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

FORM 10-Q/A

Amendment No. 1

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

For the quarter ended March 31, 2005

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 March 31, 2005, there were 86,108,000 shares of Common Stock issued and outstanding.

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This Amendment No. 1 on Form 10-Q/A to the 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 uncertainties, 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 the products and services of USEC and its subsidiaries, pricing trends in the uranium and enrichment markets, deliveries under the Russian Contract, the availability and cost of electric power, implementation of 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 customers, final determinations of environmental and other costs, the outcome of litigation, arbitration and trade actions, changes to existing restrictions on imports of foreign-produced LEU and uranium, USEC's ability to renegotiate or replace revolving credit commitments by September 2005 and to refinance senior notes by January 2006, performance under U.S. government contracts and audits of allowable costs billed under U.S. government contracts, 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. Reference is made to additional information describing risks and uncertainties reported elsewhere in this quarterly report.

EXPLANATORY NOTE

The purpose of this amendment on Form 10-Q/A to the quarterly report on Form 10-Q of USEC Inc. for the three months ended March 31, 2005 is to restate the consolidated condensed balance sheets at March 31, 2005 and December 31, 2004, the consolidated condensed statements of cash flows for the three months ended March 31, 2005 and March 31, 2004 and related footnote disclosures as described in Note 2 to the consolidated condensed financial statements. This amendment does not affect the consolidated condensed statements of income (loss) for the three months ended March 31, 2005 and March 31, 2004.

On March 11, 2005, USEC announced restatements to correct inadvertent errors in the application of generally accepted accounting principles dealing with complex and technical accounting issues relating to (a) "bill and hold" revenue recognition and (b) valuation of deferred tax assets, including the associated tax valuation allowance. These restatements were reflected in USEC's annual report on Form 10-K for the year ended December 31, 2004 filed on March 16, 2005, and quarterly report on Form 10-Q for the quarter ended March 31, 2005 filed on May 2, 2005.

USEC identified additional adjustments relating to the timing of revenue recognition and the valuation of deferred tax assets. Reference is made to Amendment No. 1 on Form 10-K/A to USEC's annual report for the year ended December 31, 2004, filed concurrently with this amendment, for a complete description.

The consolidated condensed financial statements in this quarterly report are restated to reflect the impact on stockholders' equity of \$0.8 million for revenue previously recognized in 2003 that has now been deferred. Separately, a deferred tax asset established on USEC's balance sheet at privatization in fiscal 1999 was overstated by \$5.1 million. Accordingly, the consolidated condensed balance sheet at March 31, 2005 has been restated to reflect a decrease in retained earnings of \$5.1 million with a corresponding decrease in deferred tax assets of \$3.7 million and increase in accrued income taxes payable of \$1.4 million. This amended quarterly report on Form 10-Q/A also reflects the restatement of the consolidated balance sheet at December 31, 2004, reflected in USEC's annual report on Form 10-K/A, filed concurrently with this amendment.

For the convenience of the reader, this amendment on Form 10-Q/A includes all of the information contained in the quarterly report on Form 10-Q for the three months ended March 31, 2005, and no attempt has been made to modify or update the disclosures except to reflect the effects of the restatement. This amendment on Form 10-Q/A, including all certifications attached hereto, does not reflect events occurring subsequent to the filing of the quarterly report on Form 10-Q and does not modify or update the disclosures. With the exception of Item 2 of Part II, which was amended to report common stock surrendered to USEC to pay withholding taxes in connection with the vesting of restricted stock under the 1999 Equity Incentive Plan, information not affected by the restatement is unchanged and reflects the disclosures made at the time the quarterly report on Form 10-Q was filed on May 2, 2005. The following items have been amended as a result of the restatement:

- Part I — Item 1 — Consolidated Condensed Financial Statements
- Part I — Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations (the "Working Capital" table)
- Part II — Item 4 — Controls and Procedures

In addition, pursuant to the rules of the SEC, Item 6 of Part II has been amended to contain currently-dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of our Chief Executive Officer and Chief Financial Officer are attached to this Form 10-Q/A as Exhibits 31.1, 31.2, and 32, respectively.

USEC Inc.
CONSOLIDATED CONDENSED BALANCE SHEETS
(millions)

	(Unaudited) March 31, 2005	December 31, 2004
	As restated	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 242.4	\$ 174.8
Restricted cash	4.7	—
Accounts receivable — trade	132.7	238.5
Inventories	1,059.5	1,009.4
Deferred income taxes	22.0	27.0
Other current assets	34.5	39.2
Total Current Assets	1,495.8	1,488.9
Property, Plant and Equipment, net	175.1	178.0
Other Long-Term Assets		
Deferred income taxes	74.0	69.6
Deposit for depleted uranium	24.6	23.5
Prepaid pension benefit costs	84.0	82.9
Inventories	146.7	156.2
Goodwill	4.3	4.3
Total Other Assets	333.6	336.5
Total Assets	<u>\$ 2,004.5</u>	<u>\$ 2,003.4</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	\$ 325.0	—
Accounts payable and accrued liabilities	187.3	202.3
Payables under Russian Contract	86.5	89.7
Uranium owed to customers and suppliers	54.0	44.5
Deferred revenue and advances from customers	36.9	28.8
Total Current Liabilities	689.7	365.3
Long-Term Debt	150.0	475.0
Other Liabilities		
Deferred revenue and advances from customers	4.9	6.9
Depleted uranium disposition	29.4	26.1
Postretirement health and life benefit obligations	148.2	145.2
Other liabilities	66.5	66.2
Total Other Liabilities	249.0	244.4
Stockholders' Equity	915.8	918.7
Total Liabilities and Stockholders' Equity	<u>\$ 2,004.5</u>	<u>\$ 2,003.4</u>

See notes to consolidated condensed financial statements.

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

	Three Months Ended March 31,	
	2005	2004 As restated
Revenue:		
Separative work units	\$ 214.3	\$ 152.3
Uranium	45.8	19.4
U.S. government contracts and other	51.1	38.6
Total revenue	<u>311.2</u>	<u>210.3</u>
Cost of sales:		
Separative work units and uranium	218.9	155.4
U.S. government contracts and other	44.6	37.1
Total cost of sales	<u>263.5</u>	<u>192.5</u>
Gross profit	47.7	17.8
American Centrifuge demonstration and other costs	22.7	9.4
Selling, general and administrative	15.2	16.0
Operating income (loss)	9.8	(7.6)
Interest expense	8.7	9.4
Interest (income)	(1.9)	(.7)
Income (loss) before income taxes	3.0	(16.3)
Provision (credit) for income taxes	2.1	(6.5)
Net income (loss)	<u>\$.9</u>	<u>\$ (9.8)</u>
Net income (loss) per share — basic and diluted	\$.01	\$ (.12)
Dividends per share	\$.1375	\$.1375
Weighted average number of shares outstanding:		
Basic	85.5	83.0
Diluted	86.0	83.0

See notes to consolidated condensed financial statements.

