 million in consulting costs. Selling, general and administrative expenses increased $4.4 million in the nine months ended September 30, 2011 compared to the corresponding period in 2010, reflecting an increase of $2.2 million in salary, employee benefit and other compensation costs, an increase of $0.7 million in consulting costs, a favorable lease adjustment of $0.5 million in the second quarter of 2010 and an increase of $0.3 million in director compensation related to two additional directors in 2011.

*Other (Income)*

In January 2011, we executed an exchange with a noteholder whereby USEC received convertible notes with a principal amount of $45 million in exchange for 6,952,500 shares of common stock and cash for accrued but unpaid interest on the convertible notes. In connection with this exchange, we recognized a gain on debt extinguishment of $3.1 million in the first quarter of 2011.

In March 2010, we reached a cooperative agreement with DOE to provide for pro-rata cost sharing support for continued funding of American Centrifuge activities with a total cost of $90 million. DOE made $45 million available by taking the disposal obligation for a specific quantity of depleted uranium from USEC, which released encumbered funds for investment in the American Centrifuge technology that we had otherwise committed to future depleted uranium disposition obligations. The program was completed in January 2011 when we made the final qualifying expenditures of $1.2 million. DOE's contribution on a 50% pro rata basis, or $0.6 million, was recognized as other income in the first quarter of 2011. In the nine months ended September 30, 2010, we made qualifying American Centrifuge expenditures of $64.8 million. DOE's contribution on a 50% pro rata basis, or $32.4 million, was recognized as other income in the nine months ended September 30, 2010.

*Preferred Stock Issuance Costs*

Issuance costs of $4.8 million related to the investment by Toshiba and B&W were expensed in the quarter ended September 30, 2010. The issuance costs were expensed in the period of issuance, rather than deferred and amortized, since the preferred stock is classified as a liability and recorded at fair value.

*Interest Expense and Interest Income*

Interest expense declined $0.1 million in the three and nine months ended September 30, 2011 compared to the corresponding periods in 2010. Interest costs capitalized increased from $20.5 million in the nine months ended September 30, 2010 to $32.8 million in the nine months ended September 30, 2011, reflecting the convertible preferred stock issued in September 2010 and credit facility term loan funded in October 2010.

Interest income declined $0.1 million in the three-month period and was unchanged in the nine months ended September 30, 2011, compared to the corresponding periods in 2010.

*Provision (Benefit) for Income Taxes*

The benefit for income taxes was $7.9 million in the three months and $11.5 million in the nine months ended September 30, 2011. The increase in the benefit for income taxes compared to the six months ended June 30, 2011 is primarily due to an increase in the expected 2011 loss before taxes. The 2011 income tax provision includes a $0.3 million benefit for the reversal of previously accrued amounts associated with liabilities for unrecognized benefits.

Excluding the reversal of previously accrued amounts associated with liabilities for unrecognized benefits, the overall effective rate for 2011 is expected to result in a benefit for income taxes of 20% compared to a provision for income taxes of 72% for 2010. This difference between 2011 and 2010 primarily results from 2011 having an expected loss before income taxes and 2010 having income before income taxes. If 2011 was expected to have income levels comparable to 2010, the 2011 effective income tax rate would be approximately 60%. The difference between the federal statutory rate of 35% and the 2011 effective income tax rate of 20% is primarily due to the level of 2011 expected pre-tax loss. In addition, the 2010 provision for income taxes includes a one-time charge of $6.5 million related to the change in tax treatment of Medicare Part D reimbursements as a result of the Patient Protection and Affordable Care Act as modified by the Reconciliation Act of 2010 (collectively referred to as "the Healthcare Act") signed into law at the end of March 2010. The charge was due to a reduction in our deferred tax asset as a result of a change to the tax treatment of Medicare Part D reimbursements. The 2011 effective income tax rate decrease is also impacted by lower estimated federal research credits in 2011 compared to 2010.

*Net (Loss)*

Net income declined $7.9 million in the three months and $43.2 million in the nine months ended September 30, 2011 compared to the corresponding periods in 2010, primarily due to the after-tax effects of the declines in LEU segment profits and other income. Additional factors affecting the nine-month period include the after-tax effects of the declines in contract services gross profits, partially offset by the tax provision charge of $6.5 million in the prior period related to the effect of changes in tax laws on our deferred tax assets.

**2011 Outlook Update**

We are providing an update to our 2011 financial guidance. We expect revenue for the full year to be approximately $1.7 billion, unchanged from our initial guidance. Within that total revenue, we expect SWU revenue to be approximately $1.4 billion and uranium revenue to be approximately $135 million. Our projection for SWU volume sold has declined by 1% from earlier guidance and is expected to be 10% less in 2011 compared to 2010. We continue to expect at least a 3% increase in the average SWU price billed to customers. The contract services segment, which includes the closeout of work for DOE at the former Portsmouth Gaseous Diffusion Plant, is now expected to have revenue of approximately $200 million or $50 million more than our initial guidance. The higher revenue reflects additional services provided by us as the decontamination and decommissioning project at Portsmouth was handed over to a DOE contractor and additional sales of dry storage systems by our subsidiary, NAC International.

We produce approximately half of our SWU supply and purchase half from Russia under the Megatons to Megawatts program. Electric power continues to be the largest production cost component. Under the terms of our contract with TVA, we are buying less electricity in 2011 than in 2010. We also ramped down power purchases to our summer operations level earlier than in previous years. The resulting reduction in power purchases will lower our cost of sales, partially offset by higher than expected fuel cost adjustments paid to TVA. The purchase price paid to Russia in 2011 is 3% higher than in 2010. As customer orders firm for deliveries in the final quarter of 2011, we expect the gross profit margin for 2011 to be in a range of 5% to 6%.

Below the gross profit line, we expect our selling, general and administrative expense to be approximately $60 million. Our spending on the American Centrifuge in 2011 has been incrementally allocated as we continue to evaluate our spending plan and our path toward a DOE loan guarantee commitment or other funding for the project. During the fourth quarter of 2011, our spending on ACP beyond amounts already spent or committed to date will be dependent on our expectations regarding the success and timing of any cooperative agreement with DOE to provide for immediate funding under the RD&D program currently being discussed with DOE. We expect to expense costs under any cooperative agreement as incurred. If we are unable to reach agreement with DOE regarding the RD&D program, or as part of any scoping phase, we expect to evaluate the continued capitalization of existing ACP assets. The project has a significant effect on net income and cash flow, and due to the ongoing uncertainty, USEC is not providing guidance on net income or cash flow at this time. Taking into account spending on the project to date and our anticipated gross profit margin, we expect to report a net loss in 2011. We do, however, expect our current enrichment operations to generate positive cash flow from operations for the year 2011.

Our financial guidance is subject to a number of assumptions and uncertainties that could affect results either positively or negatively. Variations from our expectations could cause substantial differences between our guidance and ultimate results. Among the factors that could affect our results are:

- Changes to the electric power fuel cost adjustment;
- Actions by DOE regarding financing of the American Centrifuge and supporting its continued development, including the potential for any cooperative agreement;
- Ongoing review and evaluation of the value of capitalized costs that are part of ACP construction that could be charged to expense; and
- The timing of recognition of previously deferred revenue.

**Liquidity and Capital Resources**

Key factors that can affect liquidity requirements for our existing operations include the timing and amount of customer sales and power purchases.

We believe our sales backlog in our LEU segment is a source of stability for our liquidity position. Since 2006, we have included in our SWU contracts pricing indices that are intended to correlate with our sources for enrichment supply. Although sales prices under many of our SWU contracts are adjusted in part based on changes in market prices for SWU and electric power, the impact of market volatility in these indices is generally mitigated through the use of market price averages over time. Additionally, changes in the power price component of sales prices are intended to mitigate the effects of changes in our power costs.

In order to enhance our liquidity and manage our working capital in light of anticipated sales and inventory levels and to respond to customer-driven changes, we work periodically with customers regarding the timing of their orders, including the advancement of those orders. Rather than selling material into the limited spot market for enrichment, USEC has advanced orders from 2011 into 2010 and orders from 2012 into 2011. Based on our outlook for demand and our anticipated liquidity and working capital needs, we anticipate continuing to work with customers to advance orders in the near term. The advancement of orders has the effect of accelerating our receipt of cash from such advanced sales, although the amount of cash we receive from such sales may be reduced as a result of the terms mutually agreed with customers in connection with advancement. This will have the effect of reducing backlog and revenues in future years if we do not replace these orders with additional sales. Future sales will also be a function of our future supply, including decisions with respect to the extension of Paducah plant operations. Looking a few years out, we expect an increase in uncommitted demand that could provide the opportunity to make additional sales to supplement our backlog and thus decrease the need to advance orders in the future. However, the amount of any demand and our ability to capture that demand is uncertain. Our ability to advance orders depends on the willingness of our customers to agree to advancement on terms that we find acceptable. In light of the order advancements that we have done in the past, we expect additional order advancements to be increasingly challenging, which could adversely affect our liquidity.

We purchase most of the electric power for the Paducah GDP under a power purchase agreement with TVA. The base price under the TVA power contract increases moderately 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 future fuel cost adjustments, which are substantially influenced by coal, gas and purchased-power prices and hydroelectric power availability, is uncertain and our cost of power could fluctuate in the future above or below the agreed increases in the base energy price. We expect the fuel cost adjustment to continue to cause our purchase cost for power to remain above the base energy prices, but the magnitude and the impact is uncertain given volatile energy prices and electricity demand.

We expect our cash balance, internally generated cash from our LEU operations and services provided by our contract services segment, and available borrowings under our revolving credit facility will provide sufficient cash to meet our needs for at least 12 months. This assumes the renewal of the revolving credit portion of the credit facility and the repayment of the term loan portion of the credit facility at maturity. The credit facility matures on May 31, 2012 and we are planning to pursue a renewal or replacement of the credit facility. If the credit facility is not renewed or replaced, we could supplement our liquidity position through the sale of available inventory. However, we cannot be certain that we will have funds available to repay any indebtedness that may be outstanding under the facility at that time and to replace any outstanding letters of credit under the facility, which would adversely affect our liquidity and financial condition. As a result, our inability to renew or replace our credit facility could have significant adverse impacts on our liquidity and could raise significant uncertainty regarding our ability to continue as a going concern.

We are currently working with our lenders to define our credit facility renewal objectives. We expect to launch the effort with interested parties in the fourth quarter of 2011. However, we have no assurance that we will be able to refinance the revolving credit facility on terms favorable to us or at all and the timing of any renewal or replacement is uncertain. Lenders under our current credit facility or other potential lenders may not be interested in participating because of our financial condition, capital constraints or other reasons, which could affect the size and availability of any credit facility. Restrictions on the size of the credit facility could adversely affect our ability to fund our operations and affect our ability to continue investing in the American Centrifuge project. Please see Risk Factors in Part II, Item 1A of this report.

We need significant additional financing to complete construction of the American Centrifuge Plant and we have already reduced the scope of project activities until we have that financing. In the near term, our continued spending on the American Centrifuge project is dependent upon the success and timing of our entering into a cooperative agreement with DOE to provide for immediate funding to continue American Centrifuge RD&D activities over the next couple of months and to develop the scope for execution of the enhanced RD&D program. If we are successful in entering into a cooperative agreement with DOE and moving forward with the RD&D program, we expect to fund continued spending on the ACP through the closing on a DOE loan guarantee using the proceeds from the RD&D program, from investment from Toshiba and B&W and other potential third parties and through our cash flow from existing operations.

During the third quarter of 2011, we reached a critical point regarding continuing funding for the American Centrifuge project. On September 30, 2011, we announced that in order to prudently manage our resources we would be reducing spending on the American Centrifuge project during October 2011 by approximately 30% (as compared to the average monthly rate of spending in the prior months of 2011) as we continued working with DOE to achieve a conditional commitment for a DOE loan guarantee for the American Centrifuge project by November 1, 2011. We also sent Worker Adjustment and Retraining Notification ("WARN") Act notices to all of the approximately 450 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 in November 2011. We are evaluating our spending on a day-to-day basis and could make a decision at any time to further reduce spending and begin demobilizing the project based on the timing and likelihood of an agreement with DOE and any government funding. These actions would likely include worker layoffs and supplier contract terminations and we could incur employee related severance costs and contract termination costs of up to approximately $50 to $60 million in the near term.

Subsequent to that action, we and DOE engaged in intense discussions throughout October and discussions are ongoing regarding a research, development and demonstration ("RD&D") program to reduce the technology and financial risk of commercializing the American Centrifuge technology. Our application for a DOE loan guarantee would remain pending during the RD&D program. The RD&D program being discussed is currently anticipated to include up to $300 million of total U.S. government funding provided through a cost sharing arrangement. The RD&D program is expected to involve the manufacturing of additional production design centrifuge machines and constructing and operating at least one complete commercial cascade of 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. As initially planned, the American Centrifuge Plant would include 96 cascades each containing 120 machines, so operation of a cascade enables the demonstration and testing of certain systems as they would actually operate at the scale necessary for full commercialization.

It is anticipated that the RD&D program would include an initial scoping phase followed by a technical verification phase including constructing and operating one complete commercial cascade and then a build-out phase involving continued building of centrifuge machines beyond one cascade toward a train of six cascades to the extent of available funds. It is anticipated that during these first two phases, DOE would provide funding for up to 80% of the costs with USEC (or a new joint company formed by a consortium of USEC, B&W and Toshiba and other potential third party investors) contributing the remaining funds. During the build-out phase, DOE would provide funding for up to 20% of the costs with USEC (or such new joint company) contributing the funding for the remaining costs. DOE's total contribution for all three phases would be capped at $300 million.

We are in discussions with DOE regarding a cooperative agreement to provide immediate funding to continue American Centrifuge RD&D activities over the next couple of months and to develop the scope for execution of the enhanced RD&D program. The cooperative agreement currently being discussed with DOE would provide for 80% DOE and 20% USEC cost sharing for work performed over the next couple of months with a total estimated cost of approximately $55 million. The cooperative agreement would provide for the cost of ongoing ACP activities during this period as well as for the scoping work. It is anticipated that, similar to the cooperative agreement entered into between USEC and DOE in March 2010, under the cooperative agreement, DOE would accept title to quantities of depleted uranium that would enable us to release encumbered funds for DOE's share of the total estimated cost of the ACP work during this period. Depleted uranium is generated as a result of operation of our gaseous diffusion plant in Paducah, Kentucky. Under our license with the Nuclear Regulatory Commission, we must guarantee the disposition of this depleted uranium with financial assurance. We would remain responsible, at our expense, for the storage of the transferred depleted uranium until DOE takes custody and possession of the material. We would provide cost sharing equal to 20% of the total estimated cost of $55 million, or $11 million. It is currently anticipated that USEC's 20% contribution of $11 million during the initial scoping phase could include credit for certain expenditures previously made by USEC for ongoing demonstration activities. However, we have not reached an agreement with DOE regarding the cooperative agreement and continuation of the RD&D program in the government fiscal year 2012 beyond any initial scoping phase will require action by Congress to provide funding or from funds released from the transfer of additional quantities of depleted uranium from us to DOE. Funding for the RD&D program beyond government fiscal year 2012 would be subject to future appropriations.

It is anticipated that during the initial scoping phase, we would work with DOE and our strategic investors B&W and Toshiba to define the scope, schedule, cost, and funding sources for the RD&D program, and finalize financial and technical milestones for the RD&D program. We would also work with our strategic investors to determine how best to structure ongoing investment in the project and move forward with the RD&D program and future commercialization. If, following any cooperative agreement, an agreement is reached with DOE and a decision is made to proceed with the RD&D program beyond the initial scoping phase, we would then enter into an omnibus agreement with DOE for the second two phases of the RD&D program for the remaining approximately $256 million. However, no decision has yet been made regarding the RD&D program, including the sources of DOE funding or the structure of any ongoing USEC investment. We have no assurance that the terms required by DOE will be acceptable, that we will be able to reach agreement with DOE or our strategic investors regarding any phase of the RD&D program or that any funding will be provided.

Although we will continue to pursue a $2 billion loan guarantee through the DOE's Loan Guarantee Program, our efforts in the immediate future are focused on working together with DOE and Congress on support for the RD&D program. Our loan guarantee application is expected to remain pending during this period. If we determine that there is support for federal funding for such a program and a cooperative agreement could be agreed to with DOE to provide for immediate funding, we would expect to then focus on implementing the cooperative agreement, including the scoping and other activities described above. However, if we determine that such support does not exist or that our prospects for finalizing an agreement and obtaining funding from DOE for the RD&D program is not achievable in the near term, we expect to further reduce our spending on the project and begin demobilizing the project. A decision could be made at any time. We are also continuing to work with our financial and other advisors to review structuring options and strategic alternatives. However, we have no assurances that we will ultimately be able to obtain a loan guarantee and the timing thereof or that any of the structuring options or strategic alternatives can be implemented.

In May 2010, Toshiba and B&W signed a securities purchase agreement to make a $200 million investment in USEC. Under the terms of the agreement, Toshiba and B&W each agreed to invest $100 million in USEC over three phases, each of which is subject to specific closing conditions. Closing for the first phase occurred in September 2010 and we received $75 million. Closing on the second phase of $50 million is subject to closing conditions, including obtaining a conditional commitment for a $2 billion loan guarantee from DOE. Closing on the third phase of $75 million is subject to additional closing conditions, including closing on a $2 billion loan guarantee. For their investment, the companies received convertible preferred stock as well as warrants to purchase shares of common stock, which are exercisable in the future. The securities purchase agreement governing the transaction provided that it may be terminated by us or each of the strategic investors (as to such investor's obligations) if the second closing did not occur by June 30, 2011. On June 30, 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 prior to August 15, 2011. On August 15, 2011, the parties further extended this period of time through September 30, 2011 and then again to October 31, 2011. As of October 31, 2011, the parties have agreed in principle to further extend the standstill agreement through January 15, 2012 if DOE and USEC reach agreement on the framework for the RD&D program. However, since no agreement has been reached with DOE, the standstill agreement is not effective and USEC and each of the strategic investors (as to such investor's obligations) currently have the right to terminate the securities purchase agreement.

We are continuing discussions with Toshiba and B&W regarding their investment, including the potential participation of Toshiba and B&W (and other potential third parties) in a possible new joint company to implement the RD&D program. Any such action will likely require a restructuring of the investment by Toshiba and B&W and amendments to the securities purchase agreement and related conditions. We have no assurance that we will be able to reach any agreement with either Toshiba or B&W concerning such matters.

To complete the project, we will require additional funding beyond the $2 billion DOE loan guarantee, proceeds from the investment from Toshiba and B&W, and internally generated cash flow. In order to obtain a DOE loan guarantee, we will need to demonstrate that sufficient capital is available to complete the project. We initiated in 2010, and continue to have discussions with Japanese export credit agencies regarding financing $1 billion of the cost of building the plant. However, we have no assurance that they will provide the financing needed and on what terms or that we will not need additional capital.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2011** | **2010** |
| Net Cash Provided by Operating Activities | $ 107.2 | $ 30.0 |
| Net Cash (Used in) Investing Activities | (133.9) | (74.9) |
| Net Cash Provided by (Used in) Financing Activities | (6.4) | 59.7 |
| Net Increase (Decrease) in Cash and Cash Equivalents | **$ (33.1)** | **$ 14.8** |

*Operating Activities*

The decline in accounts receivable provided cash of $85.1 million in the nine months ended September 30, 2011 primarily from utility customer payments. Net inventories increased $71.6 million representing higher power costs and lower sales. Payables under the Russian Contract increased $83.6 million in the nine months ended September 30, 2011, due to the timing of deliveries, representing additions to inventory that did not require a cash outlay.

*Investing Activities*

Capital expenditures were $130.3 million in the nine months ended September 30, 2011, compared with $123.0 million in the corresponding period in 2010. Capital expenditures during these periods are principally associated with the American Centrifuge Plant, including prepayments made to suppliers under existing agreements for materials and services not yet provided.

*Financing Activities*

Borrowings and repayments under the revolving credit facility were each less than $0.1 million in the nine months ended September 30, 2011.

There were 123.0 million shares of common stock outstanding at September 30, 2011, compared with 115.2 million at December 31, 2010, an increase of 7.8 million shares (or 7%). In January 2011, we executed an exchange with a noteholder whereby we received convertible notes with a principal amount of $45 million in exchange for 6,952,500 shares of common stock and cash for accrued but unpaid interest on the convertible notes.

*Working Capital*

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| | (millions) | |
| Cash and cash equivalents | $ 117.9 | $ 151.0 |
| Accounts receivable, net | 223.5 | 308.6 |
| Inventories, net | 878.3 | 806.7 |
| Credit facility term loan, current | (85.0) | - |
| Other current assets and liabilities, net | (358.1) | (280.7) |
| Working capital | **$ 776.6** | **$ 985.6** |

The credit facility term loan of $85.0 million matures May 31, 2012 and is included in current liabilities as of September 30, 2011 and long-term debt as of December 31, 2010.

*Capital Structure and Financial Resources*

At September 30, 2011, our debt consisted of a term loan of $85.0 million due May 31, 2012 under our credit facility and $530.0 million in 3.0% convertible senior notes due October 1, 2014.

The convertible notes are unsecured obligations and rank on a parity with all of our other unsecured and unsubordinated indebtedness. We may, from time to time, agree to exchange a portion of our convertible notes for shares of our common stock prior to their maturity in privately negotiated transactions. We will evaluate any such transactions in light of then existing market conditions, taking into account our stock price as it relates to the conversion ratio and any potential interest cost savings. The amounts involved, individually or in the aggregate, may be material. We are restricted under our credit facility from repurchasing the notes for cash.

In January 2011, USEC executed an exchange with a noteholder whereby USEC received convertible notes with a principal amount of $45 million in exchange for 6,952,500 shares of common stock and cash for accrued but unpaid interest on the convertible notes. In connection with this exchange USEC recognized a gain on debt extinguishment of $3.1 million in the first quarter of 2011.

Our debt to total capitalization ratio was 35% at September 30, 2011 and 36% at December 31, 2010, including convertible preferred stock of $85.9 million which is classified as a liability.

Our $310 million syndicated bank credit facility provides for the $85 million term loan and a revolving credit facility of $225 million. The term loan was issued with an original issue discount of 2% and bears interest, at our election, at either:

- the greater of (1) the JPMorgan Chase Bank prime rate (with a floor of 3%) plus 6.5%, (2) the federal funds rate plus ½ of 1% (with a floor of 3%) plus 6.5%, or (3) an adjusted 1-month LIBO Rate plus 1% (with a floor of 3%) plus 6.5%; or

- the adjusted LIBO Rate (with a floor of 2%) plus 7.5%.

The interest rate for the term loan was 9.5% as of September 30, 2011, which equals the floor plus 7.5%.

Utilization of our credit facility at September 30, 2011 and December 31, 2010 follows (in millions):

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Borrowings under the revolving credit facility | $ - | $ - |
| Term loan due May 31, 2012 | 85.0 | 85.0 |
| Letters of credit | 16.9 | 17.3 |
| Available credit | 208.1 | 207.7 |

Borrowings under the credit facilities are subject to limitations based on established percentages of qualifying assets pledged as collateral to the lenders, such as eligible accounts receivable and USEC-owned inventory. Available credit reflects the levels of qualifying assets at the end of the previous month less any borrowings or letters of credit.

