

HUNTINGTON INGALLS INDUSTRIES, INC.

Form DEF 14A

March 18, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

HUNTINGTON INGALLS INDUSTRIES, INC.

(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

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Huntington Ingalls Industries

Notice of
Annual Meeting
And Proxy Statement

2019

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[Letter to Our Stockholders](#)

March 18, 2019

Dear Fellow Stockholders:

On behalf of the Board of Directors and management team of Huntington Ingalls Industries, I would like to invite you to attend the 2019 Annual Meeting of Stockholders. We will meet on Tuesday, April 30, 2019, at 11:00 a.m. Eastern Daylight Time, at our corporate headquarters located at the Herbert H. Bateman Virginia Advanced Shipbuilding and Carrier Integration Center (VASCIC), 2401 West Avenue, Newport News, Virginia 23607. We are looking forward to your responses on the proposals included in the accompanying proxy statement.

The accompanying Notice of 2019 Annual Meeting and Proxy Statement describe the matters on which you, as a stockholder, may vote at the annual meeting, and include details of the business to be conducted at the meeting.

As a way to conserve natural resources and reduce annual meeting costs, we are electronically distributing proxy materials as permitted under rules of the Securities and Exchange Commission. Many of you will receive a Notice of Internet Availability of Proxy Materials containing instructions on how to access the proxy materials via the Internet. You can also request mailed paper copies if preferred. You can expedite delivery and reduce our mailing expenses by confirming in advance your preference for electronic delivery of future proxy materials. For more information on how to take advantage of this cost-saving service, please see page 14 of the proxy statement.

Your vote is very important. Whether or not you plan to attend the annual meeting, I encourage you to vote your shares in advance. Stockholders can submit their votes over the Internet at the web address included in the Notice of Internet Availability of Proxy Materials. If you received a proxy card, you can submit your votes over the Internet at the web address included in the proxy card, by telephone through the number included in the proxy card, or by signing and dating your proxy card and mailing it in the prepaid and addressed envelope.

Thank you for your support of Huntington Ingalls Industries. I look forward to seeing you at the annual meeting.

Sincerely,

Admiral Thomas B. Fargo

U.S. Navy (Ret.)

Chairman of the Board

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Notice of 2019 Annual Meeting of Stockholders

Huntington Ingalls Industries, Inc.

4101 Washington Avenue

Newport News, Virginia 23607

DATE AND TIME

Tuesday, April 30, 2019, at 11:00 a.m. Eastern Daylight Time

PLACE

Herbert H. Bateman Virginia Advanced Shipbuilding and Carrier Integration Center (VASCIC), 2401 West Avenue, Newport News, Virginia 23607

ITEMS OF BUSINESS

Elect 11 directors

Approve the company's executive compensation on an advisory basis

Ratify the appointment of Deloitte & Touche LLP as our independent auditors for 2019

Consider a stockholder proposal to permit an unlimited number of stockholders to aggregate their ownership of HII common stock to satisfy the ownership requirement under our proxy access bylaw, if properly presented at the meeting

Transact any other business that properly comes before the annual meeting

RECORD DATE

Stockholders of record at the close of business on March 6, 2019, are entitled to vote at the annual meeting.

PROXY VOTING

It is important you vote your shares so they are counted at the annual meeting. You can vote your shares over the Internet at the web address included in the Notice of Internet Availability of Proxy Materials and included in the proxy card (if you received a proxy card), by telephone through the number included in the proxy card (if you received a proxy card), or by signing and dating your proxy card (if you received a proxy card) and mailing it in the prepaid and addressed envelope.

Charles R. Monroe, Jr.

Corporate Vice President,

Associate General Counsel and Secretary

March 18, 2019

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on April 30, 2019: The Notice of 2019 Annual Meeting and Proxy Statement and 2018 Annual Report are available as of today's date, March 18, 2019, at www.envisionreports.com/HII.

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2019 Proxy Statement Summary

This summary highlights information contained elsewhere in this proxy statement. This summary does not contain all the information you should consider, and you should read the entire proxy statement carefully before voting.

Annual Meeting Information

Date and Time:

April 30, 2019, at 11:00 a.m. Eastern Daylight Time

Place:

Herbert H. Bateman Virginia Advanced Shipbuilding and Carrier Integration Center
(VASCIC)
2401 West Avenue
Newport News, Virginia 23607

Record Date:

March 6, 2019

Voting:

Holders of our common stock are entitled to one vote per share

Admission:

To attend the meeting in person, you will need to follow the instructions included on page 90

Items to be Voted at the Annual Meeting

	Board Vote	Page Reference
	Recommendation	(for more information)
1. Elect 11 directors	FOR	85
2. Approve the company's executive compensation on an advisory basis	FOR	86
3. Ratify the appointment of our independent auditors	FOR	87
4. Consider a stockholder proposal to permit an unlimited number of stockholders to aggregate their ownership of HII common stock to satisfy the ownership requirement under our proxy access bylaw, if properly presented at the meeting	AGAINST	88

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2019 Proxy Statement Summary

Corporate Governance Highlights

Huntington Ingalls Industries, Inc. (HII, the company, we, us or our) is committed to high standards of corporate governance, which we believe promote the long-term interests of stockholders, strengthen accountability of the Board of Directors (the Board) and management and build public trust in the company. Highlights of our corporate governance practices include:

Board Structure and Governance	Diverse independent Board with mix of tenures All standing Board committees comprised of independent directors Regular executive sessions of independent directors, without management present, at Board and committee meetings Independent non-executive Chairman of the Board Robust annual Board and committee self-evaluation process Director term limits Mandatory director retirement age Limits on outside public company board service by directors to prevent overboarding Active stockholder outreach and engagement
Stockholder Rights	Annual election of all directors Director resignation policy if more votes are withheld than cast for any director Ability of eligible stockholders to include their own director nominees in our proxy materials (proxy access) Ability of stockholders to call a special meeting of stockholders Annual advisory vote on named executive officer compensation No stockholder rights plan (poison pill)
Stock Ownership	Robust stock ownership guidelines and holding requirements for non-employee directors and executives Clawback policy for all performance-based compensation Prohibition on directors and executives hedging or pledging our common stock



Stockholder Engagement

We believe that stockholder outreach and engagement is an essential element of strong corporate governance. Accordingly, we actively engage with our investors so that management and the Board can better understand stockholder perspectives on matters that are important to them, and to assess emerging issues that may help shape our practices and enhance our corporate disclosures. We strive for a collaborative approach to stockholder engagement and value the variety of stockholder perspectives we receive. Management and, in some cases, members of the Board actively engage with our investors through telephonic meetings, in-person meetings and email to understand their perspectives on our company, including our strategy, performance, corporate governance matters and executive compensation. During 2018, management contacted the corporate governance teams of our largest stockholders, collectively representing approximately 42% of our outstanding shares, and met with those stockholders that accepted our meeting invitations. We are committed to understanding the perspectives of our stockholders and responding as appropriate.

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2019 Proxy Statement Summary

The following sections of this proxy statement summary describe the matters on which our stockholders will vote at the 2019 annual meeting of stockholders.

ELECT ELEVEN DIRECTOR NOMINEES**Director Nominees**

The Board is asking you to elect, for one-year terms ending in 2020, the 11 nominees for director named below, each of whom is currently serving as a member of the Board. The following table provides summary information about the nominees for director, including their names, ages and occupations, whether they are independent directors under the corporate governance listing standards of the New York Stock Exchange (NYSE), and the Board committees on which they currently serve. The directors will be elected by a plurality vote, but any director who receives a greater number of votes withheld from his or her election than votes for such election must tender to the Board his or her offer of resignation.

Name	Director		Principal Occupation	Independent Director	Board Committees			
	Age	Since			AC	CC	FC	GP
Philip M. Bilden	54	2017	Retired Senior Advisor and Co-Founding Member of HarbourVest Partners, LLC	ü		ü	ü	
Augustus L. Collins	61	2016	Chief Executive Officer of MINACT Incorporated	ü	ü			ü
Kirkland H. Donald	65	2017	Independent Business Consultant	ü		ü	ü	
Thomas B. Fargo	70	2011	Chairman of the Board of Directors of Huntington Ingalls Industries, Inc.	ü				ü
Victoria D. Harker	54	2012	Executive Officer and Chief Financial Officer of Tegna, Inc.	ü		C	ü	

Anastasia D. Kelly	69	2011	Managing Partner of DLA Piper Americas	ü	ü	C
Tracy B. McKibben	49	2018	Founder and Chief Executive Officer of MAC Energy Advisors LLC	ü		ü
C. Michael Petters	59	2011	President and Chief Executive Officer of Huntington Ingalls Industries, Inc.			
Thomas C. Schievelbein	65	2011	Retired Chairman and Chief Executive Officer of The Brink's Company	ü	ü	C
John K. Welch	69	2015	Retired President and Chief Executive Officer of Centrus Energy Corp.	ü	ü	ü
Stephen R. Wilson	72	2015	Independent Business Consultant and Retired Executive Vice President and Chief Financial Officer of RJR Nabisco, Inc.	ü		C

C = Chair

AC = Audit Committee

CC = Compensation Committee

FC = Finance Committee

GP = Governance and Policy Committee

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2019 Proxy Statement Summary

Board Composition

Our Board continues to reflect a diverse and highly engaged group of directors with a wide range of skills, experiences and perspectives, which continue to evolve. More than half of our directors have joined the Board in the last four years. The following charts and graphs highlight the current composition of our Board:

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2019 Proxy Statement Summary

Director Experience and Skills

The Board, through the Governance and Policy Committee, considers Board succession on a continuous basis. The committee's process includes evaluation of director attributes, including professional experience, skills, diversity, independence, tenure and age, to create a balanced Board that can effectively oversee the company's business and execution of its business strategy.

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2019 Proxy Statement Summary

APPROVE EXECUTIVE COMPENSATION ON AN ADVISORY BASIS

The Board is asking you to approve, on an advisory basis, the compensation of our named executive officers for 2018.

Our stockholders have voted on our executive compensation, on an advisory basis, since 2012, and we have consistently received exceptionally strong stockholder support. The following table sets forth the voting results for our say-on-pay proposal for the last five years:

Annual Meeting	2018	2017	2016	2015	2014
Votes Cast FOR Say-On-Pay Proposal	99%	98%	99%	99%	99%

Executive Compensation

We have designed our executive compensation program to attract, motivate and retain highly qualified executives, incentivize our executives to achieve business objectives, reward performance and align the interests of our executives with the interests of our stockholders and customers. The fundamental philosophy of our executive compensation program, set by the Compensation Committee of the Board, is pay-for-performance. We describe below our financial performance and stockholder returns in 2018.

2018 Financial Performance

Solid operating performance in 2018 delivered solid financial performance. The following table includes several of our 2018 financial highlights:

	(\$ in millions,	
2018 Financial Highlights	except per share data)	
Contract Awards	\$	9,804
Revenues		8,176
Operating Income		951
Operating Margin		11.6%
Segment Operating Income*		663
Net Earnings		836
Diluted Earnings Per Share		19.09
Cash from Operations		914
Free Cash Flow*		512

* Segment operating income and free cash flow are non-GAAP financial measures. See Annex A for definitions of

these non-GAAP financial measures and reconciliations to comparable GAAP financial measures. Our full year revenues of \$8.2 billion in 2018 increased 9.9% over 2017. Operating income was \$951 million and operating margin was 11.6%, compared to \$881 million and 11.8%, respectively, in 2017. New contract awards in 2018 totaled \$9.8 billion, resulting in a backlog of \$23.0 billion at the end of the year.

2018 Stockholder Returns

Our operating performance continues to drive returns for our stockholders. Diluted earnings per share was \$19.09 in 2018, compared to \$10.46 in 2017 and adjusted diluted earnings per share* of \$12.14 in 2017. We also increased dividends by 20%, from \$2.52 per share in 2017 to \$3.02 per share in 2018, and repurchased 3.6 million shares during 2018, continuing to deliver on our commitment to return cash to stockholders.

* Adjusted diluted earnings per share is a non-GAAP financial measure. See Annex A for definitions of non-GAAP financial measures and reconciliations to comparable GAAP financial measures.

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2019 Proxy Statement Summary

The following graph and chart show total stockholder return for HII in 2018 compared to several benchmarks and total cash returned to stockholders in 2018, respectively.

1-YEAR TOTAL STOCKHOLDER RETURN

**CASH RETURNED TO
STOCKHOLDERS IN 2018**

Elements of Our Executive Compensation Program

Our compensation program for our Chief Executive Officer, our Chief Financial Officer and our three other most highly-compensated executive officers in 2018 (collectively, our NEOs) consisted primarily of the following direct compensation elements in 2018:

Base salary, to provide a minimum fixed level of compensation.

Annual incentive awards, generally paid in cash, under our Annual Incentive Plan (AIP), to motivate our executives to achieve pre-determined annual financial and operational targets that are aligned with our strategic goals.

Long-term equity-based incentive awards, paid under our Long-Term Incentive Plan (LTIP), to promote achievement of pre-determined three-year performance goals aligned with long-term stockholder interests. Our executive compensation program is rounded out with certain perquisites and other executive benefits.

A significant portion of the potential compensation of our executives is at risk, and that risk increases with each executive's level of responsibility. We have designed our compensation program to balance performance-based compensation over the short- and long-term to incentivize decisions and actions that promote stockholder value and focus our executives on performance that benefits our stockholders and customers, while discouraging inappropriate risk-taking behaviors.

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2019 Proxy Statement Summary

2018 Total Direct Compensation Mix

The pay-for-performance philosophy of our executive compensation program is demonstrated by the compensation mix of our NEOs. Of the three primary elements of total direct compensation, our executive compensation is heavily weighted toward the variable, performance-based elements and toward the long-term and equity-based elements, as reflected in the following charts, which set forth the percentage of total compensation corresponding to each compensation element received by our CEO and by our other NEOs collectively in 2018.

CEO Compensation Mix¹

Other NEOs Compensation Mix²

(1) Our CEO elected to receive a base salary of \$1; his fixed (cash) compensation therefore represented 0% of his total direct compensation. Total direct compensation does not include perquisites and other benefits.

(2) Average allocation for the NEOs other than the CEO. Total direct compensation does not include perquisites and other benefits.

Compensation Best Practices

We believe our compensation practices are aligned with and reinforce our pay-for-performance philosophy and our related executive compensation principles.

What We Do

- Consideration of annual stockholder say-on-pay advisory vote on executive compensation.
- Pay for performance compensation program heavily weighted toward variable, performance-based elements and toward long-term and equity-based elements.
- Annual assessment of potential risk posed by our compensation programs.
- Executive compensation clawback policy.
- Targeted external compensation benchmarking.
- Independent compensation consultant engaged by Compensation Committee.
- Executive stock ownership guidelines based upon multiple of executive's base salary.
- Executive stock holding requirements, which require executives to hold one-half of their equity awards for three additional years after they vest.

What We Don't Do

No employment agreements for executives.

No change-in-control agreements for executives or related executive tax gross-up benefits.

Prohibitions against speculative transactions in our securities, pledging our securities as collateral and hedging transactions involving our securities.

No dividends or dividend equivalents paid on restricted performance stock rights during performance period.

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2019 Proxy Statement Summary

RATIFY THE APPOINTMENT OF INDEPENDENT AUDITORS

The Board is asking you to ratify the selection of Deloitte & Touche LLP as our independent auditors for 2019. The following table contains summary information with respect to fees billed to us in 2018 by Deloitte & Touche for professional services.

(\$ in thousands)	2018
Fees Billed:	
Audit Fees	6,946
Audit-Related Fees	370
Tax Fees	94
All Other Fees	55
Total	7,465

CONSIDER A STOCKHOLDER PROPOSAL TO PERMIT AN UNLIMITED NUMBER OF STOCKHOLDERS TO AGGREGATE THEIR OWNERSHIP OF HII COMMON STOCK TO SATISFY THE OWNERSHIP REQUIREMENT UNDER OUR PROXY ACCESS BYLAW, IF PROPERLY PRESENTED AT THE MEETING

You are being asked to consider a stockholder proposal requesting that the Board take the steps necessary to permit an unlimited number of stockholders to aggregate their ownership of HII common stock to satisfy the ownership requirement under our proxy access bylaw. The Board is recommending a vote against this proposal.

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General Information About the Annual Meeting and Voting

The Board is providing you with these proxy materials in connection with its solicitation of proxies to be voted at our 2019 Annual Meeting of Stockholders and at any postponement or adjournment of the annual meeting. In this proxy statement, Huntington Ingalls Industries, Inc. may also be referred to as we, our, us, HII or the company.

