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DELTA REPORT

10-Q

LEONARDO DRS, INC.

10-Q - JUNE 30, 2024 COMPARED TO 10-Q - MARCH 31, 2024

The following comparison report has been automatically generated

TOTAL DELTAS 608

█ **CHANGES** 246

█ **DELETIONS** 156

█ **ADDITIONS** 206

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2024** **June 30, 2024**

or

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

For the transition period from _____ to _____

Commission File Number 001-41565

Leonardo DRS, Inc.

(Exact Name name of Registrant registrant as Specified specified in its Charter charter)

Delaware

13-2632319

(State or Other Jurisdiction

(I.R.S. Employer

other jurisdiction of incorporation incorporation or Organization organization)

Identification Number) No.)

2345 Crystal Drive

Suite 1000

Arlington, Virginia 22202

(703) 416-8000

(Address of principal executive offices, including zip code, and registrant's telephone number, including area code)

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

Title of each class

Trading Symbol(s)

Name of each exchange on which registered

Common stock, \$0.01 par value

DRS

Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of **April 30, 2024** **July 29, 2024**, there were **263,142,102** **263,702,807** shares of the registrant's common stock, par value of \$0.01 per share, outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

In this quarterly report on Form 10-Q (the "Quarterly Report"), when using the terms the "Company," "DRS," "we," "us" and "our," unless otherwise indicated or the context otherwise requires, we are referring to Leonardo DRS, Inc. This Quarterly Report contains forward-looking statements and cautionary statements within the meaning of the Private Securities Litigation Reform Act of 1995. Some of the forward-looking statements can be identified by the use of forward-looking terms such as "believes," "expects," "may," "will," "shall," "should," "would," "could," "seeks," "aims," "strives," "targets," "projects," "intends," "plans," "estimates," "anticipates" or other comparable terms. Forward-looking statements include, without limitation, all matters that are not historical facts. They appear in a number of places throughout this Quarterly Report and include, without limitation, statements regarding our intentions, beliefs, assumptions or current expectations concerning, among other things, financial goals, financial position, results of operations, cash flows, prospects, strategies or expectations, and the impact of prevailing economic conditions.

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which may be beyond our control. We caution you that forward-looking statements are not guarantees of future performance or outcomes and that actual performance and outcomes may differ materially from those made in or suggested by the forward-looking statements contained in this Quarterly Report. In addition, even if future performance and outcomes are consistent with the forward-looking statements contained in this Quarterly Report, those results or developments may not be indicative of results or developments in subsequent periods. New factors emerge from time to time that may cause our business not to develop as we expect, and it is not possible for us to predict all of them. Factors that could cause actual results and outcomes to differ from those reflected in forward-looking statements include, without limitation:

- Disruptions or deteriorations in our relationship with the relevant agencies of the U.S. government, as well as any failure to pass routine audits or otherwise comply with governmental requirements including those related to security clearance or procurement rules, including the False Claims Act;
- Significant delays or reductions in appropriations for our programs and changes in U.S. government priorities and spending levels more broadly;
- Any failure to comply with the proxy agreement with the U.S. Department of Defense;
- Failure to properly contain a global pandemic in a timely manner could materially affect how we and our business partners operate;
- The effect of inflation on our supply chain and/or our labor costs;
- Our mix of fixed-price, cost-plus and time-and-material type contracts and any resulting impact on our cash flows due to cost overruns;

- Failure to properly comply with various covenants of the agreements governing our debt could negatively impact our business;
- Our dependence on U.S. government contracts, which often are only partially funded and are subject to immediate termination, some of which are classified, and the concentration of our customer base in the U.S. defense industry;
- Our use of estimates in pricing and accounting for many of our programs that are inherently uncertain and which may not prove to be accurate;
- Our ability to realize the full value of our backlog;
- Our ability to predict future capital needs or to obtain additional financing if we need it;

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- Our ability to respond to the rapid technological changes in the markets in which we compete;
- The effect of global and regional economic downturns and rising interest rates;
- Our ability to meet the requirements of being a public company;
- Our ability to maintain an effective system of internal control over financial reporting;
- Our inability to appropriately manage our inventory;
- Our inability to fully realize the value of our total estimated contract value or bookings;
- Our ability to compete efficiently, including due to U.S. government organizational conflict of interest rules which may limit new contract opportunities or require us to wind down existing contracts;
- Our relationships with other industry participants, including any contractual disputes or the inability of our key suppliers to timely deliver our components, parts or services;
- Preferences for set-asides for minority-owned, small and small disadvantaged businesses could impact our ability to be a prime contractor;
- Any failure to meet our contractual obligations including due to potential impacts to our business from supply chain risks, such as longer lead times and shortages of electronics and other components;
- Any security breach, including any cyber-attack, cyber intrusion, insider threat, or other significant disruption of our IT networks and related systems, as well as any act of terrorism or other threat to our physical security and personnel;
- Our ability to fully exploit or obtain patents or other intellectual property protections necessary to secure our proprietary technology, including our ability to avoid infringing upon the intellectual property of third parties or prevent third parties from infringing upon our own intellectual property;
- The conduct of our employees, agents, affiliates, subcontractors, suppliers, business partners or joint ventures in which we participate which may impact our reputation and ability to do business;
- Our compliance with environmental laws and regulations, and any environmental liabilities that may affect our reputation or financial position;
- The outcome of litigation, arbitration, investigations, claims, disputes, enforcement actions and other legal proceedings in which we are involved;
- Various geopolitical and economic factors, laws and regulations including the Foreign Corrupt Practices Act, the Export Control Act, the International Traffic in Arms Regulations, the Export Administration Regulations, and those that we are exposed to as a result of our international business;
- Our ability to obtain export licenses necessary to conduct certain operations abroad, including any attempts by Congress to prevent proposed sales to certain foreign governments;
- Our ability to attract and retain technical and other key personnel;
- The occurrence of prolonged work stoppages;
- The unavailability or inadequacy of our insurance coverage, customer indemnifications or other liability protections to cover all of our significant risks or to pay for material losses we incur;
- Future changes in U.S. tax laws and regulations or interpretations thereof;

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- Certain limitations on our ability to use our net operating losses to offset future taxable income;
- Termination of our leases or our inability to renew our leases on acceptable terms;
- Changes in estimates used in accounting for our pension plans, including in respect of the funding status thereof;
- Changes in future business or other market conditions that could cause business investments and/or recorded goodwill or other long-term assets to become impaired;
- Adverse consequences from any acquisitions such as operating difficulties, dilution and other harmful consequences or any modification, delay or prevention of any future acquisition or investment activity by the Committee on Foreign Investment in the United States;
- Natural disasters or other significant disruptions;
- Any conflict of interest that may arise because Leonardo US Holding, LLC, our majority stockholder, or Leonardo S.p.A., our ultimate majority stockholder, may have interests that are different from, or conflict with, those of our other stockholders, including as a result of any ongoing business relationships Leonardo S.p.A. may have with us, and their significant ownership in us may discourage change of control transactions (our amended and restated certificate of incorporation provides that we waive any interest or expectancy in corporate opportunities presented to Leonardo S.p.A.); or
- Our obligations to provide certain services to Leonardo S.p.A., which may divert human and financial resources from our business.

You should read this Quarterly Report completely and with the understanding that actual future results may be materially different from expectations. All forward-looking statements made in this Quarterly Report are qualified by these cautionary statements. These forward-looking statements are made only as of the date of this filing, and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking or cautionary statements to reflect changes in assumptions, the occurrence of events, unanticipated or otherwise, and changes in future operating results over time or otherwise.

Other risks, uncertainties and factors, including those discussed under “*Risk Factors*” in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023, could cause our actual results to differ materially from those projected in any forward-looking statements we make. Readers should read the discussion of these factors carefully to better understand the risks and uncertainties inherent in our business and underlying any forward-looking statements.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

LEONARDO DRS, INC.

Consolidated Statements of Earnings (Unaudited)

		Three Months Ended		Six Months Ended June	
		March 31,	March 31,	30,	2023
		Three Months Ended	March 31,	Three Months Ended June 30,	2023
(Dollars in millions, except per share amounts)	(Dollars in millions, except per share amounts)				
		2024	2023	2024	2023
					2024 2023

Revenues:
Products
Products
Products
Services
Total revenues
Cost of revenues:
Products
Products
Products
Services
Total cost of revenues
Gross profit
General and administrative expenses
Amortization of intangibles
Other operating expenses, net
Operating earnings
Interest expense
Other, net
Earnings before taxes
Income tax provision
Income tax provision (benefit)
Net earnings
Net earnings per share from common stock:
Net earnings per share from common stock:
Net earnings per share from common stock:
Basic earnings per share
Basic earnings per share
Basic earnings per share
Diluted earnings per share

See accompanying Notes to Consolidated Financial Statements.

LEONARDO DRS, INC.

Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended March 31,			Six Months Ended June 30,			
			2024			2024	2023
(Dollars in millions)	(Dollars in millions)		2024	2023	(Dollars in millions)	2024	2023
Net earnings							
Foreign currency translation gain (loss), net of income taxes							
Foreign currency translation gain (loss), net of income taxes							
Foreign currency translation gain (loss), net of income taxes							

Foreign currency translation (loss) gain, net of income taxes
 Foreign currency translation (loss) gain, net of income taxes
 Foreign currency translation (loss) gain, net of income taxes
 Pension and other postretirement benefit plan adjustments, net of
 income taxes

Other comprehensive income (loss), net of income taxes

Total comprehensive income

See accompanying Notes to Consolidated Financial Statements.

LEONARDO DRS, INC.

Consolidated Balance Sheets

(Unaudited)

(Dollars in millions, except per share amounts)

(Dollars in millions, except per share amounts)

(Dollars in millions, except per share amounts)

	March 31, 2024	December 31, 2023	June 30, 2024	December 31, 2023
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ASSETS

Current assets:

Current assets:

Current assets:

Cash and cash equivalents

Cash and cash equivalents

Cash and cash equivalents

Accounts receivable, net

Contract assets

Inventories

Prepaid expenses

Prepaid expenses

Prepaid expenses

Other current assets

Total current assets

Noncurrent assets:

Property, plant and equipment, net

Property, plant and equipment, net

Property, plant and equipment, net

Intangible assets, net

Goodwill

Deferred tax assets

Other noncurrent assets

Total noncurrent assets

Total assets

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Current liabilities:

Current liabilities:

Short-term borrowings and current portion of long-term debt

Short-term borrowings and current portion of long-term debt

Short-term borrowings and current portion of long-term debt

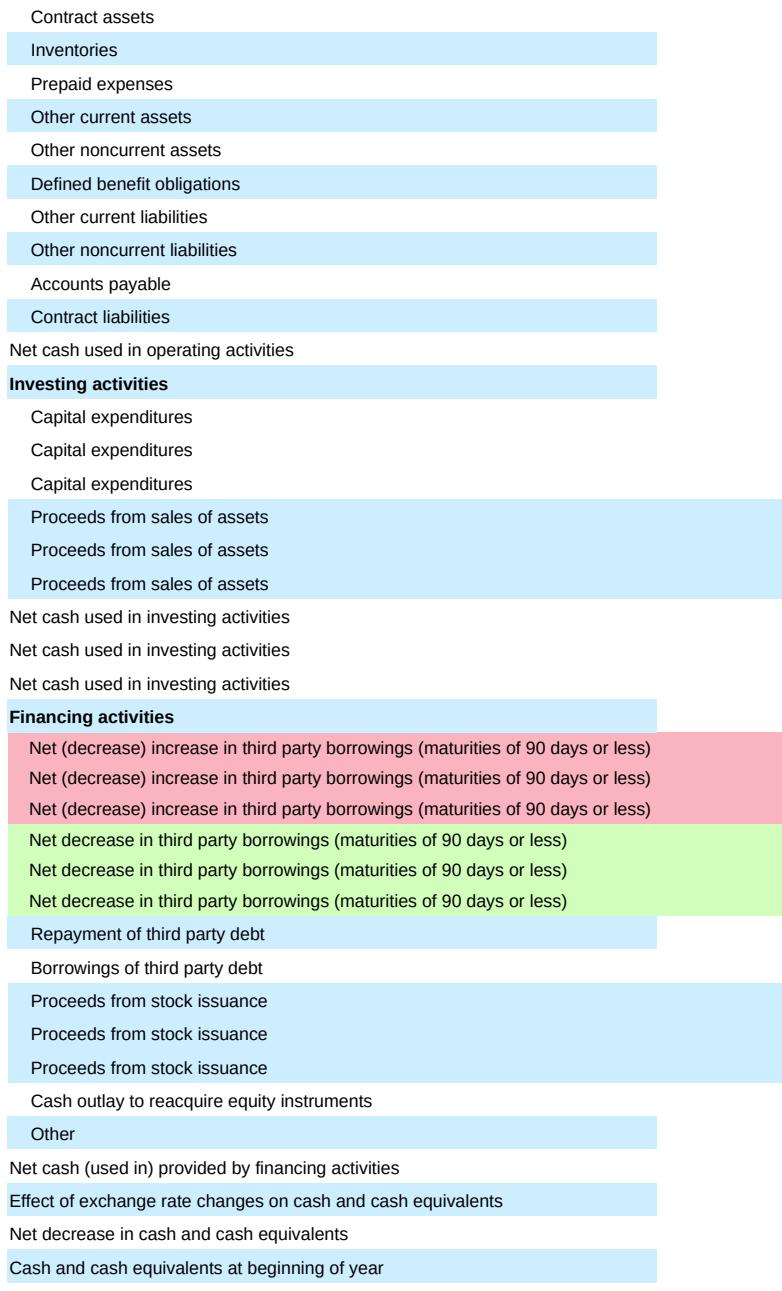
Accounts payable

Contract liabilities

Other current liabilities			
Total current liabilities			
Noncurrent liabilities:			
Long-term debt			
Long-term debt			
Long-term debt			
Pension and other postretirement benefit plan liabilities			
Deferred tax liabilities			
Other noncurrent liabilities			
Total noncurrent liabilities			
Commitments and contingencies (Note 13)	Commitments and contingencies (Note 13)	Commitments and contingencies (Note 13)	Commitments and contingencies (Note 13)
Shareholders' equity:			
Preferred stock, \$0.01 par value: 10,000,000 shares authorized; none issued			
Preferred stock, \$0.01 par value: 10,000,000 shares authorized; none issued			
Preferred stock, \$0.01 par value: 10,000,000 shares authorized; none issued			
Common stock, \$0.01 par value: 350,000,000 shares authorized; 262,966,873 and 262,525,390 issued and outstanding as of March 31, 2024 and December 31, 2023, respectively			
Common stock, \$0.01 par value: 350,000,000 shares authorized; 263,660,716 and 262,525,390 issued and outstanding as of June 30, 2024 and December 31, 2023, respectively			
Additional paid-in capital			
Accumulated deficit			
Accumulated other comprehensive loss			
Total shareholders' equity			
Total liabilities and shareholders' equity			

See accompanying Notes to Consolidated Financial Statements.

	Three Months Ended March 31,		Six Months Ended June 30,	
(Dollars in millions)	(Dollars in millions) 2024	2023	(Dollars in millions) 2024	2023
Operating activities				
Net earnings				
Net earnings				
Net earnings				
Adjustments to reconcile net earnings to net cash used in operating activities:				
Depreciation and amortization				
Depreciation and amortization				
Depreciation and amortization				
Deferred income taxes				
Share-based compensation expense				
Share-based compensation expense				
Share-based compensation expense				
Changes in assets and liabilities:				
Changes in assets and liabilities:				
Other				
Changes in assets and liabilities:				
Accounts receivable				
Accounts receivable				
Accounts receivable				



See accompanying Notes to Consolidated Financial Statements.

LEONARDO DRS, INC.

Consolidated Statements of Shareholders' Equity (Unaudited)

(Dollars in millions)	(Dollars in millions)	Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	(Dollars in millions)	Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total
Balance as of											
December 31, 2022											
Total comprehensive income											

Share-based compensation activity
Balance as of March 31, 2023
Balance as of June 30, 2023
Balance as of December 31, 2023
Balance as of December 31, 2023
Balance as of December 31, 2023
Total comprehensive income
Share-based compensation activity
Balance as of March 31, 2024
Balance as of June 30, 2024

See accompanying Notes to Consolidated Financial Statements.

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Organization

Leonardo DRS, Inc., together with its wholly owned subsidiaries (hereinafter, "DRS," "the Company," "us," "our," or "we") is a supplier of defense electronics products, systems and military support services. The Company's largest shareholder is Leonardo S.p.A (hereinafter, "Leonardo S.p.A."), an Italian multi-national aerospace, defense and security company headquartered in Rome, Italy, through its ultimate sole ownership of Leonardo US Holding, LLC ("US Holding"). US Holding is the majority stockholder of the Company.

DRS is a provider of defense products and technologies that are used across land, air, sea, space and cyber domains. Our diverse array of defense systems and solutions are offered to all branches of the U.S. military, major aerospace and defense prime contractors, government intelligence agencies, international military customers and industrial markets for deployment on a wide range of military platforms. We focus our capabilities in areas of critical importance to the U.S. military, such as advanced sensing, network computing, force protection and electric power and propulsion.

These capabilities directly align with our two reportable operating segments: Advanced Sensing and Computing and Integrated Mission Systems. The U.S. Department of Defense (the "DoD") is our largest customer and accounts for approximately 81% 82% and 80% 81% of our total revenues as an end-user for the three six months ended March 31, 2024 June 30, 2024 and March 31, 2023 June 30, 2023, respectively. Specific international and commercial market opportunities exist within these segments and comprise approximately 19% 18% and 20% 19% of our total revenues for the three six months ended March 31, 2024 June 30, 2024 and March 31, 2023 June 30, 2023, respectively. Our two reportable segments reflect the way performance is assessed and resources are allocated by our Chief Executive Officer, who is our chief operating decision maker ("CODM").

Advanced Sensing and Computing

Our Advanced Sensing and Computing ("ASC") segment designs, develops and manufactures sensing and network computing technology that enables real-time situational awareness required for enhanced operational decision making and execution by our customers.

Our leading sensing capabilities span applications including missions requiring advanced detection, precision targeting and surveillance sensing, long range electro-optic/infrared ("EO/IR"), signals intelligence ("SIGINT") and other intelligence systems, electronic warfare ("EW"), ground vehicle sensing, next generation active electronically scanned array tactical radars, dismounted soldier sensing and space sensing. Across our offerings, we are focused on advancing sensor distance, precision, clarity, definition, spectral depth and effectiveness. Furthermore, we seek to leverage our multi-decade experience to optimize size, weight, power and cost tailored to our customers' specific mission requirements, including in space-based applications for earth surveillance and missile tracking.

Our sensing capabilities are complemented by our rugged, trusted and cyber resilient network computing products. Our network computing offering is utilized across a broad range of mission applications including platform computing on ground and shipboard (both surface ship and submarine) for advanced battle management, combat systems, radar, command and control ("C2"), tactical networks, tactical computing and communications. Our network computing products support the DoD's need for greater situational understanding at the tactical edge and permits data to be rapidly transmitted securely from command centers to forward-positioned defense assets.

Integrated Mission Systems

Our Integrated Mission Systems ("IMS") segment designs, develops, manufactures and integrates power conversion, control and distribution systems, ship propulsion systems, motors and variable

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

frequency drives, force protection systems, transportation and logistics systems for the U.S. and allied defense customers.

Our naval power and propulsion systems are providing next-generation power capabilities for the future fleet. DRS is currently a leading provider of next-generation electrical propulsion systems for the U.S. Navy. We provide power conversion, control, distribution and propulsion systems for the U.S. Navy's top priority shipbuilding programs, including the Columbia Class ballistic missile submarine, the first modern U.S. electric drive submarine. We believe DRS is well positioned to meet the needs of an increasingly electrified fleet with our high-efficiency, power dense permanent magnet motors, energy storage systems and associated efficient, rugged and compact power conversion, electrical actuation systems, and advanced cooling technologies. DRS has a long history of providing a number of other critical products to the U.S. Navy with a significant installed base on submarines, aircraft carriers and other surface ships including motor controllers, instrumentation and control equipment, electrical actuation systems, and thermal management systems for electronics and ship stores refrigeration.

Our technologies and systems help protect U.S. forces and assets against increasingly sophisticated and proliferating threats. DRS is an integrator of systems in ground vehicles for short-range air defense, counter-unmanned aerial systems ("C-UAS"), and vehicle survivability and protection. This integrator role includes utilizing radars, EW equipment, reconnaissance and surveillance systems, modular combat vehicle turrets, and stabilized sensor suites, and kinetic countermeasures for short-range air defense. Our force protection systems, including solutions for C-UAS, short-range air defense systems and active protection systems used to defend ground combat vehicles, help protect personnel and defense assets from these growing threats.

Other

The Company separately presents the unallocable costs associated with corporate functions and certain non-operating subsidiaries of the Company as **Corporate & Eliminations**.

See Note 15: *Segment Information* for further information regarding our operating segments.

B. Basis of presentation

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the accounts of DRS, its wholly owned subsidiaries and its controlling interests and contain all adjustments, which are of a normal and recurring nature, considered necessary by management to present fairly the financial position, results of operations and cash flows for the periods presented. Interests in ventures that are controlled by the Company, or for which the Company is otherwise deemed to be the primary beneficiary, are consolidated. For joint ventures in which the Company does not have a controlling interest, but exerts significant influence, the Company applies the equity method of accounting. All intercompany transactions and balances have been eliminated in consolidation.

Interim Financial Statements. The unaudited Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These rules and regulations permit some of the information and footnote disclosures included in financial statements prepared in accordance with U.S. GAAP to be condensed or omitted.

These unaudited Consolidated Financial Statements should be read in conjunction with our audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2023.

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

C. New Accounting Pronouncements

Improvements to Reportable Segment Disclosures

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which requires enhanced disclosures about significant segment expenses. The new standard is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

years beginning after December 15, 2024, on a retrospective basis. We are currently evaluating the impact of adopting this new pronouncement.

Improvements to Income Tax Disclosures

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which requires additional disclosures regarding rate reconciliation, income taxes paid, and other income tax disclosures. The new standard is effective for fiscal years beginning after December 15, 2024, on a prospective basis. We are currently evaluating the impact of adopting this new pronouncement.