The interest rate on outstanding borrowings under the revolving credit facility, at our election, is either:

- the sum of (1) the greater of a) the JPMorgan Chase Bank prime rate, b) the federal funds rate plus ½ of 1%, or c) an adjusted 1-month LIBO Rate plus 1% plus (2) a margin ranging from 2.25% to 2.75% based upon availability, or

- the sum of the adjusted LIBO Rate plus a margin ranging from 4.0% to 4.5% based upon availability.

The credit facility matures on May 31, 2012. The term loan is subject to mandatory prepayment consistent with the existing credit agreement. The term loan may be prepaid voluntarily subject to a prepayment fee of 1% of the amount if prepaid prior to January 1, 2012.

The credit facility is available to finance working capital needs and general corporate purposes. Commitments are secured by assets of USEC Inc. and our subsidiaries, excluding equity in, and assets of, subsidiaries created to carry out future commercial American Centrifuge activities.

On June 20, 2011, the credit facility agreement was amended to provide increased flexibility for continued investment in the American Centrifuge project. Before the amendment, the credit facility agreement permitted USEC to spend up to $165 million in the aggregate over the term of the credit facility on the American Centrifuge project, subject to certain limitations and exceptions. The amendment removes this spending restriction. The credit facility agreement, as amended, instead restricts spending on the American Centrifuge project if Availability (as defined below) falls below $100 million, as described below:

| Requirement | Outcome |
|---|---|
| Availability ≥ $100 million | If not maintained, then the aggregate amount of spending on the American Centrifuge project (1) made in any calendar month shall not exceed $5 million and (2) made in the aggregate shall not exceed $25 million until the 60th consecutive day after minimum Availability is restored. |

"Availability" means, the lesser of (i) aggregate lender commitments and (ii) the sum of eligible receivables and eligible inventory, subject to caps, less the sum of (x) outstanding loan balances and accrued interest, fees and expenses, and (y) letters of credit issued, except to the extent cash collateral has been posted to support the letters of credit. Aggregate lender commitments include both commitments of the revolving lenders and the outstanding principal amount of the term loan.

Availability was $207.3 million as of September 30, 2011 and $206.8 million as of December 31, 2010. We expect to have borrowings under the credit facility beginning in the fourth quarter of 2011.

The remaining restrictions in the credit facility on spending on the American Centrifuge project continue to not restrict the investment of proceeds of grants and certain other financial accommodations (excluding proceeds from the issuance of debt or equity by the borrowers) that may be received from DOE or other third parties that are specifically designated for investment in the American Centrifuge project.

Under the terms of the credit facility, borrowings under the revolving credit facility are subject to limitations based on Availability. The amendment changes two restrictive provisions as follows:

| Previous Requirement | New Requirement | Outcome |
|---|---|---|
| Availability ≥ greater of 10% of aggregate lender commitments or $32.5 million | Availability ≥ the sum of (a) greater of (i) 10% of aggregate lender commitments or (ii) $32.5 million plus (b) $17.5 million | If not met at any time, an event of default is triggered. |
| Availability ≥ $75.0 million` | Availability ≥ $100.0 million | If not met at any time, fixed charge ratio required to be 1.00 to 1.00 until the 90th consecutive day Availability is restored. |

The credit facility includes provisions permitting transfer of assets related to the American Centrifuge project to enable USEC to separately finance the American Centrifuge project. The USEC subsidiaries created to carry out future commercial American Centrifuge activities will not be guarantors under the credit facility, and their assets will not be pledged as collateral.

The revolving credit facility contains various reserve provisions that reduce available borrowings under the facility periodically or restrict the use of borrowings if certain requirements are not met. As of September 30, 2011 and December 31, 2010, we had met all of the reserve provision requirements.

The credit facility includes various customary operating and financial covenants, including restrictions on the incurrence and prepayment of other indebtedness, granting of liens, sales of assets, making of investments, maintenance of a minimum amount of collateral, and payment of dividends or other distributions. As of September 30, 2011 and December 31, 2010, we were in compliance with all of the various customary operating and financial covenants. In addition, our credit facility prohibits our payment of cash dividends or distributions to holders of our common stock. Complying with these covenants may limit our flexibility to successfully execute our business strategy. Failure to satisfy the covenants would constitute an event of default under the credit facility.

Default under, or failure to comply with the Russian Contract, the 2002 DOE-USEC Agreement (other than the milestones related to deployment of the American Centrifuge project), the lease of the GDPs or any other material contract or agreement with the DOE, or any exercise by DOE of its rights or remedies under the 2002 DOE-USEC Agreement, would also be considered to be an event of default under the credit facility if it would reasonably be expected to result in a material adverse effect on (i) our business, assets, operations or condition (taken as a whole), (ii) our ability to perform any of our obligations under the credit facility, (iii) the assets pledged as collateral under the credit facility; (iv) the rights or remedies under the credit facility of the lenders or J.P. Morgan as administrative agent; or (v) the lien or lien priority with respect to the collateral of J.P. Morgan as administrative agent.

*Deferred Financing Costs*

Financing costs are generally deferred and amortized over the life of the instrument. A summary of deferred financing costs for the nine months ended September 30, 2011 follows (in millions):

| | December 31, 2010 | Additions | Amortization | September 30, 2011 |
|---|---|---|---|---|
| Other current assets: | | | | |
| Bank credit facilities | **$ 7.4** | **$ 0.5** | **$ (4.1)** | **$ 3.8** |
| | | | | |
| Deferred financing costs (long-term): | | | | |
| Convertible notes | $ 8.1 | $ - | $ (2.1) | $ 6.0 |
| ACP project | 2.5 | 4.3 | - | 6.8 |
| Deferred financing costs | **$ 10.6** | **$ 4.3** | **$ (2.1)** | **$ 12.8 0** |

*Financial Assurance and Related Liabilities*

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

A summary of financial assurance, related liabilities and cash collateral follows (in millions):

| | Financial Assurance | | Long-Term Liability | |
|---|---|---|---|---|
| | September 30, 2011 | December 31, 2010 | September 30, 2011 | December 31, 2010 |
| Depleted uranium disposition and stored wastes | $ 223.0 | $ 215.8 | $ 139.7 | $ 125.4 |
| Decontamination and decommissioning of American Centrifuge | 22.2 | 22.2 | 22.6 | 22.6 |
| Other financial assurance | 19.4 | 19.8 | | |
| Total financial assurance | **$ 264.6** | **$ 257.8** | | |
| Letters of credit | **16.9** | **17.3** | | |
| Surety bonds | **247.7** | **240.5** | | |
| Cash collateral deposit for surety bonds | **$ 144.4** | **$ 140.8** | | |

The amount of financial assurance needed in the future for depleted uranium disposition is anticipated to increase by an estimated $30 to $40 million per year depending on Paducah GDP production volumes and the estimated unit disposition cost defined by the NRC requirement.

The amount of financial assurance needed for D&D of the American Centrifuge Plant is dependent on construction progress and decommissioning cost projections. The estimates of completed construction activities supporting the decommissioning funding plan are based on projected percent completion of activities as defined in the baseline construction schedule.

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 centrifuge operations.

Our level of cash collateral supporting financial assurance and our ability to secure additional financial assurance are subject to a provider's view of our creditworthiness.

*Off-Balance Sheet Arrangements*

Other than the letters of credit issued under the credit facility, surety bonds, contractual commitments and the license agreement with DOE relating to the American Centrifuge technology disclosed in our 2010 Annual Report, there were no material off-balance sheet arrangements, obligations, or other relationships at September 30, 2011 or December 31, 2010.

*Contractual Obligations Update*

On March 23, 2011, we signed a contract with TENEX for the 10-year supply of Russian LEU with deliveries that could begin in 2013. The new contract was approved by the Russian State Atomic Energy Corporation ("Rosatom") on May 11, 2011. The effectiveness of the new commercial contract between TENEX and USEC is subject to completion of administrative arrangements between the U.S. and Russian governments under the agreement for cooperation in nuclear energy between the United States and the Russian Federation. The pricing terms for SWU under the contract are based on a mix of market-related price points and other factors. The contract provides USEC the option to increase or decrease the amount of the firm commitment SWU to be purchased for a given year by up to a total of plus or minus 5%. For years 2015 through 2019, in addition to its option to decrease the amount of any firm commitment SWU to be purchased during such year by up to 5%, USEC will have the option to defer up to an additional 5% of the amount of the firm commitment SWU to be purchased in such year and instead purchase the deferred amount in years 2020 through 2022. TENEX and USEC also may mutually agree to increase the purchases and sales of SWU by certain additional optional quantities of SWU. USEC's purchase commitment under the contract during the ten-year period is estimated to be approximately $2.8 billion excluding contractual options to increase or decrease volumes. Actual amounts will also vary based on changes in the price points and other pricing elements.

**New Accounting Standards Not Yet Implemented**

Reference is made to New Accounting Standards in Note 1 of the notes to the consolidated condensed financial statements for information on new accounting standards.

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

At September 30, 2011, the balance sheet carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and payables under the Russian Contract approximate fair value because of the short-term nature of the instruments.

We have not entered into financial instruments for trading purposes. At September 30, 2011, our debt consisted of the 3.0% convertible senior notes with a balance sheet carrying value of $530.0 million and a credit facility term loan of $85.0 million. The fair value of the convertible notes, based on the trading price as of September 30, 2011, was $278.3 million. The fair value of the term loan as of September 30, 2011, using the change in market value of an index of loans of similar credit quality based on published credit ratings, was $74.4 million.

The estimated fair value of our convertible preferred stock at September 30, 2011, including accrued paid-in-kind dividends declared payable October 1, 2011, was equal to the liquidation value of $1,000 per share or $85.9 million.

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

- commodity price risk for electric power requirements for the Paducah GDP (refer to "Overview – Cost of Sales for SWU and Uranium" and "Results of Operations – Cost of Sales"),
- interest rate risk relating to the outstanding term loan and any outstanding borrowings at variable interest rates under our credit facility (refer to "Liquidity and Capital Resources – Capital Structure and Financial Resources"), and
- interest rate and other market risks relating to the valuation of our convertible preferred stock (refer to "Liquidity and Capital Resources – Capital Structure and Financial Resources").

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

*Effectiveness of Our Disclosure Controls and Procedures*

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

*Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 1.** ***Legal Proceedings***

USEC is subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, we do not believe that the outcome of any of these legal matters will have a material adverse effect on our results of operations or financial condition.

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

**Investors should carefully consider the updated risk factors below and the other risk factors in Part I, Item 1A of our 2010 Annual Report on Form 10-K, in addition to the other information in our Annual Report and this Quarterly Report on Form 10-Q.**

***It may not be economical to extend Paducah GDP operations beyond May 2012, which could pose a significant risk to, or could significantly limit, our continued operations.***

We expect to make a decision regarding whether or not to extend operations at the Paducah GDP beyond May 2012 in the next few months. While our goal is to extend operations at the Paducah GDP, we will base our decision to extend operations beyond May 2012 upon economic considerations and our ability to operate the plant profitably. Factors that can affect our decision on whether to extend Paducah GDP operations include:

- Our ability to negotiate an acceptable power arrangement with TVA or other suppliers of power;
- Our success 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; and
- SWU supply and demand and the outcome of discussions with customers about their near term SWU supply needs.

We have no assurance that we will be successful in negotiating an acceptable power arrangement with TVA or other suppliers of power. Our power supply contract with TVA expires May 31, 2012 and we are evaluating additional power purchases from TVA and other sources. Even if we are able to obtain an agreement, suppliers other than TVA 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.

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 ("tails") 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 from that industry and from others, 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 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 is being considered in Congress; however, we have no assurance that any legislation will be enacted 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.

We also have no assurance that our customers' enrichment needs in the next several years will be sufficient to support continued Paducah GDP operations at the production level that is necessary for the plant to be economic. The supply needs of our traditional customers appear to be largely satisfied over the next several years. In addition, there is excess supply in the market in the near term due to the impacts of the Fukushima accident. Based upon our current outlook for demand and discussions with customers, we do not believe there is sufficient demand to support a Paducah extension absent an agreement with DOE for tails re-enrichment to absorb a portion of the plant production capacity, and even if we obtain an agreement for tails re-enrichment, there still may not be sufficient demand from our customers.

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 performance and economics. In addition, under the 2002 DOE-USEC Agreement, production 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 a centrifuge enrichment facility 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, 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. In addition, if we produce less than one million SWU per year at the Paducah GDP and fail to recommence production within time periods specified in the 2002 DOE-USEC Agreement, DOE could assume responsibility for operation of the Paducah GDP. 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 may 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.

We maintain substantial inventories of SWU that we carefully monitor to ensure we can meet our commitments. Our ability to maintain inventories 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.

A decision to cease 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 operations at Paducah beyond May 2012, we would cease being a producer of enriched uranium during this transition period, which could adversely affect our efforts to pursue the American Centrifuge project, to implement the Russian Transitional Supply Agreement or to pursue other options. The shutdown of Paducah 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. A decision to shut down Paducah operations could also adversely affect our ability to contract with customers, including our ability to contract for the output of the American Centrifuge Plant and for the material we purchase under the commercial contract we entered into with TENEX in March 2011.

In lieu of a decision to cease Paducah operations, we could pursue alternate 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.

***We have reduced spending on the American Centrifuge project and could further reduce spending in the near term and actions we have taken or may take to reduce spending may have significant adverse consequences on the project.***

On September 30, 2011, we announced that in order to prudently manage our resources we would be reducing our spending on the American Centrifuge project during October 2011 by approximately 30% (as compared to the average monthly rate of spending in the prior months of 2011) as we continued working with DOE to achieve a conditional commitment for a DOE loan guarantee for the American Centrifuge project by November 1, 2011. We sent Worker Adjustment and Retraining Notification ("WARN") Act notices to all of the approximately 450 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 in November 2011.

Subsequent to that action, we and DOE engaged in intense discussions throughout October and discussions are ongoing regarding a research, development and demonstration (RD&D) program to reduce the technology and financial risk of commercializing the American Centrifuge technology. We are in discussions with DOE regarding a cooperative agreement to provide immediate funding to continue American Centrifuge RD&D activities over the next couple of months and to develop the scope for execution of the enhanced RD&D program. The cooperative agreement currently being discussed with DOE provides for 80% DOE and 20% USEC cost sharing for work performed over the next couple of months with a total estimated cost of approximately $55 million. However, we have not reached an agreement with DOE regarding the cooperative agreement and absent such an agreement or other funding in the near term, we expect to further reduce our spending on the project and begin demobilizing the project.

Even if we are able to reach an agreement with DOE to provide for immediate funding, our spending could be significantly limited. It is currently anticipated that our 20% contribution of $11 million during the initial scoping phase could include credit for certain expenditures previously made by us for ongoing demonstration activities. Therefore, DOE's 80% contribution of $44 million would substantially represent the incremental spending on the American Centrifuge project under the RD&D program through the end of the initial scoping phase. This could further limit spending on the project during the initial scoping phase beyond the spending reductions implemented for October 2011.

Reductions in spending on the American Centrifuge project could:

- 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 have not yet reached an agreement with DOE regarding the proposed research, development and demonstration program and without such a program or other source of funding, we will likely need to begin demobilizing the American Centrifuge project in the near term.***

As described above, we are engaged 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. The RD&D program being discussed with DOE is currently anticipated to include up to $300 million of total U.S. government funding provided through a cost sharing arrangement. We are in discussions with DOE regarding a cooperative agreement to provide immediate funding to continue American Centrifuge RD&D activities over the next couple of months and to develop the scope for execution of the enhanced RD&D program. However, we have not reached an agreement with DOE regarding the cooperative agreement and continuation of the RD&D program in the government fiscal year 2012 beyond the initial scoping phase will require action by Congress to provide funding or from funds released from the transfer of additional quantities of depleted uranium from us to DOE. Funding for the RD&D program beyond government fiscal year 2012 would be subject to future appropriations, all of which are 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.

Our ability to provide additional funding for the project is significantly limited. It is currently anticipated that USEC's 20% contribution of $11 million during the initial scoping phase of the RD&D program under the cooperative agreement could include credit for certain expenditures previously made by USEC for ongoing demonstration activities. However, we have no assurances that a cooperative agreement will be agreed to and on what terms and that we will be allowed a credit for these expenditures.

Even if we are successful in reaching agreement with DOE regarding a cooperative agreement and in funding our contribution under such agreement, we will still need to reach agreement on the remaining terms of the RD&D program. During any initial scoping phase, we would work with DOE and with our strategic investors Babcock & Wilcox Investment Company ("B&W") and Toshiba Corporation ("Toshiba") to define the scope, schedule, cost, and funding sources for the RD&D program, and finalize financial conditions and technical milestones for the RD&D program. We would also anticipate working with our strategic investors 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 is expected to involve the manufacturing of additional production design centrifuge machines and constructing and operating at least one complete commercial cascade of 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, some of which could be outside our control, 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 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.

***Additional delays in our obtaining a conditional commitment for a loan guarantee from DOE and other financing needed for the project could severely jeopardize the American Centrifuge project and could require us to 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 includes 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.

We have been working to address DOE's remaining concerns 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, which 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 been in discussions with Japanese export credit agencies for financing of 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 ongoing 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. The second closing was conditioned upon receipt of a $2 billion conditional commitment and has not occurred. During the second quarter, 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. On August 15, 2011, the parties further extended this period of time through September 30, 2011 and then again to October 31, 2011. As of October 31, 2011, the parties have agreed in principle to further extend the standstill agreement through January 15, 2012 if DOE and USEC reach agreement on the framework for the RD&D program. However, since no agreement has been reached with DOE, the standstill agreement is not effective 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 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 are 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 is 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 share 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 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.

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 currently are evaluating our options concerning the American Centrifuge project, including whether to further reduce our spending on the project and begin demobilizing the 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.

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

In July 2010, we provided an estimate of the cost to complete the American Centrifuge project from the point of closing on financing of approximately $2.8 billion. This estimate included AC100 machine manufacturing and assembly, engineering, procurement and construction ("EPC") costs and related balance-of-plant work, start-up and initial operations, and project management. The $2.8 billion 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. This cost estimate was the basis of the update to our loan guarantee application submitted in July 2010. However, significant uncertainty now exists regarding this cost estimate due to the potential change of the deployment approach and schedule for the ACP commercial plant, subsequent to the proposed RD&D program. There are significant carrying costs associated with the project and maintaining the manufacturing infrastructure. Depending on the length of the RD&D program or any demobilization period, these costs could be substantial and could threaten the overall economics of the project. In addition, continued delays in the project have made discussions with suppliers regarding the transition to fixed cost or maximum cost contracts very challenging.

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.

The amount of additional capital that we will need will depend on a variety of factors, including how we ultimately deploy the project, the input we receive from our suppliers as part of our ongoing 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, the outcome of the RD&D program, and efficiencies and other cost-savings that we are able to achieve.

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.

***We are required to meet certain milestones under the 2002 DOE-USEC Agreement and our failure to meet these milestones 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 connection with the discussion regarding the RD&D program described above, we anticipate that we will be engaging in discussions with DOE regarding the modification of the remaining milestones and other provisions of the 2002 DOE-USEC Agreement. 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.

Until we have met the November 2011 financing milestone, 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. 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.

***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"). The Fukushima plant and its six reactors 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. It is too early to know the long term impact of the Fukushima disaster, 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 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, our backlog during the years 2012-2013 includes sales to customers most directly affected by the earthquake of approximately $20 million. These sales could be affected and there may be additional sales affected as the situation develops. As of September 30, 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. In addition, reactors in Japan typically undergo maintenance or refueling outages every 12 to 13 months. The approximately 50 reactors in Japan not damaged by the earthquake are subject to governmental inspection and local government restart approval that have caused these outages to be extended. As of September 30, 2011, only 10 of Japan's 54 nuclear reactors were in service. The shutdown of the Japanese reactors and the shutdown of reactors in other countries due to safety or other concerns raised by the Japanese disaster have affected near term supply and demand for LEU and this impact could grow more significant over time depending on the length and severity of delays or cancellations of deliveries. Suppliers whose near term 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 "*It may not be economical to extend Paducah GDP operations beyond May 2012, which could pose a significant risk to, or could significantly limit, our continued operations*" above. These actions could have an adverse effect on our cash flow and results of operations.

The effects of the Fukushima disaster 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 crisis 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. 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 Fukushima disaster could adversely affect our ability to successfully deploy the ACP. While we will continue our 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 Fukushima disaster. 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 is adversely affected, this would also adversely affect our ability to obtain a DOE loan guarantee and complete the American Centrifuge project.

The recent events in Japan could also have a material and adverse impact on the nuclear energy industry in the long term. The disaster 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 disaster in Japan. 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 event at Fukushima and its aftermath have negatively affected the balance of supply and demand in the near term, 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 disaster in Japan has also raised concerns regarding how to deal with used 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.

***The supply agreement we have entered into with Joint Stock Company Techsnabexport ("TENEX") for the supply by TENEX of commercial Russian LEU is subject to conditions of effectiveness that are outside of our control.***

On March 23, 2011 we entered into an agreement with TENEX for the supply by TENEX of commercial Russian LEU to us over a 10-year period with deliveries that could begin in 2013. The 20-year Russian Contract implementing the Megatons to Megawatts program is scheduled to expire at the end of 2013 and the new supply contract will provide us with continued access to Russian LEU, which currently constitutes about one half of our supply source. The supply contract was approved by the Russian State Atomic Energy Corporation ("Rosatom") on May 11, 2011. However, the purchase, sales and delivery obligations of the parties are subject to conclusion by the U.S. and Russian governments of certain implementing agreements under the U.S.-Russian Agreement for Cooperation in Nuclear Energy, which, among other things, provide the framework under which natural uranium supplied by us to TENEX can be returned from the United States to Russia. While the supply agreement provides some flexibility in the timing of obtaining these approvals and the first deliveries under the agreement are not until 2013, we have no assurance that these implementing agreements will be obtained in a timely manner or at all. If the implementing agreements are not obtained or waived by the parties, we will not be able to achieve the anticipated benefits from the supply contract.

Subject to the effectiveness of the supply contract, TENEX and USEC 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. However, we cannot give any assurance that we will proceed with such a project. 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 project 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.

We also may not achieve the anticipated benefits from the supply contract with TENEX 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 supply contract, 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 supply contract 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 supply contract in excess of the portion of the quotas available to us or that is 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. 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 revolving credit facility matures on May 31, 2012. If we are unable to extend, renew or replace this credit facility on reasonable terms, or at all, our liquidity and financial condition would be adversely affected.***

Our $310.0 million credit facility, including an $85 million term loan, matures on May 31, 2012 and we are planning to pursue a renewal or replacement of the credit facility. Our current credit facility is available to finance working capital needs and fund capital programs, including the American Centrifuge project. We currently use our revolving credit facility to secure letters of credit, with letters of credit of $16.9 million outstanding as of September 30, 2011. In addition, we expect to borrow on the revolving credit facility beginning in the fourth quarter and the amount of borrowings at any time could be significant. If the credit facility is not renewed or replaced, we could supplement our liquidity position through the sale of available inventory. However, we cannot be certain that we will have funds available to repay any indebtedness that may be outstanding under the facility at that time and to replace any outstanding letters of credit under the facility, which would adversely affect our liquidity and financial condition. As a result, our inability to renew or replace our credit facility could have significant adverse impacts on our liquidity and could raise significant uncertainty regarding our ability to continue as a going concern. Receiving a going concern opinion could further exacerbate liquidity concerns.