ITEMS OF BUSINESS TO BE CONSIDERED AT THE ANNUAL MEETING

The Board is asking you to vote on the following items at the annual meeting:

elect 11 directors;

approve the company's executive compensation on an advisory basis;

ratify the appointment of our independent auditors; and

consider a stockholder proposal to permit an unlimited number of stockholders to aggregate their ownership of HII common stock to satisfy the ownership requirement under our proxy access bylaw, if properly presented at the meeting.

APPOINTMENT OF PROXY HOLDERS

The Board asks you to appoint Kellye L. Walker and Charles R. Monroe, Jr. as your proxy holders to vote your shares at the annual meeting. You make this appointment by submitting your proxy using one of the voting methods described below.

If appointed by you, the proxy holders will vote your shares as you direct on the matters described in this proxy statement. If you received a proxy card and you complete and return the proxy card but do not provide voting directions, they will vote your shares as recommended by the Board on all of the matters described in this proxy statement that are brought before the annual meeting.

The Board is not aware of any business that may properly be brought before the annual meeting other than those matters described in this proxy statement. If any other matters are properly brought before the annual meeting, your proxy gives discretionary authority to the proxy holders to vote the shares in their best judgment.

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS

Pursuant to rules adopted by the Securities and Exchange Commission (SEC), we are permitted to furnish our proxy materials to our stockholders over the Internet by delivering a Notice of Internet Availability of Proxy Materials. The Notice of Internet Availability of Proxy Materials instructs you on how to access and review the proxy statement and 2018 Annual Report over the Internet. The Notice of Internet Availability of Proxy Materials also instructs you on how you may submit your proxy over the Internet. We believe this e-proxy process expedites receipt of proxy

materials by stockholders, while also lowering our costs and reducing the environmental impact of our annual meeting. We have used this e-proxy process to furnish proxy materials to certain of our stockholders over the Internet.

If you received a Notice of Internet Availability of Proxy Materials in the mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting these materials provided in the Notice of Internet Availability of Proxy Materials.

RECORD DATE AND VOTING

Stockholders owning our common stock at the close of business on March 6, 2019, the record date, or their legal proxy holders, are entitled to vote at the annual meeting. The Board strongly encourages

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General Information About the Annual Meeting and Voting

you to vote. Your vote is important. Voting early helps ensure we receive a quorum of shares necessary to hold the annual meeting. Many stockholders do not vote, meaning the stockholders who do vote influence the outcome of the matters on which they vote in greater proportion than their percentage ownership of HII shares.

We have two types of stockholders: stockholders of record and street name stockholders. Stockholders of record are stockholders who own their shares in their own names on the company's books. Street name stockholders are stockholders who own their shares through a bank, broker or other holder of record.

Voting by Stockholders of Record. If you are a stockholder of record, you have four voting options. You may vote:

over the Internet at www.envisionreports.com/HII, the web address included in the Notice of Internet Availability of Proxy Materials and in the proxy card (if you received a proxy card);

by telephone through the number included in the proxy card (if you received a proxy card);

by signing and dating your proxy card (if you received a proxy card) and mailing it in the prepaid and addressed envelope; or

by attending the annual meeting and voting in person.

If you have Internet access, we encourage you to vote over the Internet. It is convenient, and it saves us significant postage and processing costs. In addition, when you vote by proxy over the Internet or by telephone prior to the meeting date, your proxy vote is recorded immediately and there is no risk that postal delays will cause your proxy vote to arrive late and therefore not be counted.

Internet and telephone voting facilities for stockholders of record are available 24 hours a day and will close at 11:59 p.m. Eastern Daylight Time on Monday, April 29, 2019. The Internet and telephone voting procedures verify you are a stockholder of record by use of a control number and enable you to confirm your voting instructions have been properly recorded. If you vote by Internet or telephone, you do not need to return your proxy card (if you received a proxy card).

Whether or not you plan to attend the annual meeting and vote in person, we urge you to have your proxy vote recorded in advance of the meeting. If you attend the annual meeting and vote at the annual meeting, any prior proxy votes you submitted, whether by Internet, telephone or mail, will be superseded by the vote you cast at the annual meeting. Because it is not practical for most stockholders to attend the annual meeting, the Board recommends you vote using one of the other voting methods. In any event, the method by which you vote your proxy will not limit your right to vote at the annual meeting if you decide to attend in person.

Revoking Your Proxy for Stockholders of Record. If you are a stockholder of record and you vote by proxy using any method, you may later revoke your proxy and change your vote at any time before the polls close at the annual

meeting. You may do this by:

sending a written statement to that effect to Huntington Ingalls Industries, Inc., Attn: Corporate Secretary, 4101 Washington Avenue, Newport News, Virginia 23607, provided we receive your written statement before the annual meeting date; or

voting again over the Internet or by telephone prior to 11:59 p.m. Eastern Daylight Time on Monday, April 29, 2019; or

signing and returning another proxy card with a later date, provided we receive the later proxy card before the annual meeting date; or

voting in person at the annual meeting.

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General Information About the Annual Meeting and Voting

Only the most recent proxy vote will be counted, and all others will be discarded regardless of the method of voting.

Voting by Street Name Stockholders. If your shares are held in street name through a broker, bank or other nominee, please refer to the instructions they provide regarding how to vote your shares or to revoke your voting instructions. The availability of telephone and Internet voting depends upon the voting processes of the broker, bank or other nominee. If you are a street name stockholder and would like to vote in person at the annual meeting, you must obtain a proxy, executed in your favor, from the bank, broker or other holder of record through which you hold your shares. Because it is not practical for most stockholders to attend the annual meeting, the Board recommends you vote using one of the other voting methods. In any event, the method by which you vote your proxy will not limit your right to vote at the annual meeting if you decide to attend in person.

Confidential Voting. We treat your vote as confidential to protect the privacy of our stockholders' votes. Proxies and voting instructions provided to banks, brokers and other holders of record are kept confidential. Only the proxy solicitor, the proxy tabulator and the inspector of elections have access to the proxies and voting instructions.

QUORUM, VOTE REQUIRED AND METHOD OF COUNTING

At the close of business on the record date, 41,656,877 shares of our common stock were outstanding and entitled to vote at the annual meeting. Each outstanding share is entitled to one vote.

A quorum must be present to transact business at the annual meeting. A quorum will be present if a majority of the outstanding shares entitled to vote as of the record date are present, in person or by proxy. If you indicate an abstention as your voting preference on all matters, your shares will be counted toward a quorum but will not be voted on any matter. If you are a street name stockholder and do not vote your shares, your bank, broker or other holder of record may vote your shares on the proposal to ratify the appointment of our independent auditors, which is known as a routine matter. Votes by a bank, broker or other holder of record on any routine matter will count for purposes of determining a quorum. In the absence of a quorum, the chairperson of the meeting may adjourn the meeting, and, at any reconvened meeting following such an adjournment at which a quorum is present, any business that might have been transacted at the original meeting may be transacted.

If you are a street name stockholder and do not vote your shares, your bank, broker or other holder of record can vote your shares in its discretion only on Item 3 described in this proxy statement. If you do not give your bank, broker or other holder of record instructions on how to vote your shares on Items 1, 2 and 4 described in this proxy statement, your shares will not be voted on those matters.

If you have shares in an employee benefit plan and do not vote those shares, your trustee will vote your shares in accordance with the terms of the relevant plan. Accordingly, your trustee may vote your shares in the same proportion as shares held by the plan for which voting instructions have been received, unless contrary to ERISA.

The required vote and method of calculation for the matters to be considered at the annual meeting are as follows:

Item 1 Proposal to Elect Directors

Directors will be elected by a plurality of the shares present in person or by proxy at the annual meeting or any adjournment thereof and entitled to vote on the election of directors. Plurality voting means the 11 director nominees receiving the most votes will be elected to the Board. If you do not want your shares to be voted with respect to a particular director nominee, you may withhold your vote with respect to that nominee. If a director nominee receives a greater number of votes withheld

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for his or her election than votes cast for his or her election, such nominee will be required under the majority vote director resignation policy included in our Corporate Governance Guidelines to submit an offer of resignation to the Board for its consideration. If you are a street name stockholder and do not vote your shares, your bank, broker or other holder of record cannot vote your shares on this item, and broker non-votes will have no effect on the outcome of the vote.

Item 2 Proposal to Approve Executive Compensation on an Advisory Basis

The executive compensation of our NEOs will be approved as an advisory recommendation to the Board if the number of shares voted in favor exceeds the number of shares voted against. Abstentions will have no effect on the results of the vote. If you are a street name stockholder and do not vote your shares, your bank, broker or other holder of record cannot vote your shares on this item, and broker non-votes will have no effect on the outcome of the vote. Although the vote on this item is non-binding, the Compensation Committee will review the results of the vote and consider it in making future decisions concerning executive compensation.

Item 3 Proposal to Ratify Appointment of Our Independent Auditors

Ratification of appointment of our independent auditors will be approved if the number of shares voted in favor exceeds the number of shares voted against. Abstentions will have no effect on the results of the vote. If you are a street name stockholder and do not vote your shares, your bank, broker or other holder of record can vote your shares at its discretion on this item.

Item 4 Stockholder Proposal to Permit an Unlimited Number of Stockholders to Aggregate Their Ownership of HII Common Stock to Satisfy the Ownership Requirement Under Our Proxy Access Bylaw

The stockholder proposal to permit an unlimited number of stockholders to aggregate their ownership of HII common stock to satisfy the ownership requirement under our proxy access bylaw will be approved if the number of shares voted in favor exceeds the number of shares voted against the proposal. Abstentions will have no effect on the results of the vote. If you are a street name stockholder and do not vote your shares, your bank, broker or other holder of record cannot vote your shares on this item, and broker non-votes will have no effect on the outcome of the vote.

IMPORTANT REMINDER OF EFFECT OF NOT CASTING YOUR VOTE IF YOU ARE A STREET NAME STOCKHOLDER

If you are a street name stockholder, it is critical you vote your shares if you want your vote to count on Items 1, 2 and 4. Your bank, broker or other holder of record is not permitted to vote your shares on Items 1, 2 or 4, unless you instruct them how you wish to vote. Such broker non-votes will have no impact on the results of the vote on Items 1, 2 or 4.

SOLICITING AND TABULATING VOTES

The Board has made these materials available to you in connection with its solicitation of proxies for use at our annual meeting. We will bear the costs of soliciting and tabulating your votes. Our employees, personally, by telephone, by email or otherwise, may solicit your votes without additional compensation. In addition, we have retained MacKenzie

Partners, Inc. to assist in the solicitation of proxies for the 2019 annual meeting for a fee of \$15,000, plus associated costs and expenses.

We will reimburse banks, brokers and other holders of record for reasonable, out-of-pocket expenses for forwarding these proxy materials to you, according to certain regulatory fee schedules. See [Electronic Access to Proxy Statement and Annual Report](#) below for information on how you can help reduce printing and mailing costs.

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ELECTRONIC ACCESS TO PROXY STATEMENT AND ANNUAL REPORT

You can elect in advance to receive future proxy materials by email. If you choose to receive future proxy materials by email, you will receive an email with instructions containing a link to the website where those materials are available, as well as a link to the proxy voting website.

If you are a stockholder of record, you may enroll in the electronic delivery service by going directly to www.envisionreports.com/HII. You may revoke your electronic delivery election at this site at any time and request a paper copy of the proxy statement and annual report.

If you are a street name stockholder, you may also have the opportunity to receive copies of the proxy statement and annual report electronically. Please check the information provided in the proxy materials you received from your bank, broker or other holder of record concerning the availability of this service.

HOUSEHOLDING INFORMATION

We have adopted a procedure called householding. Under this procedure, stockholders of record who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of the Notice of Internet Availability of Proxy Materials or the printed proxy materials, unless we have received contrary instructions from one or both such stockholders. This procedure reduces our printing costs and postage fees and is environmentally friendly.

If you and another stockholder of record with whom you share an address are receiving multiple copies of the Notice of Internet Availability of Proxy Materials or the printed proxy materials, you can request to receive a single copy of the printed proxy materials in the future by calling our transfer agent, Computershare, at 1-888-665-9610, or writing to us at Investor Relations, 4101 Washington Avenue, Newport News, VA 23607. If you and another stockholder of record with whom you share an address wish to receive a separate Notice of Internet Availability of Proxy Materials or separate printed proxy materials, we will promptly deliver them to you if you request them by contacting Computershare by phone or Investor Relations in writing in the same manner described above.

Stockholders who participate in householding and who receive printed proxy materials will continue to receive separate proxy cards. If you are a street name stockholder, you can request householding by contacting your bank, broker or other holder of record through which you hold your shares.

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OVERVIEW OF CORPORATE GOVERNANCE

Corporate governance addresses the relationships among the Board, company management and the company's stockholders, with the objectives of promoting the company's long-term success, improving corporate performance, strengthening Board and management accountability and promoting the long-term interests of our stockholders. The Board and senior management are committed to high standards of corporate governance. We believe those high standards are important not only to our stockholders, but also to our customers, employees, suppliers and other stakeholders.

The following sections provide an overview of our corporate governance model and practices. Among other topics, we describe the responsibilities of the Board, how directors are selected and certain key aspects of Board operations.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

We believe the foundation for good corporate governance starts with a board of directors whose independence, skills, experience and judgment will enable the board to effectively oversee management of the company and to provide constructive advice and counsel to management. The Board and its committees perform a number of important functions for the company and its stockholders, including:

overseeing and providing advice on the company's strategic plan developed by management;

assessing the significant enterprise risks to which the company is subject and overseeing management of those enterprise risks;

selecting our chief executive officer and evaluating the performance of the chief executive officer and other executive officers;

overseeing development and succession plans for our executive officers;

monitoring the company's financial performance and evaluating and approving significant corporate actions;

overseeing processes that protect the integrity of the company, including the integrity of the company's financial statements and compliance with legal requirements and the company's ethics and business conduct standards; and

evaluating the effectiveness of the Board and its committees.

The Board's oversight role is also effected through the Board's four standing committees: the Audit Committee, the Compensation Committee, the Governance and Policy Committee and the Finance Committee. Each of these committees operates under a separate written charter to promote clarity in their responsibilities and to ensure the committees function in coordination with each other and with the full Board. Our committees are discussed in greater detail beginning on page 21 of this proxy statement.

CRITERIA FOR BOARD MEMBERSHIP

The Board believes all director candidates must possess certain fundamental qualifications and that specialized skills and experiences should be contributed to the Board by individual directors. The

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Board and the Governance and Policy Committee consider the qualifications of directors and director candidates individually and in the broader context of the Board's collective skills and experiences measured against the current and future needs of the Board.

Qualifications for All Directors. The Board believes all its members must possess the following fundamental qualifications:

high personal and professional integrity and ethical standards;

substantial educational, business, military or professional accomplishments in leading organizations;

ability to represent the best interests of all stockholders; and

demonstrated leadership ability and sound judgment.

Prospective directors must also be willing to submit to a background check necessary for obtaining a security clearance.

Selection of Individual Candidates. In addition to the qualifications applicable to all director candidates, the Board and the Governance and Policy Committee consider, among other matters, a candidate's knowledge of and experience in such areas as:

senior leadership

finance, accounting and capital markets

the industries in which the company competes

manufacturing and operations

human resources

military and government

government relations and regulatory

legal, regulatory and compliance matters

public company boards

technology

risk management

corporate development and strategy

global operations

We also consider whether a candidate can commit sufficient time and attention to Board activities and any potential conflicts with the company's interests. Our objective is to have the collective skills, experiences and perspectives that create an outstanding, dynamic and effective Board and strengthen the Board's ability to oversee the company's business, enhance its performance and represent the long-term interests of stockholders. All of our non-employee directors are expected to serve on Board committees, supporting the Board's mission by providing expertise to those committees, and the needs of those committees are considered when evaluating director candidates. The Board and the Governance and Policy Committee also consider diversity factors when selecting director nominees, seeking representation of a range of experiences, backgrounds and perspectives.