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

	Three Months Ended March 31,	
	2005	2004
	<u>As restated</u>	
Cash Flows from Operating Activities		
Net income (loss)	\$.9	\$ (9.8)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	8.4	7.7
Depleted uranium disposition	2.2	(1.0)
Changes in operating assets and liabilities:		
Short-term investments — decrease	—	15.0
Accounts receivable — decrease	105.8	126.4
Inventories — net (increase)	(32.5)	(153.0)
Payables under Russian Contract — (decrease)	(3.2)	(8.9)
Payment of termination settlement obligation under power purchase agreement	—	(33.2)
Deferred revenue, net of deferred costs	2.4	(4.0)
Accounts payable and other liabilities — (decrease)	(9.0)	(12.9)
Other, net	5.5	(3.1)
Net Cash Provided by (Used in) Operating Activities	<u>80.5</u>	<u>(76.8)</u>
Cash Flows Used in Investing Activities		
Capital expenditures	(6.1)	(5.6)
Net Cash (Used in) Investing Activities	<u>(6.1)</u>	<u>(5.6)</u>
Cash Flows Used in Financing Activities		
Dividends paid to stockholders	(11.7)	(11.5)
Common stock issued	4.9	5.9
Net Cash (Used in) Financing Activities	<u>(6.8)</u>	<u>(5.6)</u>
Net Increase (Decrease)	67.6	(88.0)
Cash and Cash Equivalents at Beginning of Period	174.8	214.1
Cash and Cash Equivalents at End of Period	<u>\$ 242.4</u>	<u>\$ 126.1</u>
Supplemental Cash Flow Information:		
Interest paid	\$ 16.1	\$ 17.0
Income taxes paid	12.4	7.3

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 months ended March 31, 2005 and 2004, 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 months ended March 31, 2005, are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. 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/A for the year ended December 31, 2004.

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

2. Restatement of Previously Issued Consolidated Financial Statements

USEC previously restated its consolidated financial statements ("the Original Restatement") in its 2004 Annual Report on Form 10-K for the year ended December 31, 2003, the six-month period ended December 31, 2002, and the fiscal year ended June 30, 2002, to correct errors in the application of generally accepted accounting principles dealing with complex and technical accounting issues relating to the recognition of revenue and the valuation of deferred tax assets and the associated valuation allowance. USEC identified additional errors of a similar nature and restated its consolidated financial statements (the "Second Restatement") for 2004 and 2003, the six-month period ended December 31, 2002, and the fiscal year ended June 30, 2002, to further correct the above errors. The Second Restatement is reflected in Amendment No. 1 on Form 10-K/A for the year ended December 31, 2004.

The Original Restatement corrected the timing of revenue recognition of certain sales of uranium and low enriched uranium ("LEU"). In a limited number of sales transactions, title to uranium or LEU is transferred to the customer and USEC receives payment without physically delivering the uranium or LEU to the customer. In these sales transactions, in accordance with general industry practice and by contract, USEC holds the uranium or LEU at the Paducah plant. USEC had evaluated authoritative accounting guidance relating to revenue recognition for these sales, but certain technical aspects were applied incorrectly. As a result, in these limited number of sales transactions where, pursuant to its agreement with the customer, USEC continues to hold the uranium or LEU, USEC restated its financial statements in the Original Restatement to defer the recognition of revenue until the uranium or LEU is physically delivered rather than at the time title transfers to customers and cash is received. The effect of the Original Restatement on the three months ended March 31, 2004 is shown below.

During the Original Restatement process, USEC incorrectly recorded one “bill and hold” transaction and did not identify two other “bill and hold” transactions of a similar nature. These transactions have been corrected in the Second Restatement. The Second Restatement decreased retained earnings by \$0.8 million as of December 31, 2004 and March 31, 2005, and increased other assets and deferred revenue, as shown below, but did not affect the income statements for the three months ended March 31, 2005 and 2004.

The Original Restatement also corrected the valuation allowance relating to deferred tax assets established at USEC’s privatization in the fiscal year ended June 30, 1999. Prior to 2004, USEC had conducted assessments of the recoverability of deferred tax assets and had concluded that it was more likely than not that a portion of the deferred tax assets would not be recognized or realized. Accordingly, a valuation allowance of \$45.2 million was established to reflect the assessment. In connection with the Original Restatement, USEC determined that the criteria in a technical accounting standard used to assess whether a valuation allowance should be recorded for deferred tax assets had been applied incorrectly. As a result of a more comprehensive evaluation of the future recovery or realizability of deferred tax assets at December 31, 2004, USEC determined that, in prior years, it was more likely than not that deferred tax assets would have been recovered or realized from taxable income in future years. Accordingly, USEC’s Original Restatement, reflected in the 2004 annual report on Form 10-K, included the removal of the valuation allowance amounting to \$45.2 million that had been established as a result of the assessment in prior years.

USEC determined, based on a review of its calculations of deferred tax assets established at the time of its privatization in fiscal 1999, that the deferred tax asset established on USEC’s balance sheet was overstated by \$5.1 million. The Second Restatement corrects the amount of deferred tax assets, accrued income taxes payable and retained earnings as shown below.

Effects of Restatements on Quarterly Report

The effect of the Original Restatement follows (in millions, except per share data):

	Three Months Ended	
	March 31, 2004	
	As previously reported	As restated
Revenue	\$ 180.0	\$ 210.3
Cost of sales	164.4	192.5
Gross profit	15.6	17.8
Operating income (loss)	(9.8)	(7.6)
Income (loss) before income taxes	(18.5)	(16.3)
Provision (credit) for income taxes	(7.3)	(6.5)
Net income (loss)	(11.2)	(9.8)
Net income (loss) per share — basic and diluted	\$ (.13)	\$ (.12)

The effect of the Second Restatement follows (in millions):

	March 31, 2005		December 31, 2004	
	As previously reported	As restated	As previously reported	As restated
Current assets:				
Deferred income taxes	\$ 21.5	\$ 22.0	\$ 26.5	\$ 27.0
Other current assets	27.2	34.5	31.8	39.2
Other long-term assets:				
Deferred income taxes	77.7	74.0	73.5	69.6
Total assets	2,000.4	2,004.5	1,999.4	2,003.4
Current liabilities:				
Accounts payable and accrued liabilities	185.9	187.3	201.0	202.3
Deferred revenue and advances from customers	28.3	36.9	20.2	28.8
Stockholders' equity	921.7	915.8	924.6	918.7

3. Inventories

	March 31,	December 31,
	2005	2004
	(millions)	
Current assets:		
Separative work units	\$ 785.5	\$ 740.6
Uranium	213.7	212.2
Out-of-specification uranium held for DOE	43.7	39.4
Materials and supplies	16.6	17.2
	<u>1,059.5</u>	<u>1,009.4</u>
Long-term assets:		
Uranium	31.1	28.5
Out-of-specification uranium	50.9	51.7
Highly enriched uranium from DOE	64.7	76.0
	<u>146.7</u>	<u>156.2</u>
	<u>\$ 1,206.2</u>	<u>\$ 1,165.6</u>

Remediating or Replacing USEC's Out-of-Specification Uranium Inventory

In December 2000, we 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 out-of-specification uranium inventory, and USEC has been working with DOE to implement this process. USEC operates facilities at the Portsmouth plant under contract with DOE to process and remove contaminants from the out-of-specification uranium. The remediated uranium meets the ASTM specification or is acceptable to USEC for use as feed material at the Paducah plant.