We are currently working with our lenders to define our credit facility renewal objectives. We expect to launch the effort with interested parties in the fourth quarter. However, we have no assurance that we will be able to refinance the revolving credit facility on terms favorable to us or at all and the timing of any renewal or replacement is uncertain. Lenders under our current credit facility or other potential lenders may not be interested in participating because of our financial condition, capital constraints or other reasons, which could affect the size and availability of any credit facility. Restrictions on the size of the credit facility could adversely affect our ability to fund our operations and affect our ability to continue investing in the American Centrifuge project. We may have to agree to restrictive covenants that make it more difficult for us to successfully execute our business strategy. We also may have to accept other unfavorable terms related to pricing and the term of any facility.

***We have capitalized significant amounts related to 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 ACP or potential termination of ACP could cause us to be required to charge to expense amounts previously capitalized related to ACP. Capital expenditures related to the ACP totaled approximately $1.3 billion at September 30, 2011, including capitalized interest of $112.3 million, prepayments to suppliers under existing agreements for materials and services not yet provided of $33.1 million, and $6.8 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.

If conditions change and deployment was no longer probable or was delayed significantly from our current projections, we could expense up to the full amount of previously capitalized costs related to the ACP of up to $1.3 billion as early as the fourth quarter of 2011. 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 for the RD&D program, including the failure to timely enter into a cooperative agreement with DOE to provide immediate funding for the project, or an unfavorable determination in any initial scoping phase of the RD&D program regarding the restructuring of the project.

Under generally accepted accounting principles, interest is not to be capitalized during periods when the enterprise intentionally defers or suspends activities related to the asset. However, delays that are inherent in the asset acquisition process and interruptions in activities that are imposed by external forces are unavoidable in acquiring the asset and as such do not call for a cessation of interest capitalization. Accordingly, notwithstanding the significant demobilization of machine manufacturing and construction activities in 2009, we continued to capitalize interest based on current business activities related to the American Centrifuge through September 30, 2011. However, as a result of our reduced spending and current discussions with DOE regarding the scope of the RD&D program, we anticipate expensing interest costs and other ACP related expenditures in the fourth quarter of 2011 and we could be required to charge to expense amounts previously capitalized as early as the fourth quarter of 2011, which would adversely affect our results of operations. Refer to "Critical Accounting Estimates" in Part II, Item 7 of our Annual Report on Form 10-K for a discussion of assumptions, estimates and judgments related to our accounting for American Centrifuge technology costs.

***Impairment of ACP related assets on our consolidated condensed balance sheet could result in a valuation allowance on our deferred tax assets.***

USEC follows the asset and liability approach to account for deferred income taxes. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets may not be realized. Accounting for income taxes as well as determining the need for or the amount of a valuation allowance involves estimates and judgments relating to the tax bases of assets and liabilities and the future recoverability of deferred tax assets. We review historical results, forecasts of taxable income based upon business plans, eligible carryforward periods, periods over which deferred tax assets are expected to reverse, developments related to the American Centrifuge Plant, tax planning opportunities, and other relevant considerations. The underlying assumptions may change from period to period.

A valuation allowance is required if it is more likely than not that a deferred tax asset cannot be realized in the future. That realization is dependent on having sufficient taxable income to realize the deferred tax asset. In practice, positive and negative evidence is reviewed with objective evidence receiving greater weight. One of the most difficult forms of negative evidence to overcome is a cumulative three-year loss. Because of the large dollar amount of capitalized ACP related assets on our balance sheet, a full write-down in the event of an impairment of ACP related assets would create a cumulative three-year loss for us. Without significant positive objective evidence to the contrary, the need to record a valuation allowance would be inevitable. In order to determine the amount of the valuation allowance, all sources of taxable income, including tax planning strategies, and all other sources of positive and negative evidence would need to be analyzed. Our inability to overcome the strong negative evidence of a cumulative three-year loss would require us to record a valuation allowance for the deferred tax asset created by the ACP book asset write-down, as well as all other previously recorded deferred tax assets, including state deferred taxes.

***An ownership change could impact our ability to fully utilize our tax benefits.***

Our ability to utilize tax benefits, including those generated by net operating losses ("NOLs"), "net unrealized built-in losses" ("NUBILs") and certain other tax attributes (collectively, the "Tax Benefits") to offset our future taxable income and/or to recover previously paid taxes would be substantially limited if we were to experience an "ownership change" as defined under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). In general, an "ownership change" would occur if there is a greater than 50-percentage point change in ownership of securities by stockholders owning (or deemed to own under Section 382 of the Code) five percent or more of a corporation's securities over a rolling three-year period.

An ownership change under Section 382 of the Code would establish an annual limitation to the amount of NOLs and NUBILs we could utilize to offset our taxable income in any single year. The application of these limitations might prevent full utilization of the Tax Benefits. We do not believe we have experienced an ownership change as defined by Section 382 of the Code. To preserve our ability to utilize the Tax Benefits in the future without a Section 382 limitation, we adopted a tax benefit preservation plan, which is triggered upon certain acquisitions of our securities. Notwithstanding the foregoing measures, there can be no assurance that we will not experience an ownership change within the meaning of Section 382 of the Code. Our tax benefit preservation plan does not prevent the sale of our securities by our five percent stockholders and any such sale could have an impact on whether we experience an ownership change within the meaning of Section 382 of the Code.

Our inability to fully utilize our Tax Benefits could have an adverse impact on our long-term financial position and results of operations.

***Anti-takeover provisions in Delaware law and in our charter, bylaws and tax benefit preservation plan and in the indenture governing our convertible notes could delay or prevent an acquisition of us.***

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third-party to acquire control of our company, even if a change of control would be beneficial to our existing shareholders. Our certificate of incorporation, or charter, establishes restrictions on foreign ownership of our securities. Other provisions of our charter and bylaws may make it more difficult for a third-party to acquire control of us without the consent of our board of directors. We also have adopted a tax benefit preservation plan described above, which could increase the cost of, or prevent, a takeover attempt. These various restrictions could deprive shareholders of the opportunity to realize takeover premiums for their shares. Additionally, if a fundamental change occurs prior to the maturity date of our convertible notes, holders of the notes will have the right, at their option, to require us to repurchase all or a portion of their notes, and if a make-whole fundamental change occurs prior to the maturity date of our convertible notes, we will in some cases increase the conversion rate for a holder that elects to convert its notes in connection with such make-whole fundamental change. In addition, the indenture governing our convertible notes prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the notes. These and other provisions could prevent or deter a third party from acquiring us even where the acquisition could be beneficial to stockholders.

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

(c) Issuer Purchases of Equity Securities

| Period | (a) Total Number of Shares (or Units) Purchased(1) | (b) Average Price Paid Per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| July 1 – July 31 | 7,267 | $3.38 | - | - |
| August 1 – August 31 | 1,296 | $2.26 | - | - |
| September 1 – September 30 | 2,078 | $1.80 | - | - |
| **Total** | **10,641** | **$2.93** | **-** | **-** |

(1) These purchases were not made pursuant to a publicly announced repurchase plan or program. Represents 10,641 shares of common stock surrendered to USEC to pay withholding taxes on shares of restricted stock under the Company's equity incentive plan.

**Item 6.** ***Exhibits***

| | |
|---|---|
| 3.1 | Certificate of Incorporation of USEC Inc., as amended. |
| 4.1 | Tax Benefit Preservation Plan, dated as of September 29, 2011, between USEC Inc. and Mellon Investor Services LLC, which includes the Form of Certificate of Designations of Series A Junior Participating Preferred Stock as Exhibit A, the Form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C., incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed on September 30, 2011 (Commission file number 1-14287). |
| 10.1 | First Amendment to Standstill Agreement dated as of August 15, 2011 by and among Toshiba America Nuclear Energy Corporation, Babcock & Wilcox Investment Company and USEC Inc. incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on August 15, 2011 (Commission file number 1-14287). |
| 10.2 | Second Amendment to Standstill Agreement dated as of September 30, 2011 by and among Toshiba America Nuclear Energy Corporation, Babcock & Wilcox Investment Company and USEC Inc. incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on September 30, 2011 (Commission file number 1-14287). |
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a). |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a). |
| 32.1 | Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350. |
| 101 | Consolidated condensed financial statements from the quarterly report on Form 10-Q for the quarter ended September 30, 2011, furnished in interactive data file (XBRL) format. |

**SIGNATURES**

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

**USEC Inc.**

Date: November 4, 2011

By: /s/ John C. Barpoulis

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

**EXHIBIT INDEX**

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**CERTIFICATE OF INCORPORATION**

**OF**

**USEC INC.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) determine the rights, powers, duties, rules and procedures that affect the power of the Board of Directors to manage and direct the business and affairs of the Corporation, including the power to designate and empower committees of the Board of Directors, to elect, appoint and empower

the officers and other agents of the Corporation, and to determine the time and place of, and the notice requirements for, Board meetings, as well as quorum and voting requirements for, and the manner of taking, Board action; and

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

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

C. Any vacancies in the Board of Directors for any reason and any newly created directorships resulting by reason of any increase in the number of directors may be filled only by the Board of Directors, acting by a majority of the remaining directors then in office, although less than a quorum, or by a sole remaining director, and any directors so appointed shall hold office until the next election for which such directors have been chosen and until their successors are elected and qualified or their earlier resignation or removal.

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

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

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

**EIGHTH:** A. The Corporation shall indemnify its directors and officers to the fullest extent authorized or permitted by the DGCL, as the same exists or may hereafter be amended, and such right to indemnification shall continue as to a person who has ceased to be a director or officer of the Corporation and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except for successful proceedings to enforce rights to indemnification, the Corporation shall not be obligated to indemnify any director or officer (or his or her heirs, executors or administrators) in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Corporation. The right to indemnification conferred in this Article EIGHTH shall include the right to be paid by the Corporation the expenses incurred in defending or otherwise participating in any proceeding in advance of its final disposition.

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

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

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

**NINTH:** No person shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided, however, that the foregoing shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL, or (iv) for any transaction from which the director derived an improper personal benefit. If the DGCL is amended hereafter to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended. Any amendment, repeal or modification of this Article NINTH shall not adversely affect any right or protection of a director of the Corporation existing at the time of such amendment, repeal or modification with respect to any act or omission occurring prior to such amendment, repeal or modification.

**TENTH:** Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the DGCL or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the DGCL order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the

creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

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

B. *Foreign Ownership Restrictions*. For purposes of this Article ELEVENTH, the term "Foreign Ownership Restrictions" shall mean any one or more of the following: (i) the beneficial ownership of more than ten percent (10%) of the aggregate number of issued and outstanding shares of Common Stock of the Corporation by or for the account of a foreign person or persons; (ii) the beneficial ownership of any shares of Common Stock of the Corporation by or for the account of a Contravening Person (as defined below); (iii) the acquisition of control (direct or indirect) of the Company by a person or group of persons acting together in any transaction or series of transactions in which the arrangements for financing such person's or persons' acquisition of the Corporation involve or will involve receipt of money, from borrowing or otherwise, from one or more foreign persons in an amount in excess of ten percent (10%) of the purchase price of the Corporation's securities purchased by such person or group of persons, whether such funds are to be used for temporary or permanent financing; or (iv) any ownership of or exercise of rights with respect to shares of Common Stock of the Corporation or other exercise or attempt to exercise control of the Corporation that the Board of Directors determines is inconsistent with or in violation of the regulations, rules or restrictions of a governmental entity or agency which exercises regulatory power over the Corporation, its business, operations or assets or could jeopardize the continued operations of the Corporation's facilities.

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

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

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

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

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

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

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

H. *Redemption and Exchange*. Without limiting the generality of the foregoing and notwithstanding any other provision of this Certificate of Incorporation to the contrary, any shares held or beneficially owned by a foreign person or a Contravening Person shall always be subject to redemption or exchange by the Corporation by action of the Board of Directors, pursuant to Section 151 of the DGCL or any other applicable provision of

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

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

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

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

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

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

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

I. *Board Action*. The Board of Directors shall have the exclusive right to interpret all issues arising under this Article ELEVENTH (including but not limited to determining whether a person is a foreign person or a Contravening Person, whether a person is an Affiliate of another person, whether a person controls or is controlled by another person and whether a person is the beneficial owner of the securities of the Corporation) and the determination of the Board under this Article shall be final and binding. The Bylaws of the Corporation may make appropriate provisions to effectuate the requirements of this Article ELEVENTH to the extent set forth herein and the Board may, at any time and from time to time, adopt such other or additional reasonable procedures as the Board may deem desirable or necessary to comply with the Statutory Acquisition Restriction or the Foreign Ownership Restrictions or to carry out the provisions of this Article ELEVENTH.

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

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

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

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

"Foreign Enrichment Provider" shall mean any person incorporated, organized or having its principal place of business outside of the United States which is in the business of enriching uranium for use by nuclear reactors or any person incorporated, organized or having its principal place of business outside of the United States which is in the business of creating a fissile product capable of use as a fuel source for nuclear reactors in lieu of enriched uranium.

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

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

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

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

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

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

/s/ Lynn Buckley
Lynn Buckley
Sole Incorporator

CERTIFICATE OF AMENDMENT
TO THE
CERTIFICATE OF INCORPORATION
OF
USEC INC.

USEC Inc., a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), in accordance with the provisions of Section 151(g) thereof, DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of the Corporation duly called and held on February 8, 2008, resolutions were duly adopted setting forth a proposed amendment to the Certificate of Incorporation of the Corporation, declaring said amendment to be advisable and directing such amendment to be submitted to the stockholders of the Corporation for approval at its next annual meeting of stockholders to be held on April 24, 2008. The resolution setting forth the proposed amendment is as follows:

RESOLVED, that Article ELEVENTH of the Certificate of Incorporation be, and it hereby is, amended and restated in its entirety to read as follows, subject to the approval of the stockholders of the Corporation:

"ELEVENTH: Foreign Ownership

A. [Reserved]

B. Foreign Ownership Review Event. For purposes of this Article ELEVENTH, the term "Foreign Ownership Review Event" shall mean the occurrence of any one or more of the following events: (i) the beneficial ownership by a foreign person of (a) five percent (5%) or more of the issued and outstanding shares of any class of equity securities of the Corporation, (b) five percent (5%) or more in voting power of the issued and outstanding shares of all classes of equity securities of the Corporation, or (c) less than five percent (5%) of the issued and outstanding shares of any class of equity securities of the Corporation or less than five percent (5%) of the voting power of the issued and outstanding shares of all classes of equity securities of the Corporation, if such foreign person is entitled to control the appointment and tenure of any of the Corporation's management positions or any director; (ii) the beneficial ownership of any shares of any class of equity securities of the Corporation by or for the account of a Contravening Person (as defined below); or (iii) any Adverse Regulatory Occurrence.

C. Information Request. If the Corporation has reason to believe that the ownership or proposed ownership of, acquisition of an interest in, or exercise of rights with respect to, securities of the Corporation by any person, including record holders, beneficial owners and any person presenting any securities of the Corporation for transfer into its name (a "Proposed Transferee") may constitute a Foreign Ownership Review Event, the Corporation may request of such person and such person shall furnish promptly to the Corporation such information (including, without limitation, information with respect to citizenship, other ownership interests and affiliations as well as any other agreements or arrangements) as the Corporation shall request to enable the Board of Directors to determine whether the ownership of, the acquisition of any interest in, or the exercise of any rights with respect to, securities of the Corporation by such person constitutes a Foreign Ownership Review Event. Any person who is or proposes to be a registered holder of securities of the Corporation shall disclose to the Corporation, at the Corporation's request, the name and address of the beneficial owner of the securities of the Corporation and any other information relating to such person's ownership or other interest in securities of the Corporation that the Corporation may request.

Any disclosure of information made under this Section C of Article ELEVENTH shall be delivered to the Corporation promptly upon a request by the Corporation therefor (and in any event within five (5) calendar days of such request). The Corporation may require that any such information be given under oath. The Board of Directors shall be entitled to rely and to act in reliance on any declaration and the information provided to the Corporation pursuant to this Section C of Article ELEVENTH.

D. Suspension of Voting Rights; Refusal to Transfer. If any person, including a Proposed Transferee, from whom information is requested pursuant to Section C of this Article ELEVENTH should fail to respond to such request, or if the Corporation shall conclude that the ownership of, the acquisition of an interest in, or the exercise of any rights of ownership with respect to, securities of the Corporation by any person, including a Proposed Transferee, could constitute or result in any Adverse Regulatory Occurrence, then (i) the Board of Directors may, from time to time in its sole discretion, resolve that neither any record owner nor any beneficial owner of securities held by a person may be Transferred to a Proposed Transferee; and/or (ii) the Board of Directors may, in its sole discretion, resolve that such person, either alone or together with its Related Persons, as of any record date for the determination of holders of securities entitled to vote on any matter, shall not be entitled to vote or cause the voting of all or such portion as the Board of Directors shall determine of the securities of the Corporation owned beneficially or of record by such person or its Related Persons, in person or by proxy or through any voting agreement or other arrangement, (A) on any matter submitted to a vote of such holders or (B) on specified matters as from time to time determined by the Board of Directors. The Corporation may disregard any votes purported to be cast in excess of or otherwise in violation of the restrictions or limitations set forth in sub-section (ii) of Section D of this Article ELEVENTH. Any action by the Board of Directors pursuant to this Article ELEVENTH may remain in effect for as long as the Board of Directors determines such action is necessary to prevent or remedy any Adverse Regulatory Occurrence. Notwithstanding the foregoing, the Board of Directors may, from time to time in its sole discretion, (1) resolve to release any restriction on Transfer set forth herein from any number of securities, on terms and conditions and in ratios and numbers to be fixed by the Board of Directors in its sole discretion, and (2) resolve to release any of the securities of the Corporation from any of the limitations or restrictions on voting set forth in sub-section (ii) of Section D of this Article ELEVENTH.

E. Legends. If any securities of the Corporation are represented by a certificate, a legend shall be placed on such certificate to the effect that such securities are subject to the restrictions set forth in this Article ELEVENTH. If any such securities shall not be represented by certificates, then the Corporation shall require, to the extent required by law, that an analogous notification of such restrictions be used in respect of such securities.

F. Joint Ownership. For purposes of this Article ELEVENTH, where the same shares of any class of equity securities of the

Corporation are held or beneficially owned by one or more persons, and any one of such persons is a foreign person or a Contravening Person, then such shares shall be deemed to be held or beneficially owned by a foreign person or Contravening Person, as applicable.

G. [Reserved]

H . Redemption and Exchange. Without limiting the generality of the foregoing and notwithstanding any other provision of this Certificate of Incorporation to the contrary, any shares held or beneficially owned by a foreign person or a Contravening Person shall always be subject to redemption or exchange by the Corporation by action of the Board of Directors, pursuant to Section 151 of the DGCL or any other applicable provision of law, to the extent necessary in the judgment of the Board of Directors to prevent any Adverse Regulatory Occurrence. Except where the context provides otherwise, as used in this Certificate of Incorporation, "redemption" and "exchange" are hereinafter collectively referred to as "redemption", references to shares being "redeemed" shall be deemed to include shares which are being "exchanged", and references to "redemption price" shall be deemed to include the amount and kind of securities for which any such shares are exchanged. The terms and conditions of such redemption shall be as follows:

(a) the redemption price of the shares to be redeemed pursuant to this Article ELEVENTH shall be equal to the fair market value of the shares to be redeemed, as determined by the Board of Directors in good faith unless the Board determines in good faith that the holder of such shares knew or should have known its ownership or beneficial ownership would constitute a Foreign Ownership Review Event, in which case the redemption price for any such shares, other than shares for which the Board of Directors had determined at the time of the holder's purchase that the ownership of, or exercise of rights with respect to, such shares did not, at such time, constitute an Adverse Regulatory Occurrence, shall be equal to the lower of (i) the fair market value of the shares to be redeemed and (ii) such foreign person's or Contravening Person's purchase price for such shares;

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

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

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

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

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

In connection with any exchange effected pursuant to Section H of this Article ELEVENTH, authority is hereby expressly granted to the Board of Directors, subject to this Certificate of Incorporation and the DGCL, to fix the designations, preferences, and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of any securities of the Corporation issued in exchange for any issued and outstanding securities of the Corporation held or beneficially owned by a foreign person or Contravening Person.

I . Board Action. The Board of Directors shall have the exclusive right to interpret all issues arising under this Article ELEVENTH (including but not limited to determining whether a Foreign Ownership Review Event has occurred, whether an Adverse Regulatory Occurrence has occurred, whether a person is a foreign person or a Contravening Person, whether a person is an Affiliate of another person or a Related Person, whether a person controls or is controlled by another person and whether a person is the beneficial owner of securities of the Corporation, and whether a person has met the requirements of Section C of this Article ELEVENTH with regard to the provision of information), and the determination of the Board under this Article ELEVENTH shall be final, binding and conclusive. The Bylaws of the Corporation may make appropriate provisions to effectuate the requirements of this Article ELEVENTH to the extent set forth herein and the Board may, at any time and from time to time, adopt such other or additional reasonable procedures as the Board may deem desirable or necessary to comply with Regulatory Restrictions, to prevent or remedy any Adverse Regulatory Occurrence, to address any issues arising in connection with a Foreign Ownership Review Event or to otherwise carry out the provisions of this Article ELEVENTH.

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

"Adverse Regulatory Occurrence" shall mean any ownership of, or exercise of rights with respect to, shares of any class of equity securities of the Corporation or other exercise or attempt to exercise control of the Corporation that is inconsistent with, or in violation of, any Regulatory Restrictions, or that could jeopardize the continued operations of the Corporation's facilities.

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

"Contravening Person" shall mean (i) a person acting as an agent for a Foreign Enrichment Provider with respect to uranium or uranium products or (ii) a Foreign Competitor.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Foreign Competitor" shall mean a Foreign Enrichment Provider or a person Affiliated with a Foreign Enrichment Provider in

such a manner as to constitute a Foreign Ownership Review Event.

"Foreign Enrichment Provider" shall mean any person incorporated, organized or having its principal place of business outside of the United States which is in the business of enriching uranium for use by nuclear reactors or any person incorporated, organized or having its principal place of business outside of the United States which is in the business of creating a fissile product capable of use as a fuel source for nuclear reactors in lieu of enriched uranium.

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

"person" shall include natural persons, corporations, partnerships, companies, associations, trusts, joint ventures, other entities, governments, or political subdivisions, agencies or instrumentalities of governments.

"Regulatory Restrictions" shall mean the regulations, rules or restrictions of any governmental entity or agency which exercises regulatory power over the Corporation, its business, operations or assets, including, without limitation, the U.S. Nuclear Regulatory Commission.