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Service on Other Boards. In accordance with our Corporate Governance Guidelines, the Board considers the number of boards of other public companies and audit committees of those boards on which a director candidate serves. Under our Corporate Governance Guidelines, directors should not serve on more than four boards of publicly-traded companies in addition to our Board, and our directors who also serve as chief executive officers or in equivalent positions of other companies should not serve on more than two other boards of publicly-traded companies, in each case without the approval of the chairman of our Governance and Policy Committee. A director who is a full-time employee of our company may not serve on the board of directors of more than two other publicly-traded companies, unless approved by the Board. No member of our Audit Committee may serve on the audit committees of more than three publicly-traded companies (including our company) without the approval of the Board, which must determine annually that such simultaneous service would not impair the ability of the member to effectively serve on our Audit Committee.

Retirement Policy. Under the retirement policy of our Corporate Governance Guidelines, a director will not be re-nominated at the annual meeting following the earlier of his or her 76th birthday or 15 years of service on the Board. Upon the recommendation of the Governance and Policy Committee, the Board may waive either of these requirements as to any director, if the Board deems waiver to be in the best interests of the company. In addition to our retirement policy, when a director's principal occupation or business association changes substantially during his or her tenure as a director, the Board expects the affected director to tender his or her resignation for consideration by the Governance and Policy Committee and the Board, as provided in our Corporate Governance Guidelines.

Conclusion. Satisfaction of the foregoing criteria for Board membership is implemented and assessed through continuous consideration of director succession by the Governance and Policy Committee and the Board, as well as through the Board's self-evaluation process. The Board and the Governance and Policy Committee believe that, individually and collectively, the company's current directors possess the necessary qualifications to provide effective oversight of the company's business and contribute constructive advice and counsel to the company's management.

DIRECTOR NOMINATION PROCESS

The Governance and Policy Committee is responsible under its charter for recommending to the full Board director nominees for election by our stockholders and for identifying and recommending candidates to fill any vacancies that may occur on the Board. The Governance and Policy Committee may use a variety of sources to identify candidates. Candidates may be identified through recommendations from independent directors or members of management, search firms, discussions with other persons who may know of suitable candidates to serve on the Board and stockholder recommendations.

Evaluations of director candidates who would be new to the Board (other than nominees recommended by our stockholders, as described below) include consideration of the candidate's background and qualifications by the Governance and Policy Committee, interviews with the Chairman of the Board, members of the Governance and Policy Committee and one or more other Board members who desire to interview a candidate, and deliberations of the Governance and Policy Committee and the full Board. The Governance and Policy Committee then recommends the candidate(s) to the full Board, with the full Board selecting the candidate(s) to be nominated for election by our stockholders or to be elected by the Board to fill a vacancy.

In connection with its recommendations to the Board of director nominees for election at each annual meeting, the Governance and Policy Committee considers the size of the Board and the criteria set forth above to recommend nominees who, individually and as a group and collectively with directors who will continue to serve on the Board, the Governance and Policy Committee believes satisfy the

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qualifications the Board needs. Accordingly, the Governance and Policy Committee annually reviews the composition of the Board as a whole and makes recommendations, if necessary, to improve the Board to achieve what it believes is the optimal mix of experience, expertise, skills, specialized knowledge, diversity and other factors.

Stockholders who wish to recommend director candidates for consideration by the Governance and Policy Committee must submit the name and relevant information about the candidate in writing to the Corporate Secretary. All director candidates recommended by stockholders are required to meet the criteria for directors described above, and candidates who meet the criteria described above will be evaluated by the Governance and Policy Committee. In accordance with our Corporate Governance Guidelines, the Governance and Policy Committee will evaluate director candidates recommended by stockholders in the same manner as candidates identified through other means.

Stockholders who wish to nominate a person for election as a director at an annual meeting must follow the procedures set forth in our bylaws and described beginning on page 27 of this proxy statement. Additionally, our bylaws include a proxy access right, which enables a stockholder or a group of up to 20 stockholders owning continuously for at least three years an amount of shares that constitutes 3% or more of our outstanding common stock as of the date of nomination to nominate and include in our proxy materials director candidates constituting up to the greater of 25% of the number of directors then in office or two directors, subject to the requirements specified in our bylaws. Stockholders who wish to nominate director candidates for inclusion in our proxy materials under our proxy access bylaw provisions must satisfy the requirements in our bylaws, as described under the heading Communications and Company Documents Future Stockholder Proposals and Nominations of Directors of this proxy statement. The Board expects to evaluate any director candidates nominated through the proxy access process in a manner similar to that for other director candidates.

MAJORITY VOTE DIRECTOR RESIGNATION POLICY

Our Corporate Governance Guidelines include a majority vote director resignation policy. Under such policy, any nominee for director who receives a greater number of votes withheld from his or her election than votes for such election (a Majority Withhold Vote) in an uncontested election of directors must tender to the Board his or her offer of resignation within five days following certification of the stockholder vote. The Governance and Policy Committee will promptly consider the resignation offer and make a recommendation to the Board to accept or reject the tendered offer of resignation. The Board will act on the Governance and Policy Committee's recommendation within 90 days following certification of the stockholder vote. The Board will then promptly disclose its decision to accept or reject the director's resignation offer, including its rationale, in a report furnished to or filed with the SEC.

The Governance and Policy Committee in making its recommendation, and the Board in making its decision, will consider the best interests of the company and our stockholders and may consider any other factors or other information that it considers appropriate and relevant, including but not limited to:

the stated reasons, if any, why stockholders withheld their votes;

possible alternatives for curing the underlying cause of the withheld votes;

the director's tenure;

the director's qualifications;

the director's past and expected future contributions to the company; and

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the overall composition of the Board and its committees, including whether, if the offer of resignation is accepted, the company will no longer be in compliance with any applicable law, rule, regulation or governing document. Any director who tenders his or her offer of resignation under our majority vote director resignation policy will not participate in the Governance and Policy Committee deliberation or recommendation or Board deliberation or action to accept or reject the resignation offer. If a majority of the Governance and Policy Committee received a Majority Withhold Vote at the same election, then the independent directors (other than those who received a Majority Withhold Vote in that election) will instead appoint a committee among themselves to consider the resignation offers and recommend to the Board whether to accept them. If, however, the independent directors who did not receive a Majority Withhold Vote constitute two or fewer directors, all independent directors may participate in the action to accept or reject the resignation offers, except that each director who has tendered his or her offer of resignation will recuse himself or herself from the deliberations and voting with respect to his or her individual offer to resign.

If a director's resignation offer is not accepted by the Board, that director will continue to serve for the term for which he or she was elected and until his or her successor is duly elected, or his or her earlier resignation or removal. If a director's resignation offer is accepted by the Board, then the Board, in its sole discretion in accordance with our bylaws, may fill any resulting vacancy or may decrease the size of the Board.

STOCKHOLDERS RIGHT TO NOMINATE PROXY ACCESS NOMINEES

Our bylaws provide our stockholders proxy access rights. Under Section 2.15 of our bylaws, we are required to include in our proxy materials for an annual meeting any stockholder nominee who is nominated by an Eligible Stockholder. An Eligible Stockholder is any stockholder or group of up to 20 stockholders that has beneficially owned continuously for at least three years an amount of shares that constitutes 3% or more of our outstanding common stock as of the date of nomination. Eligible Stockholders must provide proof of ownership of the requisite amount of stock for the three-year time period and represent that the shares were acquired in the ordinary course of business and not to change or influence control of the company. Eligible Stockholders must also provide certain other written representations, warranties and agreements to the company, including an agreement to assume liability from any legal or regulatory violation arising out of the Eligible Stockholder's communication with our stockholders and to comply with all applicable laws and regulations, as described in more detail in Section 2.15 of the bylaws.

The maximum number of directors who can be nominated by Eligible Stockholders, referred to as Stockholder Nominees, at any annual meeting is the greater of 25% of the number of directors then in office or two directors. Section 2.15 of our bylaws includes procedures to prioritize nominations if the number of Stockholder Nominees exceeds the maximum number of Stockholder Nominees we are required to include in our proxy materials for any annual meeting. Stockholder Nominees must provide written notice to the company, which must include specific information, including information similar to the information required from stockholders to propose business and director nominations through the advance notice provisions included in Section 2.08 of our bylaws. As described in Section 2.15 of our bylaws, this notice must include an express consent to be named as a director nominee in our proxy materials and to serve as a director if elected, as well as required disclosures and information about, and representations, undertakings and consents by, the Stockholder Nominee to enable the Board to determine whether the Stockholder Nominee meets the independence and other general requirements for directors set forth in our bylaws and our Corporate Governance Guidelines.

Stockholders who would like to nominate candidates using proxy access should refer to Section 2.15 of our bylaws, which sets forth all the requirements for proxy access nominations. The Board may

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exclude any Stockholder Nominee from our proxy materials if the Stockholder Nominee or Eligible Stockholder(s) fail to meet the requirements or provide the undertakings set forth in our bylaws or Corporate Governance Guidelines and for other reasons set forth in our bylaws. See Communications and Company Documents Future Stockholder Proposals and Nominations of Directors.

DIRECTOR INDEPENDENCE

The Board makes determinations regarding the independence of our directors on an annual basis, based upon the Governance and Policy Committee's evaluation of director independence and related recommendations to the Board. Under our Corporate Governance Guidelines, to be considered independent: (i) a director must be independent as determined under Section 303(A).02(b) of the NYSE Listed Company Manual and (ii) in the Board's judgment, the director must not have a material relationship with the company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company).

The Board has considered relevant relationships between the company and each non-employee director to determine compliance with NYSE independence requirements. Based upon its review, the Board has determined that Mr. Bilden, General Collins, Admiral Donald, Admiral Fargo, Ms. Harker, Ms. Kelly, Ms. McKibben, Mr. Schievelbein, Mr. Welch and Mr. Wilson, who comprise the Board's non-employee directors, are independent. The Board has also determined that each current member of the Audit Committee satisfies the additional independence requirements of the SEC and that each current member of the Compensation Committee satisfies the enhanced independence requirements of the NYSE listing standards.

BOARD LEADERSHIP STRUCTURE

The Board understands that one of its primary responsibilities is to evaluate and determine the optimal leadership structure for the Board from time to time to facilitate effective oversight of the company. Our bylaws establish the position of Chairman, and our Corporate Governance Guidelines state that the Board believes it is in the best interests of the company and its stockholders for the Board to have the flexibility to determine the best director to serve as Chairman. The independent directors consider this matter on at least an annual basis. This consideration includes the advantages and disadvantages of a combined chairman and chief executive officer role and separate chairman and chief executive officer roles in the context of our operating and governance environment over time, with the goal of achieving the optimal model for the Board's effective oversight of the company's affairs.

Non-Executive Chairman. The Board has considered the Board leadership matter and determined an independent, non-executive chairman is the optimal model for the company at this time. This structure provides the Board with independent leadership and allows the chief executive officer to focus on the company's business operations. The independent directors appointed Admiral Fargo as our non-executive Chairman of the Board at the time the company began operating as an independent stand-alone company in 2011, and he has served as Chairman since that time.

Our non-executive Chairman has the following responsibilities under our Corporate Governance Guidelines:

chair all Board and stockholder meetings, including executive sessions of the independent directors;

serve as a liaison between the chief executive officer and the independent directors;

ensure the quality, quantity and timeliness of the flow of information from management to the Board; although management is responsible for the preparation of materials for the Board, the non-executive Chairman may specifically request the inclusion of certain materials;

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prepare the agendas of the Board meetings and assist the chairman of each standing committee with preparation of agendas for the respective committee meetings, taking into account the requests of other Board and committee members;

set an appropriate schedule for Board meetings to assure there is sufficient time for discussion of all agenda items;

along with the chairman of the Governance and Policy Committee, interview all Board candidates and make recommendations to the Governance and Policy Committee and the Board;

have the authority to call meetings of the Board and meetings of the independent directors; and

if requested by the chief executive officer, be available for consultation and direct communication with stockholders.

Conclusion. All of our directors play an active role in overseeing the company's business at both the Board and committee levels. The Board is currently comprised of one non-independent director who serves as our Chief Executive Officer and ten independent directors. Our independent directors are skilled and experienced leaders in industry and the military. Our independent directors are effective in collaborating with management and thoroughly considering proposals made by management, and an independent Board leader facilitates this relationship. We therefore believe a non-executive Chairman of the Board, along with nine other strong independent directors, is an appropriate and effective structure at this time to oversee the company's affairs and to provide advice and counsel to the Chief Executive Officer and other executive management of the company.

BOARD COMMITTEE FUNCTIONS AND MEMBERSHIP

The Board has four standing committees: Audit, Compensation, Governance and Policy and Finance. Each of the Audit, Compensation and Governance and Policy Committees is constituted and operated in accordance with SEC requirements and the NYSE's corporate governance listing standards; the Finance Committee is not subject to any such requirements or standards. Each Board committee is governed by a written charter, which sets forth the responsibilities of the committee, including the responsibilities described in this section. Each charter

expense targets, working capital targets, or operating efficiency

strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion goals, cost targets, customer satisfaction, employee satisfaction, management of employment practices and employee benefits, supervision of litigation and information technology, and goals relating to acquisitions or divestitures of subsidiaries, affiliates or joint ventures.

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These goals may be set with fixed, quantitative targets, targets relative to our past performance, or targets compared to the performance of other companies, such as a published or special index or a group of companies selected by the Committee for comparison. The Committee may specify that these performance measures will be determined before payment of bonuses, capital charges, non-recurring or extraordinary income or expense, or other financial and general and administrative expenses for the performance period.

Other Terms of Awards. Awards may be settled in cash, shares, other awards or other property, in the discretion of the Committee. The Committee may require or permit participants to defer the settlement of all or part of an award, including shares issued upon exercise of an option, in accordance with such terms and conditions as the Committee may establish, including payment or crediting of interest or dividend equivalents on any deferred amounts. The Committee is authorized to place cash, shares or other property in trusts or make other arrangements to provide for payment of Charming Shoppes' obligations under the 2004 Plan. The Committee may require or permit the withholding of a portion of the shares or other property to be distributed upon exercise or settlement of an award to satisfy tax obligations, including tax obligations of a participant in excess of the mandatory withholding amounts. Awards granted under the 2004 Plan generally may not be pledged or otherwise encumbered and are not transferable except by will or by the laws of descent and distribution, or to a designated beneficiary upon the participant's death, except that the Committee may permit transfers of awards other than incentive stock options on a case-by-case basis. This flexibility can allow for estate planning or other limited transfers consistent with the incentive purpose of the 2004 Plan.

The Committee is authorized to impose non-competition, non-solicitation, confidentiality, non-disparagement and other requirements as a condition on the participant's right to retain an award or gains realized by exercise or settlement of an award. Awards under the 2004 Plan may be granted without a

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requirement that the participant pay consideration in the form of cash or property for the grant (as distinguished from the exercise), except to the extent required by law. The Committee may, however, grant awards in substitution for, exchange for or as a buyout of other awards under the 2004 Plan, awards under other plans, or other rights to payment from Charming Shoppes, and may exchange or buy out outstanding awards for cash or other property. The Committee also may grant awards in addition to and in tandem with other awards, awards, or rights. In granting a new award, the Committee may determine that the in-the-money value of any surrendered award may be applied to reduce the exercise price of any option, base price of any SAR, or purchase price of any new award, and the fair value of a surrendered award may be applied to the purchase price based on fair value of any new award. Any of these transactions that would be a repricing would be subject to the shareholder approval requirement described under the caption *Restrictions on Repricing and Loans*.

Dividend Equivalents. The Committee may grant dividend equivalents. These are rights to receive payments equal in value to the amount of dividends paid on a specified number of shares of Common Stock while an award is outstanding. These amounts may be in the form of cash or rights to receive additional awards or additional shares of Common Stock having a value equal to the cash amount. The awards may be granted on a stand-alone basis or in conjunction with another award. Typically, rights to dividend equivalents are granted in connection with restricted stock units or deferred stock, so that the participant can earn amounts equal to dividends paid on the number of shares covered by the award while the award is outstanding.

Vesting, Forfeitures, and Related Award Terms. The Committee may, in its discretion, determine the vesting schedule of options and other awards, the circumstances that will result in forfeiture of awards, the post-termination exercise periods of options and similar awards, and the events that will result in acceleration of the ability to exercise and the lapse of restrictions, or the expiration of any deferral period, on any award. Except as explained below, full-value awards, if their grant or vesting is subject to performance conditions, will have a minimum performance-vesting period of one year, and if not subject to performance conditions will have a minimum service-based vesting period of three years. Such awards may vest on an accelerated basis in the event of death, disability, or retirement, or a change in control or other special circumstances. Vesting over a one-year period or three-year period will include periodic vesting within the period if the rate of such vesting is proportional (or less rapid) throughout such period. Vesting requirements would not apply to shares granted as a bonus, but as discussed above, the number of such awards that may be granted is limited under the 2004 Plan. Although the 2004 Plan contains no terms relating to a change in control the Committee can provide in grant agreements for accelerated vesting, lapse of restrictions, settlement, deemed satisfaction of performance conditions and cash out of awards upon a change in control.