At March 31, 2005, 7,721 metric tons (or 81%) of USEC's out-of-specification uranium had been replaced or remediated by DOE. In 2005, the facilities are being used primarily to process and remove contaminants from DOE's out-of-specification uranium. The remaining portion of USEC's uranium inventory that may contain elevated levels of technetium and be out of specification is 1,829 metric tons with a cost of \$50.9 million reported as part of long-term assets at March 31, 2005. DOE's obligation to replace or remediate the remaining portion of USEC's out-of-specification uranium continues 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 LEU containing at least 1 million SWU per year at the Paducah plant or at a new enrichment facility.

Out-of-Specification Uranium Held for DOE

As part of the remediation or replacement of USEC's out-of-specification uranium, DOE transferred 2,116 metric tons of uranium that meets the ASTM specification to USEC in November 2004 in exchange for the transfer by USEC to DOE of a like amount of out-of-specification uranium. In 2004, USEC transferred 1,492 metric tons of out-of-specification uranium to DOE and USEC is processing the uranium to remove contaminants for DOE. USEC expects to transfer the remaining 624 metric tons of out-of-specification uranium to DOE as soon as the uranium is ready for processing later in 2005. Inventories of uranium reported in current assets include \$43.7 million at March 31, 2005, representing the market value of the 624 metric tons of out-of-specification uranium held for DOE, and current liabilities include a corresponding amount representing the uranium owed to DOE.

4. Uranium Provided by DOE

In December 2004, USEC entered into a memorandum of agreement with DOE under which USEC is processing 1,492 metric tons of DOE's out-of-specification uranium and USEC is preparing an additional 624 metric tons for processing. Under the agreement, USEC will use its best efforts to return a total of 2,116 metric tons of uranium that meets the ASTM specification to DOE by December 31, 2006. DOE provided 905 metric tons of uranium that meets the ASTM specification to USEC in February 2005, and the proceeds from sales of such uranium are to be used to reimburse USEC for costs incurred processing DOE's out-of-specification uranium. DOE retains certain rights, including security interests in this uranium, in sales contracts for and receivables from sales of this uranium, and any excess proceeds from such sales. Under the agreement, if proceeds exceed the costs of processing DOE's out-of-specification uranium, USEC is obligated to return any excess proceeds to DOE. This uranium had an estimated sales value of \$51.3 million at March 31, 2005, and since DOE retains a security interest in this uranium, it is excluded from USEC's inventory. Excess proceeds from sales of this uranium are reported as restricted cash and amounted to \$4.7 million at March 31, 2005.

5. 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 ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. As long as a fixed number of stock options are granted at a fixed exercise price that is at least 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 (“SFAS”) No. 148, Accounting for Stock-Based Compensation — Transition and Disclosure, pro forma net income (loss) 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 SFAS 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 March 31,	
	2005	2004 <i>As restated</i>
Net income (loss), as reported	\$.9	\$ (9.8)
Add — Stock-based compensation expense included in reported results, net of income tax	.9	1.0
Deduct — Stock-based compensation expense determined under the fair value method, net of income tax	(2.4)	(1.7)
Pro forma net income (loss)	<u>\$ (.6)</u>	<u>\$ (10.5)</u>
Net income (loss) per share — basic and diluted:		
As reported	\$.01	\$ (.12)
Pro forma	(.01)	(.13)

New Accounting Standards

In December 2004, the FASB issued SFAS No. 123(R), Share Based Payment, requiring that compensation costs relating to stock awards, such as stock options issued to employees, be recognized in the financial statements as costs and expenses based on fair value. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 expressing the views of the SEC staff regarding SFAS No. 123(R) and, in April 2005, the SEC issued a new rule that delays the effective date of SFAS No. 123(R) for calendar year companies until the beginning of 2006. USEC expects to adopt SFAS No. 123(R) beginning in 2006 using the modified prospective application transition method under which costs and expenses will include compensation costs for stock awards. Compensation costs and expenses for periods prior to 2006 continue to be based on the intrinsic value method under APB No. 25.

6. Pension and Postretirement Health and Life Benefit Costs

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 Benefit Plans	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2005	2004	2005	2004
Service costs	\$ 4.0	\$ 3.4	\$ 2.1	\$ 2.1
Interest costs	9.8	9.0	3.7	3.6
Expected returns on plan assets (gains)	(13.7)	(12.7)	(1.4)	(1.2)
Amortization of prior service costs (credit)	.4	.1	(.2)	(.6)
Amortization of actuarial (gains) losses	.6	.1	.5	.5
Net benefit costs (income)	<u>\$ 1.1</u>	<u>\$ (.1)</u>	<u>\$ 4.7</u>	<u>\$ 4.4</u>

At December 31, 2004, projected pension benefit obligations were 97% funded and postretirement health and life benefit obligations, typically funded on a pay-as-you-go basis, were 25% funded.

7. 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	Treasury Stock	Deferred Comp- ensation	Accum- ulated Other Compre- hensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2004							
As previously reported	\$ 10.0	\$ 963.9	\$ 62.2	\$ (109.2)	\$ (1.6)	\$ (.7)	\$ 924.6
Effect of restatement	—	—	(5.9)	—	—	—	(5.9)
As restated	10.0	963.9	56.3	(109.2)	(1.6)	(.7)	918.7
Common stock issued	—	4.8	—	6.5	(3.4)	—	7.9
Dividends paid to stockholders	—	—	(11.7)	—	—	—	(11.7)
Net income	—	—	.9	—	—	—	.9
Balance at March 31, 2005, as restated	<u>\$ 10.0</u>	<u>\$ 968.7</u>	<u>\$ 45.5</u>	<u>\$ (102.7)</u>	<u>\$ (5.0)</u>	<u>\$ (.7)</u>	<u>\$ 915.8</u>

8. Legal Matters

Executive Termination

In December 2004, the employment of William H. Timbers, President and Chief Executive Officer of USEC, was terminated for "Cause" as that term is defined in the Amended and Restated Employment Agreement, dated July 29, 2004 (the "Employment Agreement"), the Supplemental Executive Retirement Plan ("SERP") and the 1999 Equity Incentive Plan. Mr. Timbers' termination was not related to any operational performance or financial matter. Because he was terminated for Cause, Mr. Timbers forfeited, and therefore USEC has cancelled, his 90,036 shares of restricted stock and 1,637,710 vested and unvested stock options.

On March 1, 2005, Mr. Timbers filed a Demand for Arbitration (the "Demand") with the American Arbitration Association against USEC, its seven directors and its General Counsel, alleging breach of the Employment Agreement and associated tort claims. Specifically, Mr. Timbers alleges that USEC breached the Employment Agreement in its manner of terminating Mr. Timbers and that he was terminated without Cause. The Demand seeks damages of "at least \$21 million," restricted stock and stock options that the Demand values at more than \$15 million based on USEC's stock price on February 28, 2005, and other unspecified compensatory and punitive damages.