"Related Person" shall mean with respect to any person:

(1) any Affiliate of such person;

(2) any other person(s) with which such first person has any agreement, arrangement or understanding (whether or not in writing) to act together for the purpose of acquiring, voting, holding or disposing of securities of the Corporation;

(3) in the case of a person that is a company, corporation or similar entity, any executive officer (as defined under Rule 3b-7 under the Exchange Act) or director of such person and, in the case of a person that is a partnership or a limited liability company, any general partner, managing member or manager of such person, as applicable;

(4) in the case of a person that is a natural person, any relative or spouse of such natural person, or any relative of such spouse who has the same home as such natural person or who is a director or officer of the Corporation or any of its Affiliates;

(5) in the case of a person that is an executive officer (as defined under Rule 3b-7 under the Exchange Act), or a director of a company, corporation or similar entity, such company, corporation or entity, as applicable; and

(6) in the case of a person that is a general partner, managing member or manager of a partnership or limited liability company, such partnership or limited liability company, as applicable.

"Transfer" shall mean (with its cognates having corresponding meanings), with respect to any securities of the Corporation, any direct or indirect assignment, sale, exchange, transfer, tender or other disposition of such securities or any interest therein, whether voluntary or involuntary, by operation of law or otherwise (and includes any sale or other disposition in any one transaction or series of transactions and the grant or transfer of an option or derivative security covering such securities), and any agreement, arrangement or understanding, whether or not in writing, to effect any of the foregoing; provided, however, that a "Transfer" shall not occur simply as a result of the grant of a proxy in connection with a solicitation of proxies subject to the provisions of Section 14 of the Exchange Act.

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

SECOND: Thereafter, at the annual meeting of stockholders of the Corporation duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, the affirmative vote of holders of at least two-thirds of the voting power of all the shares of capital stock of the Corporation entitled to vote generally in the election of directors voting together as a single class, as required by Article ELEVENTH of the Certificate of Incorporation, was obtained in favor of such amendment in accordance with Section 242 of the General Corporation Law of the State of Delaware.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by its duly authorized officer this 25th day of April, 2008.

USEC INC.

By: /s/ John K. Welch
Name: John K. Welch
Title: President and Chief Executive Officer

**CERTIFICATE OF DESIGNATIONS**

**of**

**SERIES A JUNIOR PARTICIPATING PREFERRED STOCK**

**of**

**USEC INC.**

(Pursuant to Section 151 of the
Delaware General Corporation Law)

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USEC Inc., a corporation organized and existing under the General Corporation Law of the State of Delaware (hereinafter called the "*Corporation*"), hereby certifies that the following resolution was adopted by the Board of Directors of the Corporation (the "*Board of Directors*" or the "*Board*") as required by Section 151 of the General Corporation Law at a meeting duly called and held on Thursday, September 29, 2011.

RESOLVED, that pursuant to the authority expressly granted to and vested in the Board in accordance with the provisions of the Certificate of Incorporation of the Corporation, as amended, the Board hereby creates a series of Preferred Stock, par value $1.00 per share (the "*Preferred Stock*"), of the Corporation and hereby states the designation and number of shares, and fixes the relative rights, powers and preferences, and qualifications, limitations and restrictions thereof as follows:

Section 1. Designation and Amount. The shares of such series shall be designated as "Series A Junior Participating Preferred Stock" (the "*Series A Preferred Stock*") and the number of shares constituting the Series A Preferred Stock shall be 250,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; *provided*, that no decrease shall reduce the number of shares of Series A Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series A Preferred Stock.

Section 2. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of any shares of any class or series of stock of this Corporation ranking prior and superior to the Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock, in preference to the holders of Common Stock, par value $.10 per share (the "*Common Stock*"), of the Corporation, and of any other stock ranking junior to the Series A Preferred Stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of March, June, September and December in each year (each such date being referred to herein as a "*Quarterly Dividend Payment Date*"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $1.00 or (b) subject to the provision for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in paragraph (A) of this Section 2 immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $1.00 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than sixty (60) days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. Except as otherwise required by law, the holders of shares of Series A Preferred Stock shall not be entitled to vote on any matter submitted to the vote of stockholders.

Section 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(ii) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (both as to dividends and upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth herein, in the Certificate of Incorporation, as amended, or in any other Certificate of Designations creating a series of Preferred Stock or any similar stock or as otherwise required by law.

Section 6. Liquidation, Dissolution or Winding Up.

(A) Upon any liquidation, dissolution or winding up of the Corporation, voluntary or otherwise no distribution shall be made (i) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of Series A Preferred Stock shall have received an amount per share (the "*Series A Liquidation Preference*") equal to $1,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series A Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount to be distributed per share to holders of Common Stock, or (ii) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of Series A Preferred Stock were entitled immediately prior to such event under the proviso in clause (i) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that are outstanding immediately prior to such event.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other classes and series of stock of the Corporation, if any, that rank on a parity with the Series A Preferred Stock in respect thereof, then the assets available for such distribution shall be distributed ratably to the holders of the Series A Preferred Stock and the holders of such parity shares in proportion to their respective liquidation preferences.

(C) Neither the merger or consolidation of the Corporation into or with another corporation nor the merger or consolidation of any other corporation into or with the Corporation shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section 6.

Section 7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series A Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. No Redemption. The Series A Preferred Stock shall not be redeemable by the Corporation.

Section 9. Rank. The Series A Preferred Stock shall rank, with respect to the payment of dividends and the distribution of assets upon liquidation, dissolution or winding up, junior to all series of any other class of the Corporation's Preferred Stock, except to the extent that any such other

series specifically provides that it shall rank on a parity with or junior to the Series A Preferred Stock.

Section 10. Amendment. At any time shares of Series A Preferred Stock are outstanding, the Certificate of Incorporation of the Corporation, as amended, shall not be further amended in any manner that would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series A Preferred Stock, voting separately as a single class.

Section 11. Fractional Shares. Series A Preferred Stock may be issued in fractions of a share that shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Preferred Stock.

**[Remainder of page intentionally left blank]**

IN WITNESS WHEREOF, this Certificate of Designation is executed on behalf of the Corporation by the undersigned authorized officer this 29th day of September, 2011.

**USEC INC.**

By: /s/ Peter B. Saba
Name: Peter B. Saba
Title: Senior Vice President, General Counsel and Secretary

**CERTIFICATE OF DESIGNATION OF**

**SERIES B-1 12.75% CONVERTIBLE PREFERRED STOCK**

**of**

**USEC INC.**

**Pursuant to Section 151 of the General Corporation Law**

**of the State of Delaware**

We, John K. Welch, President and Chief Executive Officer, and Peter B. Saba, Secretary, of USEC Inc., a corporation organized and existing under the General Corporation Law (the "DGCL") of the State of Delaware (the "Corporation"), in accordance with the provisions of Section 103 thereof, DO HEREBY CERTIFY:

That pursuant to the authority conferred upon the Board of Directors by the Certificate of Incorporation, the Board of Directors on May 24, 2010 adopted the following resolution creating a series of 300,000 shares of Preferred Stock, par value $1.00 per share, designated as Series B-1 12.75% Convertible Preferred Stock:

> RESOLVED, that pursuant to the authority vested in the Board of Directors in accordance with the provisions of the Certificate of Incorporation, a series of Preferred Stock of the Corporation be and it hereby is created, and that the designation and amount thereof and the powers, preferences and relative, participating, optional and other rights of the shares of such series, and the qualifications, limitations and restrictions thereof are as follows:

**Section 1. Designation**. The designation of this series of Preferred Stock, par value $1.00 per share, of the Corporation is "Series B-1 12.75% Convertible Preferred Stock" ("Series B-1 12.75% Preferred Stock"). Each share of Series B-1 12.75% Preferred Stock shall be identical in all respects to every other share of Series B-1 12.75% Preferred Stock.

**Section 2. Number of Shares**. The authorized number of shares of Series B-1 12.75% Preferred Stock is 300,000. Shares of Series B-1 12.75% Preferred Stock that are redeemed, purchased or otherwise acquired by the Corporation, or converted into another series of Preferred Stock or into Common Stock, shall revert to authorized but unissued shares of Preferred Stock and shall not be reissued as shares of Series B-1 12.75% Preferred Stock.

**Section 3. Definitions**. As used herein with respect to Series B-1 12.75% Preferred Stock:

**(a)** "ACP" shall mean the design, manufacture, construction, development, startup, completion, operation, financing, maintenance and improvement of a front-end nuclear fuel facility utilizing U.S. gas centrifuge enrichment technology and related infrastructure assets and properties.

**(b)** "Affiliate" shall mean any Person controlling, controlled by or under common control with any other Person. For purposes of this definition, "control" (including "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of securities, partnership or other ownership interests, by contract or otherwise.

**(c)** "Aggregate Outstanding Value" shall mean, at any time and from time to time and subject to the Automatic Redemption Adjustment, if any, (1) the Original Issue Value of all of the outstanding shares of Series B Preferred Stock, *plus* (2) for each share of Series C Preferred Stock then held by the Permitted Holders, excluding those shares of Series C Preferred Stock issued upon exercise of the Warrants, the Base Price upon which the Permitted Holders' acquisition of such share was calculated, *plus* (3) for each share of Common Stock then held by the Permitted Holders, excluding those shares of Class B Common Stock issued upon exercise of the Warrants or Ordinary Common Stock purchased in the market, the Base Price upon which the Permitted Holders' acquisition of such share was calculated, *plus* (4) the aggregate amount of accrued and unpaid Dividends on outstanding shares of Series B Preferred Stock which have been added to the Liquidation Preference pursuant to Section 5(a).

**(d)** "Approved Market" shall have the meaning ascribed to it in the definition of "Base Price."

**(e)** "Automatic Redemption" shall mean an automatic redemption pursuant to Section 7(g) of this Certificate of Designation subsequent to a Conversion Election, Section 8(c) of this Certificate of Designation or Section 8(c) of the Series B-2 Certificate of Designation.

**(f)** "Automatic Redemption Adjustment" shall mean, for purposes of determining the Aggregate Outstanding Value, the Permitted Holder Outstanding Value, the Original Issue Value and the Permitted Holder Original Issue Value, that if an Automatic Redemption has been effected prior to the date of determining such values, (1) the aggregate amount of the Liquidation Preference, as of the date of redemption, of a Permitted Holder's Series B Preferred Stock (excluding shares issued as a Dividend) redeemed in connection with the Automatic Redemption shall be added to such Permitted Holder's Aggregate Outstanding Value and Permitted Holder Outstanding Value and (2) the aggregate amount of the Liquidation Preference, as of the date of redemption, of such Permitted Holder's Series B Preferred Stock (excluding shares issued as a Dividend) redeemed in connection with the Automatic Redemption shall be added to such Permitted Holder's Original Issue Value and Permitted Holder Original Issue Value; provided, however, that, if at any time after any Automatic Redemption, such Permitted Holder's Deemed Holder Percentage is less than 8%, then such adjustment to the Aggregate Outstanding Value, the Permitted Holder Outstanding Value, the Original Issue Value and the Permitted Holder Original Issue Value shall not be made.

**(g)** "B&W" shall mean Babcock & Wilcox Investment Company, a Delaware corporation.

**(h)** "Base Price" shall mean for any date, the price determined by the first of the following clauses that applies: (1) if the Ordinary Common Stock is then listed or quoted on the New York Stock Exchange, The NASDAQ Stock Market or the American Stock Exchange (each an "Approved Market"), the arithmetic average of the daily volume weighted average prices per share of the Ordinary Common Stock for each of the 20 consecutive Trading Days immediately preceding (but not including) such date, as reported for the regular trading session (including any extensions thereof) on the primary Approved Market on which the Ordinary Common Stock is then listed or quoted (without regard to pre-open or after hours trading outside of such regular trading

session on such Trading Day), as reported by Bloomberg Financial L.P. (or any successor thereof) using the HP function (or any equivalent thereof); (2) if the Ordinary Common Stock has not been listed or quoted on an Approved Market for a minimum of 20 consecutive Trading Days immediately preceding (but not including) such date and if prices for the Ordinary Common Stock are then quoted on the OTC Bulletin Board, the arithmetic average of the daily volume weighted average prices per share of the Ordinary Common Stock for each of the 20 consecutive Trading Days immediately preceding (but not including) such date, as quoted for the regular trading session on the OTC Bulletin Board; (3) if the Ordinary Common Stock has not been listed or quoted on the OTC Bulletin Board for a minimum of 20 consecutive Trading Days immediately preceding (but not including) such date and if prices for the Ordinary Common Stock are then reported in the "Pink Sheets" published by the National Quotation Bureau Incorporated (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Ordinary Common Stock so reported; or (4) in all other cases, the fair market value of a share of Ordinary Common Stock as determined by the Board of Directors acting reasonably and in good faith; provided that if the Series B-1 12.75% Preferred Stock is converting into Series C Preferred Stock, the Base Price, as calculated above, shall be multiplied by one thousand (1,000).

**(i)** "Beneficially Own" shall mean "beneficially own" as defined in Rule 13d-3 promulgated under Section 13(d) of the Exchange Act or any successor provisions thereto, and "Beneficial Ownership" shall have a correlative meaning.

**(j)** "Board of Directors" shall mean the board of directors of the Corporation or any duly authorized committee thereof.

**(k)** "Business Day" shall mean any calendar day other than (1) a Saturday or Sunday or (2) a calendar day on which banking institutions in either the City of New York or Tokyo, Japan are authorized by law, regulation or executive order to remain closed.

**(l)** "Bylaws" shall mean the Amended and Restated Bylaws of the Corporation, as amended from time to time.

**(m)** "Certificate of Designation" shall mean this Certificate of Designation of Series B-1 12.75% Convertible Preferred Stock of the Corporation, as amended from time to time.

**(n)** "Certificate of Incorporation" shall mean the Certificate of Incorporation of the Corporation, as amended from time to time.

**(o)** "Change of Control" shall mean the occurrence of any of the following:

**(1)** any Person shall Beneficially Own, directly or indirectly, through a merger, business combination, purchase, or other transaction or series of transactions, shares of the Corporation's capital stock entitling such Person at such time to exercise 50% or more of the total voting power of the issued and outstanding capital stock having ordinary voting power to elect a majority of the Board of Directors, other than as a result of an acquisition of such stock by the Corporation, any of the Corporation's Subsidiaries or any of the Corporation's employee benefit plans (for purposes of this subsection (1), "Person" shall include any syndicate or group that would be deemed to be a "person" under Section 13(d)(3) of the Exchange Act);

**(2)** the Corporation (A) merges or consolidates with or into any other Person, another Person merges with or into the Corporation, or the Corporation conveys, sells, transfers or leases all or substantially all of the Corporation's assets to another Person or (B) engages in any recapitalization, reclassification or other transaction in which all or substantially all of the Common Stock is exchanged for or converted into cash, securities or other property, in each case other than a merger or consolidation:

**(i)** that does not result in a reclassification, conversion, exchange or cancellation of the Corporation's outstanding Common Stock;

**(ii)** that is effected solely to change the Corporation's jurisdiction of incorporation and results in a reclassification, conversion or exchange of outstanding shares of the Common Stock solely into shares of any class or series of common stock of the surviving entity; or

**(iii)** where the issued and outstanding capital stock having voting power to vote generally to elect a majority of the Board of Directors outstanding immediately prior to such transaction is converted into or exchanged for such voting stock of the surviving or transferee Person constituting a majority of the outstanding shares of such voting stock of such surviving or transferee Person (immediately after giving effect to such issuance).

**(p)** "Charter Amendment Approval" shall mean the approval of the stockholders of the Corporation necessary to amend the Corporation's Certificate of Incorporation to approve the authorization of Class B Common Stock and the proper filing of such amendment with the Secretary of State of the State of Delaware.

**(q)** "Class B Common Stock" shall mean the Class B Common Stock of the Corporation, par value $.10 per share, to be authorized by the Charter Amendment Approval.

**(r)** "Closing Deadline Failure" shall mean, unless waived in writing (1) by the Corporation if such Closing Deadline Failure is as a result of breach by a Permitted Holder, (2) by the Permitted Holders if such Closing Deadline Failure is as a result of breach by the Corporation, or (3) by the Permitted Holders and the Corporation if such Closing Deadline Failure is not as a result of a breach by the Permitted Holders or the Corporation, either, (A) with respect to the Second Closing (as defined in the Securities Purchase Agreement), that the Second Closing shall not have occurred by June 30, 2011 and the Securities Purchase Agreement shall have been terminated pursuant to Section 10.2 thereof, or (B) with respect to the Third Closing (as defined in the Securities Purchase Agreement), that the Third Closing shall not have occurred by the Third Closing Termination Date (as defined in the Securities Purchase Agreement) and the Securities Purchase Agreement shall have been terminated pursuant to Section 10.3 thereof.

**(s)** "Code" shall mean the Internal Revenue Code of 1986, as amended, as now or hereafter in effect, together with all regulations, rulings and interpretations thereof or thereunder by the Internal Revenue Service.

**(t)** "Common Stock" shall mean collectively, the Ordinary Common Stock and the Class B Common Stock.

**(u)** "Conditional Commitment" shall mean a conditional commitment (as defined in 10 CFR 609.2) from DOE to the Corporation in an amount not less than $2 billion, and specifying the detailed conditions to be satisfied for the DOE Financial Closing.

**(v)** "Conversion Cap", with respect to a conversion hereunder, shall mean that the total number of shares of Class B Common Stock received upon such conversion shall not, when combined with the total number of shares of Class B Common Stock (1) issued or issuable upon the exercise of the Warrants and (2) issued by the Corporation upon conversion of securities issued pursuant to the Transactions (as defined in the Securities Purchase Agreement) exceed 49.99% of the total number of outstanding shares of Ordinary Common Stock and Class B Common Stock at the time of any such conversion, subject to adjustments for stock splits, stock dividends, reorganizations or similar transactions.

**(w)** "Conversion Election" shall have the meaning ascribed to it in Section 7(a).

**(x)** "Corporation" shall have the meaning ascribed to it in the recitals.

**(y)** "Corporation Plans" shall mean the Corporation's 1999 Equity Incentive Plan, as amended, and the Corporation's 2009 Equity Incentive Plan, as may be amended, the Corporation's 2009 Employee Stock Purchase Plan, as may be amended, and any similar plans entered into after the date hereof, and any inducement grants.

**(z)** "Deemed Holder Percentage" shall mean, as to any Permitted Holder, the percentage resulting from the following calculation, (1)(A) the number of shares of Ordinary Common Stock equal to the quotient of (w) the Liquidation Preference *plus* an amount per share equal to the accrued but unpaid Dividends not previously added to the Liquidation Preference on the outstanding shares of Series B Preferred Stock held by such Permitted Holder from and including the immediately preceding Dividend Payment Date to, but excluding, the date of conversion and (x) the Base Price for the date of such calculation, *plus* (B) the number of outstanding of shares of (y) Series C Preferred Stock multiplied by 1000 *plus*, (z) if then outstanding, Class B Common Stock, in each case held by such Permitted Holder divided by (2)(A) the total number of shares of Ordinary Common Stock equal to the quotient of (v) the Liquidation Preference *plus* an amount per share equal to the accrued but unpaid Dividends not previously added to the Liquidation Preference on all outstanding shares of Series B Preferred Stock from and including the immediately preceding Dividend Payment Date to, but excluding, the date of conversion and (w) the Base Price for the date of such calculation, *plus* (B) the total number of all outstanding shares of (x) Series C Preferred Stock multiplied by 1000 *plus* (y) if then outstanding, Class B Common Stock, *plus* (z) Ordinary Common Stock.

**(aa)** "DGCL" shall have the meaning ascribed to it in the Preamble.

**(bb)** "Dividend" shall have the meaning ascribed to it in Section 5(a).

**(cc)** "Dividend Payment Date" shall mean January 1, April 1, July 1 and October 1 of each year, commencing on April 1, 2010; provided that if any such Dividend Payment Date would otherwise occur on a day that is not a Business Day, such Dividend Payment Date shall instead be (and any Dividend payable on Series B-1 12.75% Preferred Stock on such Dividend Payment Date shall instead be payable on) the immediately succeeding Business Day.

**(dd)** "Dividend Period" shall mean the period commencing on and including a Dividend Payment Date and shall end on and include the calendar day preceding the next Dividend Payment Date; provided, however, that with respect to any shares of Series B-1 12.75% Preferred Stock not outstanding for the entirety of any such Dividend Period, there shall be an initial pro-rated Dividend Period for such shares that shall commence on and include the issue date of such shares.

**(ee)** "Dividend Rate" shall mean 12.75% per annum.

**(ff)** "DOE" shall mean the United States Department of Energy.

**(gg)** "DOE Financial Closing" shall mean the closing of a Loan Guarantee Agreement (as defined in 10 CFR 609.2), between DOE, an eligible lender, and the Corporation, pursuant to the Conditional Commitment, guaranteeing a loan or other debt obligation in an amount not less than $2 billion for the ACP and there shall have been an initial draw of the funds guaranteed pursuant to the Loan Guarantee Agreement in an amount not less than the minimum amount permitted thereunder.

**(hh)** "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

**(ii)** "Exchange Property" shall have the meaning ascribed to it in Section 10(a).

**(jj)** "Excluded Lender" shall mean a bank or other financial institution providing indebtedness for borrowed money which is guaranteed by the Loan Guarantee Agreement (as defined in 10 CFR 609.2) pertaining to the DOE Financial Closing; provided, however "Excluded Lender" shall not include a Person providing funding or committed funding (pursuant to definitive binding agreements) for debt or equity of the Corporation in an amount of at least $100,000,000 that is not guaranteed by such Loan Guarantee Agreement.

**(kk)** "Factor" shall be the Factor established in accordance with the provisions of Section 7(h)(1).

**(ll)** "Final Determination" shall mean the earlier to occur of (1) the conclusion of the litigation or binding arbitration (as applicable), including any and all appeals (whether by final determination or the expiration of any applicable appeal periods), regarding the dispute between the Permitted Holders and the Corporation, or (2) a written agreement between the Corporation and the appropriate Permitted Holder or Permitted Holders resolving such dispute.

**(mm)** "Governmental Authority" shall mean any foreign governmental authority, the United States of America, any state of the United States and any political subdivision of any of the foregoing, and any agency, instrumentality, department, commission, board, bureau, central bank, authority, court, arbitral body or other tribunal, in each case whether executive, legislative, judicial, regulatory or administrative, having jurisdiction over any of the Permitted Holders, the Corporation, any of the Corporation's Subsidiaries or their respective Property.

**(nn)** "Initial Liquidation Preference" shall mean $1,000 per share of Series B Preferred Stock.

**(oo)** "Initial Preferred Director" shall have the meaning ascribed to it in Section 9(b)(1).

**(pp)** "Internal Reorganization Event" shall have the meaning ascribed to it in Section 10(c).

**(qq)** "Investor Rights Agreement" shall mean that certain Investor Rights Agreement, dated as of September 2, 2010 among the Corporation, Toshiba and B&W, as amended from time to time.

**(rr)** "Junior Stock" shall mean the Common Stock and any other class or series of capital stock of the Corporation that ranks junior to the Series B Preferred Stock (1) as to the priority of payment of dividends and/or (2) as to the distribution of assets on any liquidation, dissolution or winding up of the Corporation. For the avoidance of doubt, Junior Stock shall include the Series A Preferred Stock and the Series C Preferred Stock.

