
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended September 30, 2004

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
(State of incorporation)

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Securities Exchange Act of 1934.)
Yes No

As of September 30, 2004, there were 84,685,000 shares of Common Stock issued and outstanding.

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This Quarterly Report on Form 10-Q contains forward-looking information (within the meaning of the Private Securities Litigation Reform Act of 1995) that involves risks and uncertainty, including certain assumptions regarding the future performance of USEC. Actual results and trends may differ materially depending upon a variety of factors, including, without limitation, market demand for USEC's products, pricing trends in the uranium and enrichment markets, deliveries under the Russian Contract, the availability and cost of electric power, implementing agreements with the Department of Energy ("DOE") regarding uranium inventory remediation and the use of centrifuge technology and facilities, satisfactory performance of the American Centrifuge technology at various stages of demonstration, USEC's ability to successfully execute its internal performance plans, the refueling cycles of USEC's customers, final determinations of environmental and other costs, the outcome of litigation and trade actions, performance under government contracts and audits of allowable costs on government contract work, and the impact of any government regulation. Revenue and operating results can fluctuate significantly from quarter to quarter, and in some cases, year to year.

USEC Inc.
CONSOLIDATED CONDENSED BALANCE SHEETS
(millions)

	(Unaudited) September 30, 2004	December 31, 2003
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 15.0	\$ 249.1
Accounts receivable – trade	159.4	254.5
Inventories	1,205.1	883.2
Prepaid items	14.1	16.9
Other current assets	34.4	23.0
Total Current Assets	1,428.0	1,426.7
Property, Plant and Equipment, net	174.4	185.1
Other Long-Term Assets		
Deferred income taxes	34.7	52.5
Prepayment and deposit for depleted uranium	23.5	47.1
Prepaid pension benefit costs	80.9	76.3
Inventories	198.5	266.1
Total Other Assets	337.6	442.0
Total Assets	\$ 1,940.0	\$ 2,053.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 173.5	\$ 188.3
Payables under Russian Contract	136.1	119.3
Uranium owed to customers and suppliers	—	45.0
Termination settlement obligation under power purchase agreement	—	33.2
Deferred revenue and advances from customers	26.0	25.8
Total Current Liabilities	335.6	411.6
Long-Term Debt	500.0	500.0
Other Long-Term Liabilities		
Deferred revenue and advances from customers	6.7	13.5
Depleted uranium disposition	27.6	53.5
Postretirement health and life benefit obligations	144.1	138.1
Lease turnover and other liabilities	63.6	50.9
Total Other Liabilities	242.0	256.0
Stockholders' Equity	862.4	886.2
Total Liabilities and Stockholders' Equity	\$ 1,940.0	\$ 2,053.8

See notes to consolidated condensed financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003 As restated	2004	2003 As restated
Revenue:				
Separative work units	\$194.6	\$ 265.6	\$518.2	\$ 798.0
Uranium	16.8	28.0	111.8	104.2
U.S. Government contracts	40.8	47.5	120.8	128.6
Total revenue	252.2	341.1	750.8	1,030.8
Cost of sales:				
Separative work units and uranium	180.1	263.7	533.3	797.0
U.S. Government contracts	36.5	36.4	110.9	116.1
Total cost of sales	216.6	300.1	644.2	913.1
Gross profit	35.6	41.0	106.6	117.7
Centrifuge demonstration costs	16.4	12.1	36.4	32.7
Selling, general and administrative	15.3	15.1	47.2	44.3
Operating income	3.9	13.8	23.0	40.7
Interest expense	10.0	9.8	29.8	28.7
Interest (income)	(1.2)	(1.5)	(2.7)	(4.6)
Income (loss) before income taxes	(4.9)	5.5	(4.1)	16.6
Provision (credit) for income taxes	(1.5)	2.1	(1.2)	6.8
Net income (loss)	\$ (3.4)	\$ 3.4	\$ (2.9)	\$ 9.8
Net income (loss) per share — basic and diluted	\$ (.04)	\$.04	\$ (.03)	\$.12
Dividends per share	\$.1375	\$.1375	\$.4125	\$.4125
Average number of shares outstanding	84.4	82.3	83.8	82.1

See notes to consolidated condensed financial statements.

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

	Nine Months Ended September 30,	
	2004	2003
Cash Flows from Operating Activities		
Net income (loss)	\$ (2.9)	\$ 9.8
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	23.6	21.7
Deferred revenue and advances from customers	(6.6)	(43.4)
Liabilities accrued for consolidating plant operations	—	(9.1)
Changes in operating assets and liabilities:		
Accounts receivable — (increase) decrease	95.1	(43.5)
Inventories — net (increase) decrease	(299.5)	31.5
Payables under Russian Contract — increase (decrease)	16.8	(15.2)
Payment of termination settlement obligation under power purchase agreement	(33.2)	—
Accounts payable and other — net increase (decrease)	9.5	(4.2)
Net Cash (Used in) Operating Activities	<u>(197.2)</u>	<u>(52.4)</u>
Cash Flows Used in Investing Activities		
Capital expenditures	<u>(13.1)</u>	<u>(20.5)</u>
Net Cash (Used in) Investing Activities	<u>(13.1)</u>	<u>(20.5)</u>
Cash Flows Used in Financing Activities		
Dividends paid to stockholders	(34.6)	(33.9)
Common stock issued	10.8	2.2
Net Cash (Used in) Financing Activities	<u>(23.8)</u>	<u>(31.7)</u>
Net (Decrease)	(234.1)	(104.6)
Cash and Cash Equivalents at Beginning of Period	249.1	171.1
Cash and Cash Equivalents at End of Period	<u>\$ 15.0</u>	<u>\$ 66.5</u>
Supplemental Cash Flow Information:		
Interest paid	\$ 34.2	\$ 34.1
Income taxes paid (refund)	8.1	(2.8)

See notes to consolidated condensed financial statements.

USEC Inc.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

The unaudited consolidated condensed financial statements as of and for the three and nine months ended September 30, 2004 and 2003, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. The unaudited consolidated condensed financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the financial results for the interim period. Certain information and notes normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been omitted pursuant to such rules and regulations.

Operating results for the three and nine months ended September 30, 2004, are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. 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, 2003.

Certain amounts in the consolidated condensed financial statements have been reclassified to conform with the current presentation.

2. Centrifuge Costs

USEC is in the process of demonstrating its next-generation American Centrifuge uranium enrichment technology. Costs relating to the demonstration and deployment of the American Centrifuge technology are charged to expense or capitalized based on the nature of the activities.

Centrifuge costs relating to the process of demonstrating the American Centrifuge technology are charged to expense as incurred. Demonstration costs include licensing, engineering, assembling and testing centrifuge machines and equipment at centrifuge test facilities located in Oak Ridge, Tennessee and at the American Centrifuge Demonstration Facility in Piketon, Ohio.

Capitalized costs relating to the American Centrifuge Plant include or will include Nuclear Regulatory Commission ("NRC") licensing, engineering, centrifuge machines and equipment, leasehold improvements and other costs directly associated with deploying the American Centrifuge Plant. Capitalized centrifuge costs are recorded in property, plant and equipment as part of construction work in progress. The continued capitalization of such costs is subject to ongoing review and successful project completion, including NRC licensing, financing of capital costs, and installation and operation of centrifuge machines and equipment. If conditions change and deployment was no longer probable, costs that were previously capitalized would be charged to expense.

3. Restatement of Statements of Income

USEC performs contract work for DOE and DOE contractors at the Portsmouth and Paducah plants. In the three and nine months ended September 30, 2004, billings under government contracts are reported as part of revenue, and costs incurred are reported as part of costs and expenses. In the

three and nine months ended September 30, 2003, the net amount of income or expense for government contracts had been reported as part of other income (expense), net. The statements of income for the three and nine months ended September 30, 2003, have been restated to conform to the current presentation. There was no effect on income before income taxes, net income or net income per share as a result of the change. The effects of the restatement are as follows (in millions, except per share data):

	Three Months Ended September 30, 2003		Nine Months Ended September 30, 2003	
	As previously reported	As restated	As previously reported	As restated
Revenue	\$ 293.6	\$ 341.1	\$ 902.2	\$ 1,030.8
Cost of sales	263.7	300.1	797.0	913.1
Gross profit	29.9	41.0	105.2	117.7
Centrifuge demonstration costs	10.6	12.1	31.2	32.7
Selling, general and administrative	12.3	15.1	41.5	44.3
Operating income	7.0	13.8	32.5	40.7
Interest expense	9.8	9.8	28.7	28.7
Interest (income)	(1.5)	(1.5)	(4.5)	(4.6)
Other (income) expense, net	(6.8)	—	(8.3)	—
Income before income taxes	5.5	5.5	16.6	16.6
Provision for income taxes	2.1	2.1	6.8	6.8
Net income	\$ 3.4	\$ 3.4	\$ 9.8	\$ 9.8
Net income per share	\$.04	\$.04	\$.12	\$.12

Amounts reported for certain costs and expenses for the three-month periods ended September 30, and December 31, 2003, included in the Annual on Report Form 10-K for the year ended December 31, 2003, have been reclassified. There was no effect on operating income or net income for the periods indicated or for the year 2003 as a result of the reclassification.

4. Accounts Receivable

Accounts receivable were as follows (in millions):

	September 30, 2004	December 31, 2003
Utility customers:		
Trade receivables	\$ 111.2	\$ 168.4
Uranium loaned to customers	11.5	30.6
	122.7	199.0
Department of Energy:		
Government contracts	33.4	22.8
Unbilled revenue	3.3	32.7
	36.7	55.5
	\$ 159.4	\$ 254.5

Billings under government contracts are invoiced based on provisional billing rates approved by DOE. Unbilled revenue of \$3.3 million at September 30, 2004, represents the difference between actual costs incurred and invoiced amounts. Under government cost accounting standards and in accordance with standard procedures, USEC will invoice and collect unbilled amounts.

5. Inventories

Inventories were as follows (in millions):

	September 30, 2004	December 31, 2003
Current assets:		
Separative work units	\$ 963.7	\$ 673.0
Uranium	222.9	187.9
Materials and supplies	18.5	22.3
	<u>1,205.1</u>	<u>883.2</u>
Long-term assets:		
Out-of-specification uranium	112.5	156.2
Highly enriched uranium from Department of Energy	86.0	109.9
	<u>198.5</u>	<u>266.1</u>
Current liabilities:		
Uranium owed to customers and suppliers	—	(45.0)
Inventories, net	<u>\$ 1,403.6</u>	<u>\$ 1,104.3</u>

Replacing Out-of-Specification Natural Uranium Inventory

In December 2000, USEC reported to DOE that 9,550 metric tons of natural uranium with a cost of \$237.5 million transferred to USEC from DOE prior to privatization in 1998 may contain elevated levels of technetium that would put the uranium out of specification for commercial use. Out of specification means that the uranium would not meet the industry standard as defined in the American Society for Testing and Materials (“ASTM”) specification “Standard Specification for Uranium Hexafluoride for Enrichment.” The levels of technetium exceeded allowable levels in the ASTM specification.

Under the DOE-USEC Agreement signed in June 2002 (“DOE-USEC Agreement”), DOE is obligated to replace or remediate the affected uranium inventory, and USEC has been working with DOE to implement this process. The remediated inventory is expected to meet the ASTM specification or be acceptable to USEC for use as feed material in its enrichment plant. USEC has been operating facilities at the Portsmouth plant for DOE since July 2002, and, at September 30, 2004, had completed the processing and removal of contaminants from 5,357 metric tons (or 56%) of the out-of-specification uranium. In October 2004, DOE approved a work authorization for USEC to continue processing out-of-specification uranium for DOE through November 20, 2004. USEC and DOE are negotiating contract terms for USEC to continue processing out-of-specification uranium for the period November 21 to December 31, 2004, as well as contract terms for additional years. At September 30, 2004, the remaining amount of uranium inventory that may contain elevated levels of technetium and be out of specification is 4,193 metric tons with a cost of \$112.5 million reported as part of long-term assets.

Pursuant to the terms of the DOE-USEC Agreement, DOE was obligated, as of March 31, 2003, to exchange, replace or reimburse USEC for 2,116 metric tons of the remaining out-of-specification natural uranium. In October 2004, USEC and DOE entered into an agreement that sets forth the terms and conditions, including inspection and acceptance by USEC, under which DOE will transfer title and custody of 2,116 metric tons of uranium to USEC in exchange for 2,116 metric tons of out-of-specification uranium. In addition, as part of the agreement, USEC is cleaning out-of-specification uranium owned by DOE.

DOE's obligations to replace or remediate all remaining out-of-specification natural uranium continue until all such uranium is replaced or remediated, and DOE's obligations survive any termination of the DOE-USEC Agreement as long as USEC is producing low enriched uranium containing at least 1 million separative work units per year at the Paducah plant or at a new enrichment facility. DOE's obligations to replace or remediate out-of-specification natural uranium are subject to availability of appropriated funds and legislative authority, and compliance with applicable law. Although the parties are pursuing any necessary legislative or administrative authority, there can be no assurance that Congress will pass requisite legislation or that DOE will act on existing regulatory authority. An impairment in the valuation of uranium inventory would result if DOE fails to exchange, replace, clean up or reimburse USEC for some or all of the out-of-specification natural uranium for which DOE has assumed responsibility. Depending on the amount, an impairment could have an adverse effect on USEC's financial condition and results of operations.

6. Special Charges for Consolidating Plant Operations

The accrued liability resulting from special charges for consolidating plant operations amounted to \$12.9 million at December 31, 2003, and related to lease turnover and other exit costs. In the nine months ended September 30, 2004, the amount of \$5.4 million was paid, and the remaining amount of \$7.5 million was reclassified to a lease turnover obligation included in other liabilities.

7. Stock-Based Compensation

Compensation expense for employee stock compensation plans is measured using the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." As long as stock options are granted at an exercise price that is equal to the market value of common stock at the date of grant, there is no compensation expense for the grant, vesting or exercise of stock options.

Grants of restricted stock result in deferred compensation based on the market value of common stock at the date of grant. Deferred compensation is amortized to expense on a straight-line basis over the vesting period. Compensation expense for awards of restricted stock units is accrued over a three-year performance period.