Note 2. Revenue from Contracts with Customers

Contract Estimates

Revenues for the majority of our contracts are measured using the over time, percentage of completion cost-to-cost method of accounting to calculate percentage of completion. We believe this is an appropriate measure of progress toward satisfaction of performance obligations as this measure most accurately depicts the progress of our work and transfer of control to our customers. Due to the long-term nature of many of our contracts, developing the estimated total cost at completion often requires judgment. Factors that must be considered in estimating the cost of the work to be completed include the nature and complexity of the work to be performed, subcontractor performance and the risk and impact of delayed performance.

After establishing the estimated total cost at completion, we follow a standard Estimate at Completion ("EAC") process in which we review the progress and performance on our ongoing contracts on a routine basis. Adjustments to original estimates for a contract's revenue, estimated costs at completion and estimated profit or loss often are required as work progresses under a contract, as experience is gained and as more information is obtained, even though the scope of work required under the contract may not change and are also required if contract modifications occur. When adjustments in estimated total costs at completion are determined, the related impact on revenue and operating income are recognized using the cumulative catch-up method, which recognizes in the current period the cumulative effect of such adjustments for all prior periods. Any anticipated losses on these contracts are fully recognized in the period in which the losses become evident.

Net EAC adjustments had the following impacts for the periods presented:

		Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,		Six Months Ended June 30,					
(Dollars in millions, except per share amounts)		(Dollars in millions, except per share amounts)		2024	2023			(Dollars in millions, except per share amounts)		2024	2023	2024	2023
Revenue and operating earnings		Total % of revenue		1 %	2 %	Total % of revenue		1 %	2 %	1 %	2 %	1 %	2 %
Net earnings													
Impact on diluted earnings per share													

The impacts noted above are attributed primarily to changes in our firm-fixed price development type programs. As changes happen in the design required to achieve contractual specifications, those changes often result in a change in the programs' estimates and related profitability.

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Contract Assets and Liabilities

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) on the Consolidated Balance Sheets. Amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., biweekly or monthly) or upon achievement of contractual milestones. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets. However, we sometimes receive advances or deposits from our customers before revenue is

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

recognized, resulting in contract liabilities. Contract assets and contract liabilities as of the dates presented were:

(Dollars in millions)	(Dollars in millions)	March 31, 2024	December 31, 2023	(Dollars in millions)	June 30, 2024	December 31, 2023
Contract assets						
Contract liabilities						

Net contract assets

Revenue recognized in the three six months ended **March 31, 2024** June 30, 2024 and **March 31, 2023** June 30, 2023, that was included in the contract liability balance at the beginning of each period was **\$140 million** \$222 million and **\$84 million** \$129 million, respectively.

Value of Remaining Performance Obligations

The value of remaining performance obligations, which we also refer to as total backlog, includes the following components:

- Funded - Funded backlog represents the revenue value of orders for services under existing contracts for which funding is appropriated or otherwise authorized less revenue previously recognized on these contracts.
- Unfunded - Unfunded backlog represents the revenue value of firm orders for products and services under existing contracts for which funding has not yet been appropriated less funding previously recognized on these contracts.

The following table summarizes the value As of June 30, 2024, our total backlog as of March 31, 2024, incorporating both funded and unfunded components:

(Dollars in millions)	March 31, 2024	
Funded	\$	3,509
Unfunded		4,336
Total backlog	\$	7,845

was \$7,925 million. We expect to recognize approximately 25% 19% of our **March 31, 2024** June 30, 2024 backlog as revenue over the next nine six months, with the remainder to be recognized thereafter. Approximately 46% of our total backlog relates to long-term contracts on electric power and propulsion programs with the U.S. Navy, which are expected to be recognized as revenue over a span of up to 15 years.

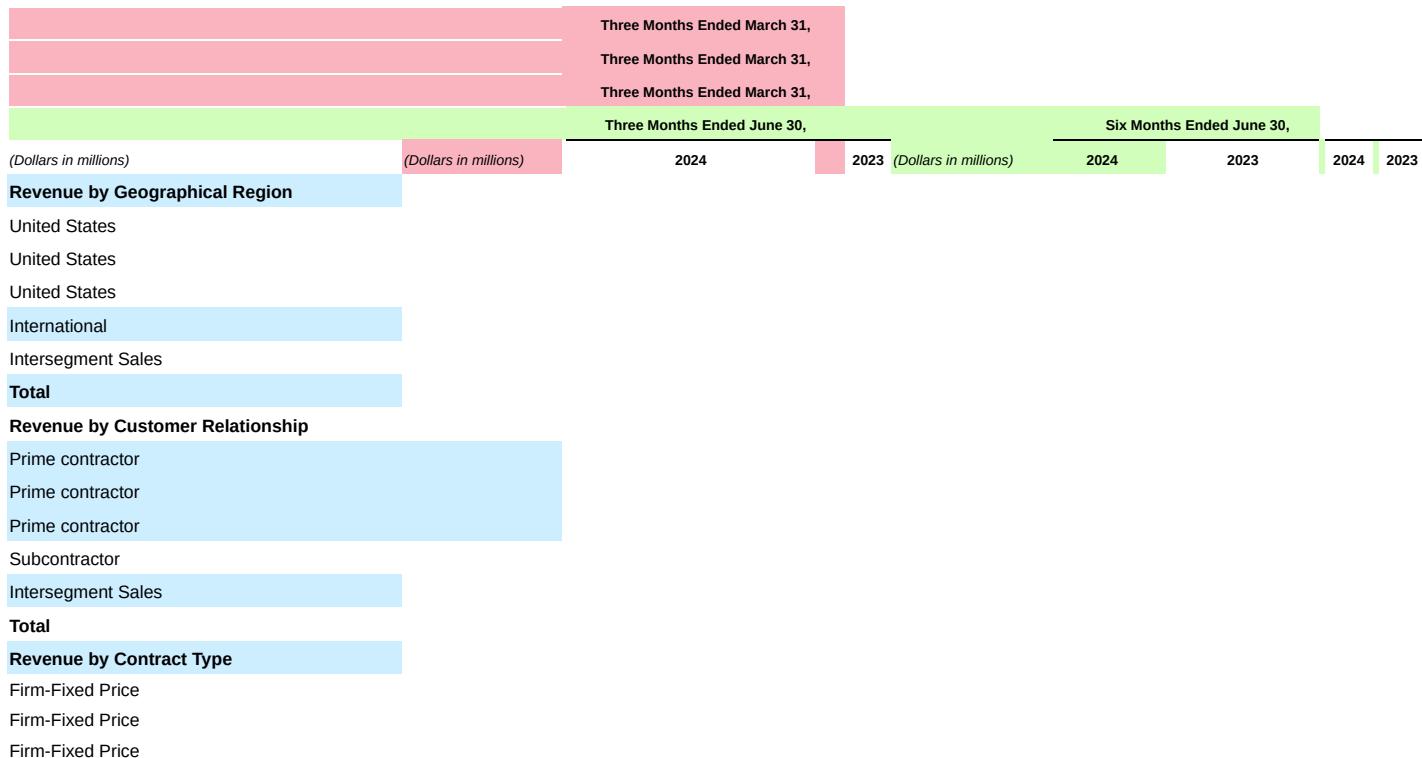
Disaggregation of Revenue

ASC: ASC revenue is primarily derived from U.S. government development and production contracts and is generally recognized using the over time, percentage of completion cost-to-cost method of accounting. We disaggregate ASC revenue by geographical region, customer relationship and contract

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

type. We believe these categories best depict how the nature, amount, timing and uncertainty of ASC revenue and cash flows are affected by economic factors:



Flexibly Priced ⁽¹⁾
Intersegment Sales
Total

(1) Includes revenue derived from cost-plus and time-and-materials contracts.

IMS: IMS revenue is primarily derived from U.S. government development and production contracts and is generally recognized over time using the over time, percentage of completion cost-to-cost method of accounting. We disaggregate IMS revenue by geographical region, customer relationship and contract type. We believe these categories best depict how the nature, amount, timing and uncertainty of IMS revenue and cash flows are affected by economic factors:

		Three Months Ended March 31, (Dollars in millions)	Three Months Ended March 31, (Dollars in millions)	Three Months Ended March 31, (Dollars in millions)	Three Months Ended June 30, (Dollars in millions)	Three Months Ended June 30, (Dollars in millions)	Six Months Ended June 30, (Dollars in millions)	2024	2023	2024	2023
Revenue by Geographical Region											
United States											
United States											
United States											
International											
Intersegment Sales											
Total											
Revenue by Customer Relationship											
Prime contractor											
Prime contractor											
Prime contractor											
Subcontractor											
Intersegment Sales											
Total											
Revenue by Contract Type											
Firm-Fixed Price											
Firm-Fixed Price											
Firm-Fixed Price											
Flexibly Priced ⁽¹⁾											
Intersegment Sales											
Total											

(1) Includes revenue derived from cost-plus and time-and-materials contracts.

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 3. Accounts Receivable

Accounts receivable consist of the following:

(Dollars in millions)	(Dollars in millions)	March 31, 2024	December 31, 2023	(Dollars in millions)	June 30, 2024	December 31, 2023
Accounts receivable						
Less allowance for credit losses						
Accounts receivable, net						

The Company maintains certain agreements with financial institutions to sell certain trade receivables. See Note 4: Sale of Receivables for more information.

Note 4. Sale of Receivables

The Company is party to factoring facilities with various financial institutions (the "purchasers") with an aggregate capacity of \$225 million and \$275 million as of **March 31, 2024** June 30, 2024 and December 31, 2023, respectively.

During the periods six months ended **March 31, 2024** June 30, 2024 and **March 31, 2023** June 30, 2023, the Company incurred immaterial purchase discount fees which are presented in general and administrative expenses on the Consolidated Statements of Earnings.

The table below summarizes the activity under the factoring facilities:

(Dollars in millions)	(Dollars in millions)	Three Months Ended March 31,		Six Months Ended June 30,	
		2024	2023	(Dollars in millions)	2024
Beginning balance					
Sales of receivables					
Cash returned to purchasers					
Outstanding balance sold to purchasers					
Cash collected, not remitted to purchasers ⁽¹⁾					
Remaining sold receivables					

(1) Represents cash collected on behalf of purchasers and not yet remitted. This balance is included within short-term borrowings and current portion of long-term debt in the Consolidated Balance Sheets. See Note 10: *Debt* for further information.

Note 5. Inventories

Inventories consists of the following:

(Dollars in millions)	(Dollars in millions)	March 31, 2024	December 31, 2023	(Dollars in millions)	June 30, 2024	December 31, 2023
Raw materials						
Work in progress						
Finished goods						
Total inventories						

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 6. Property, Plant and Equipment

Property, plant and equipment by major asset class consists of the following:

(Dollars in millions)	(Dollars in millions)	March 31, 2024	December 31, 2023	(Dollars in millions)	June 30, 2024	December 31, 2023
Land, buildings and improvements						
Plant and machinery						
Equipment and other						
Total property, plant and equipment, at cost						
Less accumulated depreciation						
Total property, plant and equipment, net						

Depreciation expense related to property, plant and equipment was \$17 million and \$16 million \$34 million for the three and six months ended **March 31, 2024** June 30, 2024, respectively, and **March 31, 2023** \$15 million and \$31 million for the three and six months ended June 30, 2023, respectively.