**(ss)** "Liquidation Preference" shall initially mean $1,000 per share of Series B Preferred Stock; provided, however, that to the extent that the Corporation does not declare and pay a Dividend on a Dividend Payment Date pursuant to Section 5(a), an amount equal to the Dividend shall be added to the Liquidation Preference of such share on the applicable Dividend Payment Date.

**(tt)** "Orderly Sale Arrangement" shall have the meaning set forth in the Securities Purchase Agreement.

**(uu)** "Ordinary Common Stock" shall mean the common stock of the Corporation, par value $.10 per share. For the avoidance of doubt, the Ordinary Common Stock shall not include the Class B Common Stock.

**(vv)** "Original Issuance Date" shall mean, with respect to each share of Series B Preferred Stock issued to the Permitted Holders, the date on which such share was issued by the Corporation.

**(ww)** "Original Issue Value" shall mean, subject to the Automatic Redemption Adjustment, if any, the aggregate Initial Liquidation Preference of all the shares of Series B Preferred Stock issued to the Permitted Holders excluding those shares issued as a Dividend.

**(xx)** "Parity Stock" shall mean any class or series of stock of the Corporation that ranks equally with Series B-1 12.75% Preferred Stock (1) in the priority of payment of dividends and/or (2) in the distribution of assets upon any liquidation, dissolution or winding up of the Corporation (in each case, without regard to whether dividends accrue cumulatively or non-cumulatively). For the avoidance of doubt, Parity Stock shall include the Series B-2 11.5% Preferred Stock.

**(yy)** "Permit" shall mean any approval, authorization, certificate, consent, license or permit of or from any Governmental Authority.

**(zz)** "Permitted Holder Material Breach" shall mean a material breach of the Securities Purchase Agreement or the Investor Rights Agreement by any Permitted Holder.

**(aaa)** "Permitted Holder Original Issue Value" shall mean, subject to the Automatic Redemption Adjustment, if any, for any Permitted Holder, the aggregate Initial Liquidation Preference of all shares of Series B Preferred Stock issued to such Permitted Holder excluding those shares issued as a Dividend.

**(bbb)** "Permitted Holder Outstanding Value" shall mean, as to any Permitted Holder, at any time and from time to time and subject to the Automatic Redemption Adjustment, if any, (1) the Original Issue Value of all of the outstanding shares of Series B Preferred Stock then held by such Permitted Holder, *plus*, (2) for each share of Series C Preferred Stock then held by a Permitted Holder, excluding those shares of Series C Preferred Stock issued upon exercise of the Warrants, the Base Price upon which such Permitted Holder's acquisition of such share was calculated, *plus* (3) for each share of Common Stock then held by such Permitted Holder, excluding those shares of Class B Common Stock issued upon exercise of the Warrants or Ordinary Common Stock purchased in the market, the Base Price upon which such Permitted Holder's acquisition of such share was calculated, *plus* (4) the aggregate amount of accrued and unpaid Dividends on outstanding shares of Series B Preferred Stock, which have been added to the Liquidation Preference pursuant to Section 5(a).

**(ccc)** "Permitted Holders" shall mean (1) Toshiba America or any other Wholly-Owned Affiliates of Toshiba, (2) B&W and its Wholly-Owned Affiliates, (3) a special purpose entity jointly and wholly controlled by Toshiba and B&W and (4) Westinghouse Electric Company, LLC, to the extent it is controlled by Toshiba or a Permitted Holder described under (1) above; provided, however, that each Permitted Holder must be a U.S. Person.

**(ddd)** "Person" shall mean any individual, corporation, company, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization, Governmental Authority or any other entity.

**(eee)** "Preferred Director" shall have the meaning ascribed to it in Section 9(b)(2).

**(fff)** "Preferred Stock" shall mean any and all series of preferred stock, par value $1.00 per share, of the Corporation, including the Series B Preferred Stock.

**(ggg)** "Property" shall mean any interest in any kind of property or asset, whether real, personal or mixed, tangible or intangible.

**(hhh)** "Qualified Director" shall mean any individual reasonably acceptable to the Nominating and Governance Committee of the Board of Directors.

**(iii)** "Regulatory Bodies" shall mean the DOE and the U.S. Nuclear Regulatory Commission, and any successor Governmental Authorities thereto.

**(jjj)** "Reorganization Event" shall have the meaning ascribed to it in Section 10(a).

**(kkk)** "Sale Plan" shall have the meaning ascribed to it in Section 7(c)(1).

**(lll)** "Securities Purchase Agreement" shall mean that certain Securities Purchase Agreement, dated as of May 25, 2010, among the Corporation, Toshiba and B&W, as amended from time to time.

**(mmm)** "Senior Stock" shall mean any class or series of capital stock of the Corporation that ranks senior to the Series B Preferred Stock (1) as to the priority of dividends and/or (2) as to the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

**(nnn)** "Series A Preferred Stock" shall mean the series of Preferred Stock of the Corporation, par value $1.00 per share, designated as "Series A Junior Participating Preferred Stock."

**(ooo)** "Series B Preferred Stock" shall mean the Series B-1 12.75% Preferred Stock together with the Series B-2 11.5% Preferred Stock.

**(ppp)** "Series B-1 12.75 % Preferred Stock" shall have the meaning ascribed to it in Section 1.

**(qqq)** "Series B-2 11.5% Preferred Stock" shall mean the series of Preferred Stock of the Corporation, par value $1.00 per share, designated as "Series B-2 11.5% Convertible Preferred Stock."

**(rrr)** "Series B-2 Certificate of Designation" shall mean that certain Certificate of Designation of Series B-2 11.5% Preferred Stock, as filed with the Secretary of State of the State of Delaware.

**(sss)** "Series C Preferred Stock" shall mean the series of Preferred Stock of the Corporation, par value $1.00 per share, designated as "Series C Participating Convertible Preferred Stock."

**(ttt)** "Share Issuance Approval" shall mean the approval of the stockholders of the Corporation necessary to approve the conversion of all the Series B Preferred Stock and the Series C Preferred Stock, and the exercise of all the Warrants, for Common Stock for purposes of Section 312.03 of the New York Stock Exchange Listed Company Manual, or if shares of the Ordinary Common Stock become listed and traded on another Approved Market, the approval required by such Approved Market, or the time at which all such approvals shall for any reason become inapplicable or not required so as to permit all such conversions and exercises.

**(uuu)** "Share Issuance Limitation" shall mean the total number of shares of Common Stock or securities convertible into Common Stock that can be issued by the Corporation upon conversion or exercise of securities issued pursuant to the Transactions (as defined in the Securities Purchase Agreement) in accordance with the rules and regulations of the Approved Market on which shares of the Corporation's equity securities are listed or traded prior to receipt of the Share Issuance Approval.

**(vvv)** "Subsidiary" of any Person shall mean any corporation, partnership, joint venture, limited liability company, trust or estate of which (or in which) more than 50% of (1) the issued and outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (2) the interest in the capital or profits of such partnership, joint venture or limited liability company or (3) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person's other Subsidiaries. Notwithstanding the foregoing, American Centrifuge Manufacturing, LLC, a Delaware limited liability company, shall not be considered a Subsidiary of B&W or the Corporation.

**(www)** "SWU" shall have the meaning ascribed to it in the definition of "SWU Consideration."

**(xxx)** "SWU Consideration" shall mean the fair market value of separative work units with respect to low enriched uranium ("SWU") (as determined reasonably and in good faith by the Board of Directors, taking into account the applicable volume of SWU, the then-current market price for SWU and other relevant factors) provided by the Corporation to the Permitted Holders *minus* any consideration paid by the Permitted Holders for such SWU.

**(yyy)** "Third Party Financing" shall mean the funding or committed funding (pursuant to definitive binding agreements) for debt or equity of the Corporation in an amount of at least $100,000,000 from a third party that is not an Affiliate of the Corporation, a Japanese export credit agency, a U.S. Governmental Authority or an Excluded Lender where (1) such funds, together with such other additional funds available to the Corporation at such time, is necessary and sufficient to consummate the DOE Financial Closing, and (ii) the third-party requires, as a condition to the funding, that the Preferred Stock be converted in accordance with the terms hereof.

**(zzz)** "Third Party Transfer" shall mean an irrevocable Transfer in compliance with Section 11 of all legal ownership, Voting Control and Beneficial Ownership of any share or shares of Series B-1 12.75% Preferred Stock to a Person other than a Permitted Holder or its Affiliates.

**(aaaa)** "Toshiba" shall mean Toshiba Corporation, a corporation organized under the laws of Japan.

**(bbbb)** "Toshiba America" shall mean Toshiba America Nuclear Energy Corporation, a Delaware corporation.

**(cccc)** "Trading Day" shall mean any day on which shares of the Corporation's equity securities are traded, or able to be traded, on the Approved Market on which shares of the Corporation's equity securities are listed or traded.

**(dddd)** "Transfer" shall mean, with respect to any shares of Series B-1 12.75% Preferred Stock, any direct or indirect assignment, sale, exchange, transfer, tender or other disposition of such shares or any interest therein, whether voluntary or involuntary, by operation of law or otherwise (and includes any sale or other disposition in any one transaction or series of transactions and the grant or transfer of an option or derivative security covering such shares), and any agreement, arrangement or understanding, whether or not in writing, to effect any of the foregoing; provided, however, that a "Transfer" shall not occur simply as a result of the grant of a proxy in connection with a solicitation of proxies subject to the provisions of Section 14 of the Exchange Act.

**(eeee)** "U.S. Person" shall mean any person that is treated as a "United States Person" under Code Section 7701(a)(30) and that provides an IRS Form W-9 (or successor form), evidencing a complete exemption from United States withholding tax (including backup withholding tax), on or before the time at which it acquires securities pursuant to this Certificate of Designation.

**(ffff)** "Voting Control" shall mean, with respect to a share or shares of Series B-1 12.75% Preferred Stock, the power, whether exclusive or shared, revocable or irrevocable, to vote or direct the voting of such share or shares of Series B-1 12.75% Preferred Stock, by proxy, voting agreement or otherwise.

**(gggg)** "Warrants" shall mean those warrants to purchase Class B Common Stock or Series C Preferred Stock originally issued by the Corporation to the Permitted Holders pursuant to the Securities Purchase Agreement.

**(hhhh)** "Wholly-Owned Affiliate" shall mean, as to any Person, any Affiliate that, directly or indirectly, is wholly-owned and controlled (other than by contract) by a Person, or any other Affiliate to which the Corporation, in its sole discretion, consents.

**Section 4. Titles and Subtitles; Interpretation**. The titles and subtitles used in this Certificate of Designation are used for convenience only and are not to be considered in construing or interpreting this Certificate of Designation. The definitions contained in this Certificate of Designation are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such terms.

**Section 5. Dividends.**

**(a) Rate**. Holders of Series B-1 12.75% Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of funds or assets available therefor, subject to the provisions of the DGCL, on each share of Series B-1 12.75% Preferred Stock, Dividends with respect to each Dividend Period in an amount equal to the Dividend Rate on the Liquidation Preference per share of Series B-1 12.75% Preferred Stock, payable, at the Corporation's election, in (1) cash, (2) additional shares (including fractional shares) of Series B-1 12.75% Preferred Stock having a deemed value of $1,000 per share for purposes of the number of such additional shares or (3) any combination of (1) and (2) (the "Dividend"). If and to the extent that the Corporation does not pay the entire Dividend for a particular Dividend Period on the applicable Dividend Payment Date for such period, the amount of such Dividend not paid shall be added to the Liquidation Preference in accordance with the definition thereof. Dividends payable at the Dividend Rate shall begin to accrue (whether or not earned or declared, whether or not there are funds legally available for the payment thereof and whether or not restricted by the terms of any of the Corporation's indebtedness outstanding at any time) and be cumulative from the Original Issuance Date, shall compound on each Dividend Payment Date (*i.e.*, no Dividends shall accrue on other Dividends unless and until the first Dividend Payment Date for such other Dividends has passed without such other Dividends having been paid on such date) and shall be payable in arrears on the first Dividend Payment Date after such Dividend Period. Dividends that are payable on Series B-1 12.75% Preferred Stock in the form of additional shares of such stock shall, except as specifically provided in this Certificate of Designation, have all rights granted hereunder, including the payment of Dividends. Dividends that are payable on Series B-1 12.75% Preferred Stock on any Dividend Payment Date shall be payable to holders of record of Series B-1 12.75% Preferred Stock as they appear on the stock register of the Corporation on the record date for such Dividend, which shall be the date 10 Business Days prior to the applicable Dividend Payment Date, or such other date as determined by the Board of Directors. The Corporation shall elect the form of such payment by giving notice at least 5 Business Days prior to the applicable Dividend Payment Date. If no such notice is given, the Corporation shall be deemed to have elected a payment through the issuance of shares of Series B-1 12.75% Preferred Stock. Dividends paid on the shares of Series B-1 12.75% Preferred Stock in an amount less than accumulated and unpaid Dividends payable thereon shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

Dividends payable at the Dividend Rate on Series B-1 12.75% Preferred Stock in respect of any Dividend Period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of Dividends payable at the Dividend Rate on Series B-1 12.75% Preferred Stock on any date prior to the end of a Dividend Period, and for the initial Dividend Period, shall be computed on the basis of a 360-day year consisting of twelve 30-day months, and actual days elapsed over such 30-day months.

**(b) Priority of Dividends**. Subject to any approvals required pursuant to Section 9, such Dividends (payable in cash, securities or other property) as may be determined by the Board of Directors may be declared and paid on any capital stock, including Common Stock and other Junior Stock, from time to time out of any funds legally available for such payment.

**(c) Payment in Shares**. Any shares of Series B-1 12.75% Preferred Stock paid as a Dividend pursuant to this Section 5 shall be duly authorized, validly issued, fully paid and non-assessable, and shall be free of preemptive rights and free of any lien or adverse claim.

**Section 6. Liquidation Rights.**

**(a) Voluntary or Involuntary Liquidation**. In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, holders of Series B-1 12.75% Preferred Stock shall be entitled to receive on par with each share of Parity Stock ranking equally with Series B-1 12.75% Preferred Stock in the distribution of assets upon any liquidation, dissolution or winding up of the Corporation for each share of Series B-1 12.75% Preferred Stock, out of the assets of the Corporation or proceeds thereof available for distribution to stockholders of the Corporation, and after satisfaction of all liabilities and obligations to creditors of the Corporation, before any distribution of such assets or proceeds is made to or set aside for the holders of Junior Stock, an amount equal to the greater of (1) the Liquidation Preference per share of Series B-1 12.75% Preferred Stock *plus* an amount per share equal to the accrued but unpaid Dividends not previously added to the Liquidation Preference from and including the immediately preceding Dividend Payment Date to, but excluding, the date fixed for such liquidation, dissolution or winding up of the Corporation and (2) the per share amount of all cash, securities and other property (such securities or other property having a value equal to its fair market value as reasonably and in good faith determined by the Board of Directors) to be distributed in respect of the Common Stock such holder would have been entitled to receive had it converted such Series B-1 12.75% Preferred Stock (without regard to the Conversion Cap or Share Issuance Limitation) immediately prior to the date fixed for such liquidation, dissolution or winding up of the Corporation. To the extent that such amount is paid in full to all holders of Series B-1 12.75% Preferred Stock and all holders of Parity Stock ranking equally with Series B-1 12.75% Preferred Stock in the distribution of assets upon any liquidation, dissolution or winding up of the Corporation, the holders of other capital stock of the Corporation shall be entitled to receive all remaining assets of the Corporation (or proceeds thereof) according to their respective rights and preferences.

**(b) Partial Payment**. If, in connection with any distribution described in Section 6(a) above, the assets of the Corporation or proceeds thereof are not sufficient to pay the Liquidation Preferences in full to all holders of Series B-1 12.75% Preferred Stock and all holders of Parity Stock ranking equally with Series B-1 12.75% Preferred Stock in the distribution of assets upon any liquidation, dissolution or winding up of the Corporation, then the amounts paid to the holders of Series B-1 12.75% Preferred Stock and to the holders of all such other Parity Stock shall be paid pro rata in accordance with the respective aggregate Liquidation Preferences of the holders of Series B-1 12.75% Preferred Stock and the holders of all such other Parity Stock.

**(c) Merger, Consolidation and Sale of Assets Not Liquidation**. For purposes of this Section 6, the merger or consolidation of the Corporation with any other corporation or other Person, including a merger or consolidation in which the holders of Series B-1 12.75% Preferred Stock receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Corporation, shall not constitute a liquidation, dissolution or winding up of the Corporation, but shall instead be subject to the provisions of Section 10.

**Section 7. Mandatory Redemption or Conversion on a Closing Deadline Failure.**

**(a) Permitted Holder Election on a Closing Deadline Failure**. Within 20 Business Days of a Closing Deadline Failure, each Permitted Holder shall deliver a written notice to the Corporation stating, with respect to all of its outstanding shares of Series B-1 12.75% Preferred Stock, whether such Permitted Holder elects to convert such shares pursuant to Section 7(b) (a "Conversion Election") or sell such shares pursuant to Section 7(c) (a "Sale Election"). If any Permitted Holder does not make such election by such deadline, such Permitted Holder shall be deemed to have irrevocably made a Sale Election with respect to all of its outstanding shares of Series B-1 12.75% Preferred Stock.

**(b) Conversion Election Procedures**. Within 40 Business Days of a Closing Deadline Failure, the Corporation shall, with respect to the outstanding shares of Series B-1 12.75% Preferred Stock held by all Permitted Holders that made a Conversion Election, convert such shares (i) if the Charter Amendment Approval has been obtained and subject to the making of any filing or receipt of any approval from any Regulatory Body in order not to adversely affect the Permits or regulatory status of the Corporation or its Subsidiaries, into Class B Common Stock, or (ii) if the Charter Amendment Approval has not been

obtained or such regulatory approvals cannot be obtained, into Series C Preferred Stock, in either case into the number of shares of the Class B Common Stock or Series C Preferred Stock, as applicable, equal to the product of (A) the quotient of (1) the Liquidation Preference *plus* an amount per share equal to accrued but unpaid Dividends not previously added to the Liquidation Preference on such shares of Series B-1 12.75% Preferred Stock from and including the immediately preceding Dividend Payment Date to, but excluding, such date of conversion, and (2) the Base Price for such conversion date and (B) the Factor. Any outstanding shares of Series B-1 12.75% Preferred Stock not converted pursuant to this Section 7(b) as a result of the limitations set forth in Section 7(d) shall remain outstanding until the earlier of (x) the date on which the Share Issuance Approval is obtained (on which date any then outstanding shares of Series B-1 12.75% Preferred Stock held by all Permitted Holders that made a Conversion Election shall be converted pursuant to this Section 7(b) using the Base Price for such conversion date) and (y) such time the outstanding shares of Series B-1 12.75% Preferred Stock are redeemed pursuant to Section 7(g).

**(c) Sale Election Procedures**.

**(1)** If a Permitted Holder makes or is deemed to make a Sale Election, such Permitted Holder shall use commercially reasonable efforts to sell and dispose of such Permitted Holder's shares of Series B-1 12.75% Preferred Stock in accordance with Section 11 and the Orderly Sale Arrangement. In furtherance of the foregoing and without limitation, such Permitted Holder shall use commercially reasonable efforts to, as promptly as is practicable, either (x) enter into an agreement with a broker dealer that represents one of the institutions listed on Schedule C to the Securities Purchase Agreement as of such date pursuant to which all of the shares of Ordinary Common Stock into which the outstanding shares of Series B-1 12.75% Preferred Stock held by such Permitted Holder shall be converted and sold (the "Sale Plan") or (y) sell pursuant to such other method as shall be mutually agreed upon between the Corporation and the Permitted Holder. The Sale Plan shall, inter alia:

**(A)** constitute a written binding contract between such Permitted Holder and such broker dealer pursuant to which such Permitted Holder instructs the broker dealer to sell such shares on its account;

**(B)** result in the sale as promptly as practicable and in brokers transactions of the shares of Ordinary Common Stock into which such Permitted Holder's outstanding shares of Series B-1 12.75% Preferred Stock shall be converted, as provided below pursuant to the Orderly Sale Arrangement;

**(C)** permit such Permitted Holder no influence over when or whether to effect the sale of such shares of Ordinary Common Stock underlying such Permitted Holder's outstanding shares of Series B-1 12.75% Preferred Stock (other than initiating a separate block trade undertaken in accordance with the Orderly Sale Arrangement); and

**(D)** except as provided in clause (C), require that such shares of Ordinary Common Stock underlying such Permitted Holder's outstanding shares of Series B-1 12.75% Preferred Stock are sold pursuant to the terms of the Sale Plan;

**(2)** Upon a Third Party Transfer, shares of Series B-1 12.75% Preferred Stock when sold pursuant to a Sale Plan shall automatically convert into the number of shares of Ordinary Common Stock equal to the following: (x) if sold pursuant to a brokers transaction, the product of (A) the quotient of (1) the Liquidation Preference *plus* an amount per share equal to accrued but unpaid Dividends not previously added to the Liquidation Preference on such shares of Series B-1 12.75% Preferred Stock from and including the immediately preceding Dividend Payment Date to, but excluding, such date of conversion, and (2) the price per share reported for the sale of the underlying Ordinary Common Stock and (B) the Factor; or (y) if sold other than through a brokers transaction, the product of (A) the quotient of (1) the Liquidation Preference *plus* an amount per share equal to accrued but unpaid Dividends not previously added to the Liquidation Preference on such shares of Series B-1 12.75% Preferred Stock from and including the immediately preceding Dividend Payment Date to, but excluding, such date of conversion, and (2) the price per share at which the underlying Ordinary Common Stock is agreed to be sold in such transaction and (B) the Factor.

**(d) Share Issuance Limitation**. Notwithstanding anything in this Certificate of Designation to the contrary, any issuance of Common Stock or Series C Preferred Stock shall be limited to the total number of shares that may be issued in compliance with the Share Issuance Limitation to the extent applicable.

**(e) Deferred Implementation of Sale Plan**. In the event that a Permitted Holder at the time of a Sale Election advises the Corporation that it in good faith believes that it is in possession of material non-public information concerning the Corporation, such Permitted Holder may defer implementation of the Sale Plan until the next period of time during which directors and executive officers of the Corporation are permitted to purchase and sell shares of Ordinary Common Stock in a trading "window" or similar period pursuant to the Corporation's trading policies in effect at such time. Without limiting a Permitted Holder's obligation to do so, if a Permitted Holder shall fail to enter into and initiate a Sale Plan within 180 days of a Sale Election and shall at any time thereafter fail to use commercially reasonable efforts to implement a Sale Plan (tolling such period to the extent it is prevented from doing so pursuant to the provisions of Section 4.7 of the Investor Rights Agreement) the Corporation may, if the Permitted Holder fails to resume and maintain such commercially reasonable efforts within ten (10) Business Days after notice of such failure from the Corporation, convert such Permitted Holder's shares of Series B-1 12.75% Preferred Stock pursuant to the provisions of Section 7(b) (without regard for the deadline or notice provided for therein) as of the date of such failure applying the Base Price as of the date of such conversion. With respect to a Permitted Holder's obligation in the immediately preceding sentence, such commercially reasonable efforts shall include such Permitted Holder causing any Initial Preferred Director or the Preferred Director, as applicable, to resign within 90 days of the delivery of the notice pursuant to Section 7(a) if such Initial Preferred Director's or the Preferred Director's access, as applicable, to material non-public information concerning the Corporation is preventing the Permitted Holder from entering into the Sale Plan or otherwise disposing of its shares in accordance with Section 11 and the Orderly Sale Arrangement.