Amendment and Termination of the 2004 Plan. The Board may amend, suspend, discontinue, or terminate the 2004 Plan or the Committee's authority to grant awards thereunder without shareholder approval, except as required by law or regulation or under the NASDAQ Marketplace Rules. The NASDAQ Marketplace Rules now require shareholder approval of material modifications to plans such as the 2004 Plan. Under these rules, however, shareholder approval is not necessarily required for amendments which might increase the cost of the 2004 Plan or broaden eligibility. Unless earlier terminated, the 2004 Plan will terminate at such time that no shares reserved under the 2004 Plan remain available and Charming Shoppes has no further obligation with respect to any outstanding award.

Federal Income Tax Implications of the 2004 Plan

Charming Shoppes believes that under current law the following Federal income tax consequences generally would arise with respect to awards under the 2004 Plan. The grant of an option or a SAR will create no federal income tax consequences for the participant or Charming Shoppes. A participant will not have taxable income upon exercising an option which is an ISO, except that the alternative minimum tax may apply. Upon exercising an option which is not an ISO, the participant generally must recognize ordinary income equal to the difference between the exercise price and the fair market value of the freely transferable and nonforfeitable shares acquired on the date of exercise. Upon exercising a SAR, the participant must generally recognize ordinary income equal to the cash or the fair market value of the shares received.

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Upon a disposition of shares acquired upon exercise of an ISO before the end of the applicable ISO holding periods, the participant must generally recognize ordinary income equal to the lesser of (i) the fair market value of the ISO shares at the date of exercise minus the exercise price or (ii) the amount realized upon the disposition of the ISO shares minus the exercise price. Otherwise, a participant's sale of shares acquired by exercise of an option generally will result in short-term or long-term capital gain or loss measured by the difference between the sale price and the participant's tax basis in such shares. The tax basis normally is the exercise price plus any amount he or she recognized as ordinary income in connection with the option's exercise. A participant's sale of shares acquired by exercise of a SAR generally will result in short-term or long-term capital gain or loss measured by the difference between the sale price and the tax basis in the shares, which generally is the amount he or she recognized as ordinary income in connection with the SAR's exercise.

Charming Shoppes normally can claim a tax deduction equal to the amount recognized as ordinary income by a participant in connection with an option or SAR, but no tax deduction relating to a participant's capital gains. Accordingly, Charming Shoppes will not be entitled to any tax deduction with respect to an ISO if the participant holds the shares for the applicable ISO holding periods before selling the shares.

Charming Shoppes may, however, permit participants to elect to defer taxation upon certain exercises of options other than ISOs. Under such a transaction, the participant must pay for the option exercise by surrendering shares, and the option shares that represent the gain upon exercise are deferred as to delivery by Charming Shoppes. The participant generally should not realize income upon exercise, but will realize ordinary income equal to the value of shares delivered at the end of the specified deferral period. Charming Shoppes is not entitled to a tax deduction at the time of exercise, but becomes entitled to a tax deduction at the time shares are delivered at the end of the deferral period. Proposed legislation may limit this kind of deferral, however.

With respect to awards other than options and SARs that result in a transfer to the participant of cash or shares or other property, if no restriction on transferability or substantial risk of forfeiture applies to the transferred amounts, the participant generally must recognize ordinary income equal to the cash or the fair market value of shares or other property actually received. Thus, for example, if Charming Shoppes grants an award of deferred stock or permits the participant to elect to defer receipt of cash or shares under a Plan award, the participant will defer the time he or she becomes subject to income tax, and Charming Shoppes' right to claim a tax deduction will be likewise deferred. If a restriction on transferability and substantial risk of forfeiture applies to shares or other property transferred to a participant under an award (such as, for example, restricted stock), the participant generally must recognize ordinary income equal to the fair market value of the transferred amounts at the earliest time either the transferability restriction or risk of forfeiture lapses. In all cases, Charming Shoppes can claim a tax deduction in an amount equal to the ordinary income recognized by the participant, except as discussed below. A participant may elect to be taxed at the time of grant of restricted stock or other property rather than upon lapse of restrictions on transferability or the risk of forfeiture, but if the participant subsequently forfeits such shares or property he or she would not be entitled to any tax deduction, including as a capital loss, for the value of the shares or property on which he or she previously paid tax.

As discussed above, compensation that qualifies as performance-based compensation is excluded from the \$1 million deductibility cap of Code Section 162(m), and therefore remains fully deductible by a company that pays it. Under the 2004 Plan, options and SARs granted with an exercise price or base price at least equal to 100% of the fair market value of the underlying stock at the date of grant, cash-based incentive awards to employees the Committee expects to be named executive officers at the time compensation is received, and certain other awards which are conditioned upon achievement of performance goals are intended to qualify as such performance-based compensation. A number of requirements must be met, however, in order for particular compensation to so qualify so there can be no assurance that such compensation under the 2004 Plan will be fully deductible under all circumstances. In addition, other awards under the 2004 Plan generally will not so qualify, so that compensation paid to certain executives in connection with such awards may, to the extent it and other compensation subject to Section 162(m)'s deductibility cap exceed \$1 million in a given year, not be deductible by Charming Shoppes as a result of Section 162(m).

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The foregoing provides only a general description of the application of federal income tax laws to certain awards under the 2004 Plan. This discussion is intended for the information of shareholders considering how to vote at the Annual Meeting and not as tax guidance to participants in the 2004 Plan, as the consequences may vary with the types of awards made, the identity of the recipients and the method of payment or settlement. Different tax rules may apply, including in the case of variations in transactions that are permitted under the 2004 Plan (such as payment of the exercise price of an option by surrender of previously acquired shares). The summary does not address the effects of other federal taxes (including possible golden parachute excise taxes) or taxes imposed under state, local, or foreign tax laws.

New Plan Benefits Under the 2004 Plan

Because future awards under the 2004 Plan will be granted in the discretion of the Committee, the type, number, recipients, and other terms of such awards cannot be determined at this time. Information regarding Charming Shoppes' recent practices with respect to annual incentive awards and stock-based compensation under the similar 1993 Plan is presented in the Summary Compensation Table elsewhere in this Proxy Statement and in Charming Shoppes' financial statements for fiscal 2004 included in Charming Shoppes Annual Report on Form 10-K which accompanies this Proxy Statement. No commitments have been made as to incentive award opportunities or awards under the 2004 Plan. If shareholders decline to approve the 2004 Plan, awards will not be granted under the 2004 Plan. If the 2004 Plan is not approved, the 1993 Plan, 1999 Plan and 2000 Plan will remain in effect in accordance with their terms.

Vote Required For Approval

Approval of the 2004 Plan will require the affirmative vote of a majority of votes cast by holders of shares of Common Stock at the Annual Meeting, provided a quorum is present.

THE BOARD OF DIRECTORS CONSIDERS THE APPROVAL OF THE 2004 PLAN TO BE IN THE BEST INTERESTS OF CHARMING SHOPPES AND ITS SHAREHOLDERS AND THEREFORE RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THIS PROPOSAL AT THE MEETING.

Table of Contents**Stock Performance Chart**

The following graph shows a five-year comparison of cumulative total returns on our Common Stock, the Dow Jones U.S. Retailers-Apparel Index, and the Russell 2000 Composite Index. Our fiscal year ends on the Saturday nearest January 31 in each year. The dates plotted on the chart below correspond with the last trading day of each fiscal year.

The chart above assumes \$100 invested on January 30, 1999 in Charming Shoppes, Inc., the Dow Jones U.S. Retailers - Apparel Index, and the Russell 2000 Composite Index, and was plotted using the following data:

	<u>1/30/1999</u>	<u>1/29/2000</u>	<u>2/3/2001</u>	<u>2/2/2002</u>	<u>2/1/2003</u>	<u>1/31/2004</u>
Charming Shoppes, Inc.	\$ 100	\$ 176	\$ 180	\$ 152	\$ 91	\$ 160
Dow Jones U.S. Retailers-Apparel Index	\$ 100	\$ 89	\$ 103	\$ 90	\$ 78	\$ 104
Russell 2000 Composite Index	\$ 100	\$ 120	\$ 120	\$ 117	\$ 92	\$ 145

Table of Contents**PRINCIPAL SHAREHOLDERS AND MANAGEMENT OWNERSHIP**

The following table shows the beneficial ownership of our Common Stock of (1) each person or group we know to be a beneficial owner of more than five percent of our outstanding Common Stock, (2) each Director, (3) each named executive officer for fiscal 2004, and (4) all of our Directors and executive officers as a group. The number of shares beneficially owned is as of April 30, 2004, unless otherwise indicated, and all percentages are calculated based on the shares outstanding as of April 30, 2004. Unless otherwise indicated in the footnotes, each named person had sole voting and investment power over the shares shown as beneficially owned by that person and the address for each named person is c/o Charming Shoppes, Inc., 450 Winks Lane, Bensalem, Pennsylvania 19020.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percentage of Common Stock Beneficially Owned
William O. Albertini	48,000(1)	*
Joseph M. Baron	235,000(2)	*
Dorrit J. Bern	2,515,000(2)	2.2%
Joseph L. Castle, II	110,375(1)	*
Yvonne M. Curl	12,083(1)	*
Anthony A. DeSabato	546,901(2)	*
Charles T. Hopkins	77,600(1)	*
Katherine M. Hudson	62,525(1)	*
Pamela S. Lewis	89,497(1)	*
Kenneth S. Olshan	70,600(1)	*
Alan Rosskamm	84,834(1)	*
Eric M. Specter	711,544(2)	*
Erna Zint	551,100(2)	*
Citigroup, Inc.	11,454,771(3)	10.1%
Dimensional Fund Advisors, Inc.	6,859,480(4)	6.0%
First Pacific Advisors, Inc.	16,780,800(5)	14.6%
Franklin Resources, Inc.	9,554,873(6)	8.3%
Royce & Associates, LLC	8,611,200(7)	7.5%
All Directors and Executive Officers as a group (18 persons)	6,172,131(8)	5.2%

* Does not exceed one percent of the outstanding class of Common Stock.

- (1) Includes shares as to which the Director holds options exercisable within 60 days and deferred shares and restricted stock units that are non-forfeitable or become non-forfeitable within 60 days, as follows: Mr. Albertini, 9,500 shares; Mr. Castle, 60,100 shares; Ms. Curl, 2,083 shares; Mr. Hopkins, 60,100 shares; Ms. Hudson, 40,100 shares; Dr. Lewis, 85,100 shares; Mr. Olshan, 60,100 shares; and Mr. Rosskamm, 60,100 shares. Includes shares of restricted stock subject to risk of forfeiture and restrictions on transferability in the following amounts: Mr. Albertini, 10,000 shares; and Ms. Curl, 10,000 shares.
- (2) Includes shares as to which the executive officer holds options exercisable within 60 days and deferred shares that are non-forfeitable, as follows: Mr. Baron, 150,000 shares; Ms. Bern, 1,580,000 shares; Mr. DeSabato, 462,400 shares; Mr. Specter, 626,157 shares; and Ms. Zint, 506,600 shares. Includes shares of restricted stock subject to risk of forfeiture and restrictions on transferability in the following amounts: Mr. Baron, 65,000 shares; Ms. Bern, 250,000 shares; Mr. DeSabato, 51,900 shares; Mr. Specter, 61,400 shares; and Ms. Zint, 28,600 shares.
- (3) The source of this information is a Schedule 13G filed March 10, 2004 by Citigroup, Inc. (Citigroup) reporting beneficial ownership at February 29, 2004. The Schedule 13G reported that Citigroup, together with certain subsidiaries, had shared voting power and shared dispositive power over 11,454,771 shares. The address of Citigroup is 399 Park Avenue, New York, NY 10043.
- (4) The source of this information is a Schedule 13G filed February 6, 2004 by Dimensional Fund Advisors, Inc. (Dimensional) reporting beneficial ownership at December 31, 2003. The Schedule 13G reported that Dimensional had sole voting power and sole dispositive power over 6,859,480 shares of Common Stock.

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- Dimensional is a registered investment advisor and the reported shares are owned by certain investment companies, trust and accounts for which Dimensional acts as investment advisor or investment manager. The address of Dimensional Fund Advisors, Inc. is 1299 Ocean Avenue, 11th Floor, Santa Monica, CA 90401.
- (5) The source of this information is a Schedule 13G filed February 12, 2004 by First Pacific Advisors, Inc. (FPAI) reporting beneficial ownership at December 31, 2003. The Schedule 13G reported that FPAI had shared voting power over 6,629,800 shares of Common Stock and shared dispositive power over 16,780,800 shares of Common Stock. The address of FPAI is 11400 W. Olympic Blvd., Suite 1200, Los Angeles, CA 90064.
- (6) The source of this information is a Schedule 13G filed February 13, 2004 by Franklin Resources, Inc. (FRI) and Charles B. Johnson and Rupert H. Johnson, Jr., principal shareholders of FRI, reporting beneficial ownership as of December 31, 2003. The filing persons reported that they, together with investment advisor subsidiaries of FRI, had sole voting power and sole dispositive power over 9,554,873 shares, which includes 283,388 shares issuable upon conversion of convertible notes. These shares are held by one or more open or closed-end investment companies or other managed accounts advised by direct or indirect investment advisory subsidiaries of FRI. FRI, Messrs. Johnson, and the investment advisory subsidiaries of FRI each disclaim any economic interest or beneficial ownership in the shares. Any shares that may be held by a separate subsidiary of FRI which exercises voting and investment powers independently from FRI and its other affiliates are excluded from the shares reported as beneficially owned by FRI and the principal shareholders. The address of FRI and Messrs. Johnson is One Franklin Parkway, San Mateo, CA 94404.
- (7) The source of this information is a Schedule 13G filed January 29, 2004 by Royce & Associates, Inc. (Royce), a registered investment advisor, reporting beneficial ownership at December 31, 2003. The Schedule 13G reported that Royce had sole voting power and sole dispositive power over 8,611,200 shares of Common Stock. The address of Royce is 1414 Avenue of the Americas, New York, NY 10019.
- (8) Includes 4,519,782 shares as to which continuing Directors and executive officers hold options exercisable within 60 days, deferred shares and restricted stock units that are non-forfeitable or become non-forfeitable within 60 days, and 643,000 shares of restricted stock subject to risk of forfeiture and restrictions on transferability.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During fiscal 2004, Kenneth S. Olshan and Katherine M. Hudson served as members of the Compensation and Stock Option Committee. In addition, Joseph L. Castle, II and Marvin L. Slomowitz served on that Committee through June 25, 2003, and William O. Albertini and Charles T. Hopkins served on that Committee beginning June 26, 2003.

Mr. Slomowitz, a Director whose term ended at the Annual Meeting in fiscal 2004 and who did not stand for reelection, owned equity interests in a partnership which owns a shopping center located in Pittston, Pennsylvania and in which we lease a store. The aggregate rental charges are \$77,000 per annum increasing by a specified percentage to the extent that sales revenue thresholds are exceeded. We believe that this lease and its transaction terms are no less favorable to Charming Shoppes than we could have negotiated with an unaffiliated third party.

RELATIONSHIP WITH AUDITORS

The firm of Ernst & Young LLP served as our independent auditors for the fiscal year ended January 31, 2004. Representatives of the auditors are expected to be present at the Annual Meeting and available to make a statement, if they desire, and to answer appropriate questions.

The Audit Committee has selected Ernst & Young LLP as the independent auditors of Charming Shoppes for our fiscal year 2005, currently in progress.

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AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors has submitted the following report for inclusion in this Proxy Statement:

Our role as the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to the accounting and financial reporting processes and the systems of internal controls of Charming Shoppes. Specific responsibilities of the Committee are set forth in the Audit Committee Charter that has been approved by the Board of Directors. As stated in the Charter (a copy of which is attached to this Proxy Statement as Appendix A), management of Charming Shoppes is responsible for the preparation, presentation and integrity of financial statements and the accounting and financial reporting processes, including the systems of internal controls. Charming Shoppes' independent auditors, Ernst & Young LLP, are responsible for auditing the financial statements and expressing an opinion as to their conformity with generally accepted accounting principles, and for reviewing the unaudited quarterly financial statements. Our activities of the Audit Committee are in no way designed to supersede or alter those traditional responsibilities.