Under the disclosure provisions of Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure," pro forma net income assumes that compensation expense relating to stock options and to shares of common stock purchased by employees at 85% of the market price under the Employee Stock Purchase Plan is recognized based on the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." The fair value of stock options is measured at the date of grant based on the Black-Scholes option pricing model and is amortized to

expense over the vesting period. The following table illustrates the effect on net income (loss) if the fair value method of accounting had been applied (in millions, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income (loss), as reported	\$ (3.4)	\$ 3.4	\$ (2.9)	\$ 9.8
Add: Stock-based compensation expense included in reported results, net of tax	.7	.5	2.7	1.9
Deduct: Stock-based compensation expense determined under the fair value method, net of tax under the fair value method, net of tax	(1.1)	(.9)	(4.5)	(3.1)
Pro forma net income (loss)	<u>\$ (3.8)</u>	<u>\$ 3.0</u>	<u>\$ (4.7)</u>	<u>\$ 8.6</u>
Net income (loss) per share:				
As reported	\$ (.04)	\$.04	\$ (.03)	\$.12
Pro forma	\$ (.05)	\$.03	\$ (.06)	\$.10

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,	
	2004	2003	2004	2003	2004	2003	2004	2003
Service costs	\$ 3.6	\$ 3.3	\$ 10.5	\$ 8.6	\$ 1.9	\$ 1.2	\$ 5.8	\$ 4.7
Interest costs	9.4	9.9	28.1	26.4	3.8	2.7	11.2	9.9
Expected return on plan assets (gains)	(12.8)	(12.5)	(38.4)	(33.3)	(1.4)	(.7)	(3.8)	(2.7)
Amortization of prior service costs (credit)	.4	.1	1.0	.1	(.7)	(.5)	(1.9)	(1.8)
Amortization of actuarial (gains) losses	.4	1.3	1.2	3.6	(.3)	—	1.1	—
Net benefit costs (income)	<u>\$ 1.0</u>	<u>\$ 2.1</u>	<u>\$ 2.4</u>	<u>\$ 5.4</u>	<u>\$ 3.3</u>	<u>\$ 2.7</u>	<u>\$ 12.4</u>	<u>\$ 10.1</u>

Projected pension benefit obligations amounting to \$602.3 million were 101% funded and accumulated postretirement health and life benefit obligations amounting to \$234.6 million, typically funded on a pay-as-you-go basis, were 24% funded at December 31, 2003. In the nine months ended September 30, 2004, USEC contributed \$6.0 million to the defined benefit pension plans and \$6.2 million to the postretirement health and life benefit plans. Cash contributions during the remainder of 2004 are expected as follows: \$1.9 million for the defined benefit plans and \$1.8 million for the postretirement health and life benefit plans.

Medicare Prescription Drug Subsidy

USEC anticipates it will be eligible for federal subsidy payments beginning in 2006 in connection with a recent change in Medicare law affecting corporations that sponsor prescription

drug benefit plans. Enacted in December 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 will provide prescription drug benefits under Medicare ("Medicare Part D") as well as federal subsidy payments to sponsors of plans that provide prescription drug benefits that are at least actuarially equivalent to Medicare Part D. USEC in consultation with its actuaries has determined that the prescription drug provisions of its postretirement health benefit plan are at least actuarially equivalent to Medicare Part D.

FASB Staff Position ("FSP") No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," was issued by the Financial Accounting Standards Board in May 2004 and is effective for interim or annual periods beginning after June 15, 2004. The FSP provides guidance on accounting for the effects of the legislation. Pursuant to the FSP, the impact of future subsidy payments is accounted for as an actuarial gain that reduced the accumulated postretirement health benefit obligation by \$28.2 million at July 1, 2004. Costs for postretirement health benefits were reduced by \$1.2 million in the three and nine months ended September 30, 2004, representing initial amortization of the actuarial gain and reductions in service and interest costs resulting from the anticipated future Medicare subsidy.

9. Stockholders' Equity

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

	Common Stock, Par Value \$.10 per share	Excess of Capital over Par Value	Retained Earnings (Deficit)	Treasury Stock	Deferred Compensation	Total Stockholders' Equity
Balance at December 31, 2003	\$ 10.0	\$ 1,009.0	\$ (4.6)	\$(127.7)	\$ (.5)	\$ 886.2
Common stock issued:						
Proceeds from the exercise of stock options	—	.2	—	8.9	—	9.1
Restricted and other stock issued	—	.1	—	6.3	(1.8)	4.6
Dividends paid to stockholders	—	(34.6)	—	—	—	(34.6)
Net income (loss)	—	—	(2.9)	—	—	(2.9)
Balance at September 30, 2004	<u>\$ 10.0</u>	<u>\$ 974.7</u>	<u>\$ (7.5)</u>	<u>\$(112.5)</u>	<u>\$ (2.3)</u>	<u>\$ 862.4</u>

10. Settlement of Power Contract

In 2001 and prior years, USEC purchased electric power for the Portsmouth uranium enrichment plant under a contract with DOE. DOE acquired the power under a power purchase agreement with the Ohio Valley Electric Corporation ("OVEC"). USEC ceased uranium enrichment operations at the Portsmouth plant in 2001, and the power purchase agreement was terminated effective April 30, 2003. As a result of termination of the power purchase agreement, DOE was responsible for a portion of the costs incurred by OVEC for postretirement health and life insurance benefits and for the eventual decommissioning, demolition and shutdown of the coal-burning power generating facilities owned and operated by OVEC. In February 2004, OVEC and DOE, and DOE and USEC, entered into agreements and settled all the issues relating to the termination, and USEC paid the previously accrued amount of \$33.2 million representing its share of the obligation.

11. Legal Matters

Environmental Matters

In 1998, USEC contracted with Starmet CMI (“Starmet”) to convert a small portion of USEC’s depleted uranium into a form that could be used in certain beneficial applications or disposed of at existing commercial disposal facilities. In 2002, Starmet ceased operations at its Barnwell, South Carolina facility.

In November 2002, USEC received notice from the U.S. Environmental Protection Agency (“EPA”) that EPA was undertaking removal action under the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), as amended (commonly known as Superfund), to clean up two evaporation ponds and remove and dispose of certain drums and other material located at Starmet’s Barnwell site containing uranium and other byproducts of Starmet’s activities at the site. The notice also stated that EPA believed USEC as well as other parties, including agencies of the U.S. Government, are potentially responsible parties (“PRPs”) under CERCLA. In February 2004, USEC and certain federal agencies who have been identified as PRPs under CERCLA entered into an agreement with EPA, under which USEC is responsible for removing certain material from the site that is attributable to quantities of depleted uranium USEC had sent to the site. USEC has engaged contractors to remove and dispose of such material.

At September 30, 2004, USEC had an accrued liability of \$7.7 million representing its current estimate of its share of costs to comply with the EPA settlement agreement and other costs associated with the Starmet facility. Additional costs could be incurred due to a number of factors including, but not limited to, increases in costs associated with the removal and disposal of material from the Starmet site, increases in costs associated with remediation of the evaporation ponds, or a decision by EPA or the South Carolina Department of Health and Environmental Control to perform additional remediation at the site after completion of the removal and disposal activities. An allocation of costs to USEC in excess of the amounts that USEC has accrued at September 30, 2004, could have an adverse effect on USEC’s results of operations.

Other

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

12. Segment Information

USEC has two reportable segments: low enriched uranium (“LEU”) with two components, Separative Work Units (“SWU”) and uranium, and U.S. Government contracts. LEU is the primary business focus and includes sales of the SWU component of LEU, sales of both the SWU and uranium components of LEU, and sales of uranium. The U.S. Government contracts segment represents work performed for DOE and DOE contractors at the Portsmouth and Paducah plants.

Operating income for segment reporting is measured before selling, general and administrative expenses. Centrifuge demonstration costs are reported as charges against operating income of the LEU segment. There were no intersegment sales between the reportable segments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenue:	(millions)			
Low enriched uranium	\$ 211.4	\$ 293.6	\$630.0	\$ 902.2
U.S. Government contracts	40.8	47.5	120.8	128.6
	<u>\$ 252.2</u>	<u>\$ 341.1</u>	<u>\$750.8</u>	<u>\$1,030.8</u>
Operating income before selling, general, and administrative expenses:				
Low enriched uranium before reduction for centrifuge demonstration costs	\$ 31.3	\$ 29.9	\$ 96.7	\$ 105.2
Less: Centrifuge demonstration costs	16.4	12.1	36.4	32.7
Low enriched uranium	14.9	17.8	60.3	72.5
U.S. Government contracts	4.3	11.1	9.9	12.5
Operating income before selling, general, and administrative expenses	19.2	28.9	70.2	85.0
Selling, general, and administrative	15.3	15.1	47.2	44.3
Operating income	3.9	13.8	23.0	40.7
Interest expense, net of interest income	8.8	8.3	27.1	24.1
Income (loss) before income taxes	<u>\$ (4.9)</u>	<u>\$ 5.5</u>	<u>\$ (4.1)</u>	<u>\$ 16.6</u>

USEC Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements and related notes 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, 2003.

Overview

USEC Inc. ("USEC"), a global energy company, is the world's leading supplier of low enriched uranium ("LEU") for commercial nuclear power plants. LEU is a fundamental component in the production of nuclear fuel for reactors to produce electricity.

USEC at a Glance:

- supplier of LEU to both domestic and international utilities for use in about 155 nuclear reactors worldwide,
- exclusive executive agent for a nuclear nonproliferation program with Russia, known as Megatons to Megawatts,
- demonstrating with plans to deploy what is anticipated to be the world's most efficient uranium enrichment technology known as the American Centrifuge, and
- performing contract work for DOE and DOE contractors at the Paducah and Portsmouth plants.

Low Enriched Uranium

LEU is sold and measured by the components separative work units ("SWU") and uranium. SWU is a standard unit of measurement which represents the effort required to separate specific quantities of uranium containing .711% of U^{235} 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 contained in LEU under this formula is commonly referred to as the SWU component.

Supplier of LEU

USEC produces or acquires LEU from two principal sources. LEU is produced at the gaseous diffusion plant in Paducah, Kentucky, and LEU is acquired by purchasing the SWU component of LEU from Russia. Revenue is derived primarily from sales of the SWU component of LEU, from sales of both the SWU and uranium components of LEU, and from sales of uranium. The gaseous diffusion process uses significant amounts of electric power to enrich uranium, and costs for electric power typically represent 60% of production costs at the Paducah plant. USEC purchases about 80% of the electric power for the Paducah plant at fixed prices from Tennessee Valley Authority. USEC maintains the Portsmouth gaseous diffusion plant in Piketon, Ohio in a cold standby condition under a contract with DOE. The gaseous diffusion plants are leased from DOE and are regulated by the U.S. Nuclear Regulatory Commission ("NRC"). In 2003, USEC applied for and NRC granted a renewal of the certifications for the five-year period ending December 2008.

Megatons to Megawatts

USEC is the exclusive executive agent for the U.S. Government under a government-to-government agreement (the "Russian Contract") to purchase over a period of 20 years the SWU component of LEU derived from 500 metric tons of highly enriched uranium contained in decommissioned nuclear warheads in Russia. USEC expects purchases under the Russian Contract will represent about one half of its supply mix in 2004.

American Centrifuge

USEC is in the process of demonstrating its next-generation American Centrifuge uranium enrichment technology. USEC expects to begin operation of the American Centrifuge Demonstration Facility in Piketon, Ohio in 2005 and to begin construction of the American Centrifuge Plant in 2007, reaching an annual production capacity of 3.5 million SWU by 2010. Demonstration activities are underway at centrifuge test facilities located in Oak Ridge, Tennessee and at the American Centrifuge Demonstration Facility in Piketon, Ohio. In January 2004, USEC selected Piketon, Ohio as the site for the American Centrifuge Plant. The plant is expected to cost up to \$1.5 billion and employ up to 500 workers. USEC submitted the license application for the American Centrifuge Plant to the NRC in August 2004, seven months ahead of the milestone schedule in the DOE-USEC Agreement. In October 2004, the NRC determined that the application was complete and acceptable for detailed review.

U.S. Government Contracts

USEC performs, and earns revenue from, contract work for DOE and DOE contractors at the Paducah and Portsmouth plants. Revenue from U.S. Government contracts is based on allowable costs that are subject to audit by the Defense Contract Audit Agency. Allowable costs are based on cost accounting standards and include direct costs as well as allocations of indirect plant and corporate overhead costs. Audit adjustments could result in reductions in allowable costs that would adversely affect revenue and results of operations. DOE has extended the cold standby contract at the Portsmouth plant through September 2005. USEC operates facilities at the Portsmouth plant to process and clean up out-of-specification uranium for DOE. Refer to note 5 to the consolidated financial statements for information on out-of-specification uranium.

Pending Acquisition

In July 2004, USEC announced that it had entered into an agreement to purchase NAC International from Pinnacle West Capital Corporation for a cash purchase price of \$16 million, subject to certain closing adjustments. The acquisition will enable USEC to offer nuclear utility customers an expanded portfolio of products and services, including transportation and storage systems for spent nuclear fuel. USEC is working to finalize all closing conditions associated with the transaction and continues to work toward a closing targeted in 2004.

Critical Accounting Estimates

The summary of significant accounting policies and the other notes to the consolidated financial statements included in the annual report on Form 10-K provide a description of relevant information regarding USEC's significant and critical accounting estimates with respect to the following:

- revenue recognition, deferred revenue and advances from customers,
- inventories of uranium and SWU, inventory costing methods, classifications and valuations,
- costs for the future disposition of depleted uranium and lease turnover,
- pension and postretirement health and life benefit costs and obligations,
- deferred income taxes and related valuation allowance, and
- centrifuge costs.

Revenue includes estimates and judgments relating to the recognition of deferred revenue and price adjustments under contracts with customers that involve pricing based on inflation rates and customers' nuclear fuel requirements. SWU and uranium inventories include estimates and judgments for production quantities and costs and judgments regarding the replacement or remediation of out-of-specification uranium by DOE. Production costs include estimates of future costs for the storage, transportation and disposition of depleted uranium, the treatment and disposal of hazardous, low-level radioactive and mixed wastes, and plant lease turnover costs. Pension and postretirement health and life benefit costs and obligations are based on provisions of the plans and actuarial assumptions that involve estimates and judgments, including expected returns on plan assets, discount rates, and healthcare cost trend rates. Income taxes include estimates and judgments for the tax bases of assets and liabilities and the future recoverability of deferred tax assets. Costs relating to the demonstration and deployment of the American Centrifuge technology are charged to expense or capitalized based on the nature of the activities.

Results of Operations — Three and Nine Months Ended September 30, 2004 and 2003

Revenue

SWU revenue declined \$71.0 million (or 27%) in the three months and \$279.8 million (or 35%) in the nine months ended September 30, 2004, compared with the corresponding periods in 2003. The volume of SWU sold declined 29% in the three months and 34% in the nine months ended September 30, 2004, reflecting the timing of customer orders, lower contractual commitments from customers, and temporary shutdowns of certain nuclear reactors in Japan. The average SWU price billed to customers increased 3% in the three months but declined 1% in the nine months ended September 30, 2004. Revenue in the nine-month period includes sales based on contractual commitments from the late 1990s when SWU prices were severely depressed.

USEC expects that revenue from sales of SWU will be about \$1.0 billion in 2004, a decline of 10% from 2003 resulting from the temporary shutdowns of certain nuclear reactors in Japan, lower contractual commitments from customers, and the timing of customer orders. The average price billed to customers in 2004 is expected to be about the same as in 2003. USEC expects about one half of the SWU and uranium revenue for 2004 will be realized in the fourth quarter of 2004.

The timing of customer orders affected revenue in the 2004 periods. Revenue and operating results can fluctuate significantly from quarter to quarter, and in some cases, year to year. Customer requirements are determined by refueling schedules for nuclear reactors, which are affected by, among other things, the seasonal nature of electricity demand, reactor maintenance, and reactors beginning or terminating operations. 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 orders for the SWU component of LEU are large in amount, typically averaging \$12.0 million per

order. Customer requirements and orders are more predictable over the longer term, and USEC believes its performance is best measured on an annual, or even longer, business cycle.

Reductions in contractual commitments from customers contributed to the reductions in revenue in the 2004 periods. Contractual commitments have declined in recent years, primarily due to aggressive pricing by, and loss of sales commitments to, foreign competitors in prior years. In December 2000, the U.S. Department of Commerce ("DOC") initiated investigations into unfair pricing, or dumping, and government subsidization of imports of LEU produced by European enrichers Eurodif, S.A., and Urenco, Ltd., and subsequently, market prices increased significantly. However, since contractual commitments from customers are typically long-term, the effects of aggressive or unfair trade practices by foreign competitors prior to the increase in market prices have contributed to the reductions in revenue in the 2004 periods.