**(f) Optional Redemption**. Notwithstanding any Sale Plan, at any time from and after a Sale Election, the Corporation may, subject to the provisions of the DGCL, and from time to time, upon 10 Business Days prior written notice, redeem all or any portion of the outstanding shares of Series B-1 12.75% Preferred Stock for, at the Corporation's sole discretion, cash or SWU Consideration in an amount equal to the product of (i) the Liquidation Preference of such shares *plus* an amount per share equal to accrued but unpaid Dividends not previously added to the Liquidation Preference on such shares of Series B-1 12.75% Preferred Stock from and including the immediately preceding Dividend Payment Date to, but excluding, the date of redemption and (ii) the Factor.

**(g) Automatic Redemption**. If a Closing Deadline Failure occurs and shares of Series B-1 12.75% Preferred Stock remain outstanding on the later of (i) December 31, 2012 or (ii) the one-year anniversary of such Closing Deadline Failure, the Corporation shall, subject to the provisions of the DGCL, redeem all outstanding shares of Series B-1 12.75% Preferred Stock for, at the Corporation's sole discretion, cash or SWU Consideration in an amount equal to (i) the product of (A) the Liquidation Preference of such shares *plus* an amount per share equal to accrued but unpaid Dividends not previously added to the Liquidation Preference on such shares of Series B-1 12.75% Preferred Stock from and including the immediately preceding Dividend Payment Date to, but

excluding, the date of redemption and (B) the Factor.

**(h) Determination of Factor**.

**(1)** The Factor shall be (i) if at the time of the Closing Deadline Failure the Securities Purchase Agreement was not terminable pursuant to Section 10.2(c) or (d) or Section 10.3(c) or (d) thereof, 1.0 (one); (ii) if at the time of the Closing Deadline Failure the Securities Purchase Agreement was terminable pursuant to Sections 10.2(c) or 10.3(c) thereof, 1.1 (one and one-tenth); or (iii) if at the time of the Closing Deadline Failure the Securities Purchase Agreement was terminable as to such Permitted Holder pursuant to Sections 10.2(d) or 10.3(d) thereof, 0.9 (nine-tenths).

**(2)** Together with the notice delivered by each Permitted Holder pursuant to Section 7(a), each Permitted Holder shall state the Factor to be applied with respect to the Conversion Election or the Sale Election. If any Permitted Holder does not make such determination in its notice, the Factor deemed noticed and applicable to such Permitted Holder shall be 1.0. Within 20 Business Days of receipt by the Corporation of a notice pursuant to Section 7(a), the Corporation may deliver a written notice to a Permitted Holder disputing such Permitted Holder's determination of the Factor or, if the Permitted Holder did not include a Factor in its notice, the deemed Factor. If the Corporation does not timely provide such notice, such Permitted Holder's determination of the Factor or the deemed Factor, as the case may be, shall be final and binding on such Permitted Holder and the Corporation. If the Corporation timely objects to a Permitted Holder's determination of the Factor, the Factor shall be initially 1.0 for purposes of such conversion or redemption and all of such Permitted Holder's outstanding shares of Series B-1 12.75% Preferred Stock shall be converted pursuant to Section 7(b), sold pursuant to Section 7(c) or redeemed pursuant to Sections 7(f) or (g) based upon such Factor and either the Corporation or such Permitted Holder may seek a Final Determination pursuant to the procedures set forth in Section 13.2 of the Securities Purchase Agreement, and following any such Final Determination, such final Factor shall be applied hereunder.

**Section 8. Other Conversion.**

**(a) Conversion by the Corporation.**

**(1) Conversion Upon Third Party Financing**. Effective upon the DOE Financial Closing that follows or is contemporaneous with a Third Party Financing or immediately prior thereto, the Corporation may convert all of the outstanding shares of Series B-1 12.75% Preferred Stock (i) if the Charter Amendment Approval has been obtained, into Class B Common Stock, or (ii) if the Charter Amendment Approval has not been obtained, into Series C Preferred Stock, in either case into the number of shares of the Class B Common Stock or Series C Preferred Stock, as applicable, equal to the quotient of (A) 120% of the sum of (i) the Liquidation Preference *plus* (ii) an amount per share equal to accrued but unpaid Dividends not previously added to the Liquidation Preference on such shares of Series B-1 12.75% Preferred Stock from and including the immediately preceding Dividend Payment Date to, but excluding, the date of conversion and (B) the Base Price for the date that the Corporation provides notice pursuant to Section 8(a)(2).

**(2) Conversion Timing**. If the Corporation elects to convert pursuant to this Section 8(a), the Corporation shall provide written notice to the Permitted Holders of record at their respective last addresses appearing on the books of the Corporation. Such notice shall state the conversion date of Series B-1 12.75% Preferred Stock, which date shall be no less than 5 days and no more than 60 days from the date of such notice; provided, however, that the effectiveness of the conversion (and the Corporation's right and obligation to effect the conversion) shall be conditioned upon the DOE Financial Closing. Notwithstanding the foregoing, if, after delivery of such notice, the Corporation desires to specify a different conversion date, the Corporation shall not be required to notify the Permitted Holders of such change until after the conversion is effected unless such changed conversion date is more than 15 days prior to or after the original conversion date. The conversion date shall be the date specified in such written notice or such different date as specified by the Corporation in accordance with this Section 8(a)(2).

**(b) Conversion by the Permitted Holders.**

**(1) Post-Third Closing Conversion**. At any time and from time to time after the Third Closing (as defined in the Securities Purchase Agreement), any Permitted Holder's shares of Series B-1 12.75% Preferred Stock shall be converted, in whole or in part, upon the request of such Permitted Holder, subject to the Conversion Cap, into the number of shares of Class B Common Stock equal to the quotient of (A) the Liquidation Preference *plus* an amount per share equal to accrued but unpaid Dividends not previously added to the Liquidation Preference on such shares of Series B-1 12.75% Preferred Stock from and including the immediately preceding Dividend Payment Date to, but excluding, such date of conversion and (B) the Base Price for the conversion date specified in the written notice provided by such Permitted Holder pursuant to Section 8(b)(2). Shares of Series B-1 12.75% Preferred Stock not converted as a result of the foregoing limitations shall remain outstanding except as provided herein.

**(2) Conversion Timing**. If a Permitted Holder elects to convert pursuant to this Section 8(b), such Permitted Holder shall provide written notice to the Corporation. Such notice shall state the conversion date of Series B-1 12.75% Preferred Stock, which date shall be no less than 5 days and no more than 60 days from the date of such notice. The conversion date shall be the date specified in such written notice.

**(c) Automatic Conversion and Redemption.** On December 31, 2016, all outstanding shares of Series B-1 12.75% Preferred Stock shall be automatically converted, without any action on the part of the holder and subject to the Conversion Cap, into the number of shares of Class B Common Stock equal to the quotient of (i) the Liquidation Preference *plus* an amount per share equal to accrued but unpaid Dividends not previously added to the Liquidation Preference on such shares of Series B-1 12.75% Preferred Stock from and including the immediately preceding Dividend Payment Date to, but excluding, such date of conversion and (ii) the Base Price for December 31, 2016. Shares of Series B-1 12.75% Preferred Stock not converted as a result of the foregoing limitation shall remain outstanding except as provided herein. If shares of Series B-1 12.75% Preferred Stock remain outstanding on February 28, 2017 due to the Conversion Cap, the Corporation shall, subject to the provisions of the DGCL, redeem all outstanding shares of Series B-1 12.75% Preferred Stock for cash in an amount equal to the Liquidation Preference of such shares *plus* an amount per share equal to accrued but unpaid Dividends not previously added to the Liquidation Preference on such shares of Series B-1 12.75% Preferred Stock from and including the immediately preceding Dividend Payment Date to, but excluding, the date of redemption. If the Corporation fails to pay such redemption amount by March 15, 2017, the Conversion Cap shall no longer apply and all outstanding shares of Series B-1 12.75% Preferred Stock shall be automatically converted, without any action on the part of the holder, into the number of shares of Class B Common Stock equal to the quotient of (A) the Liquidation Preference *plus* an amount per share equal to accrued but unpaid Dividends not previously added to the Liquidation Preference on such shares of Series B-1 12.75% Preferred Stock from and including the

immediately preceding Dividend Payment Date to, but excluding, such date of conversion and (B) the Base Price for March 15, 2017. In the event of any automatic conversion or redemption pursuant to this Section 8(c), the conversion or redemption shall be deemed to have been effected at the time that the event triggering such automatic conversion or redemption occurred.

**(d) Conversion Mechanics**. A Permitted Holder shall cease to be a record holder of each share of Series B-1 12.75% Preferred Stock on the date such share is converted. As promptly as practicable on or after the conversion date (and in any event no later than three Trading Days thereafter), the Corporation or its agent, including its transfer agent, shall issue the number of shares of Class B Common Stock or Series C Preferred Stock (including fractional shares) issuable pursuant to Section 8(a), (b) or (c). Any such certificate or certificates shall be delivered by the Corporation or its agent, including its transfer agent, to the appropriate holder on a book-entry basis or by mailing certificates evidencing the shares to the holders at their respective addresses as set forth in the records of the Corporation, subject in each case to the provisions of Section 9 of the Securities Purchase Agreement.

**(e) Reservation of Class B Common Stock**. Subject to receiving the Charter Amendment Approval and for as long as any shares of Series B Preferred Stock remain outstanding, the Corporation shall at all times reserve and keep available, free from preemptive rights, out of its authorized but unissued Ordinary Common Stock or Class B Common Stock, or shares of Ordinary Common Stock or Class B Common Stock held in treasury by the Corporation, for the purpose of effecting the conversion of the Series B Preferred Stock, the full number of shares of Ordinary Common Stock or Class B Common Stock then issuable upon the conversion of all the shares of Series B Preferred Stock then outstanding. For purposes hereof, reservations hereunder shall be at the Base Price equal to the closing price of the Corporation's Ordinary Common Stock on the New York Stock Exchange on the second to last Trading Day prior to the date of the Securities Purchase Agreement; provided, however, if the Base Price for the date four Trading Days prior to the First Closing, the Second Closing or the Third Closing (each as defined in the Securities Purchase Agreement) or on June 30 of any year is less than such amount, then that lower amount shall be used as the Base Price for purposes of this calculation. All shares of Class B Common Stock delivered upon conversion of Series B Preferred Stock shall have been duly authorized and validly issued and shall be fully paid and nonassessable, and shall be free from preemptive rights and free of any lien or adverse claim.

**(f) Partial Conversion**. In case of any conversion of any of the shares of Series B Preferred Stock at the time outstanding, the shares to be converted shall be selected pro rata among the shares of Series B Preferred Stock held by each Permitted Holder and among each such Permitted Holder's shares of Series B-1 12.75% Preferred Stock and Series B-2 11.5% Preferred Stock. If fewer than all of the shares represented by any certificate are converted, a new certificate shall be issued representing the unconverted shares without charge to the holder thereof.

**(g) Taxes**. The Corporation shall pay any and all taxes that may be payable in respect of the issue or delivery of shares of Ordinary Common Stock, Class B Common Stock or Series C Preferred Stock on conversion of Series B-1 12.75% Preferred Stock. The Corporation shall not, however, be required to pay any tax that may be payable in respect of any Transfer involved in the issue and delivery of shares of Ordinary Common Stock, Class B Common Stock or Series C Preferred Stock in a name other than that in which Series B-1 12.75% Preferred Stock so converted was registered, and no such issue or delivery shall be made unless and until the Person requesting such issue has paid to the Corporation the amount of any such tax, or has established to the satisfaction of the Corporation that such tax has been paid.

**Section 9. Voting Rights.**

**(a) General**. The holders of shares of Series B-1 12.75% Preferred Stock shall not be entitled to vote, except as otherwise provided herein or required by applicable law.

**(b) Election of Directors.**

**(1)** Effective as of the first Original Issuance Date, the number of directors constituting the Board of Directors shall be increased by two Persons and the holders of a majority of the outstanding Series B Preferred Stock, voting together as a separate class to the exclusion of the holders of Common Stock and any other series of Preferred Stock, shall be entitled to elect two Qualified Directors to the Board of Directors (each such director, an "Initial Preferred Director") until the earliest to occur of (i) a Closing Deadline Failure as a result of a Permitted Holder Material Breach at a time when the Securities Purchase Agreement is terminable pursuant to Sections 10.2(d) and 10.3(d) thereof, (ii) a Change of Control or (iii) such time as the Permitted Holders' Aggregate Outstanding Value is equal to or less than (x) prior to or on December 31, 2016, 75% of the Original Issue Value or, (y) after December 31, 2016, 50% of the Original Issue Value, whereupon at any such time (A) the right of the holders of a majority of the outstanding Series B Preferred Stock to elect the Initial Preferred Directors shall cease, (B) the term of office of the Initial Preferred Directors shall immediately and automatically terminate, (C) the Initial Preferred Directors will no longer be qualified to serve and (D) the number of directors constituting the Board of Directors shall be immediately and automatically reduced by two Persons.

**(2)** Effective as of the first Original Issuance Date and at such time as when the Permitted Holders do not have the right to elect the Initial Preferred Directors pursuant to Section 9(b)(1)(iii) and any Permitted Holder's Permitted Holder Outstanding Value is greater than (x) prior to or on December 31, 2016, 75% of such Permitted Holder's Permitted Holder Original Issue Value or, (y) after December 31, 2016, 50% of such Permitted Holder's Permitted Holder Original Issue Value, the number of directors constituting the Board of Directors shall be increased by one Person and the holders of a majority of the outstanding Series B Preferred Stock, voting together as a separate class to the exclusion of the holders of Common Stock and any other series of Preferred Stock, shall be entitled to elect one Qualified Director to the Board of Directors (such director, the "Preferred Director") until the earliest to occur of (i) an event described in Section 9(b)(1)(i) or (ii) or (ii) such time as each Permitted Holder's Permitted Holder Outstanding Value is equal to or less than (x) prior to or on December 31, 2016, 75% of such Permitted Holder's Permitted Holder Original Issue Value or (y) after December 31, 2016, 50% of such Permitted Holder's Permitted Holder Original Issue Value, whereupon at any such time (A) the right of the holders of a majority of the outstanding Series B Preferred Stock to elect the Preferred Director shall cease, (B) the term of office of the Preferred Director shall immediately and automatically terminate, (C) the Preferred Director will no longer be qualified to serve and (D) the number of directors constituting the Board of Directors shall be immediately and automatically reduced by one Person.

**(3)** For the avoidance of doubt, except for the increase or decrease in the number of directors provided for herein, nothing in this Section 9(b) shall prohibit the Board of Directors from fixing the number of directors constituting the Board of Directors pursuant to the Bylaws.

**(4) Term**. Subject to the provisions of this Section 9(b), each Initial Preferred Director or the Preferred Director, as applicable, shall serve until the next annual meeting of the stockholders of the Corporation and until his or her successor is elected and qualified in accordance with this Section 9(b) and the Bylaws, unless any such Initial Preferred Director or the Preferred Director, as applicable, is earlier removed in accordance with the Bylaws, resigns or is otherwise unable to serve; provided, however, that only the holders of a majority of the outstanding shares of the Series B Preferred Stock may remove any such Initial Preferred Director or the Preferred Director, as applicable, without cause at any time and the holders of a majority of the voting power of the outstanding shares of the capital stock of the Corporation entitled to vote on the matter may remove any such Initial Preferred Director or the Preferred

Director, as applicable, with cause at any time. Subject to the provisions of this Section 9(b), in the event any Initial Preferred Director or the Preferred Director, as applicable, is removed, resigns or is unable to serve as a member of the Board of Directors, the holders of a majority of the outstanding shares of Series B Preferred Stock, voting together as a separate class to the exclusion of the holders of Common Stock and any other series of Preferred Stock, shall have the right to fill such vacancy. Each Initial Preferred Director or the Preferred Director, as applicable, may only be elected to the Board of Directors by the holders of the Series B Preferred Stock in accordance with this Section 9(b), and any such Initial Preferred Director's or the Preferred Director's seat, as applicable, shall otherwise remain vacant.

**(c) Class Voting Rights as to Particular Matters**. In addition to any other vote or consent of stockholders required by law or by the Certificate of Incorporation, the vote or consent of the holders of at least a majority of the outstanding shares of Series B Preferred Stock, voting together as a single class to the exclusion of the holders of the Common Stock and any other series of Preferred Stock, then outstanding and entitled to vote on the matter, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating any of the actions described in (x) Section 9(c)(1) if any shares of Series B Preferred Stock are outstanding and (y) Sections 9(c)(2) and 9(c)(3) if the number shares of Series B Preferred Stock outstanding is greater than 10% of all of the shares of Series B Preferred Stock issued to the Permitted Holders, in each case excluding shares issued as a Dividend.

**(1) Amendment of Series B Preferred Stock**. Any amendment, alteration or repeal (by merger, consolidation or otherwise) of any provision of the Certificate of Incorporation or this Certificate of Designation so as to adversely affect the powers, preferences and relative participating, optional and other rights of Series B-1 12.75% Preferred Stock.

**(2) Dividends, Repurchase and Redemption.**

**(A)** The declaration or payment of any dividend or distribution of Common Stock or other Junior Stock (other than a dividend payable solely in Junior Stock provided such dividend is not treated as a distribution of property for purposes of Section 305 of the Code, the Treasury Regulations promulgated thereunder or any successor provision); or

**(B)** the purchase, redemption or other acquisition for consideration by the Corporation, directly or indirectly, of any Common Stock, other Junior Stock or Parity Stock, (except as necessary (i) to effect a reclassification of Junior Stock for or into other Junior Stock, (ii) to effect a reclassification of Parity Stock for or into other Parity Stock with the same or lesser aggregate liquidation preference, (iii) to effect a reclassification of Parity Stock into Junior Stock, (iv) to effect the exchange or conversion of one share of Junior Stock for or into another share of Junior Stock, (v) to effect the exchange or conversion of one share of Parity Stock for or into another share of Parity Stock with the same or lesser per share liquidation amount (vi) to effect the exchange or conversion of one share of Parity Stock into Junior Stock or (vii) pursuant to the Corporation Plans).

**(3) Issuance of Senior Stock or Parity Stock**. Prior to the Third Closing (as defined in the Securities Purchase Agreement), the issuance of any Senior Stock or Parity Stock, except as specifically provided for herein or in the Certificate of Designation for the Series B-2 11.5% Preferred Stock.

**(d) Changes after Provision for Redemption or Conversion**. No vote or consent of the holders of Series B-1 12.75% Preferred Stock shall be required pursuant to Section 9(c)(x) or Section 9(c)(y) if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of Series B-1 12.75% Preferred Stock (1) shall have been redeemed or converted, or (2) shall have been irrevocably elected for redemption or conversion in accordance with Sections 7(f), 7(g) or 8(a) and will, subject to the passage of time, be redeemed or converted; provided, that if, on or before the redemption date specified by the Corporation, all funds required for the redemption of the shares called for redemption have been deposited by the Corporation in trust for the benefit of the Permitted Holders with a bank or trust company doing business in the City of New York having a capital and surplus of at least $500 million and selected by the Board of Directors, so as to be and continue to be available solely therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date, Dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the Permitted Holders thereof to receive the amount payable on such redemption from such bank or trust company, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Corporation, after which time the Permitted Holders of the shares so called for redemption shall look only to the Corporation for payment of the redemption price of such shares.

**Section 10. Reorganization Events.**

**(a)** In the event of:

**(1)** any consolidation or merger of the Corporation with or into another Person or of another Person with or into the Corporation; or

**(2)** any sale, transfer, lease or conveyance to another Person of all or substantially all of the property and assets of the Corporation,

in each case in which holders of Ordinary Common Stock would be entitled to receive cash, securities or other property for their shares of Ordinary Common Stock (any such event specified in this Section 10(a), a "Reorganization Event"), the outstanding shares of Series B Preferred Stock shall be deemed for the purposes of this Section 10 only to be converted into the number of shares of Ordinary Common Stock equal to the quotient of (x) the Liquidation Preference *plus* an amount per share equal to the accrued but unpaid Dividends not previously added to the Liquidation Preference on such shares of Series B Preferred Stock from and including the immediately preceding Dividend Payment Date to, but excluding the date of conversion and (y) the Base Price for the date of effectiveness of such Reorganization Event and each such share shall, (A) become convertible into securities and other property receivable in such Reorganization Event by and in the same relative amounts as a holder of Ordinary Common Stock other than securities issued or other property distributed by such holder or its Affiliates if such Reorganization Event is entered into with such holder or its Affiliates; provided, however, that if such consideration consists, in whole or in part, of shares of capital stock of, or other equity interests in, the Corporation or any other Person, then the designation and the powers, preferences and relative, participating, optional and other rights and the qualifications, limitations and restrictions of such shares of capital stock or other equity interests may differ only to the extent that the then existing designation and powers, preferences and relative, participating, optional and other rights and the qualifications, limitations and restrictions of the Ordinary Common Stock and Series B Preferred Stock differ as provided in this Certificate of Designation or the Certificate of Designation for the Series B-2 11.5% Preferred Stock (including, without limitation, with respect to the voting rights and conversion provisions thereof) or, at the Corporation's sole discretion, (B) be redeemed by the Corporation for a cash price equal to 105% of the fair value of the consideration that would have otherwise been received under subsection (A), as determined by the Board of Directors acting reasonably and in good faith (such cash, securities and other property, the "Exchange Property").

**(b)** Subject to the restrictions set forth in Section 10(a), in the event that holders of the shares of the Ordinary Common Stock have the opportunity to

elect the form of Exchange Property to be received in such transaction, the Exchange Property that holders of the Series B Preferred Stock shall be entitled to receive shall be determined by the holders of a majority of the outstanding shares of Series B Preferred Stock.

**(c)** Notwithstanding anything in this Certificate of Designation to the contrary, Section 10(a) shall not apply to a merger, consolidation, asset sale, reorganization or statutory share exchange (1) among the Corporation and its direct and indirect Subsidiaries or (2) between the Corporation and any Person for the primary purpose of changing the domicile of the Corporation (an "Internal Reorganization Event") and no such transaction shall be deemed to be a Reorganization Event. Without limiting the rights of the holders of the Series B Preferred Stock set forth in Section 9(c)(1), the Corporation shall not effectuate an Internal Reorganization Event without the consent of the holders of a majority of the outstanding shares of the Series B Preferred Stock unless the Series B Preferred Stock shall be outstanding as a class or series of preferred stock of the surviving entity having the same rights, terms, preferences, liquidation preference and accrued and unpaid Dividends as the Series B Preferred Stock in effect immediately prior to such Internal Reorganization Event, as adjusted for such Internal Reorganization Event pursuant to this Certificate of Designation after giving effect to any such Internal Reorganization Event.