Note 7. Other Liabilities

A summary of significant other liabilities by balance sheet caption follows:

(Dollars in millions)	(Dollars in millions)	March 31, 2024	December 31, 2023	(Dollars in millions)	June 30, 2024	December 31, 2023
Salaries, wages and accrued bonuses						
Fringe benefits						
Litigation						
Restructuring costs						
Provision for contract losses						
Operating lease liabilities						
Taxes payable						
Other ⁽¹⁾						
Total other current liabilities						

Operating lease liabilities
Unrecognized tax benefits
Other ⁽¹⁾
Total other noncurrent liabilities

(1) Consists primarily of warranty reserves and provision for an acquired onerous contract. See Note 13: *Commitments and Contingencies* for more information regarding the warranty provision.

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 8. Intangible Assets

Intangible assets consists of the following:

(Dollars in millions)	March 31, 2024			December 31, 2023		
	Accumulated		Net Carrying Amount	Accumulated		Net Carrying Amount
	Gross Carrying Amount	Amortization		Gross Carrying Amount	Amortization	
Acquired Intangible Assets	\$ 1,087	\$ (945)	\$ 142	\$ 1,087	\$ (940)	\$ 147
Patents and licenses	10	(6)	4	10	(6)	4
Total intangible assets	\$ 1,097	\$ (951)	\$ 146	\$ 1,097	\$ (946)	\$ 151

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Dollars in millions)	June 30, 2024			December 31, 2023		
	Accumulated		Net Carrying Amount	Accumulated		Net Carrying Amount
	Gross Carrying Amount	Amortization		Gross Carrying Amount	Amortization	
Acquired intangible assets	\$ 1,087	\$ (951)	\$ 136	\$ 1,087	\$ (940)	\$ 147
Patents and licenses	14	(6)	8	10	(6)	4
Total intangible assets	\$ 1,101	\$ (957)	\$ 144	\$ 1,097	\$ (946)	\$ 151

Amortization expense related to intangible assets was \$5 million \$6 million and \$6 million \$11 million for the three and six months ended March 31, 2024 June 30, 2024, respectively, and March 31, 2023 \$5 million and \$11 million for the three and six months ended June 30, 2023, respectively.

Note 9. Income Taxes

Our effective tax rate was 19.1% and 20.2% for the three and six months ended March 31, 2024 was 21.6% June 30, 2024, respectively, and (6.1%) and 4.1% for the three and six months ended June 30, 2023, respectively.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2024 June 30, 2024 and December 31, 2023 is as follows:

(Dollars in millions)	(Dollars in millions)	March 31, 2024	December 31, 2023	(Dollars in millions)	June 30, 2024	December 31, 2023
Deferred tax assets						
Deferred tax assets						
Deferred tax assets						
Less valuation allowance						
Deferred tax assets						
Deferred tax liabilities						
Net deferred tax asset						

Our deferred tax balance associated with our retirement benefit plans includes deferred tax assets of \$9 \$8 million and \$9 million as of March 31, 2024 June 30, 2024 and December 31, 2023, respectively, that are recorded in accumulated other comprehensive earnings to recognize the funded status of our retirement plans.

Note 10. Debt

The Company's debt consists of the following:

(Dollars in millions)	(Dollars in millions)	March 31, 2024	December 31, 2023	(Dollars in millions)	June 30, 2024	December 31, 2023
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Term Loan A	
Outstanding revolver	
Finance lease and other	
Short-term borrowings	
Total debt principal	
Less unamortized debt issuance costs and discounts	
Total debt, net	
Less short-term borrowings and current portion of long-term debt	
Total long-term debt	

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Term Loans

In November 2022, the Company entered into a senior unsecured credit agreement with Bank of America in the amount of \$500 million (the "2022 Credit Agreement") with a maturity of November 29, 2027. The 2022 Credit Agreement provides for a term loan of \$225 million bearing interest at a variable rate generally based on the Secured Overnight Financing Rate ("SOFR"), plus a spread ranging from 1.48% to 2.10% depending on the leverage ratio, as defined in the 2022 Credit Agreement, or an alternative variable rate based on the higher of the Bank of America prime rate, the federal funds rate, or a rate generally based on the SOFR, in each case subject to an additional basis point spread as defined in the 2022 Credit Agreement ("2022 Term Loan A"). Interest is payable quarterly in arrears. The outstanding balance of the 2022 Term Loan A at **March 31, 2024** **June 30, 2024** was \$211 \$208 million. The fair value of the 2022 Term Loan A at **March 31, 2024** **June 30, 2024** was approximately \$206 \$203 million; however, the Company has the ability to prepay the outstanding principal balance without penalty. The fair value of the Company's outstanding debt obligations is calculated using Level 2 inputs, based on interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements.

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Credit Facilities

The 2022 Credit Agreement provides for a revolving credit facility available for working capital needs of the Company ("the 2022 Revolving Credit Facility"). As of **March 31, 2024** **June 30, 2024** and December 31, 2023, the 2022 Revolving Credit Facility had a limit of \$275 million. Loans under the 2022 Revolving Credit Facility bear interest at a variable rate generally based on the SOFR, plus a spread ranging from 1.48% to 2.10% depending on the leverage ratio, as defined in the 2022 Credit Agreement, or an alternative variable rate based on the higher of the Bank of America prime rate, the federal funds rate, or a rate generally based on the SOFR, in each case subject to an additional basis point spread as defined in the 2022 Credit Agreement. The Company also pays a commitment fee ranging between 0.20% and 0.35% depending on the Company's leverage ratio applied to the unused balance of the 2022 Revolving Credit Facility. There was no outstanding balance on the 2022 Revolving Credit Facility as of **March 31, 2024** **June 30, 2024** and December 31, 2023. The weighted average interest rate on the 2022 Revolving Credit Facility as of **March 31, 2024** **June 30, 2024** was 6.83% 6.79%.

The Company also maintains uncommitted working capital credit facilities with certain financial institutions in the aggregate of \$115 million and \$65 million at **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively (the "Financial Institution Credit Facilities"). The sole purpose of the Financial Institution Credit Facilities is to support standby letter of credit issuances on contracts with customers. The Company had letters of credit outstanding of approximately \$42 \$37 million and \$41 million as of **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively, which reduces the available capacity of the Financial Institution Credit Facilities by an equal amount.

Short-term Borrowings

As of **March 31, 2024** **June 30, 2024** and December 31, 2023, the Company recognized \$9 \$1 million and \$35 million, respectively, collected on behalf of the purchasers of our trade receivables pursuant to our factoring arrangements as short-term borrowings and current portion of long-term debt in the Consolidated Balance Sheets, which approximates its fair value. Refer to Note 4: Sale of Receivables for more information.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 11. Pension and Other Postretirement Benefits

The following table provides certain information regarding the Company's pension, postretirement and supplemental retirement plans for the periods presented:

	Defined Benefit Pension Plans	Defined Benefit Pension Plans	Postretirement Benefit Plan	Supplemental Retirement Plans	Defined Benefit Pension Plans	Postretirement Benefit Plans	Supplemental Retirement Plans
	Three Months Ended June 30,						
(Dollars in millions)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	(Dollars in millions) 2024
Interest cost							
Interest cost							
Interest cost							
Expected return on plan assets							
Amortization of net actuarial loss							
Net periodic benefit cost							
Net periodic benefit cost							
Net periodic benefit cost							
Net periodic benefit cost							
	Postretirement Benefit						
	Defined Benefit Pension Plans		Plans		Supplemental Retirement Plans		
	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,		
(Dollars in millions)	2024	2023	2024	2023	2024	2023	
Interest cost	\$ 4	\$ 4	\$ —	\$ —	\$ 1	\$ —	
Expected return on plan assets	(3)	(3)	—	—	—	—	
Amortization of net actuarial loss	—	1	—	—	—	—	
Net periodic benefit cost	\$ 1	\$ 2	\$ —	\$ —	\$ 1	\$ —	

Pension related expenses are reflected in cost of revenues and general and administrative expenses on the Consolidated Statements of Earnings (unaudited). Earnings.

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 12. Earnings Per Share

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
(Dollars in millions, except per share amounts; shares in millions)			2024	2023	2024	2023	2024	2023
(In millions, except per share amounts)			2024	2023	2024	2023	2024	2023
Net earnings								
Basic weighted average number of shares outstanding								
Impact of dilutive share-based awards								
Diluted weighted average number of shares outstanding								
Earnings per share attributable to common shareholders - basic								
Earnings per share attributable to common shareholders - diluted								

Basic earnings per share ("EPS") is computed by dividing net earnings by the weighted average number of shares of common stock outstanding during each period. The computation of diluted EPS includes the dilutive effect of outstanding share-based compensation awards (which primarily consist of employee stock options, restricted stock units, and performance-based restricted stock units).

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The computation of diluted EPS excludes the effect of the potential exercise of stock awards when the average market price of the common stock is lower than the exercise price of the stock awards during the period because the effect would be anti-dilutive. In addition, the computation of diluted EPS excludes stock awards whose issuance is contingent upon the satisfaction of certain performance vesting conditions that have not yet been achieved.

Note 13. Commitments and Contingencies

Commitments

The Company's commitments are primarily related to our lease agreements, purchase obligations, and credit agreements.

Contingencies

From time to time we are subject to certain legal proceedings and claims in the ordinary course of business. These matters are subject to many uncertainties and it is possible that some of these matters ultimately could be decided, resolved or settled in a manner adverse to us. Although the precise amount of liability that may result from these matters is not ascertainable, the Company believes that any amounts exceeding the Company's recorded accruals should not materially adversely affect the Company's financial condition or liquidity. It is possible, however, that the ultimate resolution of those matters could result in a material adverse effect on the Company's results of operations and/or cash flows from operating activities for a particular reporting period. We establish reserves for specific legal matters when we determine that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. The Company reviews the developments in contingencies that could affect the amount of the reserves that have been previously recorded. The Company adjusts provisions and changes to disclosures accordingly to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information. Significant judgment is required to determine both the probability and the estimated amount of any potential losses.

In the performance of our contracts, we routinely request contract modifications that require additional funding from the customer. Most often, these requests are due to customer-directed changes in the scope of work. While we are entitled to recovery of these costs under our contracts, the administrative process with our customer may be protracted. Based on the circumstances, we periodically file requests for equitable adjustment ("REAs") that are sometimes converted into claims. In some cases, these requests are disputed by our customer. We believe our outstanding modifications, REAs and other claims will be resolved without material impact to our results of operations, financial condition or cash flows.

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As a government contractor, with customers including the U.S. government as well as various state and local government entities, the Company may be subject to audits, investigations and claims with respect to its contract performance, pricing, costs, cost allocations and procurement practices. Additionally, amounts billed under such contracts, including direct and indirect costs, are subject to potential adjustments before final settlement.

Management believes that adequate provisions for such potential audits, investigations, claims and contract adjustments, if any, have been made in the financial statements.