In April 2005, USEC and its directors and General Counsel submitted their respective responses to the Demand. The individual directors and the General Counsel are seeking to be dismissed from the arbitration. USEC denied the allegations and filed counterclaims against Mr. Timbers. USEC believes that it will prevail in this arbitration; however, if it is determined that Mr. Timbers' employment was terminated other than for Cause, USEC estimates that it would have to make cash payments of up to approximately \$18 million, plus an amount with respect to vested and unvested stock options which were forfeited and have been cancelled. The value of the vested and unvested stock options on the date of termination was approximately \$5.6 million, but if the value of these options were determined as of a later date, such value would fluctuate with changes in the value of USEC common stock.

Environmental Matter

In 1998, we contracted with Starmet CMI ("Starmet") to convert a portion of our 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 Bamwell, South Carolina facility. In November 2002, USEC received notice from the U.S. Environmental Protection Agency ("EPA") that EPA was taking action under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), as amended (commonly known as Superfund), to clean up certain areas at Starmet's Bamwell site. These activities involve the cleanup of two evaporation ponds and removal and disposal of certain drums and other material 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. We have engaged contractors to remove and dispose of such material. At March 31, 2005, we had an accrued current liability of \$5.1 million representing our current estimate of our share of costs to comply with the EPA settlement agreement and other costs associated with the Starmet facility.

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, we do not believe that the outcome of any of these legal matters will have a material adverse effect on our results of operations or financial condition.

9. Segment Information

We have two reportable segments: the low enriched uranium (“LEU”) segment with two components, Separative Work Units (“SWU”) and uranium, and the U.S. government contracts segment. The LEU segment 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 includes 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. There were no intersegment sales between the reportable segments.

	Three Months Ended March 31,	
	2005	2004 As restated
(millions)		
Revenue		
LEU segment:		
Separative work units	\$ 214.3	\$ 152.3
Uranium	45.8	19.4
	260.1	171.7
U.S. government contracts segment	44.8	38.6
Other	6.3	—
	<u>\$ 311.2</u>	<u>\$ 210.3</u>
Segment Operating Income		
LEU segment	\$ 19.0	\$ 6.9
U.S. government contracts segment	5.3	1.5
Other	.7	—
Segment operating income	25.0	8.4
Selling, general, and administrative	15.2	16.0
Operating income (loss)	9.8	(7.6)
Interest expense, net of interest income	6.8	8.7
Income (loss) before income taxes	<u>\$ 3.0</u>	<u>\$ (16.3)</u>

10. Net Income per Share

Basic net income per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is calculated by increasing the weighted average number of shares by the assumed conversion of potentially dilutive stock compensation awards.

	Three Months Ended March 31,	
	2005	2004
(in millions)		
Weighted average number of shares outstanding:		
Basic	85.5	83.0
Dilutive effect of stock compensation awards (1)	.5	—
Diluted	<u>86.0</u>	<u>83.0</u>

- (1) No dilutive effect of stock compensation awards is recognized in a period in which a net loss has occurred. Potential shares totaling .6 million for the three months ended March 31, 2004 would be antidilutive, and diluted earnings per share is the same as basic earnings per share.

11. New Accounting Standards

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, clarifying that conditional asset retirement obligations are legal obligations and fall within the scope of SFAS 143, Accounting for Asset Retirement Obligations. A conditional asset retirement obligation is one in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The interpretation is effective for calendar 2005 year-end financial statements. We are evaluating the interpretation and have not determined whether or not it will have a material effect on our financial position or results of operations.

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

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements and related notes and management's discussion and analysis of financial condition and results of operations, including risks and uncertainties, included in the annual report on Form 10-K/A for the year ended December 31, 2004. As reported in USEC's annual report on Form 10-K/A for the year ended December 31, 2004, USEC restated the consolidated statements of income (loss) and cash flows for the first, second and third quarters of 2004.

Overview

USEC, a global energy company, is the world's leading supplier of low enriched uranium ("LEU") for commercial nuclear power plants. LEU is a critical component in the production of nuclear fuel for reactors to produce electricity. USEC, either directly or through its subsidiaries United States Enrichment Corporation and NAC International Inc. ("NAC"):

- supplies LEU to both domestic and international utilities for use in over 150 nuclear reactors worldwide,
- is the exclusive executive agent for the U.S. government under a nuclear nonproliferation program with Russia, known as Megatons to Megawatts,
- is demonstrating and plans to deploy what is expected to be the world's most efficient uranium enrichment technology, known as the American Centrifuge,
- performs contract work for the U.S. Department of Energy ("DOE") and DOE contractors at the Paducah and Portsmouth plants, and
- provides transportation and storage systems for spent nuclear fuel and nuclear and energy consulting services, including nuclear materials tracking.

Low Enriched Uranium

LEU is sold and measured by two components: separative work units ("SWU") and uranium. SWU is a standard unit of measurement that represents the effort required to transform a given amount of natural uranium into two components: enriched uranium having a higher percentage of U²³⁵ and depleted uranium having a lower percentage of U²³⁵. 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 under the Megatons to Megawatts program. The gaseous diffusion process uses significant amounts of electric power to enrich uranium, and costs for electric power typically represent approximately 60% of production costs at the Paducah plant. We purchase about 80% of the electric power for the Paducah plant from the Tennessee Valley Authority ("TVA"), and capacity and prices for electric power under the contract with TVA are fixed through May 2006.

Revenue from Sales of SWU and Uranium

Our customers are domestic and international utilities that operate nuclear power plants. Revenue is derived primarily from:

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

Agreements with electric utilities are primarily long-term contracts under which customers are obligated to purchase a specified quantity or percentage of their SWU or uranium requirements. Customers are not obligated to make purchases if the reactor does not have requirements.

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. Utilities typically schedule the shutdown of their reactors for refueling to coincide with the low electricity demand periods of spring and fall. Thus, some reactors are scheduled for annual or two-year refuelings in the spring or fall, or for 18-month cycles alternating between both seasons. Customer payments for the SWU component of LEU typically average \$12.0 million per order. Customer requirements and orders are more predictable over the longer term, and we believe our performance is best measured on an annual, or even longer, business cycle.

Revenue could be adversely affected by actions of the U.S. Nuclear Regulatory Commission ("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 The Tokyo Electric Power Company. USEC supplies LEU for nine of the 16 reactors that have returned to service and for the one reactor that remains shutdown. The shutdowns have postponed the utility's requirements for reloading fuel. Revenue in 2004 was reduced as a result of the shutdowns, and USEC expects revenue in 2005 will continue to be affected, but to a lesser extent.

USEC's financial performance over time can be significantly affected by changes in prices for SWU. The base-year price for SWU under new long-term contracts, as published by TradeTech in Nuclear Market Review, was \$108 per SWU on March 31, 2005, compared with \$107 per SWU on December 31, 2004. However, our backlog includes contracts awarded to USEC when prices were lower. As a result, the average SWU price billed to customers has declined in recent years, but began to level off in 2004. USEC expects that sales under new contracts will increase the average SWU price billed to customers.