Revenue could be adversely affected by actions of the NRC or nuclear regulators in foreign countries issuing orders to delay, suspend or shut down nuclear reactor operations within their jurisdictions. In late 2002, regulators in Japan ordered the temporary shutdown of 17 reactors operated by Tokyo Electric Power Company. USEC supplies LEU for eight of the 15 reactors that have since returned to service and for two reactors that remain shutdown. The shutdowns have postponed the utility's requirements for reloading fuel. Revenue in 2004 has been reduced as a result of the shutdowns, and USEC expects its revenue in 2005 will continue to be affected, but to a lesser extent. In August 2004, a reactor in Japan operated by the Kansai Electric Power Company was shut down following a non-radioactive steam leak. USEC does not supply LEU for the reactor but does supply other Kansai reactors. Operations at Kansai's 10 other reactors were temporarily suspended, and eight of the 10 reactors have since returned to service. A continued shutdown of reactors in Japan would have an additional adverse effect on USEC's revenue and results of operations.

Revenue from sales of uranium declined \$11.2 million (or 40%) in the three months, but increased \$7.6 million (or 7%) in the nine months ended September 30, 2004, compared with the corresponding periods in 2003. Under certain contracts, revenue is derived from both the SWU and uranium components of LEU. The volume of uranium sold declined 57% in the three months and 16% in the nine months ended September 30, 2004, primarily as a result of the timing of customer orders. The average uranium price billed to customers increased 39% in the three months and 28% in the nine months reflecting the significant increases in the spot and the long-term market prices for uranium. The long-term market price indicator for uranium hexafluoride, as published by TradeTech, was \$70.10 per kilogram on September 30, 2004, an increase of \$23.60 (or 51%) from \$46.50 on December 31, 2003, and an increase of \$33.40 (or 91%) from \$36.70 on September 30, 2003. Most of USEC's uranium inventory has been committed under long-term sales contracts with utility customers, and the positive impact of the higher market prices is limited to sales under new contracts and to sales under contracts with prices based on market prices at the time of delivery.

Sales volumes and average price levels in future periods may be affected by a number of factors, including market prices for SWU and uranium, success in achieving sales targets and realization of average prices and estimates of inflation in contract price provisions. Shortfalls in volume or price could adversely affect revenue and results of operations.

Revenue from U.S. Government contracts declined \$6.7 million (or 14%) in the three months and \$7.8 million (or 6%) in the nine months ended September 30, 2004, compared with the corresponding periods in 2003. Revenue in the 2003 periods had included a fee for contract work performed by USEC at the Portsmouth plant from July 2001 to September 2003 as a result of USEC

and DOE finalizing the cold standby and uranium deposit removal contract in September 2003. Revenue from U.S. Government contracts is also affected by changes in contract work performed. In 2004, USEC began refurbishing a portion of the centrifuge process buildings in Piketon, Ohio under a contract with DOE.

Government Investigation of Imports from France, Germany, the Netherlands and the United Kingdom

USEC believes its European competitors have curtailed unfair trading practices in the United States since the U.S. government began its investigation in 2000. This investigation led to the imposition of countervailing duty (anti-subsidy) orders on imports of LEU produced in France by Eurodif, S.A., and in Germany, the Netherlands and the United Kingdom by Urenco, Ltd. and an antidumping order on imports of LEU produced in France by Eurodif. The government's action has helped to restore stability to the enrichment market and ensure a long-term supply of competitive and reliable fuel.

The DOC recently conducted administrative reviews of its 2002 orders in order to establish the definitive countervailing and antidumping duties for imports of LEU in 2001 and 2002 and the deposit rates for future imports. The reviews resulted in duty margins that were substantially lower than the margins estimated in the 2002 orders, indicating that Eurodif reduced its level of dumping and Eurodif and Urenco obtained fewer benefits from subsidization following the granting of trade relief in the DOC's original investigations. Based on the results of these reviews and subsequent adjustments, the DOC calculated new estimated antidumping and countervailing duty rates of 4.56% and .71%, for a combined rate of 5.27%, that will apply to imports of LEU produced by Eurodif in lieu of the combined 32.1% rate that has applied since February 2002. Further, based on its conclusion that the subsidies conferred on Urenco ended in 2002, the DOC determined that no estimated rate will apply to imports of LEU produced by Urenco (the previous estimated rate was 2.23%). However, the existing countervailing duty order on imports of LEU from Urenco remains in force and Urenco could again face duties if found to have received subsidies in the future.

Cost of Sales

Cost of sales for SWU and uranium is based on the amount of SWU and uranium sold during the period and is determined by a combination of inventory levels and costs, production costs, and SWU purchase costs under the Russian Contract. Under the monthly moving average inventory cost method coupled with USEC's inventory position, an increase or decrease in production or purchase costs will have an effect on inventory costs and cost of sales over future periods.

Cost of sales for SWU and uranium declined \$83.6 million (or 32%) in the three months and \$263.7 million (or 33%) in the nine months ended September 30, 2004, compared with the corresponding periods in 2003. The reductions resulted primarily from the declines of 29% in the three months and 34% in the nine months in the volume of SWU sold. Cost of sales per SWU was 2% lower in the nine-month period primarily as a result of the effect on inventory costs of purchases of SWU under the Russian Contract based on market-based pricing terms beginning in 2003.

Cost of sales for U.S. Government contracts were about the same in the three months and declined \$5.2 million (or 4%) in the nine months ended September 30, 2004, compared with the corresponding periods in 2003. The reduction in the nine-month period reflects changes in the

contract work performed for DOE. In 2004, USEC began refurbishing a portion of the centrifuge buildings in Piketon, Ohio under a contract for DOE.

(a) Purchase Costs under Russian Contract

Purchases of the SWU component of LEU under the Russian Contract increased \$44.9 million (or 48%) in the three months and \$44.0 million (or 13%) in the nine months ended September 30, 2004, compared with the corresponding periods in 2003. The increases reflect the timing of purchases. Purchase costs per SWU increased 3% in the three and nine months ended September 30, 2004, reflecting higher market prices. Prices are determined using a discount from an index of international and U.S. price points, including both long-term and spot prices. A multi-year retrospective of this index is used to minimize the disruptive effect of any short-term market price swings. USEC expects that increases in SWU prices in recent years will result in increases to the index used to determine prices under the Russian Contract. The Russian Contract provides that, after the end of 2007, USEC and the Russian Executive Agent may agree on appropriate adjustments, if necessary, to ensure that the Russian Executive Agent receives at least \$7,565 million for the SWU component over the 20-year term of the Russian Contract through 2013. From inception of the Russian Contract in 1994 through September 30, 2004, USEC has purchased the SWU component of LEU derived from 225 metric tons of highly enriched uranium from Russia, the equivalent of about 9,000 nuclear warheads, at an aggregate cost of \$3,550 million.

USEC has agreed to purchase 5.5 million SWU each calendar year for the remaining term of the Russian Contract through 2013. Over the life of the 20-year Russian Contract, USEC expects to purchase 92 million SWU contained in LEU derived from 500 metric tons of highly enriched uranium. A significant delay in deliveries of LEU from Russia would have an adverse effect on USEC's results of operations.

(b) Production Costs

Production costs consist principally of electric power, labor and benefits, depleted uranium disposition costs, materials, depreciation and amortization, and maintenance and repairs. Production levels at the Paducah plant declined 14% in the three months and 7% in the nine months and unit production costs increased 11% in the three months and 5% in the nine months ended September 30, 2004, compared with the corresponding period of 2003.

Costs for electric power declined reflecting the lower production level, but costs per megawatt hour increased 13% in the three months and 4% in the nine months ended September 30, 2004. USEC reduces production and the related power load in the summer months when power availability is low and power costs are high. Power costs represented 59% of production costs in the nine-month period, compared with 61% in the corresponding period of 2003.

Labor and employee benefit costs were higher, compared with the 2003 period when labor costs were reduced during a strike by PACE union employees at the Paducah plant. Costs for postretirement health benefits were reduced by \$1.2 million in the three and nine months ended September 30, 2004, representing initial amortization of an actuarial gain and reductions in service and interest costs resulting from future subsidy payments that USEC expects to receive from the federal government pursuant to the Medicare Prescription Drug Improvement and Modernization Act of 2003.

(c) Replacing Out-of-Specification Natural Uranium Inventory

Reference is made to information regarding out-of-specification uranium inventories transferred to USEC by DOE prior to privatization in 1998 and in the process of being remediated, reported in note 5 to the consolidated condensed financial statements.

(d) Environmental Matters

Reference is made to information regarding environmental matters involving Starmet CMI, the U.S. Environmental Protection Agency, the South Carolina Department of Health and Environmental Control, agencies of the U.S. Government, USEC and others, reported in note 11 to the consolidated condensed financial statements.

Gross Profit

Gross margins increased to 14.1% from 12.0% in the three months and to 14.2% from 11.4% in the nine months ended September 30, 2004, compared with the corresponding periods in 2003.

Gross profit for SWU and uranium increased \$1.4 million (or 5%) in the three months but declined \$8.5 million (or 8%) in the nine months ended September 30, 2004, compared with the corresponding periods in 2003. In the three-month period, average SWU and uranium prices billed to customers increased, but the increase was offset by lower SWU and uranium volumes. The decline in gross profit in the nine-month period resulted primarily from the reductions in the volume and average price for SWU, partly offset by the higher uranium prices.

Gross profit for U.S. Government contracts declined \$6.8 million (or 61%) in the three months and \$2.6 million (21%) in the nine months ended September 30, 2004, compared with the corresponding periods in 2003. Gross profit in the 2003 periods had included the fee earned on the cold standby and uranium deposit removal contract with DOE for contract work performed from July 2001 to September 2003. Gross profit before selling, general and administrative expense benefited in 2004 from adjustments resulting from DOE's approval of revised provisional billing rates.

Centrifuge Demonstration Costs

Demonstration costs for the American Centrifuge technology increased \$4.3 million (or 36%) in the three months and \$3.7 million (or 11%) in the nine months ended September 30, 2004, compared with the corresponding periods in 2003. Engineering, assembling and testing of centrifuge components and the initial centrifuge machines will continue at USEC's test facilities located in Oak Ridge, Tennessee, and seven project milestones under the DOE-USEC Agreement have been completed on or ahead of schedule. USEC has entered into an agreement with DOE to temporarily lease portions of the Gas Centrifuge Enrichment Plant ("GCEP") buildings in Piketon, Ohio and, under a contract with DOE, USEC is removing DOE's materials and equipment and is refurbishing a portion of the process buildings that will be used in the demonstration of the American Centrifuge technology. In February 2004, the NRC issued a license that authorizes USEC to construct and operate a lead cascade of centrifuge machines at the American Centrifuge Demonstration Facility. USEC expects to begin operation of the American Centrifuge Demonstration Facility in 2005 and to begin construction of the American Centrifuge Plant in 2007, reaching an annual production capacity of 3.5 million SWU by 2010.

In June 2004, USEC selected Fluor Enterprises, Inc., a subsidiary of Fluor Corp., to provide engineering, procurement and construction management services for the American Centrifuge Plant in Piketon, Ohio. Fluor's responsibilities over the next two years include design and detailed engineering. In 2006, USEC expects to agree on terms for a fixed-price contract with Fluor covering all major aspects of plant construction, apart from centrifuge machines.

In August 2004, USEC submitted its license application to the NRC to build and operate the American Centrifuge Plant in Piketon, Ohio. In October 2004, the NRC determined that the application was complete and acceptable for detailed review. Submittal of the license application and NRC's acceptance of it were achieved seven months ahead of schedule. USEC has achieved seven of the 15 milestones under the DOE-USEC Agreement.

The American Centrifuge Plant license application seeks a license term of 30 years and authorization to enrich uranium to an assay level of up to 10%. The American Centrifuge Plant is expected to have an initial annual production capacity of 3.5 million SWU. The environmental report submitted with the license application evaluates the potential expansion of the plant to a maximum annual production capacity of 7 million SWU. The NRC has established a 30-month schedule for conducting a detailed review that will include an extensive safety and environmental analysis. USEC is optimistic, however, that the NRC will be able to complete its review and issue the construction and operating license in approximately 24 months, given the NRC's familiarity with the American Centrifuge technology and the Piketon site gained during the licensing process for the American Centrifuge Demonstration Facility.

In October 2004, USEC announced that it has signed agreements with the Boeing Company and Honeywell International to support the manufacture of centrifuge machines. Centrifuge components will be manufactured, tested and assembled into full-size machines. The current agreements, which extend through 2006, enable USEC to move forward with critical activities in the program.

The successful construction and operation of the American Centrifuge Plant is dependent upon a number of factors including, but not limited to, satisfactory performance of the American Centrifuge technology at various stages of demonstration, NRC licensing, financing of capital costs, and installation and operation of centrifuge machines and equipment. In addition, certain actions by DOE are required including USEC and DOE entering into a long-term lease agreement for the GCEP buildings, clean up of the buildings by DOE, and USEC and DOE agreement on terms for the licensing of the centrifuge intellectual property to USEC. In the event DOE fails to take appropriate and timely action, it could delay or disrupt USEC's ability to meet certain milestones scheduled in the DOE-USEC Agreement.

Selling, General and Administrative

Selling, general, and administrative expenses were about the same in the three months and increased \$2.9 million (or 7%) in the nine months ended September 30, 2004, compared with the corresponding periods in 2003. Compensation and employee benefit costs increased \$1.8 million, legal, audit, and consulting fees increased \$1.0 million, and insurance expense increased \$.7 million in the nine months ended September 30, 2004. Compensation costs increased as a result of additional staff and higher salaries. Legal, audit, and consulting expenses reflect an increased level of effort relating to USEC's strategic initiatives, including negotiations with DOE on out-of-specification uranium and U.S. Government contracts and costs to ensure compliance with the Sarbanes Oxley Act. The increase in insurance reflects higher premiums for directors and officers' liability

insurance.

Operating Income

Operating income declined \$9.9 million (or 72%) in the three months and \$17.7 million (or 43%) in the nine months ended September 30, 2004, compared with the corresponding periods of 2003. The reductions reflect the lower gross profit, higher centrifuge demonstration costs and, in the nine-month period, higher selling, general and administrative expenses.

Provision (Credit) for Income Taxes

The credit for income taxes of \$1.2 million reflects an effective income tax rate of 29% applied to a pretax loss in the nine months ended September 30, 2004, compared with the provision for income taxes of \$6.8 million reflecting an effective income tax rate of 41% applied to pretax income in the corresponding period of 2003. The tax rate in 2004 reflects higher export tax incentives, accrual of a nontaxable Medicare subsidy, and research and experimentation tax credits.

The American Jobs Creation Act of 2004 ("Act") was enacted into law on October 22, 2004. The Act phases out export tax incentives over a period of years and phases in a special deduction over the period 2005 to 2009 for corporations with manufacturing activities in the United States. USEC expects to benefit from reduced export tax incentives during the phase out period and expects to benefit from the special deduction for domestic manufacturing activities as it is phased in. USEC is in the process of determining the overall effects of the legislation.