**(d)** The Corporation (or any successor) shall, within 20 days after the occurrence of any Reorganization Event or Internal Reorganization Event, provide written notice to the holders of the Series B Preferred Stock of the occurrence of such event and, in the case of a Reorganization Event, of the kind and amount of the cash, securities or other property that constitutes the Exchange Property. Failure to deliver such notice shall not affect the operation of this Section 10 or the validity of any Reorganization Event or Internal Reorganization Event.

**Section 11. Restrictions**.

**(a)** Notwithstanding anything in this Certificate of Designation to the contrary and unless the Corporation, in its sole discretion, otherwise agrees in writing, Permitted Holders may not Transfer shares of Series B-1 12.75% Preferred Stock if such Transfer would require approvals from or filings with any Regulatory Bodies in order not to adversely affect the Permits or regulatory status of the Corporation or its Subsidiaries, unless such approvals and/or filings have been made and received; provided, however, this Section 11(a) shall not apply to any transfer where the transferee received Ordinary Common Stock pursuant to the terms hereof.

**(b)** Notwithstanding anything in this Certificate of Designation to the contrary and unless the Corporation, in its sole discretion, otherwise agrees in writing, the conversion of Series B-1 12.75% Preferred Stock for Ordinary Common Stock shall also be subject to the requirements of Section 9.2 of the Securities Purchase Agreement.

**(c)** Any purported conversion or Transfer of Series B-1 12.75% Preferred Stock in violation of these restrictions shall be null and void abinitio.

**Section 12. Record Holders**. To the fullest extent permitted by applicable law, the Corporation may deem and treat the record holder of any share of Series B-1 12.75% Preferred Stock as the true and lawful owner thereof for all purposes.

**Section 13. No Standing to Bring Derivative Action.** Notwithstanding any provision of the DGCL, the Rules of the Court of Chancery of the State of Delaware or any other applicable law, rule or regulation which would otherwise confer such standing or empower a holder of Series B-1 12.75% Preferred Stock to take such action, no holder of any share of Series B-1 12.75% Preferred Stock shall have standing to bring an action, suit or proceeding derivatively or otherwise in the right of the Corporation.

**Section 14. Legends.** All certificates representing shares of Series B-1 12.75% Preferred Stock shall bear a legend or other restriction substantially to the following effect (it being agreed that if such shares are not certificated, other appropriate restrictions shall be implemented to give effect to the following):

> "THIS SECURITY WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR AS MAY BE HELD BY A PERSON DEEMED AN "AFFILIATE" (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE ISSUER OF THIS SECURITY, AND THIS SECURITY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) IN A TRANSACTION NOT INVOLVING A PUBLIC OFFERING, (II) PURSUANT TO ANY OTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, INCLUDING RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (III) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR (IV) TO THE COMPANY OR ANY OF ITS SUBSIDIARIES, IN EACH OF CASES (I) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL NOTIFY ANY SUBSEQUENT PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE. THIS SECURITY MAY ONLY BE TRANSFERRED IN ACCORDANCE WITH THE TERMS OF THE CERTIFICATE OF DESIGNATION OF SERIES B-1 CONVERTIBLE PREFERRED STOCK OF USEC INC. (THE "COMPANY"), AS AMENDED.
>
> THIS SECURITY IS SUBJECT TO THE RESTRICTIONS (INCLUDING THE VOTING AND TRANSFER RESTRICTIONS) SET FORTH IN ARTICLES FOURTH AND ELEVENTH OF USEC INC.'S CERTIFICATE OF INCORPORATION, AS AMENDED.
>
> THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE OBLIGATIONS AND RESTRICTIONS (INCLUDING RESTRICTIONS ON TRANSFER, CONVERSION AND REDEMPTION) STATED IN, AND ARE TRANSFERABLE ONLY IN ACCORDANCE WITH, THE PROVISIONS OF SECTION 9 OF THE SECURITIES PURCHASE AGREEMENT BY AND AMONG THE COMPANY, TOSHIBA CORPORATION ("TOSHIBA") AND BABCOCK & WILCOX INVESTMENT COMPANY ("B&W"), DATED AS OF MAY 25, 2010.
>
> THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE OBLIGATIONS AND RESTRICTIONS (INCLUDING RESTRICTIONS ON THE DISPOSITION OF SECURITIES) STATED IN THE PROVISIONS OF SECTION 4.7 OF THE INVESTOR RIGHTS AGREEMENT BY AND AMONG THE COMPANY, TOSHIBA AND B&W, DATED AS OF SEPTEMBER 2, 2010."

**Section 15. Written Consent**. Any action as to which a class vote of the holders of Preferred Stock, or the holders of Preferred Stock and Class B

Common Stock voting together, is required pursuant to the terms of this Certificate of Designation or the Securities Purchase Agreement may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the Corporation.

**Section 16. Notices**. All notices or communications in respect of Series B-1 12.75% Preferred Stock shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designation, in the Certificate of Incorporation or Bylaws or by applicable law or regulation. Notwithstanding the foregoing, if Series B-1 12.75% Preferred Stock is issued in book-entry form through The Depository Trust Corporation or any similar facility, such notices may be given to the holders of Series B-1 12.75% Preferred Stock in any manner permitted by such facility.

**Section 17. Other Rights**. The shares of Series B-1 12.75% Preferred Stock shall not have any rights, preferences, privileges or voting powers or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Certificate of Incorporation or as provided by applicable law and regulation.

[THIS SPACE LEFT BLANK INTENTIONALLY]

**IN WITNESS WHEREOF**, the Corporation has caused this Certificate of Designation to be duly executed and acknowledged by its undersigned duly authorized officers this 2nd day of September, 2010.

**USEC INC.**

By: /s/ John K. Welch
Name: John K. Welch
Title: President and Chief Executive Officer

Attest:

By: /s/ Peter B. Saba
Name: Peter B. Saba
Title: Secretary

**CERTIFICATE OF DESIGNATION OF**

**SERIES C CONVERTIBLE PARTICIPATING PREFERRED STOCK**

**of**

**USEC INC.**

**Pursuant to Section 151 of the General Corporation Law**

**of the State of Delaware**

We, John K. Welch, President and Chief Executive Officer, and Peter B. Saba, Secretary, of USEC Inc., a corporation organized and existing under the General Corporation Law ("DGCL") of the State of Delaware (the "Corporation"), in accordance with the provisions of Section 103 thereof, DO HEREBY CERTIFY:

That pursuant to the authority conferred upon the Board of Directors by the Certificate of Incorporation, the Board of Directors on May 24, 2010 adopted the following resolution creating a series of 25,000 shares of Preferred Stock, par value $1.00 per share, designated as Series C Convertible Participating Preferred Stock:

> RESOLVED, that pursuant to the authority vested in the Board of Directors in accordance with the provisions of its Certificate of Incorporation, a series of Preferred Stock of the Corporation be and it hereby is created, and that the designation and amount thereof and the powers, preferences and relative, participating, optional and other rights of the shares of such series, and the qualifications, limitations and restrictions thereof are as follows:

**Section 1. Designation**. The designation of this series of Preferred Stock, par value $1.00 per share, of the Corporation is "Series C Convertible Participating Preferred Stock" ("Series C Preferred Stock"). Each share of Series C Preferred Stock shall be identical in all respects to every other share of Series C Preferred Stock.

**Section 2. Number of Shares**. The authorized number of shares of Series C Preferred Stock is 25,000. Shares of Series C Preferred Stock that are redeemed, purchased or otherwise acquired by the Corporation, or converted into another series of Preferred Stock or into Common Stock, shall revert to authorized but unissued shares of Preferred Stock and shall not be reissued as shares of Series C Preferred Stock.

**Section 3. Definitions**. As used herein with respect to Series C Preferred Stock:

**(a)** "Affiliate" shall mean any Person controlling, controlled by or under common control with any other Person. For purposes of this definition, "control" (including "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of securities, partnership or other ownership interests, by contract or otherwise.

**(b)** "Aggregate Outstanding Value" shall mean, at any time and from time to time and subject to the Automatic Redemption Adjustment, if any, (1) the Original Issue Value of all of the outstanding shares of Series B Preferred Stock, *plus*, (2) for each share of Series C Preferred Stock then held by the Permitted Holders, excluding those shares of Series C Preferred Stock issued upon exercise of the Warrants, the Base Price (as defined in the Series B-1 Certificate of Designation) upon which the Permitted Holders' acquisition of such share was calculated, *plus*, (3) for each share of Common Stock then held by the Permitted Holders, excluding those shares of Class B Common Stock issued upon exercise of the Warrants or Ordinary Common Stock purchased in the market, the Base Price upon which the Permitted Holders' acquisition of such share was calculated, *plus* (4) the aggregate amount of accrued and unpaid Dividends on outstanding shares of Series B Preferred Stock which have been added to the Liquidation Preference pursuant to Section 5(a).

**(c)** "Approved Market" shall mean, if the Ordinary Common Stock is then listed or quoted on the New York Stock Exchange, The NASDAQ Stock Market or the American Stock Exchange, such market or exchange.

**(d)** "Automatic Redemption" shall mean an automatic redemption pursuant to Section 7(g) of the Series B-1 Certificate of Designation subsequent to a Conversion Election (as defined in the Series B-1 Certificate of Designation), Section 8(c) of the Series B-1 Certificate of Designation or Section 8(c) of the Series B-2 Certificate of Designation.

**(e)** "Automatic Redemption Adjustment" shall mean, for purposes of determining the Aggregate Outstanding Value, the Permitted Holder Outstanding Value, the Original Issue Value and the Permitted Holder Original Issue Value, that if an Automatic Redemption has been effected prior to the date of determining such values, (1) the aggregate amount of the Liquidation Preference, as of the date of redemption, of a Permitted Holder's Series B Preferred Stock (excluding shares issued as a Dividend) redeemed in connection with the Automatic Redemption shall be added to such Permitted Holder's Aggregate Outstanding Value and Permitted Holder Outstanding Value and (2) the aggregate amount of the Liquidation Preference, as of the date of redemption, of such Permitted Holder's Series B Preferred Stock (excluding shares issued as a Dividend) redeemed in connection with the Automatic Redemption shall be added to such Permitted Holder's Original Issue Value and Permitted Holder Original Issue Value; provided, however, that, if at any time after any Automatic Redemption, such Permitted Holder's Deemed Holder Percentage is less than 8%, then such adjustment to the Aggregate Outstanding Value, the Permitted Holder Outstanding Value, the Original Issue Value and the Permitted Holder Original Issue Value shall not be made.

**(f)** "B&W" shall mean Babcock & Wilcox Investment Company, a Delaware corporation.

**(g)** "Beneficially Own" shall mean "beneficially own" as defined in Rule 13d-3 promulgated under Section 13(d) of the Exchange Act or any successor provisions thereto, and "Beneficial Ownership" shall have a correlative meaning.

**(h)** "Board of Directors" shall mean the board of directors of the Corporation or any duly authorized committee thereof.

**(i)** "Bylaws" shall mean the Amended and Restated Bylaws of the Corporation, as amended from time to time.

**(j)** "Certificate of Designation" shall mean this Certificate of Designation of Series C Convertible Participating Preferred Stock of the Corporation, as amended from time to time.

**(k)** "Certificate of Incorporation" shall mean the Certificate of Incorporation of the Corporation, as amended from time to time.

**(l)** "Change of Control" shall mean the occurrence of any of the following:

**(1)** any Person shall Beneficially Own, directly or indirectly, through a merger, business combination, purchase, or other transaction or series of transactions, shares of the Corporation's capital stock entitling such Person at such time to exercise 50% or more of the total voting power of the issued and outstanding capital stock having ordinary voting power to elect a majority of the Board of Directors, other than as a result of an acquisition of such stock by the Corporation, any of the Corporation's Subsidiaries or any of the Corporation's employee benefit plans (for purposes of this subsection (1), "Person" shall include any syndicate or group that would be deemed to be a "person" under Section 13(d)(3) of the Exchange Act);

**(2)** the Corporation (A) merges or consolidates with or into any other Person, another Person merges with or into the Corporation, or the Corporation conveys, sells, transfers or leases all or substantially all of the Corporation's assets to another Person or (B) engages in any recapitalization, reclassification or other transaction in which all or substantially all of the Common Stock is exchanged for or converted into cash, securities or other property, in each case other than a merger or consolidation:

**(i)** that does not result in a reclassification, conversion, exchange or cancellation of the Corporation's outstanding Common Stock;

**(ii)** that is effected solely to change the Corporation's jurisdiction of incorporation and results in a reclassification, conversion or exchange of outstanding shares of the Common Stock solely into shares of any class or series of common stock of the surviving entity; or

**(iii)** where the issued and outstanding capital stock having ordinary voting power to vote generally to elect a majority of the Board of Directors outstanding immediately prior to such transaction is converted into or exchanged for such voting stock of the surviving or transferee Person constituting a majority of the outstanding shares of such voting stock of such surviving or transferee Person (immediately after giving effect to such issuance).

**(m)** "Charter Amendment Approval" shall mean the approval of the stockholders of the Corporation necessary to amend the Corporation's Certificate of Incorporation to approve the authorization of Class B Common Stock and the proper filing of such amendment with the Secretary of State of the State of Delaware.

**(n)** "Class B Common Stock" shall mean the Class B Common Stock of the Corporation, par value $.10 per share, to be authorized by the Charter Amendment Approval.

**(o)** "Closing Deadline Failure" shall mean, unless waived in writing (1) by the Corporation if such Closing Deadline Failure is as a result of breach by a Permitted Holder, (2) by the Permitted Holders if such Closing Deadline Failure is as a result of breach by the Corporation, or (3) by the Permitted Holders and the Corporation if such Closing Deadline Failure is not as a result of a breach by the Permitted Holders or the Corporation, either, (A) with respect to the Second Closing (as defined in the Securities Purchase Agreement), that the Second Closing shall not have occurred by June 30, 2011 and the Securities Purchase Agreement shall have been terminated pursuant to Section 10.2 thereof, or (B) with respect to the Third Closing (as defined in the Securities Purchase Agreement), that the Third Closing shall not have occurred by the Third Closing Termination Date (as defined in the Securities Purchase Agreement) and the Securities Purchase Agreement shall have been terminated pursuant to Section 10.3 thereof.

**(p)** "Code" shall mean the Internal Revenue Code of 1986, as amended, as now or hereafter in effect, together with all regulations, rulings and interpretations thereof or thereunder by the Internal Revenue Service.

**(q)** "Common Stock" shall mean collectively, the Ordinary Common Stock and the Class B Common Stock.

**(r)** "Converted Series C Preferred Stock" shall have the meaning ascribed to it in Section 10(b).

**(s)** "Corporation" shall have the meaning ascribed to it in the recitals.

**(t)** "Deemed Holder Percentage" shall mean, as to any Permitted Holder, the percentage resulting from the following calculation, (1)(A) the number of shares of Ordinary Common Stock equal to the quotient of (w) the Liquidation Preference *plus* an amount per share equal to the accrued but unpaid Dividends not previously added to the Liquidation Preference on the outstanding shares of Series B Preferred Stock held by such Permitted Holder from and including the immediately preceding Dividend Payment Date (as defined in the Series B-1 Certificate of Designation or the Series B-2 Certificate of Designation, as applicable) to, but excluding, the date of conversion and (x) the Base Price for the date of such calculation, *plus* (B) the number of outstanding of shares of (y) Series C Preferred Stock multiplied by 1000 *plus*, (z) if then outstanding, Class B Common Stock, in each case held by such Permitted Holder divided by (2)(A) the total number of shares of Ordinary Common Stock equal to the quotient of (v) the Liquidation Preference *plus* an amount per share equal to the accrued but unpaid Dividends not previously added to the Liquidation Preference on all outstanding shares of Series B Preferred Stock from and including the immediately preceding Dividend Payment Date (as defined in the Series B-1 Certificate of Designation) to, but excluding, the date of conversion and (w) the Base Price for the date of such calculation, *plus* (B) the total number of all outstanding shares of (x) Series C Preferred Stock multiplied by 1000 *plus* (y) if then outstanding, Class B Common Stock, *plus* (z) Ordinary Common Stock.

**(u)** "DGCL" shall have the meaning ascribed to it in the recitals.

**(v)** "Dividend" shall have the meaning ascribed to it in the Series B-1 Certificate of Designation or the Series B-2 Certificate of Designation, as applicable.

**(w)** "DOE" shall mean the United States Department of Energy.

**(x)** "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

**(y)** "Governmental Authority" shall mean any foreign governmental authority, the United States of America, any state of the United States and any political subdivision of any of the foregoing, and any agency, instrumentality, department, commission, board, bureau, central bank, authority, court, arbitral body or other tribunal, in each case whether executive, legislative, judicial, regulatory or administrative, having jurisdiction over any of the Permitted Holders, the Corporation, any of the Corporation's Subsidiaries or their respective Property.

**(z)** "Initial Investor Director" shall have the meaning ascribed to it in Section 5(b)(1) hereof.

**(aa)** "Initial Liquidation Preference" shall mean $1,000 per share of each of Series B-1 12.75% Preferred Stock and Series B-2 11.5% Preferred Stock.

**(bb)** "Investor Director" shall have the meaning ascribed to it in Section 5(b)(2).

**(cc)** "Investor Rights Agreement" shall mean that certain Investor Rights Agreement, dated as of September 2, 2010 among the Corporation, Toshiba and B&W, as amended from time to time.

**(dd)** "Junior Stock" shall mean the Common Stock and any other class or series of capital stock of the Corporation that ranks junior to the Series C Preferred Stock (1) as to the priority of payment of dividends and/or (2) as to the distribution of assets on any liquidation, dissolution or winding up of the Corporation. For the avoidance of doubt, Junior Stock shall include the series of Preferred Stock of the Corporation, par value $1.00 per share, designated as "Series A Junior Participating Preferred Stock."

**(ee)** "Liquidation Preference" shall mean $.01 per share of Series C Preferred Stock.

**(ff)** "Ordinary Common Stock" shall mean the common stock of the Corporation, par value $.10 per share. For the avoidance of doubt, the Ordinary Common Stock shall not include the Class B Common Stock.

**(gg)** "Original Issuance Date" shall mean, with respect to each share of Series C Preferred Stock issued to the Permitted Holders, the date on which such share was issued by the Corporation.

**(hh)** "Original Issue Value" shall mean, subject to the Automatic Redemption Adjustment, if any, the aggregate Initial Liquidation Preference of all the shares of Series B Preferred Stock issued to the Permitted Holders excluding those shares issued as a Dividend.

**(ii)** "Parity Stock" shall mean any class or series of stock of the Corporation that ranks equally with Series C Preferred Stock (1) in the priority of payment of dividends and/or (2) in the distribution of assets upon any liquidation, dissolution or winding up of the Corporation (in each case, without regard to whether dividends accrue cumulatively or non-cumulatively).

**(jj)** "Permit" shall mean any approval, authorization, certificate, consent, license or permit of or from any Governmental Authority.

**(kk)** "Permitted Holder Material Breach" shall mean the material breach of the Securities Purchase Agreement or the Investor Rights Agreement by any Permitted Holder.

**(ll)** "Permitted Holder Original Issue Value" shall mean, subject to the Automatic Redemption Adjustment, if any, for any Permitted Holder, the aggregate Initial Liquidation Preference of all shares of Series B Preferred Stock issued to such Permitted Holder excluding those shares issued as a Dividend and those shares acquired upon exercise of the Warrants.

**(mm)** "Permitted Holder Outstanding Value" shall mean, as to any Permitted Holder, at any time and from time to time and subject to the Automatic Redemption Adjustment, if any, (1) the Original Issue Value of all of the outstanding shares of Series B Preferred Stock then held by such Permitted Holder, *plus*, (2) for each share of Series C Preferred Stock then held by a Permitted Holder, excluding those shares of Series C Preferred Stock issued upon exercise of the Warrants, the Base Price upon which such Permitted Holder's acquisition of such share was calculated, *plus*, (3) for each share of Common Stock then held by such Permitted Holder, excluding those shares of Class B Common Stock issued upon exercise of the Warrants or Ordinary Common Stock purchased in the market, the Base Price (as defined in the Series B-1 Certificate of Designation) upon which such Permitted Holder's acquisition of such share was calculated, *plus*, (4) the aggregate amount of accrued and unpaid Dividends on outstanding shares of Series B Preferred Stock which have been added to the Liquidation Preference pursuant to Section 5(a) of the Series B-1 Certificate of Designation or Series B-2 Certificate of Designation, as applicable.

**(nn)** "Permitted Holders" shall mean (1) Toshiba America or any other Wholly-Owned Affiliates of Toshiba, (2) B&W and its Wholly-Owned Affiliates, (3) a special purpose entity jointly and wholly controlled by Toshiba and B&W and (4) Westinghouse Electric Company, LLC, to the extent that it is controlled by Toshiba or a Permitted Holder described under (1) above; provided, however, that each Permitted Holder must be a U.S. Person.

**(oo)** "Person" shall mean any individual, corporation, company, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization, Governmental Authority or any other entity.

**(pp)** "Preferred Stock" shall mean any and all series of preferred stock, par value $1.00 per share, of the Corporation, including the Series C Preferred Stock.

**(qq)** "Property" shall mean any interest in any kind of property or asset, whether real, personal or mixed, tangible or intangible.

**(rr)** "Qualified Director" shall mean any individual reasonably acceptable to the Nominating and Governance Committee of the Board of Directors.

**(ss)** "Regulatory Bodies" shall mean the DOE and the U.S. Nuclear Regulatory Commission and any successor Governmental Authorities thereto.

**(tt)** "Securities Purchase Agreement" shall mean that certain Securities Purchase Agreement, dated as of May 25, 2010, among the Corporation, Toshiba and B&W, as amended from time to time.

**(uu)** "Senior Stock" shall mean any class or series of capital stock of the Corporation that ranks senior to the Series C Preferred Stock (1) as to the priority of dividends and/or (2) as to the distribution of assets on any liquidation, dissolution or winding up of the Corporation. For the avoidance of doubt, Senior Stock shall include the Series B Preferred Stock.

**(vv)** "Series B Preferred Stock" shall mean the Series B-1 12.75% Preferred Stock together with the Series B-2 11.5% Preferred Stock.

**(ww)** "Series B-1 12.75 % Preferred Stock" shall mean the series of Preferred Stock of the Corporation, par value $1.00 per share, designated as "Series B-1 12.75% Convertible Preferred Stock."

**(xx)** "Series B-1 Certificate of Designation" shall mean that certain Certificate of Designation of Series B-1 12.75% Convertible Preferred Stock of the Corporation as filed with the Secretary of State of the State of Delaware.

**(yy)** "Series B-2 11.5% Preferred Stock" shall mean the series of preferred stock of the Corporation, par value $1.00 per share, designated as "Series B-2 11.5% Convertible Preferred Stock."

**(zz)** "Series B-2 Certificate of Designation" shall mean that certain Certificate of Designation of Series B-2 11.5% Convertible Preferred Stock of the Corporation as filed with the Secretary of State of the State of Delaware.