The spot price indicator for uranium hexafluoride, published by Nuclear Market Review, was \$70.00 per kilogram of uranium on March 31, 2005, an increase of \$7.00 (or 11%) from \$63.00 on December 31, 2004. The spot price had increased 42% in 2004 from \$44.25 on December 31, 2003. The long-term price for uranium hexafluoride, as calculated using indicators published by Nuclear Market Review, was \$83.85 per kilogram of uranium on March 31, 2005, an increase of \$8.53 (or 11%) from \$75.32 on December 31, 2004. The long-term price had increased 62% in 2004 from \$46.50 on December 31, 2003. However, most of USEC's uranium inventory has been committed under sales contracts with utility customers, and the positive impact of higher prices is limited to sales under new contracts and to sales under contracts with prices determined at the time of delivery.

USEC expects that its inventory of uranium is sufficient to continue sales through 2007. We will continue to supplement our supply of uranium by underfeeding the production process at the

Paducah plant and by purchasing uranium from suppliers. Underfeeding is a mode of operation that uses or feeds less uranium but requires more SWU in the enrichment process, which requires more electric power. In producing the same amount of LEU, we vary our production process to underfeed uranium based on the economics of the cost of electric power relative to the price of uranium. Underfeeding increases the inventory of uranium that can be sold.

Revenue from U.S. Government Contracts

We perform and earn revenue from contract work for DOE and DOE contractors at the Paducah and Portsmouth plants, including contracts for cold standby and processing out-of-specification uranium at the Portsmouth plant, both of which continue through September 2005. Continuation of the contracts is subject to DOE funding and Congressional appropriations. Revenue from U.S. government contracts is based on allowable costs and any fees earned under the contracts. Allowable costs include direct costs as well as allocations of indirect plant and corporate overhead costs and are determined under government cost accounting standards that are subject to audit by the Defense Contract Audit Agency.

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. Production costs consist principally of electric power, labor and benefits, depleted uranium disposition costs, materials, depreciation and amortization, and maintenance and repairs. Under the monthly moving average inventory cost method coupled with USEC's inventories of SWU and uranium, an increase or decrease in production or purchase costs will have an effect on inventory costs and cost of sales over future periods.

(a) Purchase Costs under Russian Contract

USEC is the Executive Agent of the U.S. government under a contract ("Russian Contract") to implement a government-to-government agreement to purchase the SWU component of LEU recovered from dismantled nuclear weapons from the former Soviet Union for use as fuel in commercial nuclear power plants.

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. Purchases under the Russian Contract approximate 50% of our supply mix. 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 the index is used to minimize the disruptive effect of short-term market price swings. We expect that increases in these price points in recent years will result in increases to the index used to determine prices under the Russian Contract.

(b) Production Costs

The gaseous diffusion process uses significant amounts of electric power to enrich uranium. In 2004, the power load at the Paducah plant averaged 1,330 megawatts. Electric power represents about 60% of our production costs, and USEC purchases about 80% of the electric power for the Paducah plant at fixed prices from TVA. Capacity and prices for electric power under the TVA contract are fixed through May 2006. Current market prices for electric power are above USEC's contracted power cost levels. We expect to contract for electric power for the period subsequent to May 2006, but there can be no assurance that electric power will be available at favorable capacity

and price levels. An increase in electric power costs would make it more costly for us to produce LEU.

We store depleted uranium at the plants and accrue estimated costs for the future disposition of depleted uranium. The long-term liability is dependent upon the volume of depleted uranium generated and estimated transportation, conversion and disposal costs. Under the DOE-USEC Agreement, DOE is taking title to depleted uranium generated by USEC at the Paducah plant up to a maximum of 23.3 million kilograms of uranium. The transfer of depleted uranium to DOE reduces our costs for the disposition of depleted uranium. Transfers of the remaining amount to DOE are expected to be completed by mid 2005, and USEC expects costs for the disposition of depleted uranium generated subsequent to mid 2005 will increase.

(c) Remediating or Replacing USEC's Out-of-Specification 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 or replaced, reported in note 3 to the consolidated condensed financial statements.

(d) Environmental Matter

Reference is made to information regarding an environmental matter involving Starmet CMI, the U.S. Environmental Protection Agency, the South Carolina Department of Health and Environmental Control, DOE, USEC and others, reported in note 8 to the consolidated condensed financial statements.

American Centrifuge Technology

We are in the process of demonstrating our next-generation American Centrifuge uranium enrichment technology. Demonstration activities are underway at centrifuge test facilities located in Oak Ridge, Tennessee, and refurbishment work has begun at the American Centrifuge Demonstration Facility in Piketon, Ohio. In total, USEC expects to spend approximately \$170 million for centrifuge demonstration costs through 2006. USEC expects to begin operation of the American Centrifuge Demonstration Facility in late 2005 and to begin construction of the American Centrifuge Plant in 2007, reaching an annual production capacity of 3.5 million SWU by 2010. The American Centrifuge Plant is expected to cost up to \$1.5 billion, excluding capitalized interest.

In January 2005, USEC met a program milestone under the DOE-USEC Agreement and began testing a full-size centrifuge machine at facilities in Oak Ridge, Tennessee, and, in April 2005, USEC met the ninth program milestone and began manufacturing centrifuge machine components for use in the American Centrifuge Demonstration Facility in Piketon, Ohio. The next milestone under the DOE-USEC Agreement, scheduled for October 2006, is satisfactory reliability and performance data from the lead cascade at the American Centrifuge Demonstration Facility.

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, the cost of raw materials, installation and operation of centrifuge machines and equipment, and the achievement of milestones under the DOE-USEC Agreement. In addition, certain actions by DOE are required, including USEC and DOE entering into a long-term lease agreement for the facilities, removal of machines, wastes and other materials from the buildings by DOE, and USEC and DOE agreement on terms for USEC's license of the centrifuge intellectual property. In the event DOE fails to take appropriate and timely action, it could delay or disrupt USEC's ability to meet certain milestones in the DOE-USEC Agreement, which could delay demonstration or deployment of the American Centrifuge technology.

Results of Operations — Three Months Ended March 31, 2005 and 2004

The following table sets forth certain items as a percentage of revenue:

	Three Months Ended March 31,	
	2005	2004 As restated
Revenue:		
SWU	69%	73%
Uranium	15	9
U.S. government contracts and other	16	18
Total revenue	100%	100%
Cost of sales	85	92
Gross profit margin	15	8
American Centrifuge demonstration and other costs	7	4
Selling, general and administrative	5	8
Operating income (loss)	3%	(4)%

Revenue

Revenue from sales of SWU increased \$62.0 million (or 41%) in the three months ended March 31, 2005, compared with the corresponding period in 2004 when the level of sales was low. The volume of SWU sold increased 33% and the average price billed to customers increased 6%. The increases in volume and price reflect the timing and mix of customer orders. USEC expects revenue from sales of SWU in 2005 will be approximately \$1.1 billion, about the same as in 2004, and revenue will again be weighted to the fourth quarter reflecting the timing of customer orders. The average SWU price billed to customers is expected to improve modestly in 2005.