Net Income (Loss)

There was a net loss of \$3.4 million (\$.04 per share) in the three months ended September 30, 2004, compared with net income of \$3.4 million (or \$.04 per share) in the corresponding period of 2003. There was a net loss of \$2.9 million (\$.03 per share) in the nine months ended September 30, 2004, compared with net income of \$9.8 million (or \$.12 per share) in the corresponding period of 2003. The reductions reflect the declines in operating income. USEC expects about one half of its SWU and uranium revenue for 2004 will be earned in the fourth quarter of 2004.

Outlook

USEC continues to project revenue for 2004 at approximately \$1.4 billion, with about half of its revenue from deliveries of SWU and natural uranium coming in the fourth quarter of 2004. Revenue includes the sale of natural uranium, which is expected to total approximately \$210 million. While the revenue projection is virtually unchanged, USEC expects its cost of sales to decline below its previous forecast, resulting in a .5% improvement to its gross profit margin.

USEC raises its earnings guidance for 2004 to \$18 to \$20 million (or \$.21 to \$.24 per share). The previous guidance given for 2004 was \$14 to \$16 million.

USEC expects to invest approximately \$70 million in the American Centrifuge technology in 2004. USEC has reassessed its allocation of costs for 2004 between expense and capital, and now anticipates that approximately \$60 million related to demonstration activities will be expensed, which has the effect of reducing net income in 2004 by about \$37 million (or \$.44 per share).

Approximately \$10 million related to the American Centrifuge Plant is expected to be capitalized in 2004.

USEC expects cash flow from operating activities to improve from its earlier forecast. Cash flow from operating activities will be in a range of negative \$45 to \$55 million, and capital expenditures will total approximately \$25 million, including expenditures related to the American Centrifuge. USEC anticipates ending the year with a cash balance in a range of \$115 to \$125 million.

Liquidity and Capital Resources

Liquidity and Cash Flows

Net cash outflow from operating activities amounted to \$197.2 million in the nine months ended September 30, 2004, compared with cash outflow of \$52.4 million in the corresponding period of 2003. Cash outflow in the nine months ended September 30, 2004, reflects a net inventory increase or temporary build up of almost \$300.0 million in anticipation of the high levels of customer orders for deliveries scheduled in the fourth quarter of 2004 and reflects the payment of a previously accrued obligation of \$33.2 million resulting from the settlement of termination obligations under the OVEC power purchase agreement, partly offset by a decline of \$95.1 million in accounts receivable. Other factors affecting cash outflow included the decline in operating income and higher payments for income taxes.

Net cash outflow from operating activities of \$52.4 million in the nine months ended September 30, 2003, had been reduced by \$43.4 million relating to deliveries against advances from customers that result in non-cash revenue, as well as outflows from the timing of purchases under the Russian Contract and the timing of collections of trade receivables.

Capital expenditures amounted to \$13.1 million in the nine months ended September 30, 2004, compared with \$20.5 million in the corresponding period of 2003. Capital expenditures in the 2004 period include capitalized costs associated with the American Centrifuge Plant.

The issuance of common stock, primarily from the exercise of stock options, provided cash flow of \$10.8 million in the nine months ended September 30, 2004. There were 84.7 million shares of common stock outstanding at September 30, 2004, compared with 82.6 million at December 31, 2003.

Dividends paid to stockholders amounted to \$34.6 million (or a quarterly rate of \$.1375 per share) in the nine months ended September 30, 2004, compared with \$33.9 million in the corresponding period of 2003. Cash dividends are charged against excess of capital over par value in the stockholders' equity section.

Working Capital

A summary of working capital is as follows (in millions):

	September 30, 2004	December 31, 2003
Cash and cash equivalents	\$ 15.0	\$ 249.1
Accounts receivable	159.4	254.5
Inventories, net	1,205.1	838.2
Accounts payable and other assets, net	(287.1)	(326.7)
Working capital	\$ 1,092.4	\$ 1,015.1

Cash and cash equivalents amounted to \$15.0 million at September 30, 2004, compared with \$249.1 million at December 31, 2003. The reduction of \$234.1 million reflects the net cash outflow from operating activities, principally the net increase in inventories. Inventories included in current assets, net of uranium owed to customers and suppliers, increased \$366.9 million (or 44%) reflecting the temporary build-up of SWU inventories in anticipation of the high levels of customer orders for deliveries scheduled in the fourth quarter of 2004. USEC expects about one half of the SWU and uranium revenue for 2004 will be earned in the fourth quarter of 2004, and that inventories will return to normal levels at the end of 2004.

There were no short-term borrowings at September 30, 2004 or December 31, 2003. USEC expects to temporarily borrow under its revolving credit agreement in the fourth quarter of 2004 and expects to repay such borrowings by the end of 2004.

In February 2004, USEC paid a previously accrued obligation of \$33.2 million resulting from the settlement of termination obligations under the OVEC power purchase agreement.

Other Long-Term Assets and Liabilities

Deferred income taxes included in other long-term assets declined \$17.8 million (or 34%) at September 30, 2004, compared with December 31, 2003. The reduction reflects a reclassification of \$11.9 million for the current portion of deferred income taxes included in other current assets.

The liability for the disposition of depleted uranium included in other long-term liabilities declined \$25.9 million (or 48%) and the asset for the prepayment and deposit for depleted uranium included in other long-term assets declined \$23.6 million (or 50%) at September 30, 2004, compared with December 31, 2003. The reductions reflect the transfer of depleted uranium to DOE under the terms of a 1998 Memorandum of Agreement.

Capital Structure and Financial Resources

In January 1999, USEC issued \$350.0 million of 6.625% senior notes due January 20, 2006 and \$150.0 million of 6.750% senior notes due January 20, 2009. The senior notes are unsecured obligations and rank on a parity with all other unsecured and unsubordinated indebtedness of USEC Inc.

In September 2002, United States Enrichment Corporation, a wholly owned subsidiary of USEC, entered into a three-year syndicated revolving credit facility. The facility provides up to \$150 million in revolving credit commitments (including up to \$50 million in letters of credit) until September 2005

and is secured by certain assets of the subsidiary and, subject to certain conditions, certain assets of USEC. Borrowings under the facility are subject to limitations based on percentages of eligible accounts receivable and inventory. Obligations under the facility are fully and unconditionally guaranteed by USEC.

Outstanding borrowings under the facility bear interest at a variable rate equal to, based on the borrower's election, either (i) the sum of (x) the greater of the JPMorgan Chase Bank prime rate or the federal funds rate plus 1/2 of 1% plus (y) a margin ranging from .75% to 1.25% based upon collateral availability or (ii) the sum of LIBOR plus a margin ranging from 2.5% to 3% based on collateral availability. The revolving credit facility includes various operating and financial covenants that are customary for transactions of this type, including, without limitation, restrictions on the incurrence and prepayment of other indebtedness, granting of liens, sales of assets, making of investments, maintenance of a minimum amount of inventory, and payment of dividends or other distributions. The new facility does not restrict USEC's payment of common stock dividends at the current level, subject to the maintenance of a specified minimum level of collateral. Failure to satisfy the covenants would constitute an event of default. At September 30, 2004, USEC was in compliance with covenants under the revolving credit facility.

The total debt-to-capitalization ratio was 37% at September 30, 2004, and 36% at December 31, 2003. In October 2004, Standard & Poor's lowered its ratings on USEC as follows: corporate credit rating to BB- with negative outlook from BB with stable outlook, senior notes (\$500 million) to B from BB-, and revolving credit facility to BB+ from BBB-. In July 2004, Moody's affirmed its negative outlook on USEC, lowered the rating on USEC's senior notes (\$500 million) to Ba3 from Ba2, lowered the senior implied rating to Ba2 from Ba1, and placed the ratings under review for possible further downgrade.

USEC expects that its cash, internally generated funds from operations, and available financing under the revolving credit facility will be sufficient over the next 12 months to meet its obligations as they become due and to fund operating requirements and capital expenditures, purchases of SWU under the Russian Contract, interest expense, American Centrifuge demonstration costs, and quarterly dividends. USEC expects to renegotiate the revolving credit facility that provides \$150 million in revolving credit commitments prior to expiration of the facility in September 2005, and to identify alternatives to retire or refinance the first installment of senior notes amounting to \$350 million that is scheduled to mature in January 2006.

Quantitative and Qualitative Disclosures about Market Risk

At September 30, 2004, the balance sheet carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and payables under the Russian Contract approximate fair value because of the short-term nature of the instruments.

USEC does not enter into financial instruments for trading purposes. The fair value of long-term debt is calculated based on a credit-adjusted spread over U.S. Treasury securities with similar maturities. The scheduled maturity dates of long-term debt, the balance sheet carrying amounts and related fair values at September 30, 2004, are as follows (in millions):

	Maturity Dates		September 30, 2004	
	January 2006	January 2009	Balance Sheet Carrying Amount	Fair Value
Long-term debt:				
6.625% senior notes	\$350.0		\$ 350.0	\$352.2
6.750% senior notes		\$150.0	150.0	147.9
			<u>\$ 500.0</u>	<u>\$500.1</u>

Controls and Procedures

Disclosure Controls and Procedures

Management, with the participation of the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer, has evaluated the effectiveness of the disclosure controls and procedures as of September 30, 2004. Based on such evaluation, management, including the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer, concluded that the disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by USEC in the reports that it files or submits under the Securities Exchange Act of 1934.

Internal Control over Financial Reporting

There have not been any changes in USEC's internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, USEC's internal control over financial reporting.

USEC Inc.
PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Environmental Matters

In 1998, USEC contracted with Starmet CMI ("Starmet") to convert a small portion of USEC's depleted uranium into a form that could be used in certain beneficial applications or disposed of at existing commercial disposal facilities. In 2002, Starmet ceased operations at its Barnwell, South Carolina facility.

In November 2002, USEC received notice from the U.S. Environmental Protection Agency ("EPA") that EPA was undertaking removal action under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), as amended (commonly known as Superfund), to clean up two evaporation ponds and remove and dispose of certain drums and other material located at Starmet's Barnwell site containing uranium and other byproducts of Starmet's activities at the site. The notice also stated that EPA believed USEC as well as other parties, including agencies of the U.S. Government, are potentially responsible parties ("PRPs") under CERCLA. In February 2004, USEC and certain federal agencies who have been identified as PRPs under CERCLA entered into an agreement with EPA, under which USEC is responsible for removing certain material from the site that is attributable to quantities of depleted uranium USEC had sent to the site. USEC has engaged contractors to remove and dispose of such material.

At September 30, 2004, USEC had an accrued liability of \$7.7 million representing its current estimate of its share of costs to comply with the EPA settlement agreement and other costs associated with the Starmet facility. Additional costs could be incurred due to a number of factors including, but not limited to, increases in costs associated with the removal and disposal of material from the Starmet site, increases in costs associated with remediation of the evaporation ponds, or a decision by EPA or the South Carolina Department of Health and Environmental Control to perform additional remediation at the site after completion of the removal and disposal activities. An allocation of costs to USEC in excess of the amounts that USEC has accrued at September 30, 2004, could have an adverse effect on USEC's results of operations.

Other

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

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

- 4.4 Form of Employee Nonqualified Stock Option Agreement.
- 4.5 Form of Employee Nonqualified Stock Option Agreement in connection with an employment agreement.
- 10.69 Amended and Restated Employment Agreement, dated July 29, 2004, between USEC Inc. and William H. Timbers, President and Chief Executive Officer.
- 10.70 Agreement, dated July 29, 2004, between USEC Inc. and James R. Mellor, Chairman of the Board.
- 10.71 Agreement and General Release, dated September 21, 2004, between USEC Inc. and Sydney M. Ferguson, Senior Vice President.
- 31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).
- 31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).
- 32 Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

On July 14, 2004, USEC filed a current report on Form 8-K to furnish its press release, dated July 13, 2004, updating earnings guidance for 2004.

On July 30, 2004, USEC filed a current report on Form 8-K to furnish its press release, dated July 29, 2004, announcing that it had entered into a definitive agreement to acquire NAC International.

On August 4, 2004, USEC filed a current report on Form 8-K to furnish its press release, dated August 3, 2004, announcing financial results for the three and six months ended June 30, 2004.

On September 27, 2004, USEC filed a current report on Form 8-K disclosing an agreement between USEC Inc. and Sydney M. Ferguson, Senior Vice President, relating to Ms. Ferguson's resignation.

On October 28, 2004, USEC filed a current report on Form 8-K reporting that USEC and DOE had entered into a material definitive agreement regarding the transfer by DOE of 2,116 metric tons of uranium to USEC in exchange for 2,116 metric tons of out-of-specification uranium.

SIGNATURE

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

November 9, 2004

USEC Inc.

By _____ /s/ Ellen C. Wolf

Ellen C. Wolf

Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
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4.5	Form of Employee Nonqualified Stock Option Agreement in connection with an employment agreement.
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USEC Inc.
EMPLOYEE NONQUALIFIED STOCK OPTION AGREEMENT
(Three Year Vesting)

NONQUALIFIED STOCK OPTION AGREEMENT (the "Agreement") dated as of _____
(the "Date of Grant"), between USEC Inc., a Delaware corporation (the
"Company"), and _____ (the "Optionee"):

R E C I T A L S:
- - - - -

The Company has adopted the USEC Inc. 1999 Equity Incentive Plan (the "Plan"), which Plan is incorporated herein by reference and made a part of this Agreement. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan.

The Committee has determined that it is in the best interests of the Company and its shareholders to grant the option provided for herein to the Optionee pursuant to the Plan and the terms set forth herein as an increased incentive to contribute to the Company's future success and prosperity.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties hereto agree as follows:

1. Grant of the Option. The Company hereby grants to the Optionee an option (the "Option") which Option permits the Optionee to purchase all or any part of an aggregate of _____ Shares at a purchase price of \$_____ per share (the "Exercise Price"). The Option granted hereby is intended to be a Non-Qualified Stock Option and not an Incentive Stock Option.

2. Vesting. Subject to Section 4 hereof, one-third of the Option shall become exercisable as of the first anniversary of the Date of Grant and an additional one-third of the Option shall become exercisable on each of the second and third anniversaries of the Date of Grant. At any time, the "Vested Portion" of the Option means that portion which (i) shall have become exercisable pursuant to the terms of this Agreement and (ii) shall not have been previously exercised.

3. Exercise of Option. (a) Subject to the provisions of the Plan and this Agreement (including Section 4 hereof), the Optionee may exercise all or any part of the Vested Portion of the Option at any time prior to the fifth anniversary of the Date of Grant (the "Expiration Date"); provided that the Option may be exercised with respect to whole Shares only. In no event shall the Option be exercisable on or after the Expiration Date.

(b) To the extent set forth in subparagraph (a) above, the Option may be exercised by delivering to the Company at its principal office written notice of intent to exercise. Such

notice shall specify the number of Shares for which the Option is being exercised and shall be accompanied by payment in full, or adequate provision therefor, of the Exercise Price and any applicable withholding tax. The payment of the Exercise Price shall be made (i) in cash or (ii) by certified check or bank draft payable to the order of the Company or (iii) by tendering Shares which have been owned by the Optionee for at least six months (and which are not subject to any pledge or other security interest) or (iv) by a combination of the foregoing, provided that the combined value of all cash and cash equivalents and the Fair Market Value of any such Shares so tendered to the Company as of the date of such tender is at least equal to the Exercise Price. The Optionee may elect to pay all or any portion of the Exercise Price by having Shares with a Fair Market Value on the date of exercise equal to the Exercise Price withheld by the Company or sold by a broker-dealer. The payment of withholding tax shall

be subject to Section 8 of this Agreement.