Product Warranties

Product warranty costs generally are accrued in proportion to product revenue realized in conjunction with our over time revenue recognition policy. Product warranty expense is recognized based on the term of the product warranty, generally one year to three years, and the related estimated costs, considering historical claims expense. Accrued warranty costs are reduced as these costs are incurred and as the warranty period expires, and otherwise may be modified as specific product performance issues are identified and resolved. The following is a summary of changes in the product warranty balances during the **three** six months ended **March 31, 2024** June 30, 2024:

(Dollars in millions)

Balance at December 31, 2023	\$	26
Additional provision		312
Reversal and utilization		(2) (11)
Balance at March 31, 2024 June 30, 2024	\$	27

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 14. Related Party Transactions

The Company has related party sales with the ultimate majority stockholder and its other affiliates that occur in the regular course of business. Related party sales for these transactions included in revenues were \$8 million \$3 million and \$5 million \$11 million for the three and six months ended March 31, 2024 June 30, 2024, respectively, and March 31, 2023 \$6 million and \$11 million for the three and six months ended June 30, 2023, respectively. The Company also has related party purchases with the ultimate majority stockholder and its other affiliates that occur in the regular course of business. Related party purchases for these transactions are included in cost of revenues and were immaterial for the three and six months ended March 31, 2024 June 30, 2024 and March 31, 2023 June 30, 2023. The receivables related to these transactions with the ultimate majority stockholder and its other affiliates of \$6 million and \$8 million, respectively, and payables of \$3 million and \$4 million, respectively, as of March 31, 2024 June 30, 2024 and December 31, 2023, are included in accounts receivable, net and accounts payable in our Consolidated Balance Sheets. In addition, there was a related party balance in contract assets of \$7 million \$4 million at March 31, 2024 June 30, 2024.

Note 15. Segment Information

Operating segments represent components of an enterprise for which separate financial information is available that is regularly reviewed by the CODM in determining how to allocate resources and assess performance. Our Chief Executive Officer is our CODM and he uses a variety of measures to assess the performance of the Company as a whole, depending on the nature of the activity. The Company's operating and reportable segments consist of ASC and IMS. All other operations, which consists primarily of DRS corporate headquarters and certain non-operating subsidiaries of the Company, are grouped in Corporate & Eliminations.

We primarily use adjusted EBITDA, a non-GAAP financial measure, to manage the Company and allocate resources. Adjusted EBITDA of our business segments includes our net earnings before income taxes, amortization of acquired intangible assets, depreciation, restructuring costs, interest, deal-related transaction costs, other non-operating expenses such as foreign exchange, non-service pension expenditures, legal liability accrual reversals, and other one-time non-operational events as well as gains (losses) on business disposals. Adjusted EBITDA is used to facilitate a comparison of the ordinary.

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

ongoing and customary course of our operations on a consistent basis from period to period and provide an additional understanding of factors and trends affecting our business segments. This measure assists the CODM in assessing segment operating performance consistently over time without the impact of our capital structure, asset base and items outside the control of the management team and expenses that do not relate to our core operations.

Certain information related to our segments for the periods ended March 31, 2024 June 30, 2024 and March 31, 2023 June 30, 2023 is presented in the following tables. Consistent accounting policies have been applied by all segments within the Company, within all reporting periods. A description of our reportable segments as of March 31, 2024 June 30, 2024 and March 31, 2023 June 30, 2023 has been included in Note 1: Summary of Significant Accounting Policies. Intersegment sales are generally transferred at cost to the buying segment, and the sourcing segment does not recognize a profit. Such intercompany operating income is eliminated in consolidation, so that the Company's total revenues and operating earnings reflect only those transactions with external customers.

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Total revenues and intersegment revenues by segment for the periods ended March 31, 2024 June 30, 2024 and March 31, 2023 June 30, 2023 consists of the following:

		Three Months Ended March 31,		Three Months Ended June 30,		Six Months Ended June 30,				
		(Dollars in millions)	(Dollars in millions)	2024	2023	(Dollars in millions)	2024	2023	2024	2023
ASC										
IMS										
Corporate & Eliminations										
Total revenues										
		Three Months Ended March 31,		Three Months Ended June 30,		Six Months Ended June 30,				
		(Dollars in millions)	(Dollars in millions)	2024	2023	(Dollars in millions)	2024	2023	2024	2023
ASC										
IMS										
Corporate & Eliminations										

Total intersegment revenues

Reconciliation of reportable segment adjusted EBITDA to net earnings consists of the following:

	Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended June 30,	Six Months Ended June 30,	2024	2023	2024	2023
(Dollars in millions)	(Dollars in millions)	2024		2023	(Dollars in millions)	2024	2023		
Adjusted EBITDA									
ASC									
ASC									
ASC									
IMS									
Corporate & Eliminations									
Total adjusted EBITDA									
Amortization of intangibles									
Depreciation									
Restructuring costs									
Interest expense									
Deal-related transaction costs									
Other one-time non-operational events									
Other one-time non-operational events									
Other one-time non-operational events									
Income tax provision									
Income tax (provision) benefit									
Net earnings									

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this discussion together with our Consolidated Financial Statements and related notes thereto included elsewhere in this Quarterly Report.

This discussion and other parts of this Quarterly Report include forward-looking statements such as those relating to our plans, objectives, expectations and beliefs, which involve risks, uncertainties and assumptions. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties discussed under "Special Note Regarding Forward-Looking Statements and Information" in this Quarterly Report and under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023. Actual results may differ materially from those contained in any forward-looking statements.

Business Overview and Considerations

General

DRS is an innovative and agile provider of advanced defense technology to U.S. national security customers and allies around the world. We specialize in the design, development and manufacture of advanced sensing, network computing, force protection, as well as electric power and propulsion. The strength of our market positioning in these technology areas have created a foundational and diverse base of programs across the U.S. Department of Defense ("DoD" (the "DoD"). We believe these technologies will not only support our customers in today's mission but will also underpin their strategy to migrate towards more autonomous, dynamic, interconnected, and multi-domain capabilities needed to address evolving and emerging threats. We view more advanced capabilities in sensing, computing, self-protection and power as necessary to enable these strategic priorities.

Our overall strategy is to be a balanced and diversified company, less vulnerable to any one budgetary platform or service decision with a specific focus on establishing strong technical and market positions in areas of priority for the DoD. The DoD is our largest customer and, for the **three** **six** months ended **March 31, 2024** **June 30, 2024**, accounted for approximately **81%** **82%** of our business as an end-user, with revenues principally derived directly or indirectly from contracts with the U.S. Navy and U.S. Army, which represented **40%** **39%** and **26%** **30%**, respectively, of our total revenues for such period, which is consistent with historic trends.

Our operations and reporting are structured into the following two technology driven segments based on the capabilities and solutions offered to our customers:

Advanced Sensing and Computing

Our Advanced Sensing and Computing ("ASC") segment designs, develops and manufactures sensing and network computing technology that enables real-time situational awareness required for enhanced operational decision making and execution by our customers.

Our sensing capabilities span numerous applications, including missions requiring advanced detection, precision targeting and surveillance sensing, long range electro-optic/infrared ("EO/IR"), signals intelligence ("SIGINT") and other intelligence systems, electronic warfare ("EW"), ground vehicle sensing, next generation active electronically scanned array tactical radars, dismounted soldier sensing and space sensing. Across our offerings, we are focused on advancing sensor distance and enhancing the precision,

clarity, definition, spectral depth and effectiveness of our sensors. We also seek to leverage the knowledge and expertise built through our decades of experience to optimize size, weight, power and cost for our customers' specific mission requirements.

Our sensing capabilities are complemented by our rugged, trusted and cyber resilient network computing products. Our network computing offerings are utilized across a broad range of mission applications including platform computing on ground and shipboard (both surface ship and submarine) for advanced battle management, combat systems, radar, command and control ("C2"), tactical networks, tactical computing and communications. These products help support the DoD's need for greater situational understanding at the tactical edge by rapidly transmitting data securely between command centers and forward-positioned defense assets and personnel.

Integrated Mission Systems

Our Integrated Mission Systems ("IMS") segment designs, develops, manufactures and integrates power conversion, control and distribution systems, ship propulsion systems, motors and variable frequency drives, force protection systems, and transportation and logistics systems for the U.S. military and allied defense customers.

DRS is a leading provider of next-generation electrical propulsion systems for the U.S. Navy. We provide power conversion, control, distribution and propulsion systems for the U.S. Navy's top priority shipbuilding programs, including the Columbia Class ballistic missile submarine, the first modern U.S. electric drive submarine.

We believe DRS is well positioned to meet the needs of an increasingly electrified fleet with our high-efficiency, power dense permanent magnet motors, energy storage systems and associated efficient, rugged and compact power conversion, electrical actuation systems, and advanced cooling technologies.

DRS has a long history of providing a number of other critical products to the U.S. Navy with a significant installed base on submarines, aircraft carriers and other surface ships including motor controllers, instrumentation and control equipment, electrical actuation systems, and thermal management systems for electronics and ship stores refrigeration.

DRS is also an integrator of complex systems in ground vehicles for short-range air defense, counter-unmanned aerial systems ("C-UAS"), and vehicle survivability and protection. Our short-range air defense systems integrate EW equipment, reconnaissance and surveillance systems, modular combat vehicle turrets, and stabilized sensor suites, as well as kinetic countermeasures to protect against evolving threats. Our force protection systems, including solutions for C-UAS and active protection systems on army vehicles, help protect personnel and defense assets from enemy combatants.

Focus on Customer and Execution

DRS and its employees focus on our end-customers – the men and women of the armed forces in the U.S. and its allies. We seek to provide high-quality equipment and services to support their mission success. We strive for excellence in everything we do, in every job in our Company, in order to satisfy our customers' needs embedded in our contractual commitments. We seek to ensure that we learn from every lesson experienced in our Company and insist that these lessons affect all elements of our businesses. This approach permeates through the Company with a focus on continuous improvement at every level.

Part of this learning has resulted in institutionalizing our continuous improvement process through our Business Excellence initiative called the Always Performing for Excellence ("APEX") program. The APEX program's goal is to strive for continuous improvement through unification of all of our business practices, tools and metrics, ongoing employee training and innovation. We believe that excellence is not a destination, but by constantly challenging ourselves to be better, we will improve, and ultimately approach excellence. We challenge ourselves to exceed our customers' expectations and we partner with them to work to ensure that our execution meets their needs.

Continuous improvement through the APEX program also allows us to improve our efficiency, which we believe contributes to increased margins, helps us to remain competitive and allows us to make strategic investments, all while maintaining our focus on customer satisfaction. In these elements, our goals are aligned with those of our customers. We are humbled by the dedication and sacrifice that our ultimate customers have made to serve and we work to perform for them with excellence in everything we do.

Global Events and Business Impacts

Global Conflicts

In February 2022, Russia escalated its war with Ukraine by invading and occupying parts of that country. Since that time, western powers, including the U.S., have pledged support with humanitarian and military aid. Some of that military aid pledged by the U.S. will result in increased efforts to replace equipment and consumables. We have received orders from the U.S. and allies to both provide equipment in support of this effort, and to replace equipment pledged. We expect that these orders will continue until that support is no longer needed and certain transferred equipment is replaced.

The ongoing conflicts in Israel and the broader Middle East region have the potential to evolve quickly creating uncertainty, along with the potential for disruptions to our Israeli operations in the region, including, but not limited to, workforce calls for duty, transportation and other logistical impacts and reduced customer confidence. To date, the conflict has not had a material impact to our operations. The U.S. and other western powers have directed military and funding support to Israel. DRS has direct exposure to Israel principally through its RADA Technologies Ltd ("RADA") operations with approximately 4% of our workforce as of March 31, 2024 June 30, 2024 residing in Israel. At this time, it is unclear whether supplemental funding for Israel will impact demand for DRS products.