Revenue from sales of uranium increased \$26.4 million (or 136%) in the three months ended March 31, 2005, compared with the corresponding period in 2004 when the level of sales was low. The volume of uranium sold increased 91% reflecting higher contractual commitments from customers and the timing of customer orders. A large customer order expected in the second quarter of 2005 was delivered in the first quarter of 2005. As a result, revenue was better than expected in the first quarter and will be lower than expected in the second quarter. The average uranium price billed to customers increased 23%.

Revenue from U.S. government contracts and other increased \$12.5 million (or 32%) in the three months ended March 31, 2005, compared with the corresponding period of 2004. The increase primarily reflects revenue of \$5.1 million from NAC, which was acquired by USEC in November 2004, revenue from contract work that began in April 2004 to refurbish a portion of the centrifuge process buildings in Piketon, Ohio under a contract with DOE, and additional revenue from the resolution of outstanding issues relating to amounts owed to USEC for contract work for a DOE contractor.

Cost of Sales

Cost of sales for SWU and uranium increased \$63.5 million (or 41%) in the three months ended March 31, 2005, compared with the corresponding period in 2004 when the level of sales was low. The increase resulted primarily from increases in the volume of SWU and uranium sold. Cost of sales per SWU was 1% higher. Under the monthly moving average inventory cost method coupled

with USEC's inventories of SWU and uranium, an increase or decrease in production or purchase costs has an effect on inventory costs and cost of sales over future periods.

Cost of sales for U.S. government contracts and other increased \$7.5 million (or 20%) in the three months ended March 31, 2005, compared with the corresponding period in 2004. Costs in the 2005 period include \$4.1 million from NAC, which was acquired by USEC in November 2004.

(a) Purchase Costs under Russian Contract

USEC purchases 5.5 million SWU per year under the Russian Contract. Purchases of the SWU component of LEU under the Russian Contract declined \$23.8 million in the three months ended March 31, 2005, compared with the corresponding period in 2004 due to the timing of deliveries. Under the market-based formula, the purchase cost per SWU is higher in 2005 compared with 2004. Purchases of SWU under the Russian Contract represented 37% of the supply mix in the three months ended March 31, 2005, compared with 46% in the corresponding period in 2004.

(b) Production Costs

Production costs increased \$6.6 million (or 5%) in the three months ended March 31, 2005, compared with the corresponding period in 2004. The production level increased 9% and unit production costs declined 3%. Cost for electric power increased \$5.9 million (or 8%) reflecting the higher production level and a 2% increase in cost per megawatt hour. The utilization of electric power, a measure of production efficiency, improved compared with the corresponding period in 2004.

Gross Profit

The gross profit margin increased to 15.3% in the three months ended March 31, 2005, compared with 8.5% in the corresponding period in 2004. USEC expects the gross profit margin will be 12% to 14% in 2005 compared with 14% in 2004. As a result of increases in prices of uranium over the last few years, sales of uranium are generating a high gross profit margin.

Gross profit for SWU and uranium increased \$24.9 million (or 153%) in the three months ended March 31, 2005, compared with the corresponding period in 2004 when the level of sales was low. The increase reflects the higher average SWU and uranium prices billed to customers and increases in the volume of SWU and uranium sold.

Gross profit for U.S. government contracts and other increased \$5.0 million (or 333%) in the three months ended March 31, 2005, compared with the corresponding period in 2004. USEC resolved a number of outstanding issues and recovered past due billings to a DOE contractor, for which an allowance had previously been accrued, resulting in nonrecurring income of \$2.3 million in the three months ended March 31, 2005. Gross profit in the 2005 period includes \$1.0 million from NAC, which was acquired by USEC in November 2004.

American Centrifuge Demonstration Costs

Demonstration costs for the American Centrifuge technology increased \$12.8 million (or 136%) in the three months ended March 31, 2005, compared with the corresponding period in 2004. The increase primarily reflects an increase in the number of employees and contractors working on demonstration activities, increased spending to manufacture centrifuge components for the lead cascade, and costs to upgrade equipment at the American Centrifuge Demonstration Facility in Piketon, Ohio in preparation for the anticipated startup of the lead cascade of centrifuge machines in late 2005.

Selling, General and Administrative

Selling, general, and administrative expenses declined \$.8 million (or 5%) in the three months ended March 31, 2005, compared with the corresponding period in 2004. Consulting expenses declined \$2.0 million. This decline was partly offset by expenses of \$1.3 million from NAC, which was acquired by USEC in November 2004.

Operating Income (Loss)

Operating income amounted to \$9.8 million in the three months ended March 31, 2005, compared with an operating loss of \$7.6 million in the corresponding period in 2004. The improvement of \$17.4 million reflects the increase in gross profit, partly offset by higher centrifuge demonstration costs.

Interest Expense and Interest Income

Interest expense declined \$.7 million (or 7%) in the three months ended March 31, 2005, compared with the corresponding period in 2004. The decline resulted primarily from the repurchase in December 2004 of \$25.0 million of the 6.625% senior notes due January 20, 2006.

Interest income increased \$1.2 million (or 171%) in the three months ended March 31, 2005, compared with the corresponding period in 2004. The average balance of invested cash and cash equivalents was higher.

Provision (Credit) for Income Taxes

The provision for income taxes of \$2.1 million reflects an effective income tax rate of 70% in the three months ended March 31, 2005, compared with a credit for income taxes of \$6.5 million based on an effective income tax rate of 40% in the corresponding period in 2004. The difference between the effective tax rate of 70% and the statutory federal income tax rate of 35% in the 2005 period resulted primarily from the negative effect on deferred tax assets of a reduction in the Kentucky income tax rate. USEC expects the effective tax rate in 2005 will range from 36% to 40%.

Net Income (Loss)

Net income amounted to \$.9 million (or \$.01 per share) in the three months ended March 31, 2005, compared with a net loss of \$9.8 million (or \$.12 per share) in the corresponding period in 2004. The improvement of \$10.7 million reflects the increase in gross profit, partly offset by higher centrifuge demonstration costs and the higher effective tax rate. Centrifuge demonstration costs reduced net income by \$13.8 million (or \$.16 per share) after tax in the three months ended March 31, 2005, compared with \$5.8 million (or \$.07 per share) after tax in the corresponding period in 2004.

2005 Outlook

USEC reiterates its previous guidance for 2005, as stated in the outlook section of the annual report on Form 10-K for the year ended December 31, 2004. Specifically, USEC expects revenue to total approximately \$1.5 billion in 2005 and that the average gross margin for all business segments will be in a range of 12% to 14%. USEC expects net income for 2005 in a range of \$25 to \$30 million (or \$.29 to \$.35 per share).

USEC expects to spend approximately \$110 million on the American Centrifuge technology in 2005, with the spending roughly split evenly between expense and capital. USEC will regularly reassess the allocation between expense and capital during the year and a higher allocation of the costs to expense would reduce net income.

USEC expects cash flow from operating activities in a range of \$150 to \$170 million, and capital expenditures should total approximately \$70 million. USEC anticipates ending the year with a cash balance in a range of \$200 to \$220 million.