(c) Notwithstanding any other provision of the Plan or this Agreement to the contrary, no Option may be exercised prior to the completion of any registration or qualification of such Option or the Shares under applicable state and federal securities or other laws, or under any ruling or regulation of any government body or national securities exchange, that the Committee shall in its sole discretion determine to be necessary or advisable.

(d) Upon the Company's determination that the Option has been validly exercised as to any of the Shares, the Company shall issue or cause to be issued as promptly as practicable certificates in the Optionee's name for such Shares. However, the Company shall not be liable to the Optionee for damages relating to any delays in issuing the certificates or in the certificates themselves.

4. Termination of Employment. (a) In the event that the Optionee's employment with the Company is terminated by the Company for Cause or the Optionee breaches the covenants set forth in Section 9, the Option (whether vested or unvested) shall be deemed canceled and forfeited in its entirety on the date of the Optionee's termination of employment.

(b) In the event that the Optionee's employment with the Company is terminated by the Optionee voluntarily, the unvested portion of the Option shall be deemed canceled and forfeited on the date of Optionee's termination of employment and the Vested Portion, if any, of the Option as of the date of such termination shall remain exercisable for a period of one month following such termination of employment, and shall thereafter be deemed canceled and forfeited.

(c) In the event that the Optionee's employment with the Company is terminated by the Company without Cause or by reason of death, Disability or Retirement, unless otherwise provided by the Committee at the time of such termination, the Option shall vest in its entirety and shall remain exercisable for a period of one year following such termination of employment, and shall thereafter be deemed canceled and forfeited.

5. Change in Control. Upon a Change in Control of the Company, the unvested portion of the Option shall vest.

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6. No Right to Continued Employment: No Rights as a Shareholder. Neither the Plan nor this Agreement shall confer on the Optionee any right to continued employment with the Company. The Optionee shall not have any rights as a shareholder with respect to any Shares subject to the Option prior to the date of exercise of the Option.

7. Transferability. Except as provided below, the Option is nontransferable and may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Optionee, except by will or the laws of descent and distribution. Notwithstanding the foregoing, the Optionee may transfer the Vested Portion to members of his or her immediate family (defined as his or her spouse, children or grandchildren) or to one or more trusts for the exclusive benefit of such immediate family members or partnerships in which such immediate family members are the only partners if the transfer is approved by the Committee and the Optionee does not receive any consideration for the transfer. Any such transferred portion shall continue to be subject to the same terms and conditions that were applicable to the Option immediately prior to its transfer (except that such transferred portion shall not be further transferable by the transferee). No transfer of the Option shall be effective to bind the Company unless the Company shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee of the terms and conditions hereof.

8. Withholding. The Optionee agrees to make appropriate arrangements with the Company for satisfaction of any applicable federal, state, local or foreign tax withholding requirements or like requirements, including the payment to the Company at the time of any exercise of the Option of all such taxes and requirements, and the Company shall have the right and is hereby authorized to withhold from the Shares transferable to the Optionee upon any exercise of the Option or from any other compensation or other amount owing to the Optionee such amount (in cash, Shares or other property, as the case may be) as may be

necessary in the opinion of the Company to satisfy all such taxes and requirements.

9. Confidential Information and Trade Secrets. The Optionee and the Company agree that certain materials, including, but not limited to, information, data and other materials relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, manufacturing processes, financing methods, plans or the business and affairs of the Company and its Affiliates, constitute proprietary confidential information and trade secrets. Accordingly, the Optionee will not at any time during or after the Optionee's employment with the Company disclose or use for the Optionee's own benefit or purposes or the benefit or purposes of any other person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise other than the Company and any of its Affiliates, any proprietary confidential information or trade secrets, provided that the foregoing shall not apply to information which is not unique to the Company or any of its Affiliates or which is generally known to the industry or the public other than as a result of the Optionee's breach of this covenant. The Optionee agrees that upon termination of employment with

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the Company for any reason, the Optionee will immediately return to the Company all memoranda, books, papers, plans, information, letters and other data, and all copies thereof or therefrom, which in any way relate to the business of the Company and its Affiliates, except that the Optionee may retain personal notes, notebooks and diaries. The Optionee further agrees that the Optionee will not retain or use for the Optionee's account at any time any trade names, trademark or other proprietary business designation used or owned in connection with the business of the Company or any of its Affiliates.

10. Remedies. The Optionee acknowledges that a violation or attempted violation on the Optionee's part of Sections 9 will cause irreparable damage to the Company, and the Optionee therefore agrees that the Company shall be entitled as a matter of right to an injunction, out of any court of competent jurisdiction, restraining any violation or further violation of such promises by the Optionee or the Optionee's employees, partners or agents. The Optionee agrees that such right to an injunction is cumulative and in addition to whatever other remedies the Company may have under law or equity.

11. Failure to Enforce Not A Waiver. The failure of the Company to enforce at any time any provision of this Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.

12. Securities Laws. Upon the acquisition of any Shares pursuant to the exercise of the Option, the Optionee or the Optionee's transferee, if applicable, will make or enter into such written representations, warranties and agreements as the Company may reasonably request in order to comply with applicable securities laws, with this Agreement, or as the Company otherwise deems necessary or advisable.

13. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to the conflicts of laws provisions thereof.

14. Amendments. This Agreement may be amended or modified at any time by an instrument in writing signed by the parties hereto.

15. Notices. Any notice, request, instruction or other document given under this Agreement shall be in writing and shall be addressed and delivered, in the case of the Company, to the Secretary of the Company at the principal office of the Company and, in the case of the Optionee, to the Optionee's address as shown in the records of the Company or to such other address as may be designated in writing by either party.

16. Award Subject to Plan; Amendments to Award. This Award is subject to the Plan. The terms and provisions of the Plan as it may be amended from time to time are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Agreement will govern and prevail.

17. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original but all of which together shall represent one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement. By execution of this Agreement, the Optionee acknowledges receipt of a copy of the Plan.

USEC Inc.

By

Vice President, Human Resources
& Administration

Name

USEC Inc.
EMPLOYEE NONQUALIFIED STOCK OPTION AGREEMENT
(Three Year Vesting)

NONQUALIFIED STOCK OPTION AGREEMENT (the "Agreement") dated as of _____ (the "Date of Grant"), between USEC Inc., a Delaware corporation (the "Company"), and _____ (the "Optionee"):

R E C I T A L S:
- - - - -

The Company has adopted the USEC Inc. 1999 Equity Incentive Plan (the "Plan"), which Plan is incorporated herein by reference and made a part of this Agreement. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan.

The Committee has determined that it is in the best interests of the Company and its shareholders to grant the option provided for herein to the Optionee pursuant to the Plan and the terms set forth herein as an increased incentive to contribute to the Company's future success and prosperity.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties hereto agree as follows:

1. Grant of the Option. The Company hereby grants to the Optionee an option (the "Option") which Option permits the Optionee to purchase all or any part of an aggregate of _____ Shares at a purchase price of \$_____ per share (the "Exercise Price"). The Option granted hereby is intended to be a Non-Qualified Stock Option and not an Incentive Stock Option.

2. Vesting. Subject to Section 4 hereof, one-third of the Option shall become exercisable as of the first anniversary of the Date of Grant and an additional one-third of the Option shall become exercisable on each of the second and third anniversaries of the Date of Grant. At any time, the "Vested Portion" of the Option means that portion which (i) shall have become exercisable pursuant to the terms of this Agreement and (ii) shall not have been previously exercised.

3. Exercise of Option. (a) Subject to the provisions of the Plan and this Agreement (including Section 4 hereof), the Optionee may exercise all or any part of the Vested Portion of the Option at any time prior to the fifth anniversary of the Date of Grant (the "Expiration Date"); provided that the Option may be exercised with respect to whole Shares only. In no event shall the Option be exercisable on or after the Expiration Date.

(b) To the extent set forth in subparagraph (a) above, the Option may be exercised by delivering to the Company at its principal office written notice of intent to exercise. Such

notice shall specify the number of Shares for which the Option is being exercised and shall be accompanied by payment in full, or adequate provision therefor, of the Exercise Price and any applicable withholding tax. The payment of the Exercise Price shall be made (i) in cash or (ii) by certified check or bank draft payable to the order of the Company or (iii) by tendering Shares which have been owned by the Optionee for at least six months (and which are not subject to any pledge or other security interest) or (iv) by a combination of the foregoing, provided that the combined value of all cash and cash equivalents and the Fair Market Value of any such Shares so tendered to the Company as of the date of such tender is at least equal to the Exercise Price. The Optionee may elect to pay all or any portion of the Exercise Price by having Shares with a Fair Market Value on the date of exercise equal to the Exercise Price withheld by the Company or sold by a broker-dealer. The payment of withholding tax shall be subject to Section 8 of this Agreement.

(c) Notwithstanding any other provision of the Plan or this Agreement to the contrary, no Option may be exercised prior to the completion of any registration or qualification of such Option or the Shares under applicable state and federal securities or other laws, or under any ruling or regulation of any government body or national securities exchange, that the Committee shall in its sole discretion determine to be necessary or advisable.

(d) Upon the Company's determination that the Option has been validly exercised as to any of the Shares, the Company shall issue or cause to be issued as promptly as practicable certificates in the Optionee's name for such Shares. However, the Company shall not be liable to the Optionee for damages relating to any delays in issuing the certificates or in the certificates themselves.

4. Termination of Employment. (a) In the event that the Optionee's employment with the Company is terminated by the Company for Cause or the Optionee breaches the covenants set forth in Section 9, the Option (whether vested or unvested) shall be deemed canceled and forfeited in its entirety on the date of the Optionee's termination of employment.

(b) In the event that the Optionee's employment with the Company is terminated by the Optionee voluntarily, the unvested portion of the Option shall be deemed canceled and forfeited on the date of Optionee's termination of employment and the Vested Portion, if any, of the Option as of the date of such termination shall remain exercisable for a period of one month following such termination of employment, and shall thereafter be deemed canceled and forfeited.

(c) In the event that the Optionee's employment with the Company is terminated by the Company without Cause or by reason of death, Disability or Retirement, unless otherwise provided by the Committee at the time of such termination, the Option shall vest in its entirety and shall remain exercisable for a period of one year following such termination of employment, and shall thereafter be deemed canceled and forfeited.

5. Change in Control. Upon a Change in Control of the Company, the unvested portion of the Option shall vest.

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7. Transferability. Except as provided below, the Option is nontransferable and may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Optionee, except by will or the laws of descent and distribution. Notwithstanding the foregoing, the Optionee may transfer the Vested Portion to members of his or her immediate family (defined as his or her spouse, children or grandchildren) or to one or more trusts for the exclusive benefit of such immediate family members or partnerships in which such immediate family members are the only partners if the transfer is approved by the Committee and the Optionee does not receive any consideration for the transfer. Any such transferred portion shall continue to be subject to the same terms and conditions that were applicable to the Option immediately prior to its transfer (except that such transferred portion shall not be further transferable by the transferee). No transfer of the Option shall be effective to bind the Company unless the Company shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee of the terms and conditions hereof.

8. Withholding. The Optionee agrees to make appropriate arrangements with the Company for satisfaction of any applicable federal, state, local or foreign tax withholding requirements or like requirements, including the payment to the Company at the time of any exercise of the Option of all such taxes and requirements, and the Company shall have the right and is hereby authorized to withhold from the Shares transferable to the Optionee upon any exercise of the Option or from any other compensation or other amount owing to the Optionee such amount (in cash, Shares or other property, as the case may be) as may be necessary in the opinion of the Company to satisfy all such taxes and requirements.

9. Confidential Information and Trade Secrets. The Optionee and the Company agree that certain materials, including, but not limited to, information, data and other materials relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, manufacturing processes, financing methods, plans or the business and affairs of the Company and its Affiliates, constitute proprietary confidential information and trade secrets. Accordingly, the Optionee will not at any time during or after the Optionee's employment with the Company disclose or use for the Optionee's own benefit or purposes or the benefit or purposes of any other person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise other than the Company and any of its Affiliates, any proprietary confidential information or trade secrets, provided that the foregoing shall not apply to information which is not unique to the Company or any of its Affiliates or which is generally known to the industry or the public other than as a result of the Optionee's breach of this covenant. The Optionee agrees that upon termination of employment with

3

the Company for any reason, the Optionee will immediately return to the Company all memoranda, books, papers, plans, information, letters and other data, and all copies thereof or therefrom, which in any way relate to the business of the Company and its Affiliates, except that the Optionee may retain personal notes, notebooks and diaries. The Optionee further agrees that the Optionee will not retain or use for the Optionee's account at any time any trade names, trademark or other proprietary business designation used or owned in connection with the business of the Company or any of its Affiliates.

10. Remedies. The Optionee acknowledges that a violation or attempted violation on the Optionee's part of Sections 9 will cause irreparable damage to the Company, and the Optionee therefore agrees that the Company shall be entitled as a matter of right to an injunction, out of any court of competent jurisdiction, restraining any violation or further violation of such promises by the Optionee or the Optionee's employees, partners or agents. The Optionee agrees that such right to an injunction is cumulative and in addition to whatever other remedies the Company may have under law or equity.

11. Failure to Enforce Not A Waiver. The failure of the Company to enforce at any time any provision of this Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.

12. Securities Laws. Upon the acquisition of any Shares pursuant to the exercise of the Option, the Optionee or the Optionee's transferee, if applicable, will make or enter into such written representations, warranties and agreements as the Company may reasonably request in order to comply with applicable securities laws, with this Agreement, or as the Company otherwise deems necessary or advisable.

13. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to the conflicts of laws provisions thereof.

14. Amendments. This Agreement may be amended or modified at any time by an instrument in writing signed by the parties hereto.

15. Notices. Any notice, request, instruction or other document given under this Agreement shall be in writing and shall be addressed and delivered, in the case of the Company, to the Secretary of the Company at the principal office of the Company and, in the case of the Optionee, to the Optionee's address as shown in the records of the Company or to such other address as may be designated in writing by either party.

16. Award Subject to Plan; Amendments to Award. This Award is subject to the Plan. The terms and provisions of the Plan as it may be amended from time to time are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Agreement will govern and prevail.

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17. Optionee's Employment Agreement. Optionee is party to an Employment Agreement dated _____ with the Company (as the same may from time to time be amended, the "Employment Agreement"). To the extent that any provision of this Agreement conflicts with or is otherwise addressed in the Employment Agreement, the terms of the Employment Agreement shall govern and prevail.

18. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original but all of which together shall represent one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement. By execution of this Agreement, the Optionee acknowledges receipt of a copy of the Plan.

USEC Inc.

By

Vice President, Human Resources
& Administration

Name

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AGREEMENT is an amendment and restatement, effective as of the 29th day of July, 2004, of the Employment Agreement made and entered into as of the 28th day of April, 1999, by and between USEC Inc., a Delaware corporation (the "Company"), and William H. Timbers, Jr. (the "Executive").

WHEREAS, the Company desires to provide for the service and employment of the Executive with the Company and the Executive wishes to perform services for the Company, all in accordance with the terms and conditions provided herein;

NOW, THEREFORE, IN CONSIDERATION of the mutual premises, covenants and agreements set forth below, it is hereby agreed as follows:

1. Employment and Term.

(a) The Company agrees to employ the Executive, and the Executive agrees to remain in the employ of the Company in accordance with the terms and provisions of this Agreement for the period set forth below (the "Employment Period").