In this context, our Committee has met and held discussions with management and the independent auditors (including private sessions with the independent auditors, the internal auditors and members of management) and independently as a Committee. Management represented to us that Charming Shoppes' consolidated financial statements were prepared in accordance with generally accepted accounting principles, and our Committee has reviewed and discussed the audited financial statements for fiscal 2004 with management and the independent auditors, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. We specifically discussed with the independent auditors, Ernst & Young LLP, all matters required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended (Communications with Audit Committees).

In addition, our Committee has discussed with the independent auditors the auditors' independence from Charming Shoppes and its management, and we received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). In concluding that the independent auditors are independent from Charming Shoppes and its management, we also determined that the audit and permissible non-audit services provided to Charming Shoppes were compatible with maintaining the independent auditors' independence.

Our Committee discussed with Charming Shoppes' internal and independent auditors the overall scope and plans for their respective audits. Our Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their audits, the evaluations of Charming Shoppes' internal controls, and the overall quality, reliability and integrity of Charming Shoppes' accounting and financial reporting processes.

In reliance on the review and discussions referred to above, our Committee recommended to the Board of Directors, and the Board of Directors has approved, that the audited financial statements be included in Charming Shoppes' Annual Report on Form 10-K for the fiscal year ended January 31, 2004 for filing with the Securities and Exchange Commission.

The foregoing report is provided by the following independent Directors, who constitute the Audit Committee:

Charles T. Hopkins (Chairman)

Joseph L. Castle, II

Katherine M. Hudson

Pamela S. Lewis

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The following table sets forth the aggregate fees billed to Charming Shoppes for services rendered by our principal independent auditors, Ernst & Young LLP, for the fiscal years ended January 31, 2004 and February 1, 2003:

	Fiscal	Fiscal
	2003	2004
	<u> </u>	<u> </u>
Audit fees (1)	\$ 944,000	\$ 1,297,000
Audit-related fees (2)	231,000	94,000
Tax fees (3)	236,000	452,000
All other fees (4)		130,000
	<u> </u>	<u> </u>
Total	\$ 1,411,000	\$ 1,973,000
	<u> </u>	<u> </u>

- (1) Audit fees consist of the audit of Charming Shoppes' annual financial statements, interim reviews of quarterly financial statements, as well as work generally only the independent auditor can reasonably be expected to provide, such as statutory audits and financial audits of subsidiaries, services associated with SEC registration statements filed in connection with securities offerings (i.e., comfort letters and consents) (\$32,000 and \$357,000 in fiscal years 2004 and 2003, respectively) and financial accounting and reporting consultations.
- (2) Audit-related fees consist principally of audits of employee benefit plans, securitization-related services, and assurance and related services that are reasonably related to the performance of the audit or review of Charming Shoppes' financial statements.
- (3) Tax fees consist principally of assistance with tax planning, federal and state tax audits, and tax compliance (\$51,000 and \$52,000 in fiscal years 2004 and 2003, respectively).
- (4) All other fees consisted principally of business risk assessment services performed in fiscal year 2003.

The Audit Committee has considered the compatibility of audit and permissible non-audit services performed by Ernst & Young LLP with the auditors' independence. Our Committee has concluded that the independent auditors are independent from Charming Shoppes and its management.

Audit and Permissible Non-Audit Services Pre-Approval Policies and Procedures

The Audit Committee has policies and procedures for pre-approval of all audit and permissible non-audit services provided by Ernst & Young LLP in order to assure that the provision of such services does not impair Ernst & Young LLP's independence. Each pre-approval is detailed as to the particular service or category of service and includes estimated fees.

The annual recurring audit and audit-related services and estimated fees are subject to specific pre-approval of the Audit Committee. In addition, the Audit Committee provides pre-approval of certain other audit and audit-related services and estimated fees. This provides the necessary flexibility and permits Charming Shoppes to consult with Ernst & Young LLP on routine audit and audit-related matters or enables Ernst &

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Young LLP to provide services that are reasonably related to the performance of the audit or review of Charming Shoppes' financial statements.

The Audit Committee provides pre-approval of certain tax assistance and advice, including estimated fees, thereby also providing the necessary flexibility and permitting Charming Shoppes to be able to consult with Ernst & Young LLP on routine tax matters.

If circumstances arise during the year that require the engagement of Ernst & Young LLP for additional audit and audit related services not contemplated in the original pre-approvals, as well as other tax services and

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permissible non-audit services that are determined to be in the best interests of Charming Shoppes and would not impair the independence of Ernst & Young LLP, then these services and estimated fees would require specific pre-approval by the Audit Committee.

The Audit Committee has delegated to the Audit Committee Chairman, the authority to evaluate and approve services and estimated fees of Ernst & Young LLP on behalf of the Audit Committee in the event a need arises for pre-approval between Audit Committee meetings. If the Chairman approves any such services and estimated fees, they are reported to the Audit Committee at the next scheduled quarterly meeting. Additionally, the Audit Committee receives reports at its quarterly meetings regarding the extent of services provided by Ernst & Young LLP in accordance with the pre-approval policy and the fees for services performed to date.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

SEC rules require our Directors, executive officers and holders of more than 10% of our outstanding Common Stock to file Forms 3, 4 and 5 reports disclosing information concerning their transactions in and beneficial ownership of our Common Stock. Based solely on a review of filed reports and the written representations of our Directors and executive officers that no other reports were required, we believe that all Section 16(a) filing requirements have been met during fiscal 2004.

PROPOSALS FOR 2005 ANNUAL MEETING

Any proposals of shareholders that are intended to be presented at our 2005 Annual Meeting of Shareholders and included in our proxy materials for that Meeting must be received at our principal executive offices no later than January 20, 2005 and must comply with all other applicable legal requirements in order to be included in our Proxy Statement and Proxy Card for that Meeting. In addition, under the terms of our Bylaws, a shareholder who intends to present an item of business at the 2005 Annual Meeting of Shareholders, other than a proposal submitted for inclusion in our proxy materials, must provide notice of such business to Charming Shoppes after February 19, 2005 and on or before March 20, 2005 and must comply with all applicable requirements of our Bylaws. See also **CORPORATE GOVERNANCE AT CHARMING SHOPPES Director Nominations.**

COST OF SOLICITATION

The cost of solicitation of proxies will be borne by Charming Shoppes. In addition to the use of the mail, solicitations may be made by telephone and personal interviews by officers, Directors and regularly engaged employees of Charming Shoppes. Charming Shoppes has engaged Georgeson Shareholder to solicit proxies and has agreed to pay Georgeson Shareholder a fee of approximately \$6,000 and reimburse it for all reasonable disbursements. Brokerage houses, custodians, nominees and fiduciaries will be requested to forward this Proxy Statement to the beneficial owners of the shares held of record by such persons, and Charming Shoppes will reimburse them for their reasonable charges and expenses in this connection.

HOUSEHOLDING

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Some banks, brokers and other nominee record holders may be participating in the practice of householding proxy statements and annual reports. This means that only one copy of Charming Shoppes Proxy Statement, Annual Report on Form 10-K for fiscal 2004 or 2003 Review may have been sent to multiple shareholders in your household. Charming Shoppes will promptly deliver a separate copy of any of these documents to you if you request one by writing as follows: Colin D. Stern, Corporate Secretary, Charming Shoppes, Inc., 450 Winks Lane, Bensalem, Pennsylvania 19020. If you would like to receive separate copies of the Annual Report, the Review and Proxy Statement in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or other nominee record holder, or you may contact Charming Shoppes at the above address.

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ADDITIONAL INFORMATION

Copies of our 2003 Review and our Annual Report on Form 10-K for fiscal 2004, which contains financial statements audited by our independent auditors, accompany this Proxy Statement.

A copy of our Annual Report on Form 10-K as filed with the Securities and Exchange Commission (including financial statements and schedules), as well as copies of our corporate governance materials, will be furnished without charge to a shareholder upon written request to: Colin D. Stern, Corporate Secretary, Charming Shoppes, Inc., 450 Winks Lane, Bensalem, Pennsylvania 19020.

The Report of the Compensation and Stock Option Committee of the Board of Directors on Executive Compensation, the Stock Performance Chart and the Audit Committee Report included in this Proxy Statement shall not be deemed soliciting material or otherwise deemed filed and shall not be deemed to be incorporated by reference by any general statement incorporating by reference this Proxy Statement into any other filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that Charming Shoppes specifically incorporates those portions of this Proxy Statement by reference therein.

It is important that your shares be represented at the Meeting. If you are unable to be present in person, we respectfully request that you sign the enclosed Proxy Card and return it to us in the enclosed stamped and addressed envelope as promptly as possible.

By Order of the Board of Directors

COLIN D. STERN

Secretary

Bensalem, Pennsylvania

May 19, 2004

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APPENDIX A

**AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS CHARTER**

1. PURPOSE

The purposes of the Audit Committee are to assist the Board of Directors in fulfilling its oversight responsibilities to the Company's shareholders, the investment community and others and to oversee the accounting and financial reporting processes of the Company and the audits of the Company's financial statements. In furtherance of those oversight responsibilities, the Audit Committee's primary duties and responsibilities are to:

- (a) Serve as an independent and objective party to monitor the quality, reliability and integrity of the Company's accounting and financial reporting processes and systems of internal controls.

- (b) Monitor compliance with ethics policies, and legal and regulatory requirements.

- (c) Review and evaluate the qualifications, independence and performance of the Company's independent auditors and internal auditors.

- (d) Pre-approve all audit and permissible non-audit services provided by the Company's independent auditors.

- (e) Provide an open avenue of communication among and individually with the independent auditors, internal auditors, members of management and the Board of Directors, and take appropriate actions resulting from this interaction.

Consistent with these duties and responsibilities, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Company's accounting and financial reporting policies, procedures and practices at all levels.

The Audit Committee has the authority to retain and consult with, at the Company's expense, outside legal, accounting, or other advisors or experts it deems necessary or appropriate in the performance of its duties and responsibilities. In addition, the Audit Committee has the authority to conduct any investigation it deems necessary in fulfilling its duties and responsibilities.

2. COMPOSITION

The Audit Committee shall be comprised of three or more directors, each of whom shall be an independent non-executive director who is not an affiliated person of the Company, who does not accept directly or indirectly any consulting, advisory or other compensatory fee from the Company other than in his or her capacity as a member of the Board of Directors or any of its committees and who is otherwise free from any relationship that the Board of Directors finds would interfere with the exercise of his or her independence from management and the Company, in each case, in accordance with the applicable independence requirements of the Securities and Exchange Commission (SEC) and the listing standards of the NASDAQ Marketplace Rules.

Each member of the Audit Committee shall be financially literate and able to read and understand the Company's financial statements. In addition, at least one member of the Audit Committee must have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background that results in financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. This member must also, in the judgment of the Board, fall within the SEC's definition of an audit committee financial expert.

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The members of the Audit Committee shall be elected by the Board of Directors at the annual meeting of the Board and shall serve until their successors shall be duly elected and qualified. The Chair of the Committee shall be elected by the Board of Directors.

3. MEETINGS

The Audit Committee shall meet at least four (4) times annually, or more frequently as circumstances dictate. As part of its job to foster open communication, the Committee shall meet in executive sessions at least annually with management, the Vice President of Business Assurance and Advisory Services (Internal Audit), the independent auditors, and independently as a Committee to discuss any matters that the Committee or any of these groups believe should be discussed privately. In addition, the Committee or at least its Chair should meet with the independent auditors and management quarterly.

4. RESPONSIBILITIES

The Audit Committee's primary responsibility is one of oversight of the Company's auditing, accounting and financial reporting processes and systems of internal controls on behalf of the Company's Board of Directors. The Company's management is responsible for the preparation, presentation and integrity of the Company's financial statements and for implementing and maintaining systems of internal controls. The independent auditors are responsible for auditing the Company's financial statements and expressing an opinion as to their conformity with generally accepted accounting principles, performing an audit of internal control over financial reporting, and for reviewing the Company's unaudited quarterly financial statements. In addition, the Committee recognizes that financial management, the independent auditors, and the internal auditors have more time, knowledge and more detailed information on the Company than do Committee members. Consequently, in carrying out its oversight responsibilities, the Committee is not providing any expert or special assurance as to the Company's financial statements or any professional certification as to the independent auditors' work.

While the Audit Committee believes its policies and practices should remain flexible to best react to a changing environment, to fulfill its responsibilities the Audit Committee shall:

(a) Financial Reporting Process

1. Make regular reports to the Board of Directors and review and assess the adequacy of this Charter on an annual basis and recommend any proposed changes to the Board for approval. The Committee shall publish the Charter in accordance with the rules and regulations of the SEC and conduct an annual evaluation of its performance in fulfilling its duties and responsibilities under this Charter.
2. Prepare the Audit Committee report as required by the SEC, and publish this report in the Company's annual Proxy Statement.
3. Review with management, the independent auditors and internal auditors the annual and quarterly financial results prior to release of earnings.

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4. Review with management, the independent auditors and internal auditors the Company's annual audited financial statements, including the clarity of financial and non-financial disclosures made in the Company's financial statements, footnotes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K, prior to filing and distribution. Such review shall include discussing with the independent auditors those matters required to be communicated under generally accepted auditing standards. Based on these reviews, the Audit Committee will advise the Board of Directors whether it recommends that the audited financial statements be included in the Annual Report on Form 10-K.

5. Review with management, the independent auditors and internal auditors the Company's quarterly financial statements, including the clarity of financial and non-financial disclosures made in

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the Company's financial statements, footnotes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's quarterly reports on Form 10-Q, prior to filing and distribution. Such review shall include discussing with the independent auditors those matters required to be communicated under generally accepted auditing standards. The Chair of the Committee may represent the Audit Committee for purposes of this review.

6. Review with management, the independent auditors and the internal auditors, the quality, reliability and integrity of the Company's accounting and financial reporting processes; the adequacy and effectiveness of internal control over financial reporting, including any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting; and significant changes in internal control over financial reporting that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting; any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting; management's evaluation of the effectiveness of the Company's disclosure controls and procedures; management's assessment process and evaluation of the effectiveness of the Company's internal control over financial reporting; the disclosures regarding controls and procedures required by the rules and regulations of the SEC to be contained in the Company's periodic reports; and the certifications, attestations or reports relating to such disclosures.

7. Review with management, the independent auditors and the internal auditors the Company's critical accounting policies and practices; significant financial reporting issues and judgments and estimates made in connection with the preparation of the financial statements; the quality, not just the acceptability, of the accounting principles and underlying estimates used in the financial statements; major issues regarding accounting principles and financial statement presentations, including any changes in the Company's selection or application of accounting principles; the effects of alternative treatments under generally accepted accounting principles on the financial statements that have been discussed with management and other material communications between the independent auditors and management, such as any unadjusted differences and accounting adjustments that were noted or proposed by the independent auditors but were passed (as immaterial or otherwise).

8. Discuss the nature of any unusual or significant commitments or contingent liabilities and the Company's policies with respect to risk assessment and risk management, including major financial risk exposures and the steps management has taken to monitor and control such exposures.

9. Discuss generally with management the Company's earnings press releases prior to issuance, as well as financial and statistical information and earnings guidance provided to analysts, and rating agencies and others from time to time.

(b) Independent Auditors

1. Be directly responsible for the appointment, retention, compensation (at the Company's expense), oversight and evaluation of the work of the Company's independent auditors (including the resolution of disagreements between management and the independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services. The independent auditors shall report directly to the Audit Committee. The evaluation by the Committee should include the review and evaluation of the lead partner of the independent auditors and take into account the opinions of management and the Company's personnel responsible for internal audit.

2. Pre-approve all audit and permissible non-audit services to be performed by the independent auditors; or delegate the authority to pre-approve such non-audit services to one or more members of the Audit Committee, who shall report any decision to pre-approve any such service to the full Committee at its regularly scheduled meetings.

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3. Be responsible for assuring its receipt from the independent auditors of a formal written statement delineating all relationships between the independent auditors and the Company, consistent with Independence Standards Board Standard No. 1, and for actively engaging in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors and for taking appropriate action to oversee the independence of the outside auditors.

4. Obtain and review, at least annually, a report by the independent auditors describing the independent auditors internal quality-control procedures and any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.

5. Review with the independent auditors and determine that the independent auditor has a process in place to address the rotation of the lead audit partner and other audit partners serving the account as required by the SEC independence rules.