Business Environment

Revenues derived directly, as a prime contractor, or indirectly, as a subcontractor, from contracts with the U.S. government represented 81% 82% and 80% 81% of our total revenues for the three six months ended March 31, 2024 June 30, 2024 and March 31, 2023 June 30, 2023, respectively. Our U.S. government sales are highly concentrated within our DoD customers, which made up the overwhelming majority of our U.S. government revenue for the three six months ended March 31, 2024 June 30, 2024, and are principally derived directly or indirectly from contracts with the U.S. Navy and U.S. Army, which represented 40% 39% and 26% 30%, respectively, of our total revenues for the three six months ended March 31, 2024 June 30, 2024. Therefore, our revenue is highly correlated to changes in U.S. government spending levels, especially within the DoD.

The DoD budget is the largest defense budget in the world. The fiscal year ("FY") 2024 National Defense Authorization Act ("NDAA") was passed by Congress late in 2023 and signed into law by the President in December 2023. The NDAA authorizes \$842 billion in defense spending, including increases in procurement, research, development, testing and engineering, as well as military assistance to Ukraine. In March 2024, the U.S. President's FY 2025 budget request was released and included \$850 billion for national defense programs, which marks a 1% increase over prior year levels. In April 2024, Congress passed and the President signed into law a national security supplemental package that provides for \$95 billion in foreign aid for Ukraine, Israel, and the Indo-Pacific, which also includes over \$3 billion of funding to support the submarine industrial base.

Operating Performance Assessment and Reporting

For the majority of our contracts, revenues are recognized using the over time, percentage of completion cost-to-cost method of accounting, with revenue recognized based on the ratio of cumulative costs incurred to date to estimated total contract costs at completion. For contracts accounted for in this way, our reported revenues may contain amounts which we have not billed to customers if we have incurred costs, and recognized related profits, in excess of billed progress or performance-based payments.

Under U.S. GAAP, contract costs, including allowable general and administrative expenses on certain government contracts, are charged to work in progress inventory and are written off to costs and expenses as revenues are recognized. The Federal Acquisition Regulations ("FAR") and the defense supplement ("DFARS"), incorporated by reference in U.S. government contracts, provide that internal research and development costs are allowable general and administrative expenses. Unallowable costs, pursuant to the FAR, are excluded from costs accumulated on U.S. government contracts.

Our defense contracts and subcontracts that require the submission of cost or pricing data are subject to audit, various profit and cost controls, and standard provisions for termination at the convenience of the customer. The Defense Contract Audit Agency ("DCAA") performs these audits on behalf of the U.S. government. The DCAA has the right to perform audits on our incurred costs on cost-type or price redeterminable-type contracts on a yearly basis. Approval of an incurred cost submission can take from one to three years from the date of the submission of the contract cost.

U.S. government contracts are, by their terms, subject to termination by the U.S. government for either convenience or default by the contractor. Fixed-price contracts provide for payment upon termination for items delivered to and accepted by the U.S. government and, if the termination is for convenience, for payment of fair compensation of work performed plus the costs of settling and paying claims by terminated subcontractors, other settlement expenses and a reasonable profit on the costs incurred. Cost-plus contracts provide that, upon termination, the contractor is entitled to reimbursement of its allowable costs and, if the termination is for convenience, a total fee proportionate to the percentage of the work completed under the contract. If a contract termination is for default, however, the contractor is paid an amount agreed upon for completed and partially completed products and services accepted by the U.S. government. In these circumstances, the U.S. government is not liable for excess costs incurred by us in procuring undelivered items from another source.

In addition to the right of the U.S. government to terminate U.S. government contracts, such contracts are conditioned upon the continuing availability of Congressional appropriations. Congress usually appropriates funds for a given program on a September 30 fiscal year basis, even though contract performance may take many years. Consequently, at the outset of a major program, the contract is typically only partially funded, and additional funds normally are committed to the contract by the procuring agency only as appropriations are made by Congress for future fiscal years.

Components of Operations

Revenue

Revenue consists primarily of product related revenue, generating 91% which represented 94% of our total revenues for the three six months ended March 31, 2024 June 30, 2024. Our remaining revenue is was generated from service related contracts. Additionally, 83% 82% of our revenue is was derived from firm-fixed price contracts for the three six months ended March 31, 2024 June 30, 2024. This is was consistent with the prior year comparable period which realized product sales related revenue of 91% 93% and revenue from firm-fixed price sales contracts of 84% 83% for the three six months ended March 31, 2023 June 30, 2023.

Under flexibly priced contracts, we are reimbursed for allowable or otherwise defined total costs (defined as cost of revenues plus allowable general and administrative expenses) incurred, plus a fee. The contracts may also include incentives for various performance criteria, including quality, timeliness, cost-effectiveness or other factors. For the three six months ended March 31, 2024 June 30, 2024 and March 31, 2023 June 30, 2023, flexibly priced contracts represented 17% 18% and 16% 17% of our total revenues, respectively.

Refer to Note 2: Revenue from Contracts with Customers to the Consolidated Financial Statements for additional information.

Cost of Revenues

Cost of revenues includes materials, labor and overhead costs incurred in the manufacturing, design, and provision of products and services sold in the period as well as warranty costs. Material costs include raw materials, purchased components and sub-assemblies and outside processing and inbound freight. Labor and overhead costs consist of direct and indirect manufacturing costs, including wages and fringe benefits, operating supplies, depreciation and amortization, occupancy costs, and purchasing, receiving, inspection costs and inbound freight costs.

General and Administrative Expenses

General and administrative expenses include general and administrative expenses not included within cost of revenues such as salaries, wages and fringe benefits, facility costs and other costs related to these indirect functions. Additionally, general and administrative expenses include internal research and development costs as well as expenditures related to bid and proposal efforts.

Results from Operations

The following discussion of operating results is intended to help the reader understand the results of operations and financial condition of the Company, for the three and six months ended March 31, 2024 June 30, 2024, as compared to the three and six months ended March 31, 2023 June 30, 2023. Given the nature of our business, we believe revenue and operating earnings are most relevant to an understanding of our performance at an enterprise and segment level. Our operating cycle is longer term in nature and involves various types of production contracts and varying delivery schedules. Accordingly, operating results in a particular period may not be indicative of future operating results.

Three Months Ended	March 31, 2024 vs. March 31, 2023
Three Months Ended June 30,	Change

(Dollars in millions, except per share amounts)		March 31, 2024		March 31, 2023		\$		%		(Dollars in millions, except per share amounts)		2024		2023		\$	
Total revenues	Total revenues	\$ 688	\$ 569	\$ 119	\$ 20.9			20.9	%	Total revenues	\$ 753	\$ 628	\$ 125			\$ 125	
Total cost of revenues	Total cost of revenues	(535)	(438)	(97)	(97)	22.1		22.1	%	Total cost of revenues	(584)	(483)	(101)				
Gross profit	Gross profit	\$ 153	\$ 131	\$ 22	\$ 16.8			16.8	%	Gross profit	\$ 169	\$ 145	\$ 24				
Gross margin																	
General and administrative expenses	General and administrative expenses																
General and administrative expenses	General and administrative expenses	(101)	(100)	(100)	(1)	(1)	1.0		1.0	%	(107)	(90)	(90)	(17)			
Amortization of intangibles	Amortization of intangibles	(5)	(6)	(6)	1	1	(16.7)		(16.7)	%	Amortization of intangibles	(6)	(5)	(5)	(1)		
Other operating expenses, net	Other operating expenses, net	(4)	—	—	(4)	(4)	100.0		100.0	%	Other operating expenses, net	(1)	(8)	(8)	7		
Operating earnings	Operating earnings	\$ 43	\$ 25	\$ 18	72.0			72.0	%	Operating earnings	\$ 55	\$ 42	\$ 13				
Interest expense	Interest expense	(5)	(8)	(8)	3	3	(37.5)		(37.5)	%	Interest expense	(7)	(9)	(9)	2		
Other, net	Other, net	(1)	(1)	(1)	—	—	—		—	%	Other, net	(1)	—	—	(1)		
Earnings before taxes	Earnings before taxes	\$ 37	\$ 16	\$ 21	131.3			131.3	%	Earnings before taxes	\$ 47	\$ 33	\$ 14				
Income tax provision	Income tax provision	8	4	4	100.0	%											
Income tax provision (benefit)	Income tax provision (benefit)	9	(2)	11	(550.0)	%											
Net earnings	Net earnings	\$ 29	\$ 12	\$ 17	141.7			141.7	%	Net earnings	\$ 38	\$ 35	\$ 3				
Basic EPS	Basic EPS																
Basic EPS	Basic EPS	\$ 0.11	\$ 0.05	\$ 0.06	120.0			120.0	%	Basic EPS	\$ 0.14	\$ 0.14	\$ —				
Diluted EPS	Diluted EPS	\$ 0.11	\$ 0.05	\$ 0.06	120.0			120.0	%	Diluted EPS	\$ 0.14	\$ 0.13	\$ 0.01				
Backlog	Backlog																
Backlog	Backlog	\$ 7,845	\$ 4,272	\$ 3,573	83.6			83.6	%	Backlog	\$ 7,925	\$ 4,357	\$ 3,568				
Bookings	Bookings	\$ 815	\$ 749	\$ 66	8.8			8.8	%	Bookings	\$ 941	\$ 698	\$ 243				
Six Months Ended June 30,																	
Change																	
(Dollars in millions, except per share amounts)																	
Total revenues																	
Total revenues																	
Gross profit																	
Gross margin																	
General and administrative expenses																	
Amortization of intangibles																	
Other operating expenses, net																	
Operating earnings																	

Interest expense	(12)	(17)	5	(29.4)%
Other, net	(2)	(1)	(1)	100.0 %
Earnings before taxes	\$ 84	\$ 49	\$ 35	71.4 %
Income tax provision (benefit)	17	2	15	750.0 %
Net earnings	\$ 67	\$ 47	\$ 20	42.6 %
Basic EPS	\$ 0.25	\$ 0.18	\$ 0.07	38.9 %
Diluted EPS	\$ 0.25	\$ 0.18	\$ 0.07	38.9 %
Backlog	\$ 7,925	\$ 4,357	\$ 3,568	81.9 %
Bookings	\$ 1,756	\$ 1,447	\$ 309	21.4 %

Revenue

Our revenue generation of \$688 million \$753 million for the three months ended March 31, 2024 June 30, 2024 represents an increase of \$119 million \$125 million, or 20.9% 19.9%, as compared to the three months ended March 31, 2023 June 30, 2023. The revenue increase is primarily attributed to our continued performance on backlog growth across each of our operating segments. This is highlighted by our efforts in dismounted and ground vehicle sensing, tactical radars and electric power and propulsion programs propulsion.

Our revenue generation of \$1,441 million for the six months ended June 30, 2024 represents an increase of \$244 million, or 20.4%, as compared to the six months ended June 30, 2023. The revenue increase for the six months ended June 30, 2024 is consistent with the U.S. Navy during the period.

three months ended June 30, 2023, driven by our continued backlog growth across each of our operating segments, highlighted by our efforts in dismounted and ground vehicle sensing, tactical radars and electric power and propulsion.