(b) The Employment Period of this Agreement will commence as of the date hereof (the "Effective Date") and continue until December 31, 2009, unless sooner terminated as hereinafter provided. Notwithstanding the foregoing, upon the occurrence of a "Change in Control," as defined in the USEC Inc. 1999 Equity Incentive Plan (the "Equity Incentive Plan"), during the Employment Period, this Agreement shall continue in effect for a period of not less than three years from the date of the Change in Control, unless sooner terminated as hereinafter provided. References herein to the Employment Period shall refer to both the initial term and any extended term hereunder resulting from a Change in Control. The Employment Period shall end on the Date of Termination (as hereinafter defined).

(c) The Company also hereby agrees that the Executive currently serves as a director on the Board of Directors of the Company (the "Board"), and as a director and Chief Executive Officer of each Subsidiary (as defined below), and the Executive hereby accepts such appointments. As used herein, the term "Subsidiaries" shall mean all corporations a majority of capital stock of which entitling the holder thereof to vote is owned by the Company or a Subsidiary. Subject to any requirements of applicable law, the Executive shall be deemed to have resigned all such appointments and all other board and committee appointments with the Company, its affiliates and its employee benefit plans as of the date on which his employment with the Company terminates for any reason and shall execute any documents necessary or desirable to reflect such resignation.

(d) The principal location at which the Executive will perform his duties will be the Company's principal executive offices in Bethesda, Maryland.

2. Position; Duties. Commencing as of the Effective Date and continuing during the Employment Period, the Executive shall serve as President and Chief Executive Officer

of the Company and shall have such responsibilities, duties and authority as are specified in the Company's charter and/or bylaws and as specified, from time to time, by the Board. The Executive shall report directly to the Board. The Executive shall devote substantially all of his working time and efforts to the business and affairs of the Company and shall not engage in activities that interfere with such performance; provided, however, that this Agreement shall not be interpreted to prohibit the Executive from managing his personal investments and affairs, engaging in charitable activities, serving as a member of any board of directors of which he is currently a member or, subject to prior approval of the Board, serving on any other board of directors so long as, in the reasonable determination of the Board, such activities do not interfere with the performance of his duties hereunder.

3. Compensation. The Executive shall receive the following compensation for his services hereunder to the Company:

(a) Salary. The Company shall pay to the Executive an annual base salary ("Annual Base Salary") at a rate not less than \$710,000 for the Company's 2004 fiscal year, such salary to be paid in conformity with the Company's policies relating to salaried employees. During the Employment Period, this salary may be (but is not required to be) increased from time to time, subject to and in accordance with an annual performance review by the Board.

(b) Annual Incentive Program. The Executive shall be a participant in the Company's annual incentive program as in effect from time to time (the "Annual Incentive Program") at a level commensurate with his position, and shall be entitled to receive such amounts (each, a "Bonus") as may be authorized, declared and paid by the Company pursuant to the terms of such program and the performance goals established by the Compensation Committee of the Board. For each fiscal year, the target amount for the Executive's Bonus under the Annual Incentive Plan shall be at least 100% of the Executive's Annual Base Salary for such fiscal year.

(c) Long-Term Incentive Plan. The Executive shall be a participant in the Equity Incentive Plan, and any other long-term equity or cash compensation programs as the Board may provide for the Company's senior management (collectively, the "LTIP") at a level commensurate with the Executive's position.

(d) Employee Benefit Plans; Perquisites; Fringe Benefits. During the Employment Period, the Executive shall be eligible to participate, on a basis commensurate with his position, in all employee benefit plans, including supplemental benefit plans, welfare plans, practices, policies and programs, perquisites and other fringe benefits applicable to senior management of the Company. Such benefits shall include, but not be limited to, an annual budget for financial planning in an amount equal to \$30,000 (subject to increase in the discretion of the Board). A one-year "reach back" and "reach forward" will apply to the financial planning budget so that, for example, the Executive could use \$40,000 during the first year of the Employment Period, but would then be limited to \$20,000 for the second year. The Company shall provide the Executive with supplemental executive retirement benefits pursuant to the terms of the

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USEC, Inc. Supplemental Executive Retirement Plan (the "SERP"), as modified by Appendix A hereto (which shall form a part of this Agreement).

(e) Life Insurance. The Company shall increase the amount of life insurance provided to the Executive under the whole life policies it maintains as of the date hereof on the life of the Executive so that the policies provide the Executive with life insurance equal to 3-1/3 times his Annual Base Salary as of the Effective Date. The Company shall pay the premiums for such insurance until the Date of Termination, at which time the Company's obligations to pay such premiums shall terminate; provided, however, that in the event that the Executive remains employed by the Company until expiration of the Employment Term or the Executive's employment is terminated by the Company (other than for Cause, as hereinafter defined), or by the Executive for Good Reason, as hereinafter defined, the Company shall pay up the insurance policies in full (based on the projected dividend rate), and transfer ownership of such policies to the Executive, to the extent permitted by such policies. If for any reason (a) the Executive's the life insurance policies cannot be continued, the Company will provide the Executive with mutually agreed upon equivalent benefits, or (b) the policies cannot be paid up in full and transferred to the Executive as required by the preceding provisions of this Section 3(e), the Company will make a cash payment to the Executive of equal value.

(f) Expenses. The Company agrees to reimburse the Executive for all reasonable expenses, including those for travel and entertainment, properly incurred by him in the performance of his duties under this Agreement in accordance with policies established from time to time by the Company.

4. Termination of Employment.

(a) Death; Disability. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. The Company or the Executive may terminate the Executive's employment on account of the Executive's Disability. For purposes hereof, "Disability" shall mean that the Executive has become totally and permanently disabled as defined or described in the Company's long term disability benefit plan applicable to

senior executive officers as in effect at the time the Executive's disability is incurred.

(b) By the Company for Cause. The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement "Cause" shall mean:

(i) the engaging by the Executive in willful misconduct that is injurious to the Company or its affiliates;

(ii) the embezzlement or misappropriation of funds or property of the Company or its affiliates by the Executive, or the conviction of the Executive of a felony or the entrance of a plea of guilty or nolo contendere by the Executive to a felony; or

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(iii) the willful failure or refusal by the Executive to substantially perform his duties or responsibilities (other than (x) any such failure resulting from the Executive's incapacity due to Disability, or (y) any such actual or anticipated failure after the issuance of a Notice of Termination (as defined below) by the Executive for Good Reason (as defined below)) after demand for substantial performance is delivered by the Company to the Executive that specifically identifies the manner in which the Company believes the Executive has not substantially performed his duties.

For purposes of this definition, no act, or failure to act, on the Executive's part shall be considered "willful" unless done, or omitted to be done, by him not in good faith and without reasonable belief that his action or omission was in the best interest of the Company. Notwithstanding the foregoing, the Executive's employment shall not be deemed to have been terminated for Cause unless (A) a reasonable notice shall have been given to him setting forth in reasonable detail the reasons for the Company's intentions to terminate for Cause, and if such termination is pursuant to clause (i) or (iii) above, and the damage to the Company is curable, only if the Executive has been provided a period of ten (10) business days from receipt of such notice to cease the actions or inactions, and he has not done so; (B) an opportunity shall have been provided for the Executive, together with his counsel, to be heard before the Board; and (C) if such termination is pursuant to clause (i) or (iii) above, delivery shall have been made to the Executive of a Notice of Termination from the Board finding that in the good faith opinion of a majority of the nonmanagement members of the Board he was guilty of conduct set forth in clause (i) or (iii) above, and specifying the particulars thereof in reasonable detail.

(c) By the Executive for Good Reason. The Executive may terminate his employment during the Employment Period for Good Reason. For purposes of this Agreement, "Good Reason" shall mean, without the Executive's express written consent, any of the following, unless such act or failure to act is corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:

(i) any material breach by the Company of its obligations under this Agreement, including but not limited to (x) a reduction in the Executive's Base Salary as such salary may be increased from time to time thereafter, and (y) the Company's requiring the Executive to be based anywhere other than the offices that constitute the Company's corporate headquarters and/or the Company's principal executive offices;

(ii) either (A) the Executive is removed from any of his positions set forth in Section 2 hereof for any reason other than (I) by reason of death or Disability, or (II) for Cause, or (B) the failure to elect or re-elect the Executive to any position with the Company (including membership on the Board or the Boards of Directors of the Subsidiaries);

(iii) the Executive is assigned any duties inconsistent with the Executive's position (including status, offices, titles and reporting relationships), authority, duties or responsibilities as in effect as of the Effective Date (excluding

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for this purpose an isolated, insubstantial and inadvertent action not

taken in bad faith and which is remedied by the Company promptly following notice thereof given by the Executive);

(iv) the failure to assume this Agreement by any successor to the Company;

(v) any purported termination of the Executive's employment that is not effected pursuant to a Notice of Termination satisfying the requirements of paragraph (d) below, which termination for purposes of this Agreement shall be ineffective;

(vi) any relocation of the Executive's principal office location after a Change in Control, to a location that is more than 25 miles from his principal office location immediately prior to the Change in Control; or

(vii) termination of employment by the Executive that is determined by a majority of the nonmanagement members of the Board to be deemed to constitute Good Reason.

Notwithstanding the foregoing, a termination shall not be treated as a termination for Good Reason unless the Executive shall have delivered a Notice of Termination within 90 days of the Executive's having actual knowledge of the occurrence of one of such events, stating that the Executive intends to terminate employment for Good Reason.

(d) Notice of Termination. Any termination of the Executive's employment (other than by reason of death) shall be communicated by Notice of Termination to the other party hereto in accordance with Section 11(b) of this Agreement. For purposes of this Agreement, a "Notice of Termination," means a written notice that indicates the specific termination provision in this Agreement relied upon, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and specifies the Date of Termination. The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company under this Agreement or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's rights under this Agreement.

(e) Date of Termination. "Date of Termination" shall mean:

(i) if the Executive's employment is terminated by reason of Disability, or by the Executive for Good Reason, other than a termination pursuant to Section 4(c)(iv) of the definition of Good Reason, the date specified in the Notice of Termination (which shall not be less than 30 nor more than 60 days from the date such Notice of Termination is given);

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(ii) if the Executive's employment is terminated by the Company for Cause or without Cause, or by the Executive for other than Good Reason, the date the Notice of Termination is received;

(iii) if the Executive's employment is terminated by the Executive for Good Reason pursuant to Section 4(c)(iv) hereof, the date upon which any succession referred to therein becomes effective;

(iv) if the Executive's employment is terminated by reason of death, the date of death; and

(v) if the Executive's employment is terminated by reason of the expiration of the Employment Period, the last day of the Employment Period.

5. Obligations of the Company upon Termination.

(a) Termination by the Executive for Good Reason or by the Company Other than for Cause. If the Executive's employment is terminated by the Executive for Good Reason or by the Company other than for Cause:

(i) the Company shall pay to the Executive, within 10 days following the Date of Termination, a lump sum amount in cash equal to the sum of:

(A) the Executive's Annual Base Salary through the Date of Termination to the extent not previously paid;

(B) an amount equal to the Executive's Bonus for the fiscal year prior to the Date of Termination, to the extent such Bonus has been earned but not paid, and for the fiscal year that includes the Date of Termination, the product of (a) the Executive's Target Bonus (or, if the Executive's Date of Termination occurs within two years after a Change in Control, the amount of the Bonus to which the Executive would be entitled assuming that he continued to be employed for the entire fiscal year and all applicable performance goals or objectives were achieved at the maximum level) and (b) a fraction, the numerator of which shall be the number of days from the beginning of such fiscal year to and including the Date of Termination and the denominator of which shall be three hundred and sixty-five (365); and

(C) any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) and any accrued vacation pay, in each case to the extent not previously paid.

The amounts specified in clauses (A), (B) and (C) hereof shall be hereinafter referred to as the "Accrued Obligations";

(ii) the Company shall pay to the Executive, within 10 days following the Date of Termination, a lump sum amount, in cash, equal to three times the

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sum of the Final Average Salary and the Final Average Bonus, where (A) the "Final Average Salary" means the average of the Executive's Annual Base Salary as in effect for each of the three calendar years preceding the Date of Termination (provided that if the Executive's Date of Termination occurs within two years after a Change in Control, the Executive's Final Average Salary shall not be less than Executive's Annual Base Salary in effect immediately prior to the Date of Termination, not taking into account any reduction in Annual Base Salary made in contemplation of the Executive's termination) and (B) the "Final Average Bonus" means the average of the Bonuses awarded to the Executive pursuant to the Annual Incentive Program with respect to the three calendar years preceding the Date of Termination (provided that if the Executive's Date of Termination occurs within two years after a Change in Control, the Executive's Final Average Bonus shall not be less than the Executive's most recent target annual Bonus as of the Date of Termination);

(iii) subject to the Executive's continued compliance with Section 9 hereof, the Company shall continue life, disability, accident and health insurance benefits, (including supplemental health and life insurance benefits) substantially similar to those that the Executive was receiving immediately prior to the Date of Termination (or if applicable, prior to the Change in Control, or thereafter, if higher) until the third anniversary of the Date of Termination; provided, however, that (A) in the event the Company is unable to provide such benefits, the Company shall make annual payments to the Executive in an amount such that following the Executive's payment of applicable taxes thereon, the Executive retains an amount equal to the cost to the Executive, net of any cost that would otherwise be borne by the Executive if the benefits were provided by the Company, of obtaining comparable life, disability, accident and health insurance coverage and (B) the Company's obligation to provide continued life insurance shall not apply with respect to the life insurance policies transferred to (or a cash payment made to) the Executive pursuant to Section 3(e) hereof. Benefits otherwise receivable by the Executive pursuant to this Section 5(a)(iii) shall be reduced to the extent comparable benefits are actually received from a subsequent employer during the three year period following termination, and any such benefits actually received by the Executive shall be reported to the Company;

(iv) the Company shall furnish the Executive with office space and administrative support for two years following the Date of Termination; provided, however, that if the Executive becomes employed with another employer, the Company shall cease to provide the Executive with such office space and administrative support;

(v) the Company shall credit the Executive with one additional year of service for purposes of the SERP so that the Executive's SERP benefit will be calculated as if the Executive were one year older at the Date of Termination; and

(vi) all of the Executive's stock options (vested or nonvested) shall become exercisable and shall remain exercisable for the longer of one year and

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the number of years, including fractional portions thereof, that would have remained in the Employment Period until its expiration, but in no event shall such period exceed the maximum term of the stock options; and all restrictions pertaining to the Executive's restricted stock or other equity based awards shall lapse on the Date of Termination.

If the Company terminates the Executive's employment for other than Cause, or the Executive terminates employment for Good Reason, the Executive agrees that he shall be available to consult with the Company with respect to general business matters and strategic issues upon such terms and conditions as shall be mutually agreed upon by the parties hereto.

(b) Termination By Reason of Death or Disability. If the Executive's employment shall be terminated by reason of the Executive's death or Disability, then the Company shall pay the Executive the amounts and benefits described in clauses (a) (i), (iii), (v) and (vi) above.