6. Review with the independent auditors the scope, fees and nature of the prospective audit and related audit plan and significant changes thereto, as well as the extent of reliance upon management and coordination with the internal auditors.

7. Discuss with the independent auditors any issues reviewed with the auditor's national office regarding auditing or accounting issues identified during the engagement.

8. Review with the independent auditors any audit problems or difficulties encountered during the course of the audit work, including any restrictions on the scope of the independent auditors' activities or access to requested information, and any significant disagreements with management, including management's response to such matters; and any findings and recommendations the independent auditors may have, together with management's responses and action plans, relating to the internal controls and accounting policies and practices of the Company.

9. Establish clear hiring policies for employees or former employees of the independent auditors.

(c) Internal Auditors

1. Review the appointment and replacement of and evaluate the Vice President of Business Assurance and Advisory Services (Internal Audit) (who shall report directly to the Audit Committee); and review any issues that arise regarding the performance of the Company's internal auditors.

2. Discuss with management, the independent auditors and the Vice President of Business Assurance and Advisory Services (Internal Audit), the organization of internal audit, the adequacy of its resources and the competence and performance of internal audit personnel.

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3. Review with the internal auditors the audit risk assessment process, annual internal audit plan and activities and significant changes thereto, as well as the coordination between the internal auditors and the Company's independent auditors.

4. Review with the internal auditors any audit problems or difficulties encountered during the course of internal audits, including any restrictions on the scope of the internal auditors' activities or access to requested information, and any significant disagreements with management, including management's response to such matters; and any significant findings and recommendations resulting from internal audits, together with management's responses and action plans.

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(d) Ethical and Legal Compliance

1. Review management's monitoring of compliance with the Company's Business Ethics and Standards of Conduct Policy and legal and regulatory requirements and review and investigate any matters, including those pertaining to the integrity of management, including conflicts of interest or adherence to standards of business conduct, as required by the compliance policy. The Committee shall receive corporate attorneys' reports of evidence of a material violation of securities laws or breaches of fiduciary duty.

2. Review and approve related-party transactions required to be disclosed pursuant to SEC Regulation S-K, Item 404.

3. Review with management, Company's counsel and other experts, as applicable, any legal or regulatory matter that could have a significant impact on the Company's financial statements, the Company's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.

4. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by the Company's employees of concerns regarding questionable accounting or auditing matters.

5. Perform any other activities consistent with this Charter, the Company's Bylaws and governing law, as the Audit Committee or the Board of Directors deem necessary or appropriate.

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APPENDIX B

CHARMING SHOPPES, INC.

2004 STOCK AWARD AND INCENTIVE PLAN

1. Purpose of the Plan.

The purpose of this 2004 Stock Award and Incentive Plan (the **Plan**) is to aid Charming Shoppes, Inc., a Pennsylvania corporation (the **Company**), in attracting, retaining, motivating and rewarding employees and other persons who provide substantial services to the Company or its subsidiaries or affiliates, to provide for equitable and competitive compensation opportunities, to recognize individual contributions and reward achievement of Company goals, and promote the creation of long-term value for shareholders by closely aligning the interests of Participants with those of shareholders. The Plan authorizes stock-based and cash-based incentives for Participants.

2. Definitions.

In addition to the terms defined in Section 1 above and elsewhere in the Plan, the following capitalized terms used in the Plan have the respective meanings set forth in this Section:

(a) **Award** means any Option, SAR, Restricted Stock, Deferred Stock, Stock granted as a bonus or in lieu of another award, Dividend Equivalent, Other Stock-Based Award, or Performance Award, together with any related right or interest, granted to a Participant under the Plan.

(b) **Beneficiary** shall mean any person or trust which has been designated by a Participant in his or her most recent written beneficiary designation filed with the Committee to receive the benefits specified under this Plan upon such Participant's death or, if there is no designated Beneficiary or surviving designated Beneficiary, then any person or trust entitled by will or the laws of descent and distribution to receive such benefits.

(c) **Board** means the Company's Board of Directors.

(d) **Code** means the Internal Revenue Code of 1986, as amended. References to any provision of the Code or regulation (including a proposed regulation) thereunder shall include any successor provisions and regulations.

(e) **Committee** means the Compensation and Stock Option Committee of the Board, the composition and governance of which is established in the Committee's Charter as approved from time to time by the Board and other corporate governance documents of the Company. No action of the Committee shall be void or deemed to be without authority due to the failure of any member, at the time the action was taken, to meet any

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qualification standard set forth in the Committee Charter or this Plan. The full Board may perform any function of the Committee hereunder, in which case the term "Committee" shall refer to the Board.

(f) "Covered Employee" means an Eligible Person who is a Covered Employee as specified in Section 10(j).

(g) "Deferred Stock" means a right, granted to a Participant under Section 6(e), to receive Stock or other Awards or a combination thereof at the end of a specified deferral period. Deferred Stock may be denominated as stock units, restricted stock units, phantom shares, performance shares, or other appellations.

(h) "Dividend Equivalent" means a right, granted to a Participant under Section 6(g), to receive cash, Stock, other Awards or other property equal in value to all or a specified portion of the dividends paid with respect to a specified number of shares of Stock.

(i) "Effective Date" means the effective date specified in Section 10(p).

(j) "Eligible Person" has the meaning specified in Section 5.

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(k) Exchange Act means the Securities Exchange Act of 1934, as amended. References to any provision of the Exchange Act or rule (including a proposed rule) thereunder shall include any successor provisions and rules.

(l) Fair Market Value means the fair market value of Stock, Awards or other property as determined in good faith by the Committee or under procedures established by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of Stock as of any given date means the closing sale price of a share reported on the NASDAQ National Market (or, if Shares are then principally traded on a national securities exchange, in the reported composite transactions for such exchange) for such date, or, if no shares were traded on that date, on the next preceding day on which there was such a trade.

(m) Incentive Stock Option or ISO means any Option designated as an incentive stock option within the meaning of Code Section 422 or any successor provision thereto and qualifying thereunder.

(n) Option means a right, granted to a Participant under Section 6(b), to purchase Stock or other Awards at a specified price during specified time periods.

(o) Other Stock-Based Awards means Awards granted to a Participant under Section 6(h).

(p) Participant means a person who has been granted an Award under the Plan which remains outstanding, including a person who is no longer an Eligible Person.

(q) Performance Award means a conditional right, granted to a Participant under Sections 6(i) and 7, to receive cash, Stock or other Awards or payments, as determined by the Committee, based upon performance criteria specified by the Committee.

(r) Preexisting Plan means the Company's 1993 Employees Stock Incentive Plan, the 1999 Associates Stock Incentive Plan and the 2000 Associates Stock Incentive Plan.

(s) Qualified Member means a member of the Committee who is a Non-Employee Director within the meaning of Rule 16b-3(b)(3), an outside director within the meaning of Regulation 1.162-27 under Code Section 162(m), and independent within the meaning of The Nasdaq Stock Market, Inc.'s Marketplace Rules and applicable corporate governance documents of the Company.

(t) Restricted Stock means Stock granted to a Participant under Section 6(d) which is subject to certain restrictions and to a risk of forfeiture.

(u) Rule 16b-3 means Rule 16b-3, as from time to time in effect and applicable to Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

(v) **Stock** means the Company's Common Stock, and any other equity securities of the Company that may be substituted or resubstituted for Stock pursuant to Section 10(c).

(w) **Stock Appreciation Right** or **SAR** means a right granted to a Participant under Section 6(c).

3. Administration.

(a) *Authority of the Committee.* The Plan shall be administered by the Committee, which shall have full and final authority, in each case subject to and consistent with the provisions of the Plan, to select Eligible Persons to become Participants; to grant Awards; to determine the type and number of Awards, the dates on which Awards may be exercised and on which the risk of forfeiture or deferral period relating to Awards shall lapse or terminate, the acceleration of any such dates, the expiration date of any Award, whether, to what extent, and under what circumstances an Award may be settled, or the exercise price of an Award may be paid, in cash, Stock, other Awards, or other property, and other terms and conditions of, and all other matters relating to, Awards (including authority to specify terms of Awards applicable in the event of a change in control); to prescribe documents evidencing or setting terms of Awards (such Award documents need not be identical for each Participant), amendments thereto, and rules and regulations for the administration of the Plan and amendments thereto; to construe and interpret the Plan and Award documents

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and correct defects, supply omissions or reconcile inconsistencies therein; and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the Plan. Decisions of the Committee with respect to the administration and interpretation of the Plan shall be final, conclusive, and binding upon all persons interested in the Plan, including Participants, Beneficiaries, transferees under Section 10(b) and other persons claiming rights from or through a Participant, and shareholders.

(b) *Manner of Exercise of Committee Authority.* At any time that a member of the Committee is not a Qualified Member, any action of the Committee relating to an Award intended by the Committee to qualify as performance-based compensation within the meaning of Code Section 162(m) and regulations thereunder or intended to be covered by an exemption under Rule 16b-3 under the Exchange Act may be taken by a subcommittee, designated by the Committee or the Board, composed solely of two or more Qualified Members or may be taken by the Committee but with each such member who is not a Qualified Member abstaining or recusing himself or herself from such action, provided that, upon such abstention or recusal, the Committee remains composed of two or more Qualified Members. Such action, authorized by such a subcommittee or by the Committee upon the abstention or recusal of such non-Qualified Member(s), shall be the action of the Committee for purposes of the Plan. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. To the fullest extent authorized under applicable provisions of the Pennsylvania Business Corporation Law, the Committee may delegate to officers or managers of the Company or any subsidiary or affiliate, or committees thereof, the authority, subject to such terms as the Committee shall determine, to perform such functions, including administrative functions, as the Committee may determine, to the extent that such delegation will not cause Awards intended to qualify as performance-based compensation under Code Section 162(m) to fail to so qualify. In furtherance of this authorization, unless otherwise determined by the Committee the Company's internal stock option committee shall be authorized to grant options and other awards to any eligible employee other than an executive officer in any fiscal year and subject to such limitations as the Committee may specify.

(c) *Limitation of Liability.* The Committee and each member thereof, and any person acting pursuant to authority delegated by the Committee, shall be entitled, in good faith, to rely or act upon any report or other information furnished to him or her by any officer or other employee of the Company or any subsidiary, the Company's independent certified public accountants, or any executive compensation consultant, legal counsel, or other professional retained by the Company to assist in the administration of the Plan. Members of the Committee, any person acting pursuant to authority delegated by the Committee, and any officer or employee of the Company or a subsidiary or affiliate acting at the direction or on behalf of the Committee or a delegate shall not be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and any such person shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action, determination, or interpretation.

4. Stock Subject to Plan and Related Limitations.

(a) *Overall Number of Shares Available for Delivery.* Subject to adjustment as provided in Section 10(c), the total number of shares of Stock reserved and available for delivery in connection with Awards under the Plan shall be (i) 6,500,000 plus (ii) the number of shares remaining available at the Effective Date under the 1993 Employees' Stock Incentive Plan and (iii) the number of shares subject to Awards under the Plan or awards under the Preexisting Plans which become available in accordance with Section 4(b) after the Effective Date. Of these shares, 2,000,000 may be delivered in connection with full-value Awards, meaning Awards other than Options, SARs, or Awards for which the Participant pays the intrinsic value directly or by forgoing a right to receive a cash payment from the Company; provided, however, that full-value Awards relating to shares in excess of the number specified in this sentence may be granted and shares delivered in settlement thereof if the number of shares that may thereafter be delivered in connection with non-full-value Awards is reduced by three shares for each such excess share delivered in settlement of a full-value Award. The limitation on full-value Awards under this Section 4(a) shall be subject to Section

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4(b) and subject to adjustment as provided in Section 10(c). In order that applicable regulations under the Code relating to ISOs shall be satisfied, the maximum number of shares of Stock that may be delivered upon exercise of ISOs shall be the number specified in clauses (i) and (ii) of the first sentence of this Section 4(a), and, if necessary to satisfy such regulations, that same maximum limit shall apply to the number of shares of Stock that may be delivered in connection with each other type of Award under the Plan (applicable separately to each type of Award). Any shares of Stock delivered under the Plan shall consist of authorized and unissued shares or treasury shares.

(b) *Share Counting Rules.* The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards) and make adjustments if the number of shares of Stock actually delivered differs from the number of shares previously counted in connection with an Award. Shares that are potentially deliverable under an Award under the Plan or an award under any Preexisting Plan that is canceled, expired, forfeited, settled in cash or otherwise terminated without a delivery of such shares to the Participant will not be counted as delivered under the Plan or such Preexisting Plan but will again be available for Awards under the Plan. Shares that have been issued in connection with an Award (e.g., Restricted Stock) or Preexisting Plan award that is canceled, forfeited, or settled in cash such that those shares are returned to the Company will again be available for Awards under the Plan. Shares withheld in payment of the exercise price or taxes relating to an Award or Preexisting Plan award and shares equal to the number surrendered in payment of any exercise price or taxes relating to an Award or Preexisting Plan award shall be deemed to constitute shares not delivered to the Participant and shall be deemed to be available for Awards under the Plan. The foregoing notwithstanding, if issued shares are returned to the Company, including upon a cash out of Restricted Stock, surrender of shares in payment of an exercise price or taxes relating to an Award, or withholding of shares in payment of taxes upon vesting of Restricted Stock, such shares shall not become available again under the Plan if the transaction resulting in the return of shares occurs more than ten years after the date of the most recent shareholder approval of the Plan, and otherwise shares shall not become available under this Section 4(b) in an event that would constitute a material amendment of the Plan subject to shareholder approval under then applicable NASDAQ Marketplace Rules. In addition, in the case of any Award granted in substitution for an award of a company or business acquired by the Company or a subsidiary or affiliate, shares issued or issuable in connection with such substitute Award shall not be counted against the number of shares reserved under the Plan, but shall be available under the Plan by virtue of the Company's assumption of the plan or arrangement of the acquired company or business. This Section 4(b) shall apply to the share limit imposed to conform to the Treasury regulations governing ISOs only to the extent consistent with applicable regulations relating to ISOs under the Code. Because shares will count against the number reserved in Section 4(a) upon delivery, and subject to the share counting rules under this Section 4(b), the Committee may determine that Awards may be outstanding that relate to a greater number of shares than the aggregate remaining available under the Plan, so long as Awards will not result in delivery and vesting of shares in excess of the number then available under the Plan.

(c) *Run Rate Limitation.* The aggregate number of shares that may be subject to Awards granted under the Plan in any fiscal year shall not exceed two percent of the outstanding class of Common Stock fully diluted as of the last day of the preceding fiscal year. For this purpose, awards granted in a given fiscal year but also cancelled or forfeited within that year will be disregarded.

5. Eligibility and Certain Award Limitations.

(a) *Eligibility.* Awards may be granted under the Plan only to Eligible Persons. For purposes of the Plan, an *Eligible Person* means an employee of the Company or any subsidiary or affiliate, including any executive officer, a consultant or other person who provides substantial services to the Company or a subsidiary or affiliate (but excluding a person providing services solely as a non-employee director), and any person who has been offered employment by the Company or a subsidiary or affiliate, provided that such prospective employee may not receive any payment or exercise any right relating to an Award until such person has commenced employment with the Company or a subsidiary or affiliate. An employee on

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leave of absence may be considered as still in the employ of the Company or a subsidiary or affiliate for purposes of eligibility for participation in the Plan. For purposes of the Plan, a joint venture in which the Company or a subsidiary has a substantial direct or indirect equity investment shall be deemed an affiliate, if so determined by the Committee.

(b) *Per-Person Award Limitations.* In each fiscal year during any part of which the Plan is in effect, an Eligible Person may be granted Awards in the aggregate relating to up to his or her Annual Limit. A Participant's Annual Limit, in any fiscal year during any part of which the Participant is then eligible under the Plan, shall equal two million shares plus the amount of the Participant's unused Annual Limit relating to Stock-denominated Awards as of the close of the previous fiscal year, subject to adjustment as provided in Section 10(c). In the case of a cash-denominated Award for which the limitation set forth in the preceding sentence would not operate as an effective limitation satisfying Treasury Regulation 1.162-27(e)(4) (including a cash Performance Award under Section 7), an Eligible Person may not be granted Awards authorizing the earning during any fiscal year of an amount that exceeds the Participant's Annual Limit, which for this purpose shall equal \$2 million plus the amount of the Participant's unused cash Annual Limit as of the close of the previous year (this limitation is separate and not affected by the number of Awards granted during such calendar year subject to the limitation in the preceding sentence). For this purpose, (i) *earning* means satisfying performance conditions so that an amount becomes payable, without regard to whether it is to be paid currently or on a deferred basis or continues to be subject to any service requirement or other non-performance condition, and (ii) a Participant's Annual Limit is used to the extent a number of shares or cash amount may be potentially earned or paid under an Award, regardless of whether such shares or amount in fact are earned or paid.