Cost of Revenues

Cost of revenues increased by \$97 million \$101 million, or 22.1% 20.9%, from \$438 million \$483 million to \$535 million \$584 million for the three months ended March 31, 2024 June 30, 2024 as compared to the three months ended March 31, 2023 June 30, 2023. The cost of revenues increase was primarily due to the increased revenue contribution realized during the period.

Cost of revenues increased by \$198 million, or 21.5%, from \$921 million to \$1,119 million for the six months ended June 30, 2024 as compared to the six months ended June 30, 2023. The cost of revenues increase was primarily due to the increased revenue contribution realized during the period.

Gross Profit

Gross profit increased by \$22 million \$24 million, or 16.8% 16.6%, to \$153 million \$169 million for the three months ended March 31, 2024 June 30, 2024, as compared to \$131 million \$145 million for the three months ended March 31, 2023 June 30, 2023 and gross profit increased by \$46 million, or 16.7%, to \$322 million for the six months ended June 30, 2024 as compared to \$276 million for the six months ended June 30, 2023, resulting from the revenue and cost of revenue revenues trends noted above.

General and Administrative Expenses

General and administrative ("G&A") expenses increased by \$1 million \$17 million, or 1.0% 18.9%, for the three months ended March 31, 2024 June 30, 2024 as compared to the three months ended March 31, 2023 June 30, 2023 and increased by \$18 million, or 9.5%, for the six months ended June 30, 2024 as compared to the six months ended June 30, 2023. The increase was primarily due to the reversal of a legal liability accrual during the prior year period.

Amortization of Intangibles

Amortization of intangibles of \$5 million \$6 million for the three months ended March 31, 2024 decreased June 30, 2024 increased \$1 million as compared to the three months ended March 31, 2023 June 30, 2023. Amortization of intangibles of \$11 million remained consistent for the six months ended June 30, 2024 as compared to the six months ended June 30, 2023.

Other Operating Expenses, Net

Other operating expenses were \$4 million \$1 million for the three months ended March 31, 2024 June 30, 2024 compared to zero \$8 million for the three months ended March 31, 2023 June 30, 2023. Other operating expenses were \$5 million for the six months ended June 30, 2024 compared to \$8 million for the six months ended June 30, 2023. The expense in the current year both periods is largely attributed to continuing restructuring efforts implemented in our ASC segment.

Operating Earnings

Operating earnings increased by \$18 million \$13 million to \$43 million \$55 million for the three months ended March 31, 2024 June 30, 2024. Operating earnings increased by \$31 million to \$98 million for the six months ended June 30, 2024. The increase was driven by the gross profit impacts noted above.

Interest Expense

Interest expense decreased by \$3 million \$2 million to \$5 million \$7 million for the three months ended March 31, 2024 June 30, 2024, as compared to \$8 million \$9 million for the three months ended March 31, 2023 June 30, 2023. Interest expense decreased by \$5 million to \$12 million for the six months ended June 30, 2024, as compared to \$17 million for the six months ended June 30, 2023. The reduction in interest expenditures is attributed to reduced borrowings on our credit facilities during the period, current year periods.

Other, Net

Other, net remained relatively consistent realizing an expense of \$1 million for the three and six months ended March 31, 2024 June 30, 2024 and March 31, 2023 June 30, 2023.

Earnings Before Taxes

Earnings before taxes increased by \$21 million \$14 million to \$37 million \$47 million for the three months ended March 31, 2024 June 30, 2024 from \$16 million \$33 million for the three months ended March 31, 2023 June 30, 2023 and increased by \$35 million to \$84 million for the six months ended June 30, 2024 from \$49 million for the six months ended June 30, 2023. This was primarily due to the increases in operating earnings and decreased interest expense as noted above.

Income Tax Provision (Benefit)

Income tax provision (benefit) increased by \$11 million to \$9 million (provision) for the three months ended June 30, 2024, from \$2 million (benefit) for the three months ended June 30, 2023. Income tax provision increased by \$4 million \$15 million to \$8 million \$17 million for the three six months ended March 31, 2024 June 30, 2024, from \$4 million \$2 million for the three six months ended March 31, 2023 June 30, 2023. This was primarily attributable to the increase in earnings before taxes. This was offset in part by an anticipated increase in the federal recognition of a discrete tax benefit associated with historic research and development credits recorded in during the three six months ended March 31, 2024 June 30, 2023. Our effective tax rate was 21.6% 19.1% and 20.2% for the three and six months ended March 31, 2024 June 30, 2024, respectively, compared to 25.0% (6.1%) and 4.1% for the three and six months ended March 31, 2023.

June 30, 2023, respectively.

Net Earnings

Net earnings increased by \$17 million \$3 million to \$29 million \$38 million for the three months ended March 31, 2024 June 30, 2024, when compared to the three months ended March 31, 2023 June 30, 2023. Net earnings increased by \$20 million to \$67 million for the six months ended June 30, 2024, when compared to the six months ended June 30, 2023. This was driven by an increase in earnings before taxes offset by the income tax provision increase as noted above.

Backlog

Backlog - We define Backlog to include the following components:

- (1) Funded - Funded backlog represents the revenue value of orders for services under existing contracts for which funding is appropriated or otherwise authorized less revenue previously recognized on these contracts.
- (2) Unfunded - Unfunded backlog represents the revenue value of firm orders for products and services under existing contracts for which funding has not yet been appropriated less funding previously recognized on these contracts.

The following table summarizes the value of our total backlog as of June 30, 2024, incorporating both funded and unfunded components:

(Dollars in millions)	June 30, 2024
Funded	\$ 3,676
Unfunded	4,249
Total backlog	\$ 7,925

Total backlog increased by \$3,573 million \$3,568 million to \$7,845 million for the three months ended March 31, 2024 \$7,925 million as of June 30, 2024, from \$4,272 million for the three months ended March 31, 2023 \$4,357 million as of June 30, 2023. The backlog increase was driven primarily by the receipt of a multi-boat contract to support the electric propulsion efforts on the Columbia Class submarine program with the U.S. Navy.

Bookings

Bookings - We define bookings as the total value of contract awards received from the U.S. government for which it has appropriated funds and legally obligated such funds to the Company through a contract or purchase order, plus the value of contract awards and orders received from customers other than the U.S. government.

Bookings results for three months ended March 31, 2024 increased to \$815 million as compared to \$749 million for the three months ended March 31, 2023 June 30, 2024 increased to \$941 million as compared to \$698 million for the three months ended June 30, 2023. Bookings for the six months ended June 30, 2024 increased to \$1,756 million as compared to \$1,447 million for the six months ended June 30, 2023.

Key Non-GAAP Operating Measures

Overview

We measure our business using both key financial and operating data including key performance indicators ("KPIs") and non-GAAP financial measures. In addition to the operational analysis detailed above, we also use the following non-GAAP metrics to manage our business, monitor results of operations and ensure proper allocation of capital: (i) adjusted EBITDA, (ii) adjusted EBITDA margin, (iii) adjusted diluted earnings per share ("EPS") and (iv) free cash flow. We believe that these financial performance metrics represent the primary drivers of value enhancement, balancing both short and long-term indicators of increased shareholder value. These are the metrics we use to measure our results and evaluate our business and related contract performance.

Three Months Ended
March 31,
Three Months Ended
March 31,

		Three Months Ended		Six Months Ended				
		March 31,		June 30,		June 30,		
(Dollars in millions, except per share amounts)	(Dollars in millions, except per share amounts)	2024	2023	(Dollars in millions, except per share amounts)	2024	2023	2024	2023
Adjusted EBITDA ⁽¹⁾	Adjusted EBITDA ⁽¹⁾	\$ 70	\$ 49	Adjusted EBITDA ⁽¹⁾	\$ 82	\$ 62	\$ 152	\$ 111
Adjusted EBITDA margin ⁽¹⁾	Adjusted EBITDA margin ⁽¹⁾	10.2%	8.6%	Adjusted EBITDA margin ⁽¹⁾	10.9%	9.9%	10.5%	9.3%
Adjusted diluted EPS ⁽¹⁾	Adjusted diluted EPS ⁽¹⁾	\$ 0.14	\$ 0.07	Adjusted diluted EPS ⁽¹⁾	\$ 0.18	\$ 0.15	\$ 0.32	\$ 0.22
Free cash flow ⁽¹⁾	Free cash flow ⁽¹⁾	\$ (275)	\$ (346)	Free cash flow ⁽¹⁾			\$ (274)	\$ (356)

(1) Note on non-GAAP financial measures: Throughout the discussion of our results of operations we use non-GAAP financial measures including adjusted EBITDA, adjusted EBITDA margin, adjusted diluted EPS and free cash flow, as measures of our overall performance. Definitions and reconciliations of these measures to the most

directly comparable financial measure calculated and presented in accordance with U.S. GAAP are included below.

Non-GAAP Financial Measures

We believe the non-GAAP financial measures presented in this document will help investors understand our financial condition and operating results and assess our future prospects. We believe these non-GAAP financial measures, each of which is discussed in greater detail below, are important supplemental measures because they exclude unusual or non-recurring items as well as non-cash items that are unrelated to or may not be indicative of our ongoing operating results. Further, when read in conjunction with our U.S. GAAP results, these non-GAAP financial measures provide a baseline for analyzing trends in our underlying businesses and can be used by management as a tool to help make financial, operational and planning decisions. Finally, these measures are often used by analysts and other interested parties to evaluate companies in our industry by providing more comparable measures that are less affected by factors such as capital structure.

We recognize that these non-GAAP financial measures have limitations, including that they may be calculated differently by other companies or may be used under different circumstances or for different purposes, thereby affecting their comparability from company to company. In order to compensate for these and the other limitations discussed below, management does not consider these measures in isolation from or as alternatives to the comparable financial measures determined in accordance with U.S. GAAP. Readers should review the reconciliations below and should not rely on any single financial measure to evaluate our business.