(c) Termination By Reason of Expiration of the Employment Period. If the Executive's employment shall be terminated by reason of the expiration of the Employment Period:

(i) the Company shall pay to the Executive, within 10 days following the Date of Termination, the Accrued Obligations;

(ii) subject to the Executive's continued compliance with Section 9 hereof, the Company shall continue life, disability, accident and health insurance benefits (including supplemental health and life insurance benefits) substantially similar to those that the Executive was receiving immediately prior to the Date of Termination until the last day of the 18th month following the Date of Termination; provided, however, that (A) in the event the Company is unable to provide such benefits (other than disability benefits), the Company shall make annual payments to the Executive in an amount such that following the Executive's payment of applicable taxes thereon, the Executive retains an amount equal to the cost to the Executive, net of any cost that would otherwise be borne by the Executive, of obtaining comparable life, accident and health insurance coverage, (B) in the event that the Company is unable to provide disability benefits to the Executive on commercially reasonable terms, the Company shall pay to the Executive an amount such that after the payment of applicable taxes thereon is equal to the net cost to the Company of providing such coverage to the Executive during the eighteen month period immediately preceding the Date of Termination, and (C) the Company's obligation to provide continued life insurance shall not apply with respect to the life insurance policies transferred to (or a cash payment made to) the Executive pursuant to Section 3(e) hereof. Benefits otherwise receivable by the Executive pursuant to this Section 5(c) (ii) shall be reduced to the extent comparable benefits are actually received from a subsequent employer during the one and one-half year period following

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termination, and any such benefits actually received by the Executive shall be reported to the Company;

(iii) the Company shall furnish the Executive with office space and administrative support for one year following the Date of Termination; provided however, that if the Executive becomes employed with another employer, the Company shall cease to provide the Executive with such office space and administrative support;

(iv) all of the Executive's stock options shall become exercisable

and shall remain exercisable for the longer of one year and the number of years, including fractional portions thereof, that would have remained in the Employment Period until its expiration, but in no event shall such period exceed the maximum term of the stock options; and all restrictions pertaining to the Executive's restricted stock or other equity based awards shall lapse on the Date of Termination.

If the Executive's employment is terminated by reason of the expiration of the Employment Period, the Executive agrees that he shall be available to consult with the Company with respect to general business matters and strategic issues upon such terms and conditions as shall be mutually agreed upon by the parties hereto.

(d) Termination by the Company for Cause or By the Executive for Other Than Good Reason. Subject to the provisions of Section 6 of this Agreement, if the Executive's employment shall be terminated by the Company for Cause or by the Executive for other than Good Reason, death or Disability, in either case, during the Employment Period, the Company shall have no further obligations to the Executive under this Agreement other than the obligation to pay to the Executive Annual Base Salary through the Date of Termination, earned bonuses and any amount of compensation previously deferred by the Executive, in each case to the extent previously unpaid, and the Executive shall have no further obligations to the Company under this Agreement other than pursuant to Section 9 of this Agreement. All of the Executive's stock options that have not yet become exercisable shall expire and all of the Executive's restricted stock awards and other restricted equity based awards as to which the applicable restrictions have not yet lapsed shall be forfeited on the Date of Termination.

(e) Certain Tax Consequences. Whether or not the Executive becomes entitled to the payments and benefits described in this Section 5, if any of the payments or benefits (including the payments(s) provided for by this section 5(e)) received or to be received by the Executive in connection with a change in ownership or control of the Company (a "Statutory Change in Control"), as defined in section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or the Executive's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a Statutory Change in Control or any person affiliated with the Company or such person) (collectively, the "Severance Benefits") will be subject to any excise tax (the "Excise

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Tax") imposed under section 4999 of the Code, the Company shall pay to the Executive an additional amount equal to the Excise Tax (the "Excise Tax Payment").

For purposes of determining whether any of the Severance Benefits will be subject to the Excise Tax and the amount of such Excise Tax:

(i) all of the Severance Benefits shall be treated as "parachute payments" within the meaning of Code section 280G(b)(2), and all "excess parachute payments" within the meaning of Code section 280G(b)(1) shall be treated as subject to the Excise Tax, unless, in the opinion of tax counsel selected by the Company's independent auditors and reasonably acceptable to the Executive, such other payments or benefits (in whole or in part) do not constitute parachute payments, including by reason of Code section 280G(b)(4)(A), or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered, within the meaning of Code section 280G(b)(4)(B), in excess of the "Base Amount" as defined in Code section 280G(b)(3) allocable to such reasonable compensation, or are otherwise not subject to the Excise Tax; and

(ii) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with the principles of Code section 280G(d)(3) and (4).

In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time of termination of the Executive's employment, the Executive shall repay to the Company, at the time that the amount of such reduction in Excise Tax is finally determined (the "Reduced Excise Tax"), the difference of the Excise Tax Payment and the Reduced Excise Tax. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time of the termination of the Executive's employment (including by reason of any payment the existence or amount of which

could not be determined at the time of the Excise Tax Payment), the Company shall make an additional Excise Tax Payment in respect of such excess (plus any interest or penalties payable by the Executive with respect to such excess) at the time that the amount of such excess is finally determined. The Executive and the Company shall each reasonably cooperate with the other in connection with any administrative or judicial proceedings concerning the existence or amount of liability for Excise Tax with respect to the Severance Benefits.

(f) Other Fees and Expenses. With respect to a termination of Executive's employment prior to a Change in Control, if the Executive is the prevailing party, he shall be entitled to recover from the Company all reasonable legal fees and expenses incurred in contesting or disputing any termination of employment or in seeking to obtain or enforce any right or benefit to which he is entitled under this Agreement. With respect to a termination of Executive's employment following a Change in Control, the Company shall pay the Executive's reasonable legal fees and expenses provided the Executive has acted in good faith in connection with any such dispute. In all events, the Company shall

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bear its own fees and expenses in connection with any dispute, whether occurring before or after a Change in Control.

6. Non-Exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit plan, program, policy or practice provided by the Company and for which the Executive may qualify (except with respect to any benefit to which the Executive has waived his rights in writing), nor shall anything herein limit or otherwise affect such rights as the Executive may have under any other contract or agreement entered into after the Effective Date with the Company. Amounts that are vested benefits or that the Executive is otherwise entitled to receive under any benefit plan, policy, practice or program of, or any contract or agreement entered into after the date hereof with, the Company at or subsequent to the Date of Termination, shall be payable in accordance with such benefit plan, policy, practice, program, contract or agreement, except as explicitly modified by this Agreement.

7. Full Settlement; Mitigation. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Company may have against the Executive or others. The Executive shall not be required to mitigate the amount of any payment or benefit provided for in Sections 3(e) and 5 hereof by seeking other employment or otherwise, nor (except as specifically provided in Section 5 hereof) shall the amount of any payment or benefit provided for in Sections 3(e) and 5 hereof be reduced by any compensation earned by the Executive as the result of employment by another employer or by retirement benefits after the Date of Termination, or otherwise.

8. Arbitration. Except as otherwise provided in Section 9 hereof, the parties agree that any dispute, claim, or controversy based on common law, equity, or any federal, state, or local statute, ordinance, or regulation (other than workers' compensation claims) arising out of or relating in any way to the Executive's employment, the terms, benefits, and conditions of employment, or concerning this Agreement or its termination and any resulting termination of employment, including whether such dispute is arbitrable, shall be settled by arbitration. This agreement to arbitrate includes but is not limited to all claims for any form of illegal discrimination, improper or unfair treatment or dismissal, and all tort claims. The Executive shall still have a right to file a discrimination charge with a federal or state agency, but the final resolution of any discrimination claim shall be submitted to arbitration instead of a court or jury. The arbitration proceeding shall be conducted under the employment dispute resolution arbitration rules of the American Arbitration Association in effect at the time a demand for arbitration under the rules is made. The decision of the arbitrator(s), including determination of the amount of any damages suffered, shall be exclusive, final, and binding on all parties, their heirs, executors, administrators, successors and assigns.

9. Confidential Information; Non-Solicitation; Non-Competition. (a) The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret, proprietary, or confidential materials, knowledge, data or any other information relating to the Company or any of its affiliated companies, and their respective businesses ("Confidential

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Information"), which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and that shall not have been or now or hereafter have become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). During the Employment Period and (a) for a period of five years thereafter with respect to Confidential Information that does not include trade secrets, and (b) any time thereafter with respect to Confidential Information that does include trade secrets, the Executive shall not, except with the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it.

(b) In addition, the Executive shall not, at any time during the Employment Period and for a period of one year thereafter (i) engage or become interested as an owner (other than as an owner of less than 5% of the stock of a publicly owned company), stockholder, partner, director, officer, employee (in an executive capacity), consultant or otherwise in any business that is competitive with any business conducted by the Company or any of its affiliated companies during the Employment Period or as of the Date of Termination, as applicable or (ii) recruit, solicit for employment, hire or engage any employee or individual consultant of the Company or any person who was an employee or individual consultant of the Company within two (2) years prior to the Date of Termination. The Executive acknowledges that these provisions are necessary for the Company's protection and are not unreasonable, since he would be able to obtain employment with companies whose businesses are not competitive with those of the Company and its affiliated companies and would be able to recruit and hire personnel other than employees of the Company. The duration and the scope of these restrictions on the Executive's activities are divisible, so that if any provision of this paragraph is held or deemed to be invalid, that provision shall be automatically modified to the extent necessary to make it valid.

The Executive acknowledges that a violation or attempted violation on the Executive's part of this Section 9 will cause irreparable damage to the Company, and the Executive therefore agrees that the Company shall be entitled as a matter of right to an injunction, out of any court of competent jurisdiction, restraining any violation or further violation of such promises by the Executive or the Executive's employees, partners or agents. The Executive agrees that such right to an injunction is cumulative and in addition to whatever other remedies the Company may have under law or equity.

10. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amount would still be payable hereunder if the Executive had continued to live, all such amounts, unless

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otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee or other designee or, if there is no such designee, to the Executive's estate.

(c) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as defined above and any successor to its business and/or assets that assumes and agrees to perform this Agreement by operation of law, or otherwise. Prior to a Change in Control, the term "Company" shall also mean any affiliate of the Company to which the Executive may be transferred and the Company shall cause such successor employer to be considered the "Company" and to be bound by the terms of this Agreement and this Agreement shall be amended to so provide. Following a Change in Control, the term "Company" shall not mean any affiliate of the Company to which Executive may be transferred unless the Executive shall have previously approved of such transfer in writing, in which case the Company shall cause such

successor employer to be considered the "Company" and to be bound by the terms of this Agreement and this Agreement shall be amended to so provide. Failure of the Company to obtain an assumption and agreement as described in this Section 10(c) prior to the effective date of a succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Company in the same amount and on the same terms as the Executive would be entitled to under this Agreement if the Executive were to terminate the Executive's employment for Good Reason, except that, for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

11. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to the conflict of laws provisions thereof. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return-receipt requested, postage prepaid, addressed as follows:

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If to the Executive:

William H. Timbers, Jr.
c/o USEC Inc.
2 Democracy Center
6903 Rockledge Drive
Bethesda, Maryland 20817-1818

If to the Company:

USEC Inc.
2 Democracy Center
6903 Rockledge Drive
Bethesda, Maryland 20817-1818
Attention: Vice President, Human Resources

or to such other address as either party shall have furnished to the other in writing in accordance with this Agreement. Notice and communications shall be effective when actually received by the addressee.

(c) If any provision of this Agreement shall be declared to be invalid or unenforceable, in whole or in part, such invalidity or unenforceability shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

(d) The Company may withhold from any amounts payable under this Agreement such federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.

(e) This Agreement, together with the SERP, contains the entire understanding of the parties with respect to the subject matter herein and supersedes any prior agreements between the Company and the Executive. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties with respect to the subject matter herein other than those expressly set forth herein.

(f) To the extent, and only to the extent, that a payment or benefit paid or provided under this Agreement would also be paid or provided under the terms of an applicable plan, program or arrangement, such applicable plan, program or arrangement will be deemed to have been satisfied by the payment made or benefit

provided under this Agreement.

(g) This Agreement may be signed in several counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

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IN WITNESS WHEREOF, the Executive and the Company have caused this Agreement to be executed as of the day and year first above written.

USEC Inc.

By: /s/ John R. Hall

John R. Hall
Chairman, Compensation Committee
Board of Directors

/s/ W. Lance Wright

W. Lance Wright
Vice President, Human Resources
and Administration

EXECUTIVE

/s/ William H. Timbers, Jr.

William H. Timbers, Jr.

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APPENDIX A

SERP RETIREMENT BENEFIT

The Executive's retirement benefit under the SERP shall be calculated and paid in accordance with the terms of the SERP, subject to the following modifications and clarifications, which shall apply notwithstanding any contrary terms contained in the SERP:

1. Final Average Compensation: The Executive's Final Average Compensation shall be the average of his highest three years (whether or not consecutive) of Compensation out of his last eight years of employment by the Company. Notwithstanding the foregoing:

- (a) the aggregate amount of annual bonus compensation included in the Executive's Final Average Compensation shall not exceed 175% of the aggregate amount of Annual Base Salary included in the Executive's Final Average Compensation; and
- (b) subject to the preceding clause (a), the amount of annual bonus compensation used to determine the Executive's Final Average Compensation shall be deemed to equal the average of the highest annual bonuses paid to the Executive for any three calendar years out of the Executive's last eight years of employment.

The Executive's annual bonus for a calendar year shall be the amount of bonus earned with respect to such calendar year regardless of whether it is paid after the end of such calendar year.

2. SERP Benefit Upon Termination of Employment on or After December 31, 2009: If the Executive's Termination of Employment occurs on or after December 31, 2009, the Executive's Termination of Employment shall be treated as Normal Retirement and his benefit under the SERP shall be calculated in accordance with Section 4.2 of the SERP, and no reduction to the Benefit Objective shall apply to reflect that Termination of Employment occurred before the Executive attained age 62 (i.e. no 3% per year reduction or other reduction shall apply to the Benefit Objective). The Executive shall be entitled to immediate payment of his SERP benefit upon such Termination of Employment.

3. SERP Benefit Upon Termination of Employment By the Company Without

Cause or By the Executive for Good Reason: In the event that the Executive's employment is terminated by the Company without Cause or by the Executive for Good Reason, the Executive shall be entitled to a benefit under the SERP that is calculated in accordance with Section 4.2 of the SERP and as a benefit commencing at age 60,

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provided that no reduction to the Benefit Objective shall apply to reflect that Termination of Employment occurred before the Executive attained age 62 (i.e. no 3% per year reduction or other reduction shall apply to the Benefit Objective). The Executive shall receive immediate payment of his SERP benefit upon such Termination of Employment in the form of a lump sum cash payment. The amount of such lump sum cash payment shall be calculated in accordance with Section 6 of this Appendix A and shall take into account Section 8 of this Appendix A.

4. SERP Benefit Upon Voluntary Termination of Employment By the Executive Without Good Reason: In the event Executive voluntarily terminates his employment with the Company before December 31, 2009 other than for Good Reason and other than by reason of death or Disability, the Executive's benefit under the SERP shall be calculated in accordance with Section 4.3 of the SERP. The 3% reduction provided for by Section 4.3 of the SERP shall be applied to the Benefit Objective of 60% of the Executive's Final Average Compensation, so that, by way of example, if the Executive voluntarily terminated employment with the Company without Good Reason and other than by reason of death or disability upon attaining age 58, the Benefit Objective would be reduced to 52.8% of the Executive's Final Average Compensation. The Executive shall receive immediate payment of his SERP benefit upon such Termination of Employment in the form of a lump sum cash payment. The amount of such lump sum cash payment shall be calculated in accordance with Section 6 of this Appendix A.