Liquidity and Capital Resources

Positive net cash flow from operating activities was \$80.5 million in the three months ended March 31, 2005, compared with negative net cash flow of \$76.8 million in the corresponding period in 2004. Cash flow in the 2005 period benefited from a reduction of \$105.8 million in accounts receivable from customer collections following the high level of sales in the fourth quarter of 2004, partly offset by a net inventory increase of \$32.5 million.

The negative net cash flow of \$76.8 million in the three months ended March 31, 2004, reflects a payment of \$33.2 million resulting from the settlement of termination obligations under a power purchase agreement and the net loss of \$9.8 million. In addition, there was a net inventory increase or temporary build up of \$153.0 million and a decline of \$126.4 million in accounts receivable. The increase in inventory and the decline in accounts receivable resulted from the low level of sales in the three months ended March 31, 2004.

Capital expenditures amounted to \$6.1 million in the three months ended March 31, 2005, compared with \$5.6 million in the corresponding period in 2004. Capital expenditures include capitalized costs associated with the American Centrifuge Plant.

The issuance of common stock, primarily from the exercise of stock options, provided cash flow from financing activities of \$4.9 million in the three months ended March 31, 2005, compared with \$5.9 million in the corresponding period in 2004. There were 86.1 million shares of common stock outstanding at March 31, 2005, compared with 85.1 million at December 31, 2004, an increase of 1.0 million shares (or 1%).

Dividends paid to stockholders amounted to \$11.7 million (or a quarterly rate of \$.1375 per share) in the three months ended March 31, 2005, compared with \$11.5 million in the corresponding period in 2004. The increase reflects the increase in the number of shares outstanding.

Working Capital

	<u>March 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
	(millions)	
	As restated	
Cash and cash equivalents	\$ 242.4	\$ 174.8
Accounts receivable — trade	132.7	238.5
Inventories	1,059.5	1,009.4
Current portion of long-term debt	(325.0)	—
Other current assets and liabilities, net	(303.5)	(299.1)
Working capital	<u>\$ 806.1</u>	<u>\$ 1,123.6</u>

Current liabilities at March 31, 2005, includes the reclassification of long-term debt of \$325.0 million for the senior notes scheduled to mature January 20, 2006.

Capital Structure and Financial Resources

At March 31, 2005, debt consisted of \$325.0 million of 6.625% senior notes due January 20, 2006, representing the current portion of long-term debt included in current liabilities, and \$150.0 million of 6.750% senior notes due January 20, 2009 and reported as long-term debt. 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 \$150.0 million in revolving credit commitments (including up to \$50.0 million in letters of credit) until September 27, 2005, and is secured by certain assets of USEC's subsidiaries and, subject to certain conditions, certain assets of USEC. Borrowings under the facility are subject to limitations based on percentages of our 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:

- the sum of (x) the greater of the JPMorgan Chase Bank prime rate or the federal funds rate plus $\frac{1}{2}$ of 1% plus (y) a margin ranging from .75% to 1.25% based upon collateral availability, or
- 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 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. As of the date of this report, USEC was in compliance with covenants under the revolving credit facility. There were no short-term borrowings under the revolving credit facility at March 31, 2005 or December 31, 2004.

The total debt-to-capitalization ratio was 34% at March 31, 2005, and 34% at December 31, 2004. 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 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 to Ba3 from Ba2, lowered the senior implied rating to Ba2 from Ba1, and placed the ratings under review for possible further downgrade.

We expect that our cash, internally generated funds from operations, and available financing under the revolving credit facility or the expected replacement revolving credit facility will be sufficient over the next 12 months to meet obligations as they become due and to fund operating requirements and capital expenditures, purchases of SWU under the Russian Contract, interest expense, centrifuge demonstration costs, and quarterly dividends.

USEC's three-year revolving credit facility of \$150.0 million is scheduled to expire September 27, 2005, and \$325.0 million of 6.625% senior notes mature January 20, 2006. USEC is actively engaged in discussions with financial institutions to renegotiate or replace the revolving credit facility prior to the September 2005 expiration date and to refinance the senior notes prior to the January 20, 2006 maturity date. We may also repurchase some or all of the senior notes prior to the scheduled maturity. The terms of a new revolving credit facility or issuance of senior notes would be

based on market conditions and other factors prevailing at the time such agreements are negotiated. Downgrades in our credit rating, should they occur, may adversely affect our ability to secure adequate financing, including our ability to renegotiate or replace the credit facility or refinance or repurchase the senior notes. There can be no assurance that a credit facility or debt refinancing will be available on terms that are acceptable to us, or at all. If adequate funds are not available on acceptable terms, our ability to maintain current operations, make deliveries to customers, purchase SWU under the Russian Contract, demonstrate and deploy American Centrifuge technology or pay quarterly dividends could be affected.

USEC expects to begin construction of the American Centrifuge Plant in 2007. The plant is expected to cost up to \$1.5 billion, excluding capitalized interest. Under the DOE-USEC Agreement, the milestone date for securing a financing commitment for a 1 million SWU centrifuge plant is January 2007. USEC expects to fund American Centrifuge costs with internally generated cash through 2006. Thereafter, USEC expects it will fund capital costs using a number of sources, including cash flow from operations and proceeds from debt or equity offerings the terms of which will depend on conditions at the time funds are needed for construction.

New Accounting Standards

Reference is made to notes 5 and 11 of the notes to the consolidated condensed financial statements for information on new accounting standards.

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

At March 31, 2005, 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 has not entered into financial instruments for trading purposes. The fair value of debt is calculated based on a credit-adjusted spread over U.S. Treasury securities with similar maturities. The scheduled maturity dates of debt, the balance sheet carrying amounts and related fair values at March 31, 2005, are as follows (in millions):

	Maturity Dates		March 31, 2005	
	January 20, 2006	January 20, 2009	Balance Sheet Carrying Amount	Fair Value
Debt:				
6.625% senior notes	\$ 325.0		\$ 325.0	\$326.2
6.750% senior notes		\$ 150.0	150.0	150.2
			<u>\$ 475.0</u>	<u>\$476.4</u>

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

- commodity price risk subsequent to May 2006 for electric power requirements for the Paducah plant, for which approximately 80% of the electric power is purchased from TVA at fixed prices through May 2006,
- interest rate risk on \$325.0 million of senior notes that bear interest at the fixed rate of 6.625% and are scheduled to mature January 20, 2006, and in the process of being refinanced, and

- interest rate risk relating to any outstanding borrowings at variable interest rates under the \$150.0 million revolving credit agreement scheduled to expire September 27, 2005, and in the process of being renegotiated or replaced.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

USEC maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by USEC in reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

As of the end of each quarterly and annual period, USEC carries out an evaluation, under the supervision and with the participation of USEC's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures pursuant to Exchange Act Rule 13a-15.

Based upon its reviews as of December 31, 2004 and March 31, 2005, management previously concluded that disclosure controls and procedures were not effective because of material weaknesses in USEC's internal control over financial reporting relating to the timing of the recognition of revenue and the valuation of deferred tax assets. In connection with the restatements of USEC's consolidated condensed financial statements described in the third and fifth paragraphs of Note 2 to the consolidated condensed financial statements, management has determined that the restatements were an additional effect of these material weaknesses. For additional information on these material weaknesses, refer to Item 9A of the annual report on Form 10-K/A for the year ended December 31, 2004. The Chief Executive Officer and the Chief Financial Officer reaffirm that, as of March 31, 2005, disclosure controls and procedures were still not effective.