6. Specific Terms of Awards.

(a) *General.* Awards may be granted on the terms and conditions set forth in this Section 6. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to Section 10(e)), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine, including terms requiring forfeiture of Awards in the event of termination of employment or service by the Participant and terms permitting a Participant to make elections relating to his or her Award. The Committee shall retain full power and discretion with respect to any term or condition of an Award that is not mandatory under the Plan. The Committee may require payment of consideration for an Award except as limited by the Plan.

(b) *Options.* The Committee is authorized to grant Options to Participants on the following terms and conditions:

(i) *Exercise Price.* The exercise price per share of Stock purchasable under an Option (including both ISOs and non-qualified Options) shall be determined by the Committee, provided that such exercise price shall be not less than the Fair Market Value of a share of Stock on the date of grant of such Option, subject to Sections 6(f) and 8(a).

(ii) *Option Term; Time and Method of Exercise.* The Committee shall determine the term of each Option, provided that in no event shall the term of any ISO or SAR in tandem therewith exceed a period of ten years from the date of grant. The Committee shall determine the time or times at which or the circumstances under which an Option may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the methods by which such exercise price may be paid or deemed to be paid and the form of such payment (subject to Section 10(k)), including, without limitation, cash, Stock (including through withholding of Stock deliverable upon exercise, except that any such withholding transaction that will result in additional accounting expense to the Company must be expressly authorized by the Committee), other Awards or awards granted under other plans of the Company or any subsidiary or affiliate, or other property (including through cashless exercise arrangements, to the extent permitted by applicable law), and the methods by or forms in which Stock will be delivered or deemed to be delivered in satisfaction of Options to

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Participants (including deferred delivery of shares representing the Option profit, at the election of the Participant or as mandated by the Committee, with such deferred shares subject to any vesting, forfeiture or other terms as the Committee may specify).

(iii) *ISOs*. The terms of any ISO granted under the Plan shall comply in all respects with the provisions of Code Section 422, including but not limited to the requirement that no ISO shall be granted more than ten years after the Effective Date.

(c) *Stock Appreciation Rights*. The Committee is authorized to grant SARs to Participants on the following terms and conditions:

(i) *Right to Payment*. A SAR shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one share of Stock on the date of exercise over (B) the grant price of the SAR as determined by the Committee, which grant price shall be not less than the Fair Market Value of a share of Stock on the date of grant of such SAR.

(ii) *Other Terms*. The Committee shall determine at the date of grant or thereafter, the time or times at which and the circumstances under which a SAR may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which Stock will be delivered or deemed to be delivered to Participants, whether or not a SAR shall be free-standing or in tandem or combination with any other Award, and the maximum term of a SAR, which in no event shall exceed a period of ten years from the date of grant. The Committee may require that an outstanding Option be exchanged for a SAR exercisable for Stock having vesting, expiration, and other terms substantially the same as the Option (subject to Section 10(k)).

(d) *Restricted Stock*. The Committee is authorized to grant Restricted Stock to Participants on the following terms and conditions:

(i) *Grant and Restrictions*. Restricted Stock shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, which restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise and under such other circumstances as the Committee may determine at the date of grant or thereafter. Except to the extent restricted under the terms of the Plan and any Award document relating to the Restricted Stock, a Participant granted Restricted Stock shall have all of the rights of a shareholder, including the right to vote the Restricted Stock and the right to receive dividends thereon (subject to any mandatory reinvestment or other requirement imposed by the Committee).

(ii) *Forfeiture*. Except as otherwise determined by the Committee, upon termination of employment or service during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited and reacquired by the Company; provided that the Committee may provide, by rule or regulation or in any Award document, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Stock will lapse in whole or in part, including in the event of terminations resulting from specified causes.

(iii) *Certificates for Stock*. Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock are registered in the name of the Participant, the Committee may require that such certificates bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock, that the Company retain physical possession of the certificates, and that the Participant deliver a stock power to the Company, endorsed in blank, relating to the Restricted Stock.

(iv) *Dividends and Splits.* As a condition to the grant of an Award of Restricted Stock, the Committee may require that any dividends paid on a share of Restricted Stock shall be either (A) paid with respect to such Restricted Stock at the dividend payment date in cash, in kind, or in a number of shares of unrestricted Stock having a Fair Market Value equal to the amount of such dividends, or (B)

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automatically reinvested in additional Restricted Stock or held in kind, which shall be subject to the same terms as applied to the original Restricted Stock to which it relates, or (C) deferred as to payment, either as a cash deferral or with the amount or value thereof automatically deemed reinvested in shares of Deferred Stock, other Awards or other investment vehicles, subject to such terms as the Committee shall determine or permit a Participant to elect. Unless otherwise determined by the Committee, Stock distributed in connection with a Stock split or Stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Stock or other property has been distributed.

(e) *Deferred Stock*. The Committee is authorized to grant Deferred Stock to Participants, which are rights to receive Stock, other Awards, or a combination thereof at the end of a specified deferral period, subject to the following terms and conditions:

(i) *Award and Restrictions*. Issuance of Stock will occur upon expiration of the deferral period specified for an Award of Deferred Stock by the Committee (or, if permitted by the Committee, as elected by the Participant). In addition, Deferred Stock shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, which restrictions may lapse at the expiration of the deferral period or at earlier specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, in installments or otherwise, and under such other circumstances as the Committee may determine at the date of grant or thereafter. Deferred Stock may be satisfied by delivery of Stock, other Awards, or a combination thereof (subject to Section 10(k)), as determined by the Committee at the date of grant or thereafter.

(ii) *Forfeiture*. Except as otherwise determined by the Committee, upon termination of employment or service during the applicable deferral period or portion thereof to which forfeiture conditions apply (as provided in the Award document evidencing the Deferred Stock), all Deferred Stock that is at that time subject to such forfeiture conditions shall be forfeited; provided that the Committee may provide, by rule or regulation or in any Award document, or may determine in any individual case, that restrictions or forfeiture conditions relating to Deferred Stock will lapse in whole or in part, including in the event of terminations resulting from specified causes.

(iii) *Dividend Equivalents*. Unless otherwise determined by the Committee, Dividend Equivalents on the specified number of shares of Stock covered by an Award of Deferred Stock shall be either (A) paid with respect to such Deferred Stock at the dividend payment date in cash or in shares of unrestricted Stock having a Fair Market Value equal to the amount of such dividends, or (B) deferred with respect to such Deferred Stock, either as a cash deferral or with the amount or value thereof automatically deemed reinvested in additional Deferred Stock, other Awards or other investment vehicles having a Fair Market Value equal to the amount of such dividends, as the Committee shall determine or permit a Participant to elect.

(f) *Bonus Stock and Awards in Lieu of Obligations*. The Committee is authorized to grant Stock as a bonus, or to grant Stock or other Awards in lieu of obligations of the Company or a subsidiary or affiliate to pay cash or deliver other property under the Plan or under other plans or compensatory arrangements, subject to such terms as shall be determined by the Committee; provided, however, that not more than five percent of the shares of Stock authorized under the Plan may be granted pursuant this Section 6(f).

(g) *Dividend Equivalents*. The Committee is authorized to grant Dividend Equivalents to a Participant, entitling the Participant to receive cash, Stock, other Awards, or other property equivalent to all or a portion of the dividends paid with respect to a specified number of shares of Stock. Dividend Equivalents may be awarded on a free-standing basis or in connection with another Award. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Stock, Awards, or other investment vehicles, and subject to restrictions on transferability, risks of forfeiture and such other terms as the Committee may specify.

(h) *Other Stock-Based Awards.* The Committee is authorized, subject to limitations under applicable law, to grant to Participants such other Awards that may be denominated or payable in, valued in whole or

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in part by reference to, or otherwise based on, or related to, Stock or factors that may influence the value of Stock, including, without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into Stock, purchase rights for Stock, Awards with value and payment contingent upon performance of the Company or business units thereof or any other factors designated by the Committee, and Awards valued by reference to the book value of Stock or the value of securities of or the performance of specified subsidiaries or affiliates or other business units. The Committee shall determine the terms and conditions of such Awards. Stock delivered pursuant to an Award in the nature of a purchase right granted under this Section 6(h) shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, cash, Stock, other Awards, or other property, as the Committee shall determine; provided, however, that any such Award for which the purchase price (together with any other cash consideration paid or forgone by the Participant) is discounted such that it does not at least equal the Fair Market Value of the underlying shares at the date the Award is granted shall be deemed a full-value Award for purposes of this Plan. Cash awards, as an element of or supplement to any other Award under the Plan, may also be granted pursuant to this Section 6(h).

(i) *Performance Awards.* Performance Awards, denominated in cash or in Stock or other Awards, may be granted by the Committee in accordance with Section 7.

7. Performance Awards.

(a) *Performance Awards Generally.* The Committee is authorized to grant Performance Awards on the terms and conditions specified in this Section 7. Performance Awards may be denominated as a cash amount, number of shares of Stock, or specified number of other Awards (or a combination) which may be earned upon achievement or satisfaction of performance conditions specified by the Committee. In addition, the Committee may specify that any other Award shall constitute a Performance Award by conditioning the right of a Participant to exercise the Award or have it settled, and the timing thereof, upon achievement or satisfaction of such performance conditions as may be specified by the Committee. The Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions, and may exercise its discretion to reduce or increase the amounts payable under any Award subject to performance conditions, except as limited under Sections 7(b) and 7(c) in the case of a Performance Award intended to qualify as performance-based compensation under Code Section 162(m).

(b) *Performance Awards Granted to Covered Employees.* If the Committee determines that a Performance Award to be granted to an Eligible Person who is designated by the Committee as likely to be a Covered Employee should qualify as performance-based compensation for purposes of Code Section 162(m), the grant, exercise and/or settlement of such Performance Award shall be contingent upon achievement of a preestablished performance goal and other terms set forth in this Section 7(b).

(i) *Performance Goal Generally.* The performance goal for such Performance Awards shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Committee consistent with this Section 7(b). The performance goal shall be objective and shall otherwise meet the requirements of Code Section 162(m) and regulations thereunder (including Regulation 1.162-27 and successor regulations thereto), including the requirement that the level or levels of performance targeted by the Committee result in the achievement of performance goals being substantially uncertain. The Committee may determine that such Performance Awards shall be granted, exercised and/or settled upon achievement of any one performance goal or that two or more of the performance goals must be achieved as a condition to grant, exercise and/or settlement of such Performance Awards. Performance goals may differ for Performance Awards granted to any one Participant or to different Participants.

(ii) *Business Criteria.* One or more of the following business criteria for the Company, on a consolidated basis, and/or for specified subsidiaries or affiliates or other business units of the Company, shall be used by the Committee in establishing performance goals for such Performance Awards: (1) net sales; (2) earnings from operations, earnings before or after taxes, earnings before or after interest, depreciation, amortization, or

extraordinary or special items; (3) net income or net

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income per common share (basic or diluted); (4) return measures, including, but not limited to, return on assets (gross or net), return on investment, return on capital, or return on equity; (5) cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital; (6) interest expense after taxes; (7) economic value created or economic profit; (8) operating margin or profit margin; (9) shareholder value creation measures, including but not limited to stock price or total shareholder return; (10) dividend payout as a percentage of net income; (11) expense targets, working capital targets, or operating efficiency; and (12) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion goals, cost targets, customer satisfaction, employee satisfaction, management of employment practices and employee benefits, supervision of litigation and information technology, and goals relating to acquisitions or divestitures of subsidiaries, affiliates or joint ventures. The targeted level or levels of performance with respect to such business criteria may be established at such levels and in such terms as the Committee may determine, in its discretion, including in absolute terms, as a goal relative to performance in prior periods, or as a goal compared to the performance of one or more comparable companies or an index covering multiple companies. The Committee may specify that performance will be determined before payment of bonuses, capital charges, non-recurring or extraordinary income or expense, or other financial and general and administrative expenses for the performance period.

(iii) *Performance Period; Timing for Establishing Performance Goals.* Achievement of performance goals in respect of such Performance Awards shall be measured over a performance period of up to one year or more than one year, as specified by the Committee. A performance goal shall be established not later than the earlier of (A) 90 days after the beginning of any performance period applicable to such Performance Award or (B) the time 25% of such performance period has elapsed.

(iv) *Performance Award Pool.* The Committee may establish a Performance Award pool, which shall be an unfunded pool, for purposes of measuring performance of the Company in connection with Performance Awards. The amount of such Performance Award pool shall be based upon the achievement of a performance goal or goals based on one or more of the business criteria set forth in Section 7(b)(ii) during the given performance period, as specified by the Committee in accordance with Section 7(b)(iv). The Committee may specify the amount of the Performance Award pool as a percentage of any of such business criteria, a percentage thereof in excess of a threshold amount, or as another amount which need not bear a strictly mathematical relationship to such business criteria.

(v) *Settlement of Performance Awards; Other Terms.* Settlement of such Performance Awards shall be in cash, Stock, other Awards or other property, in the discretion of the Committee. The Committee may, in its discretion, increase or reduce the amount of a settlement otherwise to be made in connection with such Performance Awards, but may not exercise discretion to increase any such amount payable to a Covered Employee in respect of a Performance Award subject to this Section 7(b). Any settlement which changes the form of payment from that originally specified shall be implemented in a manner such that the Performance Award and other related Awards do not, solely for that reason, fail to qualify as performance-based compensation for purposes of Code Section 162(m). The Committee shall specify the circumstances in which such Performance Awards shall be paid or forfeited in the event of termination of employment by the Participant or other event (including a change in control) prior to the end of a performance period or settlement of such Performance Awards.

(c) *Written Determinations.* Determinations by the Committee as to the establishment of performance goals, the amount potentially payable in respect of Performance Awards, the level of actual achievement of the specified performance goals relating to Performance Awards, and the amount of any final Performance Award shall be recorded in writing in the case of Performance Awards intended to qualify under Section 162(m). Specifically, the Committee shall certify in writing, in a manner conforming to applicable regulations under Section 162(m), prior to settlement of each such Award granted to a Covered Employee, that the performance objective relating to the Performance Award and other material terms of the Award upon which settlement of the Award was conditioned have been satisfied.

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8. Certain Provisions Applicable to Awards.

(a) *Stand-Alone, Additional, Tandem, and Substitute Awards.* Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Company, any subsidiary or affiliate, or any business entity to be acquired by the Company or a subsidiary or affiliate, or any other right of a Participant to receive payment from the Company or any subsidiary or affiliate. Awards granted in addition to or in tandem with other Awards or awards may be granted either as of the same time as or a different time from the grant of such other Awards or awards. Subject to Sections 10(e) and 10(k), the Committee may determine that, in granting a new Award, the in-the-money value of any surrendered Award or award may be applied to reduce the exercise price of any Option, grant price of any SAR, or purchase price of any other Award, and the fair value of any surrendered Award or award may be used to reduce the fair-value purchase price of any other Award.

(b) *Term of Awards.* The term of each Award shall be for such period as may be determined by the Committee, subject to the express limitations set forth in Section 6(b)(ii) and 6(c)(ii).

(c) *Form and Timing of Payment under Awards; Deferrals.* Subject to the terms of the Plan (including Section 10(k)) and any applicable Award document, payments to be made by the Company or a subsidiary or affiliate upon the exercise of an Option or other Award or settlement of an Award may be made in such forms as the Committee shall determine, including, without limitation, cash, Stock, other Awards or other property and may be made in a single payment or transfer, in installments, or on a deferred basis. The settlement of any Award may be accelerated, and cash paid in lieu of Stock in connection with such settlement, in the discretion of the Committee or upon occurrence of one or more specified events (subject to Section 10(k)). Installment or deferred payments may be required by the Committee (subject to Section 10(e)) or permitted at the election of the Participant on terms and conditions established by the Committee. Payments may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of Dividend Equivalents or other amounts in respect of installment or deferred payments denominated in Stock.