5. SERP Benefit Upon Termination of Employment By Reason of Death or Disability: In the event Executive's employment with the Company terminates by reason of Disability, Executive's benefit under the SERP shall be determined and paid in the same manner as if Executive had terminated his employment with the Company for Good Reason (provided, however, that in lieu of the additional year of age which would otherwise be credited under Section 8 of this Appendix, Executive shall be credited with three additional years of age if his termination due to Disability occurs prior to age 57, two additional years if it occurs after age 56 and prior to 59, and one additional year if it occurs after age 59 and prior to age 60). If the Executive's employment with the Company terminates by reason of death, the Executive's designated beneficiary (or beneficiaries) shall be paid an immediate lump sum death benefit equal to 85% of the lump sum SERP benefit that the Executive would have received had he terminated employment with the Company as of his date of death for Good Reason and received his benefit under the SERP in the form of an immediate lump sum payment. If the Executive does not designate a beneficiary (or beneficiaries), his spouse shall be his beneficiary and if he does not have a spouse, his estate shall be his beneficiary.

6. Form of Payment of SERP Benefit; Early Retirement: The Executive's entire SERP benefit shall be paid in the form of a lump sum cash payment payable immediately upon Termination of Employment, regardless of the reason for termination. The lump sum value of the portion of the Executive's SERP benefit that is attributable to pre-2001 service shall be calculated using the UP-1984 Table of Mortality set back four years and the immediate interest rate published by the PBGC to value lump sums as of the first day of the calendar year coinciding with or immediately preceding the date of payment. The

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lump sum value of the portion of Executive's SERP benefit that is attributable to post-2000 service shall be calculated using the mortality table specified by Revenue Ruling 2001-62 (or successor thereto) and an interest rate assumption of 6.25%. Lump sum values shall be calculated based on an immediate annuity commencing at age 60 (age 62 in the case of a voluntary termination of employment by the Executive where his SERP benefit is determined under Section 4 of this Appendix) or Executive's age upon Termination of Employment, if later. If the Executive's Termination of Employment occurs prior to age 60 (age 62 in the case of a voluntary termination of employment by the Executive where his SERP benefit is determined under Section 4 of this Appendix), the Executive's lump sum benefit at age 60 (age 62 in the case of a voluntary termination of employment by the Executive where his SERP benefit is determined under Section 4

of this Appendix) shall be discounted from age 60 (age 62 in the case of a voluntary termination of employment by the Executive where his SERP benefit is determined under Section 4 of this Appendix) to the date of payment using a 6.25% interest rate assumption and no mortality assumption.

7. Pre-2001 SERP Benefit: The portion of Executive's SERP benefit attributable to pre-2001 service shall be equal to 60% of the Executive's Final Average Compensation as of December 31, 2000 (determined without regard to the modifications set forth in paragraph 1 of this Appendix), and shall not be subject to reduction to reflect any Termination of Employment prior to age 62.

8. Additional SERP Credit Upon Termination Without Cause or for Good Reason: In accordance with Section 5(a)(v) of the Agreement, the Executive shall receive an additional one year of age credit for purposes of calculating his SERP benefit in the event his employment terminated by the Company without Cause or if Executive terminates his employment for Good Reason.

9. Reduction for Primary Social Security Benefits: For purposes of calculating the Executive's SERP benefit, the reduction for Primary Social Security Benefits provided for by clause (a) of Section 4.2 of the SERP and clause (b) of Section 4.3 of the SERP shall not apply until the later of the date of the Executive's Termination of Employment and the date he attains (or would attain) age 62.

Capitalized terms used in this Appendix A shall have the meanings assigned to such terms in the Employment Agreement and the SERP, as the case may be.

THIS AGREEMENT is made as of July 29, 2004, by and between USEC Inc., a corporation organized and existing under the laws of the state of Delaware (hereinafter called "USEC"), and James R. Mellor, an individual (hereinafter called the "Consultant").

IN CONSIDERATION of the mutual promises set forth herein, the parties hereby agree as follows:

1. The term of this Agreement shall be from July 29, 2004 through July 28, 2005, unless sooner terminated pursuant to the terms hereof.

2. While this Agreement is in effect, the Consultant shall perform certain work and services relating to USEC's policies, procedures, commercial practices, external affairs, strategic planning under the terms and conditions hereinafter set forth.

3. While this Agreement is in effect, USEC shall compensate the Consultant at a fixed price of One Hundred Seventy - Five Thousand Dollars (\$175,000.00), payable in 12 equal monthly installments to be paid thirty (30) days after the last of each month falling, in whole or in part, during the term of this Agreement, excluding July 2004. USEC shall reimburse the Consultant for reasonable and necessary travel and living expenses incurred by the Consultant in the performance of the services described herein. Compensation for expenses shall be made once monthly upon the Consultant's furnishing to USEC a written statement specifying such expenses. Payment terms shall be net 30 days.

4. In the performance of the work and services hereunder, the Consultant shall act solely as an independent contractor and not as an employee of USEC. All taxes applicable to any amounts paid by USEC to the Consultant under this Agreement shall be the Consultant's liability and USEC shall not withhold nor pay any amounts for federal, state or municipal income tax, special security, unemployment or worker's compensation. In accordance with current law, USEC shall annually file with the Internal Revenue Service a Form 1099-MISC, U.S. Information Return for Recipients of Miscellaneous Income, reflecting the gross annual payments by USEC to the Consultant pursuant to this Agreement, net of any reimbursed expenses incurred by the Consultant on behalf of USEC. The Consultant hereby acknowledges personal income tax liability for the self-employment tax imposed by Section 1401 of the Internal Revenue Code, and the payment, when applicable, of estimated quarterly taxes on Internal Revenue Service Form 1040-ES, declaration of estimated tax by individuals.

5. All reports, findings, recommendations, data, memoranda or documents, arising of out and relating to the services performed under this Agreement are (and shall continue to be after the expiration of this Agreement) the property of USEC or its assigns, and USEC shall have the exclusive rights to such materials. The use of these materials in any manner by USEC or its assigns shall not result in any additional claim for compensation by the Consultant. The Consultant shall hold confidential all information developed by or communicated to the Consultant in the performance of the services, whether described in this Agreement, in any scheduled executed pursuant hereto or otherwise, other than information that is already in the public domain or that

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becomes publicly available other than through an unauthorized disclosure by the Consultant. Nothing herein shall preclude disclosure of confidential information to officers, employees or directors of USEC and its subsidiaries and affiliates, or to attorneys, advisers and consultants of USEC who are under an obligation to USEC to keep such information confidential.

6. By entering into this Agreement with USEC, the Consultant represents that he presently has no conflicting interests, agreements or obligations with any other party. The Consultant shall promptly notify USEC in writing if a change in circumstances creates, or appears likely to create, a conflict with the Consultant's obligations hereunder or an appearance that such a conflict exists.

7. The Consultant hereby releases USEC from any and all liability for damage to property or loss thereof, personal injury or death during the term of this Agreement (and any extensions thereof) or thereafter, sustained by the Consultant as a result of performing the services under this Agreement or

/s/ James R. Mellor

James R. Mellor

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AGREEMENT AND GENERAL RELEASE

This Agreement and General Release ("Agreement") is entered into by and between USEC Inc. ("USEC") and Sydney M. Ferguson ("Employee") to resolve any and all disputes concerning her employment with USEC and her resignation therefrom.

WHEREAS, Employee has resigned her employment as Senior Vice President of USEC effective September 24, 2004 in order to pursue other opportunities, and USEC has agreed to accept Employee's resignation; and

WHEREAS, USEC and Employee wish to set forth all of the terms relating to her resignation from employment with USEC in this Agreement in order to avoid any disputes.

ACCORDINGLY, in exchange for the consideration and mutual promises set forth herein, the parties do hereby agree as follows:

1. Upon execution of this Agreement, USEC accepts Employee's resignation of her employment with USEC effective September 24, 2004.

2. In addition to salary, benefits, any accrued vacation and reimbursement of expenses incurred in the normal course of business due Employee through September 24, 2004, USEC agrees to pay Employee one hundred thousand dollars (\$100,000), less deductions required by law, on the eighth calendar day after execution of this Agreement by Employee.

3. Employee agrees that she will not disparage USEC or publish any communication that reflects adversely upon USEC, including communications concerning USEC itself, its affiliates and its current or former directors, officers, employees, or agents. Employee further agrees that she will not do or say anything that damages or impairs in any way the business organization, goodwill, or reputation of USEC or any of its affiliates or related entities or its current or former directors, officers, employees, or agents; provided, however, that nothing herein shall preclude Employee from making any communication required by law.

4. USEC agrees that it will instruct its executive officers and members of its Board of Directors not to do or say anything that damages or impairs in any way the business, goodwill, or reputation of Employee.

5. Employee acknowledges and reaffirms her duty to USEC to protect and hold, for the benefit of USEC, all confidential information, knowledge or data belonging to USEC, including, without limitation, all trade secrets belonging to USEC or any of its affiliates and their respective businesses, (i) obtained by employee during her employment by USEC and (ii) which is not otherwise publicly known (other than by reason of an unauthorized act, if any, by Employee). Employee shall not communicate or divulge any such information, knowledge or data to anyone other than USEC and those designated by USEC without prior written consent of USEC.

6. In exchange for USEC's promises herein, which Employee acknowledges include benefits to which she is otherwise not entitled, Employee, her heirs, executors, successors and assigns release and discharge USEC, its officers, directors, employees, trustees, attorneys and agents, from any and all actions, causes of action, debts, dues, claims and demands of every name and nature without limitation, at law, in equity, or administrative law, against USEC which she may have had, now has, or may have, by reason of any matter or thing arising up to the date of execution of this Agreement, including her employment resignation. Those claims and causes of action from which Employee releases USEC include, but are not limited to, any claim or action sounding in tort, contract, and discrimination of any kind, and/or any cause of action arising under federal, state or local statute regulation or ordinance, including, but not limited to, Title VII of the Civil Rights Act, as amended, the Age Discrimination in Employment Act, as amended, the Americans With Disabilities Act, as amended, the Maryland Fair Employment Practices Act, any claims under any employee benefits plans (other than claims for vested stock options), including but not limited to any claims for severance payments based on any USEC severance plans, policies, or practices and/or any claim for attorneys' fees or

costs, whether presently accrued, accruing to, or to accrue to Employee on account of, arising out of, or in any way connected with any acts or activities by Employee or USEC arising up to the date of execution of this Agreement. Employee expressly acknowledges that no claim or cause of action shall be deemed to be outside the scope of this Agreement whether mentioned herein or not. Employee further covenants that she will not sue, institute or cause to be instituted any court action, administrative complaint, or institute legal proceedings of any type against USEC, its offices, directors, employee, trustees, attorneys and agents based on any act or omission on or before the date on which she executes this Agreement; provided, however, that the release and covenant not to sue in this paragraph does not encompass Employee's right to indemnification arising under Article VIII of USEC's Bylaws in effect as of the date of execution of this Agreement.

7. In the event that Employee is compelled, pursuant to a subpoena or order of a court or other body having jurisdiction over such matter, to produce any information relevant to USEC, whether confidential or not, she agrees to provide USEC with prompt written notice of this subpoena or order so that USEC may timely move to quash if appropriate. Employee also agrees to cooperate with USEC in any legal action, administrative proceeding or other investigations or inquiries as USEC or its representatives or attorneys may reasonably request. In the event that Employee's cooperation is requested under this paragraph, USEC shall pay Employee's reasonable attorney's fees and other reasonable out of pocket expenses in connection therewith.

8. USEC and Employee agree that this Agreement, consisting of three (3) pages, constitutes the entire Agreement between them relating to her resignation from employment; provided, however, that this Agreement does not extinguish any contractual obligation of Employee in effect prior to the execution of this Agreement. The parties further warrant that they enter into this Agreement freely.

9. Employee states that she has read this Agreement in its entirety. Employee further states that she has been advised to consult an attorney about this Agreement and has had adequate opportunity to consult with her counsel. Employee represents that her counsel has

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reviewed this Agreement in its entirety. Employee has up to twenty-one (21) calendar days to accept this Agreement although Employee may accept it at any time within those twenty-one (21) calendar days. If Employee accepts in less than twenty-one (21) calendar days, she represents that her decision to do so is knowing and voluntary, and with the advise of counsel and Employee waives any remaining portion of the twenty-one (21) calendar day period. Employee further states that she fully understands the terms of this Agreement and that the only promises made to her in return for signing this Agreement are stated herein.

10. Employee represents that she has returned to USEC the original and all copies of all keys, USEC IDs, software, charge cards, equipment, manuals, files, papers, reports, memoranda and any other items of USEC property.

11. Employee agrees that she will comply with all SEC Exchange Act Section 16 reporting requirements applicable to a former Section 16 reporting officer. The parties agree that Employee shall be entitled to exercise any vested stock options on a cashless exercise basis, within the time period or periods specified in any applicable option agreements.

12. Employee may revoke this Agreement in writing by causing notice of revocation to be received by Ronald S. Cooper, Steptoe & Johnson LLP (facsimile - 202.261.0509) within seven (7) calendar days following its execution. This Agreement becomes final and binding on the eighth day after its execution.

13. If any provision of this Agreement is found to be invalid, unenforceable or void for any reason, such provision shall be severed from the Agreement and shall not affect the validity or enforceability of the remaining provisions. This Agreement shall be governed by the laws of the State of Maryland.

14. Legal action may be brought by either party for breach of this Agreement. Should either party be required to resort to legal action in order to enforce rights under this Agreement, the prevailing party shall be entitled to an award of all reasonable costs incurred, including attorneys' fees with respect to any issue on which that party substantially prevails. In the event

that Employee materially breaches any of her obligations under this Agreement or otherwise imposed by law, USEC will be entitled to recover the benefits paid under the Agreement and to obtain all other relief provided by law or equity, including (subject to the preceding sentence) reasonable attorney's fees and costs.

THIS AGREEMENT WAIVES IMPORTANT RIGHTS AND INCLUDES A RELEASE OF KNOWN AND UNKNOWN CLAIMS. YOU SHOULD CONSULT YOUR ATTORNEY, READ THE AGREEMENT CAREFULLY, AND CONSIDER ALL OF ITS PROVISIONS BEFORE SIGNING IT.

Dated: SEP. 21, 04

/s/ Sydney M. Ferguson

Employee's Signature

Sydney M. Ferguson

Print Name

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Dated: 21. SEP. 2004

/s/ W. Lance Wright

W. Lance Wright
Vice President
Human Resources and Administration
USEC Inc.

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, William H. Timbers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of USEC Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 9, 2004

/s/ William H. Timbers

William H. Timbers
President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Ellen C. Wolf, certify that:

1. I have reviewed this quarterly report on Form 10-Q of USEC Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 9, 2004

/s/ Ellen C. Wolf

Ellen C. Wolf

Senior Vice President and Chief Financial Officer

**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, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, William H. Timbers, President and Chief Executive Officer, and Ellen C. Wolf, Senior Vice President and Chief Financial Officer, each hereby certifies, that, to the best of his or her 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 9, 2004

/s/ William H. Timbers

William H. Timbers
President and Chief Executive Officer

November 9, 2004

/s/ Ellen C. Wolf

Ellen C. Wolf
Senior Vice President and Chief Financial Officer