Since December 31, 2004, management has been reviewing and evaluating the disclosure controls and procedures related to "bill and hold" and deferred tax asset transactions with the intent of strengthening such controls and procedures. These efforts are discussed in more detail below in the section on Internal Control over Financial Reporting. Management believes it must further evaluate and test the operational effectiveness of its disclosure controls and procedures and further evaluate whether additional enhancements to disclosure controls and procedures may be required prior to reaching further conclusions regarding the effectiveness of our disclosure controls and procedures.

While management's efforts to evaluate, test and enhance disclosure controls and procedures are ongoing, management believes that the consolidated condensed financial statements included in this report present fairly in all material respects the financial condition and results of operations of USEC for the periods presented.

Internal Control over Financial Reporting

As USEC reported in its annual report on Form 10-K/A for the year ended December 31, 2004, in connection with management's assessment of the effectiveness of internal control over financial reporting, USEC identified material weaknesses in internal control over financial reporting relating to the recognition of revenue and the valuation of deferred tax assets. USEC has made and continues to make efforts to evaluate, document and test internal control over financial reporting. We have taken actions to strengthen internal controls with respect to revenue recognition and deferred tax asset matters described in Item 9A of the annual report on Form 10-K/A for the year ended December 31, 2004,

including (a) enhancing processes to identify all “bill and hold” transactions, (b) the gathering and thorough evaluation of relevant facts to ensure that sales are recognized in the proper period, (c) ensuring appropriate technical resources are involved in the evaluation of possible accounting treatments, including involving external accounting experts to obtain additional guidance as to the application of generally accepted accounting principles, specifically with respect to revenue, and (d) the formal documentation of the facts and the related review and approval of our conclusions as to the appropriate accounting, with a particular focus on deferred tax assets. USEC has committed to review and increase these efforts, including the establishment of additional review procedures to ensure the identification, validation and proper processing of “bill and hold” transactions and the valuation of deferred tax assets. USEC’s accounting staff and internal audit staff have conducted comprehensive reviews in these areas as evidenced by the further restatement adjustments, and we are evaluating financial staffing requirements.

Changes in Internal Control over Financial Reporting

Except as indicated above, there have not been any changes in internal control over financial reporting during the period 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

Reference is made to information regarding the termination of the employment of William H. Timbers and the Demand for Arbitration, dated March 1, 2005, filed against USEC by Mr. Timbers, reported in note 8 to the consolidated condensed financial statements.

Reference is made to information regarding an environmental matter involving Starnet CMI, the U.S. Environmental Protection Agency, the South Carolina Department of Health and Environmental Control, DOE, USEC and others, reported in note 8 to the consolidated condensed financial statements.

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

First Quarter 2005 Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased(1)	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1 — January 31	0	—	—	—
February 1 — February 28	61,405	\$ 12.91	—	—
March 1 — March 31	4,022	\$ 16.28	—	—
Total	<u>65,427</u>	<u>\$ 13.12</u>	<u>—</u>	<u>—</u>

- (1) These purchases were not made pursuant to a publicly announced repurchase plan or program. Represents 65,427 shares of common stock surrendered to USEC to pay withholding taxes in connection with the vesting of restricted stock under the 1999 Equity Incentive Plan, as amended.

Item 5. Other Information

(a) USEC Inc. and United States Enrichment Corporation, a direct subsidiary of USEC Inc., entered into an amendment, dated April 26, 2005 (the "Amendment") to the revolving credit agreement, dated as of September 27, 2002, by and among United States Enrichment Corporation (the "Borrower"), the lender parties thereto, JPMorgan Chase Bank, N.A., Merrill Lynch Capital, GMAC Commercial Finance LLC, and Wachovia Bank, N.A, as amended, and the guarantee, dated September 27, 2002, executed by USEC Inc. in favor of the agent for the lenders, and certain other parties. The Amendment eliminates the \$25 million per fiscal year cap on the amount of dividends or funds that the Borrower can pay or transfer to USEC for purposes of permitting USEC to redeem indebtedness, although the Amendment does not eliminate the \$75 million aggregate limit on such dividends. As of March 31, 2005, the Borrower had transferred \$25 million of the \$75 million limit to USEC for this purpose, which was used in December 2004 when USEC repurchased \$25 million of the 6.625% senior notes, due January 20, 2006. In addition, the Amendment makes other changes to permit the Borrower to transfer funds to USEC to allow USEC to make investments defined as "permitted investments" under the revolving credit agreement and expands the definition of permitted investments. A copy of this Amendment is included as Exhibit 10.80 to this quarterly report on Form 10-Q and is incorporated herein by reference.

Item 6. Exhibits

- 10.78 Amendment Agreement, dated December 17, 2004, to Revolving Credit Agreement, dated as of September 27, 2002, among United States Enrichment Corporation, the lenders named therein parties thereto, JP Morgan Chase Bank, (as administrative and collateral agent), Merrill Lynch Capital (as syndication agent) GMAC Commercial Finance LLC (as documentation agent), and Congress Financial Corporation (as managing agent).
- 10.79 Amendment Agreement No. 2, dated February 1, 2005, to Revolving Credit Agreement, dated as of September 27, 2002, among United States Enrichment Corporation, the lenders named therein parties thereto, JP Morgan Chase Bank, N.A. (as administrative and collateral agent), Merrill Lynch Capital (as syndication agent), GMAC Commercial Finance LLC (as documentation agent), and Congress Financial Corporation (as managing agent).
- 10.80 Amendment Agreement No. 3, dated April 26, 2005, to (a) Revolving Credit Agreement, dated as of September 27, 2002, among United States Enrichment Corporation, the lenders named therein parties thereto, JP Morgan Chase Bank, N.A. (as administrative and collateral agent), Merrill Lynch Capital (as syndication agent), GMAC Commercial Finance LLC (as documentation agent), and Wachovia Bank, N.A. (as managing agent), and (b) the Guarantee, dated September 27, 2002, executed by USEC Inc. in favor of the agent for the lenders, the agent as issuers of Letter of Credit and other certain parties.
- 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.

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.

August 3, 2005

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 No.</u>	<u>Description</u>
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CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James R. Mellor, certify that:

1. I have reviewed this Amendment No. 1 to the 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 3, 2005

/s/ James R. Mellor

James R. Mellor
Chairman of the Board, President
and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Ellen C. Wolf, certify that:

1. I have reviewed this Amendment No. 1 to the 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 3, 2005

/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 Amendment No. 1 to the quarterly report on Form 10-Q of USEC Inc. for the quarter ended March 31, 2005, 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, James R. Mellor, Chairman of the Board, 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.

August 3, 2005

/s/ James R. Mellor

James R. Mellor
Chairman of the Board, President
and Chief Executive Officer

August 3, 2005

/s/ Ellen C. Wolf

Ellen C. Wolf
Senior Vice President and Chief Financial Officer