(d) *Exemptions from Section 16(b) Liability.* With respect to a Participant who is then subject to the reporting requirements of Section 16(a) of the Exchange Act in respect of the Company, the Committee shall implement transactions under the Plan and administer the Plan in a manner that will ensure that each transaction with respect to such a Participant is exempt from liability under Rule 16b-3 or otherwise not subject to liability under Section 16(b)), except that this provision shall not limit sales by such a Participant, and such a Participant may engage in other non-exempt transactions under the Plan. The Committee may authorize the Company to repurchase any Award or shares of Stock deliverable or delivered in connection with any Award (subject to Section 10(k)) in order that a Participant who is subject to Section 16 of the Exchange Act will avoid incurring liability under Section 16(b). Unless otherwise specified by the Participant, equity securities or derivative securities acquired under the Plan which are disposed of by a Participant shall be deemed to be disposed of in the order acquired by the Participant.

(e) *Limitation on Vesting of Certain Awards.* Full-value Awards (as defined in Section 4(a)) other than bonus shares granted under Section 6(f) and shares issuable in connection with dividend equivalents under Section 6(g), if their grant or vesting is subject to performance conditions, shall have a minimum vesting period of no less than one year, and such Awards, if neither their grant nor vesting is subject to performance conditions, shall have a minimum vesting period of no less than three years; provided, however, that such Awards may vest on an accelerated basis in the event of a Participant's death, disability, retirement, other termination not due to the fault of the Participant, or in the event of a change in control or other special circumstances. For purposes of this Section 8(e), (i) a performance period that precedes the grant of the Award will be treated as part of the vesting period if the participant has been notified promptly after the commencement of the performance period that he or she has the opportunity to earn the Award based on performance and continued service, and (ii) vesting over a one-year period or three-year period will include periodic vesting over such period if the rate of such vesting is proportional (or less rapid) throughout such period.

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9. Additional Award Forfeiture Provisions.

The Committee may condition a Participant's right to receive a grant of an Award, to exercise the Award, to retain cash, Stock, other Awards, or other property acquired in connection with an Award, or to retain the profit or gain realized by a Participant in connection with an Award, including cash or other proceeds received upon sale of Stock acquired in connection with an Award, upon compliance by the Participant with specified conditions relating to non-competition, confidentiality of information relating to or possessed by the Company, non-solicitation of customers, suppliers, and employees of the Company, cooperation in litigation, non-disparagement of the Company and its officers, directors and affiliates, and other restrictions upon or covenants of the Participant, including during specified periods following termination of employment or service to the Company.

10. General Provisions.

(a) *Compliance with Legal and Other Requirements.* The Company may, to the extent deemed necessary or advisable by the Committee, postpone the issuance or delivery of Stock or payment of other benefits under any Award until completion of such registration or qualification of such Stock or other required action under any federal or state law, rule or regulation, listing or other required action with respect to any stock exchange or automated quotation system upon which the Stock or other securities of the Company are listed or quoted, or compliance with any other obligation of the Company, as the Committee may consider appropriate, and may require any Participant to make such representations, furnish such information and comply with or be subject to such other conditions as it may consider appropriate in connection with the issuance or delivery of Stock or payment of other benefits in compliance with applicable laws, rules, and regulations, listing requirements, or other obligations.

(b) *Limits on Transferability; Beneficiaries.* No Award or other right or interest of a Participant under the Plan shall be pledged, hypothecated or otherwise encumbered or subject to any lien, obligation or liability of such Participant to any party (other than the Company or a subsidiary or affiliate thereof), or assigned or transferred by such Participant otherwise than by will or the laws of descent and distribution or to a Beneficiary upon the death of a Participant, and such Awards or rights that may be exercisable shall be exercised during the lifetime of the Participant only by the Participant or his or her guardian or legal representative, except that Awards and other rights (other than ISOs and SARs in tandem therewith) may be transferred to one or more transferees during the lifetime of the Participant, and may be exercised by such transferees in accordance with the terms of such Award, but only if and to the extent such transfers are permitted by the Committee, subject to any terms and conditions which the Committee may impose thereon (including limitations the Committee may deem appropriate in order that offers and sales under the Plan will meet applicable requirements of registration forms under the Securities Act of 1933 specified by the Securities and Exchange Commission). A Beneficiary, transferee, or other person claiming any rights under the Plan from or through any Participant shall be subject to all terms and conditions of the Plan and any Award document applicable to such Participant, except as otherwise determined by the Committee, and to any additional terms and conditions deemed necessary or appropriate by the Committee.

(c) *Adjustments.* In the event that any large, special and non-recurring dividend or other distribution (whether in the form of cash or property other than Stock), recapitalization, forward or reverse split, Stock dividend, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, liquidation, dissolution or other similar corporate transaction or event affects the Stock such that an adjustment is determined by the Committee to be appropriate under the Plan, then the Committee may, in such manner as it may deem equitable, adjust any or all of (i) the number and kind of shares of Stock which may be delivered in connection with Awards granted thereafter, including the aggregate share limitation and full-value share limitation then applicable under the Plan, (ii) the number and kind of shares of Stock by which annual per-person Award limitations are measured under Section 5(b), (iii) the number and kind of shares of Stock subject to or deliverable in respect of outstanding Awards and (iv) the exercise price, grant price or purchase price relating to any Award or, if deemed appropriate, the Committee may make provision for a payment of cash or property to the holder of an outstanding Award in settlement of such Award. The

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Committee shall provide for such equitable adjustments of outstanding awards in order to preserve the positive intrinsic value of such awards, unless in the circumstances the Participant would be able to realize such intrinsic value in the absence of an adjustment. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards (including Performance Awards and performance goals and any hypothetical funding pool relating thereto) in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence, as well as acquisitions and dispositions of businesses and assets) affecting the Company, any subsidiary or affiliate or other business unit, or the financial statements of the Company or any subsidiary or affiliate, or in response to changes in applicable laws, regulations, accounting principles, tax rates and regulations or business conditions or in view of the Committee's assessment of the business strategy of the Company, any subsidiary or affiliate or business unit thereof, performance of comparable organizations, economic and business conditions, personal performance of a Participant, and any other circumstances deemed relevant; provided that no such adjustment shall be authorized or made if and to the extent that the existence of such authority or the making of a particular adjustment would cause Options, SARs, or Performance Awards granted under Section 8 to Participants designated by the Committee as Covered Employees and intended to qualify as performance-based compensation under Code Section 162(m) and regulations thereunder to otherwise fail to so qualify.

(d) *Tax Provisions.*

(i) *Withholding.* The Company and any subsidiary or affiliate is authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Stock, or any payroll or other payment to a Participant, amounts of withholding and other taxes due or potentially payable in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company and Participants to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive Stock or other property and to make cash payments in respect thereof in satisfaction of a Participant's withholding obligations, either on a mandatory or elective basis in the discretion of the Committee. Other provisions of the Plan notwithstanding, only the minimum amount of Stock deliverable in connection with an Award necessary to satisfy statutory withholding requirements will be withheld, except a greater amount of Stock may be withheld provided that any such withholding transaction that will result in additional accounting expense to the Company must be expressly authorized by the Committee.

(ii) *Required Consent to and Notification of Code Section 83(b) Election.* No election under Section 83(b) of the Code (to include in gross income in the year of transfer the amounts specified in Code Section 83(b)) or under a similar provision of the laws of a jurisdiction outside the United States may be made unless expressly permitted by the terms of the Award document or by action of the Committee in writing prior to the making of such election. In any case in which a Participant is permitted to make such an election in connection with an Award, the Participant shall notify the Company of such election within ten days of filing notice of the election with the Internal Revenue Service or other governmental authority, in addition to any filing and notification required pursuant to regulations issued under Code Section 83(b) or other applicable provision.

(iii) *Requirement of Notification Upon Disqualifying Disposition Under Code Section 421(b).* If any Participant shall make any disposition of shares of Stock delivered pursuant to the exercise of Incentive Stock Options under the circumstances described in Code Section 421(b) (relating to certain disqualifying dispositions), such Participant shall notify the Company of such disposition within ten days thereof.

(e) *Changes to the Plan.* The Board may amend, suspend or terminate the Plan or the Committee's authority to grant Awards under the Plan without the consent of shareholders or Participants; provided, however, that any amendment to the Plan shall be submitted to the Company's shareholders for approval not later than the earliest annual meeting for which the record date is after the date of such Board action if such

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shareholder approval is required by any federal or state law or regulation or the rules of any stock exchange or automated quotation system on which the Stock may then be listed or quoted, and the Board may otherwise, in its discretion, determine to submit other amendments to the Plan to shareholders for approval; and provided further, that, without the consent of an affected Participant, no such Board action may materially and adversely affect the rights of such Participant under any outstanding Award. Without the approval of shareholders, the Committee will not amend or replace previously granted Options in a transaction that constitutes a repricing. For this purpose, a repricing means: (1) amending the terms of an Option or SAR after it is granted to lower its exercise price or base price; (2) any other action that is treated as a repricing under generally accepted accounting principles; and (3) canceling an Option or SAR at a time when its strike price is equal to or greater than the fair market value of the underlying Stock, in exchange for another Option, SAR, Restricted Stock, or other equity, unless the cancellation and exchange occurs in connection with a merger, acquisition, spin-off or other similar corporate transaction. A cancellation and exchange described in clause (3) of the preceding sentence will be considered a repricing regardless of whether the Option, Restricted Stock or other equity is delivered simultaneously with the cancellation, regardless of whether it is treated as a repricing under generally accepted accounting principles, and regardless of whether it is voluntary on the part of the Option holder. Adjustments to awards under Section 10(c) will not be deemed repricings, however.

(f) *Right of Setoff.* The Company or any subsidiary or affiliate may, to the extent permitted by applicable law, deduct from and set off against any amounts the Company or its subsidiary or affiliate may owe to the Participant from time to time, including amounts payable in connection with any Award, owed as wages, fringe benefits, or other compensation owed to the Participant. Such amounts as may be owed by the Participant to the Company, although the Participant shall remain liable for any part of the Participant's payment obligation not satisfied through such deduction and setoff. By accepting any Award granted hereunder, the Participant agrees to any deduction or setoff under this Section 10(f).

(g) *Unfunded Status of Awards; Creation of Trusts.* The Plan is intended to constitute an unfunded plan for incentive and deferred compensation (excluding awards of Restricted Stock). With respect to any payments not yet made to a Participant or obligation to deliver Stock pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided that the Committee may authorize the creation of trusts and deposit therein cash, Stock, other Awards or other property, or make other arrangements to meet the Company's obligations under the Plan. Such trusts or other arrangements shall be consistent with the unfunded status of the Plan unless the Committee otherwise determines with the consent of each affected Participant.

(h) *Nonexclusivity of the Plan.* Neither the adoption of the Plan by the Board nor its submission to the shareholders of the Company for approval shall be construed as creating any limitations on the power of the Board or a committee thereof to adopt such other incentive arrangements, apart from the Plan, as it may deem desirable, including incentive arrangements and awards which do not qualify under Code Section 162(m), and such other arrangements may be either applicable generally or only in specific cases.

(i) *Payments in the Event of Forfeitures; Fractional Shares.* Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash consideration, the Participant shall be repaid the amount of such cash consideration. No fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether and when cash, other Awards or other property shall be issued or paid in lieu of such fractional shares, or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(j) *Compliance with Code Section 162(m).* It is the intent of the Company that Options and SARs granted to Covered Employees and other Awards designated as Awards to Covered Employees subject to Section 7 shall constitute qualified performance-based compensation within the meaning of Code Section 162(m) and regulations thereunder, unless otherwise determined by the Committee at the time of authorization or grant of an Award. Accordingly, the terms of Sections 7(b), (c), and (d), including the definitions of Covered Employee and other terms used therein, shall be interpreted in a manner consistent

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with Code Section 162(m) and regulations thereunder. The foregoing notwithstanding, because the Committee cannot determine with certainty whether a given Participant will be a Covered Employee with respect to a fiscal year that has not yet been completed, the term Covered Employee as used herein shall mean only a person designated by the Committee as likely to be a Covered Employee with respect to a specified fiscal year. If any provision of the Plan or any Award document relating to a Performance Award that is designated as intended to comply with Code Section 162(m) does not comply or is inconsistent with the requirements of Code Section 162(m) or regulations thereunder, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements, and no provision shall be deemed to confer upon the Committee or any other person discretion to increase the amount of compensation otherwise payable in connection with any such Award upon attainment of the applicable performance objectives.

(k) *Certain Limitations Relating to Accounting Treatment of Awards.* At any time that the Company is accounting for stock-denominated Awards under Accounting Principles Board Opinion 25 (APB 25), the Company intends that, with respect to such Awards, the compensation measurement date for accounting purposes shall occur at the date of grant or the date performance conditions are met if an Award is fully contingent on achievement of performance goals, unless the Committee specifically determines otherwise. Therefore, other provisions of the Plan notwithstanding, in order to preserve this fundamental objective of the Plan, if any authority granted to the Committee hereunder or any provision of the Plan or an Award agreement would result, under APB 25, in variable accounting or a measurement date other than the date of grant or the date such performance conditions are met with respect to such Awards, if the Committee was not specifically aware of such accounting consequence at the time such Award was granted or provision otherwise became effective, such authority shall be limited and such provision shall be automatically modified and reformed to the extent necessary to preserve the accounting treatment of the award intended by the Committee. This provision shall cease to be effective if and at such time as the Company no longer accounts for equity compensation under APB 25.

(l) *Governing Law.* The validity, construction, and effect of the Plan, any rules and regulations under the Plan, and any agreement under the Plan shall be determined in accordance with the Pennsylvania Business Corporation Law, to the extent applicable, other laws (including those governing contracts) of the Commonwealth of Pennsylvania, without giving effect to principles of conflicts of laws, and applicable federal law.

(m) *Awards to Participants Outside the United States.* The Committee may modify the terms of any Award under the Plan made to or held by a Participant who is then resident or primarily employed outside of the United States in any manner deemed by the Committee to be necessary or appropriate in order that such Award shall conform to laws, regulations, and customs of the country in which the Participant is then resident or primarily employed, or so that the value and other benefits of the Award to the Participant, as affected by foreign tax laws and other restrictions applicable as a result of the Participant's residence or employment abroad shall be comparable to the value of such an Award to a Participant who is resident or primarily employed in the United States. An Award may be modified under this Section 10(m) in a manner that is inconsistent with the express terms of the Plan, so long as such modifications will not contravene any applicable law or regulation or result in actual liability under Section 16(b) for the Participant whose Award is modified.

(n) *Limitation on Rights Conferred under Plan.* No Participant shall have any of the rights or privileges of a shareholder of the Company under the Plan, including as a result of the grant of an Award or the creation of any trust and deposit of shares therein, except at such time as an Option or SAR may have been duly exercised or shares may be actually delivered in settlement of an Award; provided, however, that a Participant granted Restricted Stock shall have rights of a shareholder except to the extent that those rights are limited by the terms of the Plan and the agreement relating to the Restricted Stock. Neither the Plan nor any action taken hereunder shall be construed as (i) giving any Eligible Person or Participant the right to continue as an Eligible Person or Participant or in the employ or service of the Company or a subsidiary or affiliate, (ii) interfering in any way with the right of the Company or a subsidiary or affiliate to terminate

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any Eligible Person's or Participant's employment or service at any time, or (iii) giving an Eligible Person or Participant any claim to be granted any Award under the Plan or to be treated uniformly with other Participants and employees. Except as expressly provided in the Plan and an Award document, neither the Plan nor any Award document shall confer on any person other than the Company and the Participant any rights or remedies thereunder.

(o) *Severability; Entire Agreement.* If any of the provisions of this Plan or any Award document is finally held to be invalid, illegal or unenforceable (whether in whole or in part), such provision shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability, and the remaining provisions shall not be affected thereby; provided, that, if any of such provisions is finally held to be invalid, illegal, or unenforceable because it exceeds the maximum scope determined to be acceptable to permit such provision to be enforceable, such provision shall be deemed to be modified to the minimum extent necessary to modify such scope in order to make such provision enforceable hereunder. The Plan and any Award documents contain the entire agreement of the parties with respect to the subject matter thereof and supersede all prior agreements, promises, covenants, arrangements, communications, representations and warranties between them, whether written or oral with respect to the subject matter thereof.

(p) *Plan Effective Date and Termination.* The Plan shall become effective if, and at such time as, the shareholders of the Company have approved it by a majority of the votes cast at a duly held meeting of shareholders at which a quorum is present. Unless earlier terminated by action of the Board of Directors, the Plan will remain in effect until such time as no Stock remains available for delivery under the Plan and the Company has no further rights or obligations under the Plan with respect to outstanding Awards under the Plan.

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