**(aaa)** "Series C Preferred Stock" shall have the meaning ascribed to it in Section 1.

**(bbb)** "Series C Preferred Stock Automatic Conversion Time" shall have the meaning ascribed to it in Section 10(b).

**(ccc)** "Share Issuance Approval" shall mean the approval of the stockholders of the Corporation necessary to approve the conversion of all the Series B Preferred Stock and the Series C Preferred Stock, and the exercise of all the Warrants, for Common Stock for purposes of Section 312.03 of the New York Stock Exchange Listed Company Manual, or if shares of the Ordinary Common Stock become listed and traded on another Approved Market, the approval required by such Approved Market, or the time at which all such approvals shall for any reason become inapplicable or not required so as to permit all such conversions and exercises.

**(ddd)** "Subsidiary" of any Person shall mean any corporation, partnership, joint venture, limited liability company, trust or estate of which (or in which) more than 50% of (1) the issued and outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (2) the interest in the capital or profits of such partnership, joint venture or limited liability company or (3) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person's other Subsidiaries. Notwithstanding the foregoing, American Centrifuge Manufacturing, LLC, a Delaware limited liability company, shall not be considered a Subsidiary of B&W or the Corporation.

**(eee)** "Third Party Transfer" shall mean an irrevocable Transfer in compliance with Section 11 of all legal ownership, Voting Control and Beneficial Ownership of any share or shares of Series C Preferred Stock to a Person other than a Permitted Holder or its Affiliates.

**(fff)** "Toshiba" shall mean Toshiba Corporation, a corporation organized under the laws of Japan.

**(ggg)** "Toshiba America" shall mean Toshiba America Nuclear Energy Corporation, a Delaware corporation.

**(hhh)** "Transfer" shall mean, with respect to any shares of Series C Preferred Stock, any direct or indirect assignment, sale, exchange, transfer, tender or other disposition of such shares or any interest therein, whether voluntary or involuntary, by operation of law or otherwise (and includes any sale or other disposition in any one transaction or series of transactions and the grant or transfer of an option or derivative security covering such shares), and any agreement, arrangement or understanding, whether or not in writing, to effect any of the foregoing; provided, however, that a "Transfer" shall not occur simply as a result of the grant of a proxy in connection with a solicitation of proxies subject to the provisions of Section 14 of the Exchange Act.

**(iii)** "U.S. Person" shall mean any person that is treated as a "United States Person" under Code Section 7701(a)(30) and that provides an IRS Form W-9 (or successor form), evidencing a complete exemption from United States withholding tax (including backup withholding tax), on or before the time at which it acquires securities pursuant to this Certificate of Designation.

**(jjj)** "Voting Control" shall mean, with respect to a share or shares of Series C Preferred Stock, the power, whether exclusive or shared, revocable or irrevocable, to vote or direct the voting of such share or shares of Series C Preferred Stock, by proxy, voting agreement or otherwise.

**(kkk)** "Warrants" shall mean those warrants to purchase Class B Common Stock or Series C Preferred Stock originally issued by the Corporation to the Permitted Holders pursuant to the Securities Purchase Agreement.

**(lll)** "Wholly-Owned Affiliate" shall mean, as to any Person, any Affiliate that, directly or indirectly, is wholly-owned and controlled (other than by contract) by a Person, or any other Affiliate to which the Corporation, in its sole discretion, consents.

**Section 4. Titles and Subtitles; Interpretation**. The titles and subtitles used in this Certificate of Designation are used for convenience only and are not to be considered in construing or interpreting this Certificate of Designation. The definitions contained in this Certificate of Designation are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term.

**Section 5. Voting Rights**.

**(a) General.** The holders of shares of Series C Preferred Stock shall not be entitled to vote, except as otherwise provided herein or required by applicable law. On any matter as to which the shares of Series C Preferred Stock shall be entitled to vote, each share shall entitle the holder thereof to 1,000 votes. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series C Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

**(b) Election of Directors.**

**(1)** Effective at the time no Series B Preferred Stock shall be outstanding, the number of directors constituting the Board of Directors shall be increased by two Persons and the holders of a majority of the voting power of the outstanding Class B Common Stock and Series C Preferred Stock, voting together as a separate class to the exclusion of the holders of any other Common Stock and any other series of Preferred Stock, shall be entitled to elect two Qualified Directors to the Board of Directors (each such director, an "Initial Investor Director") until the earliest to occur of (i) a Closing Deadline Failure as a result of a Permitted Holder Material Breach at a time when the Securities Purchase Agreement is terminable pursuant to Sections 10.2(d) and 10.3(d) thereof, (ii) a Change of Control or (iii) such time as the Permitted Holders' Aggregate Outstanding Value is equal to or less than (x) prior to or on December 31, 2016, 75% of the Original Issue Value or, (y) after December 31, 2016, 50% of the Original Issue Value, whereupon at any such time (A) the right of the holders of a majority of the voting power of the outstanding Series B Preferred Stock to elect the Initial Investor Directors shall cease, (B) the term of office of the Initial Investor Directors shall immediately and automatically terminate, (C) the Initial Investor Directors will no longer be qualified to serve and (D) the number of directors constituting the Board of Directors shall be immediately and automatically reduced by two Persons.

**(2)** Effective as of the first Original Issuance Date and at such time as when the Permitted Holders do not have the right to elect the Initial Investor Directors pursuant to Section 5(b)(1)(iii) and any Permitted Holder's Permitted Holder Outstanding Value is greater than (x) prior to or on December 31, 2016, 75% of such Permitted Holder's Permitted Holder Original Issue Value or (y) after December 31, 2016, 50% of such Permitted Holder's Permitted Holder Original Issue Value, the number of directors constituting the Board of Directors shall be increased by one Person and the holders of a majority of the voting power of the outstanding Class B Common Stock and Series C Preferred Stock, voting together as a separate class to the exclusion of the holders of Ordinary Common Stock and any other series of Preferred Stock, shall be entitled to elect one Qualified Director to the Board of Directors (such director, the "Investor Director") until the earliest to occur of (i) an event described in Section 5(b)(1)(i) or (ii) or (ii) such time as each Permitted Holder's Permitted Holder Outstanding Value is equal to or less than (x) prior to or on December 31, 2016, 75% of such Permitted Holder's Permitted Holder Original Issue Value or (y) after December 31, 2016, 50% of such Permitted Holder's Permitted Holder Original Issue Value, whereupon at any such time (A) the right of the holders of a majority of the voting power of the outstanding Class B Common Stock and Series C Preferred Stock to elect the Investor Director shall cease, (B) the term of office of the Investor Director shall immediately and automatically terminate, (C) the Investor Director will no longer be qualified to serve and (D) the number of directors constituting the Board of Directors shall be immediately and automatically reduced by one Person.

**(3)** For the avoidance of doubt, except for the increase or decrease in the number of directors provided for herein, nothing in this Section 5(b) shall prohibit the Board of Directors from fixing the number of directors constituting the Board of Directors pursuant to the Bylaws.

**(4) Term.** Subject to the provisions of this Section 5(b), each Initial Investor Director or the Investor Director, as applicable, shall serve until the next annual meeting of the stockholders of the Corporation and until his or her successor is elected and qualified in accordance with this Section 5(b) and the Bylaws, unless any such Initial Investor Director or the Investor Director, as applicable, is earlier removed in accordance with the Bylaws, resigns or is otherwise unable to serve; provided, however, that only the holders of a majority of the voting power of the outstanding Class B Common Stock and the Series C Preferred Stock may remove any such Initial Investor Director or the Investor Director, as applicable, without cause at any time, and the holders of a majority of the voting power of the outstanding shares of the capital stock of the Corporation entitled to vote on the matter may remove any such Initial Investor Director or the Investor Director, as applicable, with cause at any time. Subject to the provisions of this Section 5(b), in the event any Initial Investor Director or the Investor Director, as applicable, is removed, resigns or is unable to serve as a member of the Board of Directors, the holders of a majority of the voting power of the outstanding Class B Common Stock and Series C Preferred Stock, voting together as a separate class to the exclusion of the holders of any other Common Stock and any other series of Preferred Stock, shall have the right to fill such vacancy. Each Initial Investor Director or the Investor Director, as applicable, may only be elected to the Board of Directors by the holders of the Class B Common Stock and Series C Preferred Stock in accordance with this Section 5(b), and each such Initial Investor Director's or the Investor Director's seat, as applicable, shall otherwise remain vacant.

**(d)** Notwithstanding Section 5(a), the holders of Series C Preferred Stock and Class B Common Stock shall be entitled to vote together with the holders of Common Stock (and any other class or series of capital stock entitled to vote on the matter with the Common Stock) as a single class with respect to any transactions involving a merger of the Corporation or sale of substantially all of the Corporation's assets, which must be submitted to the Corporation's stockholders pursuant to the DGCL; provided, however, that each holder of Class B Common Stock shall be entitled to (A) one vote for each outstanding share of Class B Common Stock held of record by such holder as of the applicable record date, but only to the extent that the aggregate voting power of all of the outstanding Series C Preferred Stock and Class B Common Stock does not exceed 20% of the total voting power of all outstanding shares of all classes and series of capital stock entitled to vote thereon or (B) if pursuant to clause (A) the aggregate voting power of all of the outstanding Series C Preferred Stock and Class B Common Stock would exceed 20% of the total voting power of all outstanding shares of all classes and series of capital stock entitled to vote on the matter, such fraction of one vote for (i) each one-one thousandth (1/1000) of a share of Series C Preferred Stock and (ii) each share of Class B Common Stock held of record by such holder as of the applicable record date such that the aggregate voting power of all of the outstanding Series C Preferred Stock and Class B Common Stock equaled 20% of the total voting power of all outstanding shares of all classes and series of capital stock entitled to vote thereon.

**(e)** Notwithstanding Section 5(a), the vote or consent of the holders of at least a majority of the outstanding shares of Series C Preferred Stock, voting together as a separate class to the exclusion of the holders of the Common Stock and any other series of Preferred Stock then outstanding and entitled to vote thereon, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating any amendment, alteration or repeal of the Certificate of Incorporation or this Certificate of Designation (by merger, consolidation or otherwise) so as to adversely affect the powers, preferences and relative participating, optional and other rights of Series C Preferred Stock.

**Section 6. Dividends and Distributions**. Subject to applicable law and the rights, if any, of the holders of any Senior Stock, the holders of Series C Preferred Stock then outstanding shall first receive, or simultaneously receive, a dividend on each outstanding share of Series C Preferred Stock in an amount equal to the product of (a) the aggregate per share amount of all dividends declared and paid on the Ordinary Common Stock out of the assets of the Corporation that are by law available therefor at such times and in such amounts as the Board of Directors in its discretion shall determine and (b) 1000. Except as otherwise required by the DGCL and Section 7(a), in any circumstance where the Corporation may declare dividends or otherwise make distributions (including, without limitation, any distribution on liquidation, dissolution or winding-up of the Corporation) on the Common Stock, the Corporation shall declare the same per share dividends or make the same per share distributions, as the case may be, on the Series C Preferred Stock; provided, however, that if any such dividends or distributions are declared with respect to the Common Stock in the form of additional shares of Common Stock (or rights to acquire Common Stock), such dividends or distributions shall be made with respect to the Series C Preferred Stock in the form of an equivalent number of shares of Series C Preferred Stock (or rights to acquire Series C Preferred Stock) and if any such dividends or distributions are declared with respect to Series C Preferred Stock in the form of additional shares of Series C Preferred Stock (or rights to acquire Series C Preferred Stock), such dividends or distributions shall be made with respect to the Common Stock in the form of an equivalent number of shares of Common Stock (or rights to acquire Ordinary Common Stock).

**Section 7. Liquidation Rights**.

**(a) Voluntary or Involuntary Liquidation**. Subject to the rights of the holders of any Senior Stock outstanding at any time, in the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, holders of the Series C Preferred Stock shall be entitled to receive for each outstanding share of Series C Preferred Stock, out of the assets of the Corporation or proceeds thereof available for distribution to stockholders of the Corporation, and after satisfaction of all liabilities and obligations to creditors of the Corporation, before any distribution of such assets or proceeds is made to or set aside for the holders of Junior Stock, an amount equal to the per share amount of all cash and other property to be distributed in respect of the Common Stock into which the Series C Preferred Stock is then convertible.

**(b) Partial Payment**. If, in connection with any distribution described in Section 7(a) above, the assets of the Corporation or proceeds thereof are not sufficient to pay the Liquidation Preferences, *plus* an amount equal to any dividends declared but unpaid thereon, in full to all holders of Series C Preferred Stock and all holders of Parity Stock, then the amounts paid to the holders of Series C Preferred Stock and to the holders of all such other capital stock ranking equally on liquidation shall be paid pro rata in accordance with the respective aggregate Liquidation Preferences, *plus* any dividends declared but unpaid thereon, of the holders of Series C Preferred Stock and the holders of all such other Parity Stock.

**(c) Merger, Consolidation and Sale of Assets Not Liquidation**. For purposes of this Section 7, the merger or consolidation of the Corporation with any other corporation or other Person, including a merger or consolidation in which the holders of Series C Preferred Stock receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Corporation, shall not constitute a liquidation, dissolution or winding up of the Corporation, but shall instead be subject to the provisions of Section 9.

**Section 8. Subdivision or Combination**. If the Corporation in any manner subdivides or combines the outstanding shares of any of the Ordinary Common Stock, Class B Common Stock or Series C Preferred Stock, then the outstanding shares of the Ordinary Common Stock, Class B Common Stock or Series C Preferred Stock, as applicable, will be subdivided or combined in the same manner.

**Section 9. Equal Status**. Except as expressly provided in this Certificate of Designation, shares of Ordinary Common Stock and Series C Preferred Stock shall have the same rights, powers, preferences and restrictions and rank equally, share ratably and be identical in all respect as to all matters. In any merger, consolidation, reorganization or other business combination, the consideration received per share by the holders of the Ordinary Common Stock and per 1/1000 of a share of Series C Preferred Stock in such merger, consolidation, reorganization or other business combination shall be identical; provided, however, that if such consideration consists, in whole or in part, of shares of capital stock of, or other equity interests in, the Corporation or any other corporation, partnership, limited liability company or other entity, then the designation and the powers, preferences and relative, participating, optional and other rights and the qualifications, limitations and restrictions of such shares of capital stock or other equity interests may differ to the extent that the designation and the powers, preferences and relative, participating, optional and other rights and the qualifications, limitations and restrictions of the Ordinary Common Stock and the Series C Preferred Stock differ as provided herein or in the Certificate of Incorporation (including, without limitation, with respect to the voting rights and conversion provisions hereof) if and to the extent necessary due to regulatory requirements or restrictions applicable to the entity surviving such merger, consolidation, reorganization or other business combination that are similar in nature to those applicable to the Corporation; and provided, further, that if the holders of the Ordinary Common Stock or Series C Preferred Stock are granted the right to elect to receive one of two or more alternative forms of consideration, the foregoing provision shall be deemed satisfied if holders of the other class or series are granted identical election rights, subject to the preceding proviso.

**Section 10. Automatic Conversion**.

**(a)** Subject to Section 11, a share of the Series C Preferred Stock shall be automatically converted, without any action on the part of the Corporation (other than the subsequent exchange of Series C Preferred Stock certificates for Ordinary Common Stock certificates or, in the case of uncertificated shares of Series C Preferred Stock, upon receipt of proper transfer instructions from the registered holder of the shares of Series C Preferred Stock or by his, her or its attorney lawfully constituted in writing, and upon payment of all necessary transfer taxes and compliance with appropriate procedures for transferring shares in uncertificated form), or any holder of the Series C Preferred Stock or any other Person, into 1000 fully paid and nonassessable shares of Ordinary Common Stock upon a Third Party Transfer of such share.

**(b)** In the event of any automatic conversion pursuant to the terms of Section 10(a), the conversion shall be deemed to have been effected upon such Third-Party Transfer (the "Series C Preferred Stock Automatic Conversion Time"). At the Series C Preferred Stock Automatic Conversion Time, the certificate or certificates that represented the shares of Series C Preferred Stock that were so converted immediately prior to such conversion (the "Converted Series C Preferred Stock") shall, automatically and without further action, represent 1000 fully paid and non-assessable shares of Ordinary Common Stock per share of Series C Preferred Stock. Permitted Holders of the Converted Series C Preferred Stock shall deliver their certificates, duly endorsed in blank or accompanied by proper instruments of transfer, in form reasonably satisfactory to the Corporation, duly executed by such Permitted Holder or such Permitted Holder's authorized attorney to the principal office of the Corporation (or such other office or agency (including the transfer agent, if applicable) of the Corporation as it may designate by notice in writing to the registered Permitted Holder at the address of such Permitted Holder appearing on the books of the Corporation), together with a written notice stating the name or names (with addresses) and denominations in which the certificate or certificates representing such shares of Ordinary Common Stock are to be issued and including instructions for delivery thereof. Upon such delivery, the Corporation or its agent shall promptly issue and deliver at such stated address to such holder of shares of Ordinary Common Stock a certificate or certificates representing the number of shares of Ordinary Common Stock to which such holder is entitled by reason of such conversion, and shall cause such shares of Ordinary Common Stock to be registered in the name of such holder. The Person entitled to receive the shares of Ordinary Common Stock issuable upon such conversion shall be treated for all purposes as the record holder of such shares of Ordinary Common Stock at and as of the Series C Preferred Stock Automatic Conversion Time, and the rights of such Person as a holder of shares of the Series C Preferred Stock that have been converted shall cease and terminate at and as of the Series C Preferred Stock Automatic Conversion Time, in each case without regard to any failure by such Permitted Holder to deliver the certificates or the notice required by this Section.

**Section 11. Restrictions**.

**(a)** Notwithstanding anything in this Certificate of Designation to the contrary and unless the Corporation, in its sole discretion, otherwise agrees in writing, Permitted Holders may not Transfer shares of Series C Preferred Stock if such Transfer would require approvals from or filings with any Regulatory Bodies in order not to adversely affect the Permits or regulatory status of the Corporation or its Subsidiaries, unless such approvals and/or filings have been made and received; provided, however, this Section 11(a) shall not apply to any transfer where the transferee received Ordinary Common Stock pursuant to the terms hereof.

**(b)** Notwithstanding anything in this Certificate of Designation to the contrary and unless the Corporation, in its sole discretion, otherwise agrees in writing, the conversion of Series C Preferred Stock for Ordinary Common Stock shall also be subject to the requirements of Section 9.2 of the Securities

Purchase Agreement.

**(c)** Any purported conversion or Transfer of Series C Preferred Stock in violation of these restrictions shall be null and void ab initio.

**Section 12. Record Holders**. To the fullest extent permitted by applicable law, the Corporation may deem and treat the record holder of any share of the Series C Preferred Stock as the true and lawful owner thereof for all purposes.

**Section 13. Legends.** All certificates representing shares of Series C Preferred Stock shall bear a legend or other restriction substantially to the following effect (it being agreed that if such shares are not certificated, other appropriate restrictions shall be implemented to give effect to the following):

> "THIS SECURITY WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR AS MAY BE HELD BY A PERSON DEEMED AN "AFFILIATE" (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE ISSUER OF THIS SECURITY, AND THIS SECURITY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) IN A TRANSACTION NOT INVOLVING A PUBLIC OFFERING, (II) PURSUANT TO ANY OTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, INCLUDING RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (III) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR (IV) TO THE COMPANY OR ANY OF ITS SUBSIDIARIES, IN EACH OF CASES (I) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL NOTIFY ANY SUBSEQUENT PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE. THIS SECURITY MAY ONLY BE TRANSFERRED IN ACCORDANCE WITH THE TERMS OF THE CERTIFICATE OF DESIGNATION OF SERIES C CONVERTIBLE PARTICIPATING PREFERRED STOCK OF USEC INC. (THE "COMPANY"), AS AMENDED.
>
> THIS SECURITY IS SUBJECT TO THE RESTRICTIONS (INCLUDING THE VOTING AND TRANSFER RESTRICTIONS) SET FORTH IN ARTICLES FOURTH AND ELEVENTH OF USEC INC.'S CERTIFICATE OF INCORPORATION, AS AMENDED.
>
> THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE OBLIGATIONS AND RESTRICTIONS (INCLUDING RESTRICTIONS ON TRANSFER, CONVERSION AND REDEMPTION) STATED IN, AND ARE TRANSFERABLE ONLY IN ACCORDANCE WITH, THE PROVISIONS OF SECTION 9 OF THE SECURITIES PURCHASE AGREEMENT BY AND AMONG THE COMPANY, TOSHIBA CORPORATION ("TOSHIBA") AND BABCOCK & WILCOX INVESTMENT COMPANY ("B&W"), DATED AS OF MAY 25, 2010.
>
> THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE OBLIGATIONS AND RESTRICTIONS (INCLUDING RESTRICTIONS ON THE DISPOSITION OF SECURITIES) STATED IN THE PROVISIONS OF SECTION 4.7 OF THE INVESTOR RIGHTS AGREEMENT BY AND AMONG THE COMPANY, TOSHIBA AND B&W, DATED AS OF SEPTEMBER 2, 2010."

**Section 14. Written Consent**. Any action as to which a class vote of the holders of Series C Preferred Stock, or the holders of Series C Preferred Stock and Class B Common Stock voting together, is required pursuant to the terms of this Certificate of Designation or the Securities Purchase Agreement may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the Corporation.

**Section 15. Notices**. All notices or communications in respect of Series C Preferred Stock shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designation, in the Certificate of Incorporation or Bylaws or by applicable law or regulation. Notwithstanding the foregoing, if Series C Preferred Stock is issued in book-entry form through The Depository Trust Corporation or any similar facility, such notices may be given to the holders of the Series C Preferred Stock in any manner permitted by such facility.

**Section 16. Other Rights**. The shares of Series C Preferred Stock shall not have any rights, preferences, privileges or voting powers or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Certificate of Incorporation or as provided by applicable law and regulation.

[THIS SPACE LEFT BLANK INTENTIONALLY]

**IN WITNESS WHEREOF**, the Corporation has caused this Certificate of Designation to be duly executed and acknowledged by its undersigned duly authorized officers this 2nd day of September, 2010.

**USEC INC.**

By: /s/ John K. Welch
Name: John K. Welch
Title: President and Chief Executive Officer

Attest:

By: /s/ Peter B. Saba
Name: Peter B. Saba
Title: Secretary

**EXHIBIT 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, John K. Welch, certify that:

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

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

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

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

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

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

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

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

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

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

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

November 4, 2011

/s/ John K. Welch
**John K. Welch**
President and Chief Executive Officer

**EXHIBIT 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, John C. Barpoulis, certify that:

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

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

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

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

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

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

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

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

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

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

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

November 4, 2011

/s/ John C. Barpoulis
**John C. Barpoulis**
Senior Vice President and Chief Financial Officer

**EXHIBIT 32.1**

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

In connection with the quarterly report on Form 10-Q of USEC Inc. for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), pursuant to 18 U.S.C. § 1350, John K. Welch, President and Chief Executive Officer, and John C. Barpoulis, Senior Vice President and Chief Financial Officer, each hereby certifies, that, to his knowledge:

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

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

November 4, 2011

/s/ John K. Welch
**John K. Welch**
President and Chief Executive Officer

November 4, 2011

/s/ John C. Barpoulis
**John C. Barpoulis**
Senior Vice President and Chief Financial Officer