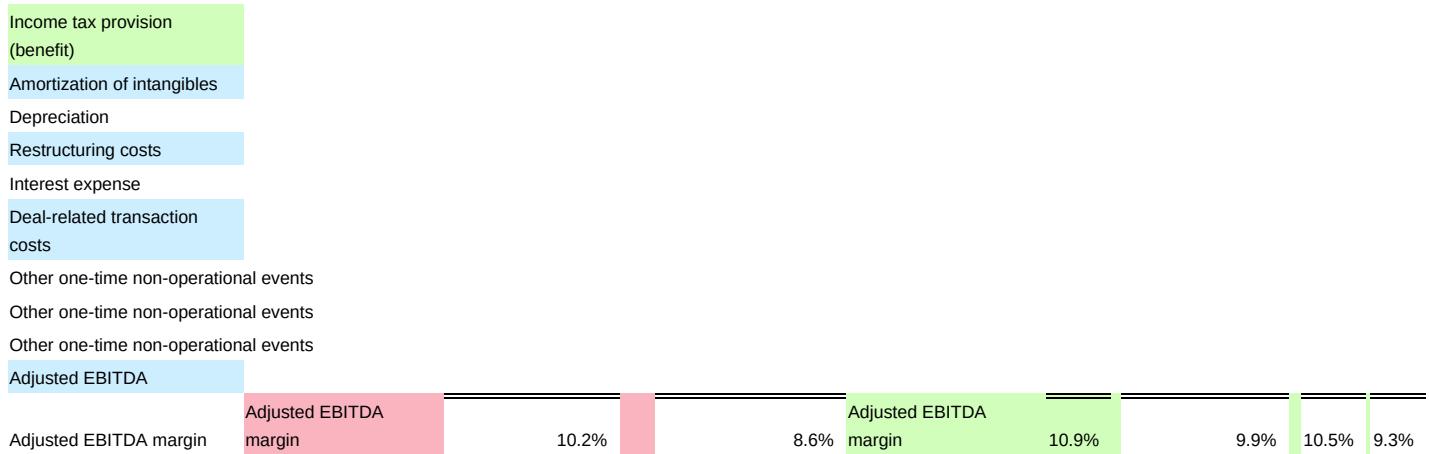
We define these non-GAAP financial measures as:

Adjusted EBITDA and Adjusted EBITDA Margin

We define adjusted EBITDA as our net earnings before income taxes, amortization of acquired intangible assets, depreciation, restructuring costs, interest, deal-related transaction costs, other non-operating expenses such as foreign exchange, non-service pension expenditures, legal liability accrual reversals, and other one-time non-operational events as well as gains (losses) on business disposals. Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenue. Adjusted EBITDA and adjusted EBITDA margin are not measures calculated in accordance with U.S. GAAP, and they should not be considered an alternative to any financial measures that were calculated under U.S. GAAP. Adjusted EBITDA and adjusted EBITDA margin are used to facilitate a comparison of the ordinary, ongoing and customary course of our operations on a consistent basis from period to period and provide an additional understanding of factors and trends affecting our business. Adjusted EBITDA and adjusted EBITDA margin are driven by changes in volume, performance, contract mix and general and administrative expenses and investment levels. Performance, as used in this definition, refers to changes in profitability and is primarily based on adjustments to estimates at completion on individual contracts. These adjustments result from increases or decreases to the estimated value of the contract, the estimated costs to complete the contract, or both. These measures therefore assist management and our Board of Directors and may be useful to investors in comparing our operating performance consistently over time as they remove the impact of our capital structure, asset base and items outside the control of the management team and expenses that do not relate to our core operations. Adjusted EBITDA and adjusted EBITDA margin may not be comparable to similarly titled non-GAAP measures used by other companies as other companies may have calculated the measures differently. The reconciliation of adjusted EBITDA to net earnings is provided below.

Consolidated Entity Reconciliation of Adjusted EBITDA:

		Three Months Ended March 31,		Three Months Ended June 30,				Six Months Ended June 30,			
(Dollars in millions)	(Dollars in millions)	2024	2023	(Dollars in millions)	2024	2023	(Dollars in millions)	2024	2023	2024	2023
Net earnings											
Income tax provision											



Adjusted EBITDA increased by \$21 million \$20 million, or 42.9% 32.3%, to \$70 million \$82 million for the three months ended March 31, 2024 June 30, 2024 compared to the three months ended March 31, 2023 June 30, 2023. The increase in adjusted EBITDA for the quarter is primarily attributed to increased revenue volume and related gross profit contribution. This

increase realized better absorption of our G&A expenditures driving an increase in adjusted EBITDA. For the six months ended June 30, 2024, adjusted EBITDA increased by \$41 million, or 36.9%, to \$152 million from \$111 million for the six months ended June 30, 2023.

Adjusted EBITDA margin was 10.2% 10.9% and 10.5% for the three and six months ended March 31, 2024 June 30, 2024, respectively, and 8.6% 9.9% and 9.3% for the three and six months ended March 31, 2023 June 30, 2023, respectively. The increase for the quarter was primarily due to operational leverage realized on the 20.9% 19.9% increase in revenue during the three months ended March 31, 2024 June 30, 2024 as compared to the three month period months ended March 31, 2023 June 30, 2023.

Adjusted Diluted EPS

We calculate adjusted diluted EPS by dividing adjusted net earnings by diluted weighted average number of shares outstanding. We define adjusted net earnings as our net earnings excluding deal-related transaction costs, amortization of acquired intangible assets, restructuring costs, other non-operating expenses such as foreign exchange, non-service pension expenditures, legal liability accrual reversals, and other one-time non-operational events offset by the tax effect of such adjustments, as well as gains (losses) on business disposals (net of tax). We believe that adjusted diluted EPS allows management and investors to effectively compare our core performance from period to period by excluding items that are not indicative of, or are unrelated to, results from our ongoing business. Adjusted diluted EPS has limitations as an analytical tool and does not represent and should not be considered an alternative to basic or diluted EPS as determined in accordance with U.S. GAAP. The reconciliation of adjusted diluted EPS to U.S. GAAP diluted EPS is shown below.

Consolidated Entity Reconciliation of Adjusted Diluted EPS:

	Three Months Ended March 31,		
	Three Months Ended March 31,		
	Three Months Ended March 31,		
(Dollars in millions, except per share amounts; shares in millions)	2024	2023	
(In millions, except per share amounts)	Three Months Ended June 30,	Three Months Ended June 30,	
Net earnings	2024	2023	2024
Deal-related transaction costs			2023
Amortization of intangibles			2023
Restructuring costs			2023
Other one-time non-operational events			2023
Other one-time non-operational events			2023
Other one-time non-operational events			2023
Tax effect of adjustments			2023
Adjusted net earnings			2023
Diluted weighted average number of shares outstanding			2023
Diluted weighted average number of shares outstanding			2023
Diluted weighted average number of shares outstanding			2023
Diluted EPS			2023

Adjusted diluted EPS

Diluted weighted average number of shares outstanding for the three and six months ended **March 31, 2024** **June 30, 2024** was **266 million** **267 million** and **267 million**, respectively, an increase of **3 million** and **4 million** shares as compared to the three and six months ended **March 31, 2023** **June 30, 2023**, respectively. The increased share count is attributed to stock option exercises and equity vesting. Adjusted diluted EPS of **\$0.14** **\$0.18** and **\$0.32** for the three and six months ended **March 31, 2024** **June 30, 2024** increased **\$0.07** **\$0.03** and **\$0.10**, respectively, as compared with the same period periods in the prior year. The increase is a product of the increased adjusted net earnings as shown in the table above, partially offset by the increased share count.

Free Cash Flow

We define free cash flow as the sum of the cash flows provided by (used in) operating activities, the cash flows provided by (used in) investing activities pertaining to capital expenditures, proceeds generated from the sale of capital assets and dividends received from investments, less transaction-related expenditures (net of tax) and tax payments on disposals.

We believe that free cash flow provides management and investors with an important measure of our ability to generate cash on a normalized basis. Free cash flow also provides insight into our flexibility to allocate capital and pursue opportunities that may enhance stockholder value. We believe that while expenditures and dispositions of property, plant and equipment will fluctuate period to period, we seek to ensure that we have adequate capital on hand to maintain ongoing operations and enable growth of the business. Additionally, free cash flow is of limited usefulness, in that it does not represent residual cash flows available for discretionary expenditures, due to the fact the measures do not deduct the payments required for debt service and other contractual obligations or payments. The reconciliation between free cash flow and net cash provided by (used in) operating activities is shown below.

Consolidated Entity Reconciliation of Free Cash Flow:

	Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,	2024	2023	(Dollars in millions)	2024	2023
Net cash used in operating activities								
Transaction-related expenditures, net of tax								
Capital expenditures								
Proceeds from sales of assets								
Free cash flow								

Free cash flow usage decreased by **\$71 million** **\$82 million** to **\$275 million** **\$274 million** for the **three six** months ended **March 31, 2024** **June 30, 2024** from **\$346 million** **\$356 million** for the **three six** months ended **March 31, 2023** **June 30, 2023**. This was primarily due to lower cash used to fund working capital for the **three six** months ended **March 31, 2024** **June 30, 2024** when compared to the **three six** months ended **March 31, 2023** **June 30, 2023**.

Factors Impacting Our Performance

U.S. Government Spending and Federal Budget Uncertainty

Changes in the volume and relative mix of U.S. government spending as well as areas of spending growth could impact our business and results of operations. In particular, our results can be affected by shifts in strategies and priorities on homeland security, intelligence, defense-related programs, infrastructure and urbanization and continued increased spending on technology and innovation, including cybersecurity with respect to our and third parties' information networks and related systems, artificial intelligence, connected communities and physical infrastructure (for example, the potential impacts for the Russia / Ukraine conflict and the Israel-Hamas war). Cost-cutting and efficiency initiatives, current and future budget restrictions, spending cuts and other efforts to reduce government spending and shifts in overall priorities could cause our government customers to reduce or delay funding or invest appropriated funds on a less consistent basis or not at all, and demand for our solutions or services could diminish. Furthermore, any disruption in the functioning of government agencies, including as a result of government closures and shutdowns, could have a negative impact on our operations and cause us to lose revenue or incur additional costs due to, among other things, our inability to maintain access and schedules for government testing or deploy our staff to customer locations or facilities as a result of such disruptions.

There is also uncertainty around the timing, extent, nature and effect of Congressional and other U.S. government actions to address budgetary constraints, caps on the discretionary budget for defense and non-defense departments and agencies, and the ability of Congress to determine how to allocate the available budget authority and pass appropriations bills to fund both U.S. government departments and agencies that are, and those that are not, subject to the caps. Additionally, budget deficits and the growing U.S. national debt, may increase pressure on the U.S. government to reduce federal spending

across all federal agencies, with uncertainty about the size and timing of those reductions. Furthermore, delays in the completion of future U.S. government budgets could in the future delay procurement of the federal government services we provide. A reduction in the amount of, or reductions, delays, or cancellations of funding for, services that we are contracted to provide to the U.S. government as a result of any of these impacts or related initiatives, legislation or otherwise could have a material adverse effect on our business and results of operations. See Part I, Item 1A, "Risk Factors—Risks Related to Our Business—Significant delays or reductions in appropriations for our programs and changes in U.S. government priorities and spending levels more broadly may negatively impact our business and could have a material adverse impact on our business, financial condition and results of operations" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Overview and Considerations—

Business Environment" in our Annual Report on Form 10-K for the year ended December 31, 2023, and Part I, Item 2, "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Overview and Considerations—Business*

Environment" in this Quarterly Report for further details on U.S. government spending's impact on our business.

Operational Performance on Contracts

The Company recognizes revenue for each separately identifiable performance obligation in a contract representing an obligation to transfer a distinct good or service to a customer. In most cases, goods and services provided under the Company's contracts are accounted for as single performance obligations due to the complex and integrated nature of our products and services. These contracts generally require significant integration of a group of goods and/or services to deliver a combined output. In some contracts, the Company provides multiple distinct goods or services to a customer. In those cases, the Company accounts for the distinct contract deliverables as separate performance obligations and allocates the transaction price to each performance obligation based on its relative standalone selling price, which is generally estimated using cost plus a reasonable margin. We classify revenues as products or services on our Consolidated Statements of Earnings based on the predominant attributes of the performance obligations. While the Company provides warranties on certain contracts, we typically do not provide for services beyond standard assurances and therefore do not consider warranties to be separate performance obligations. Typically, we enter into three types of contracts: fixed-price contracts, cost-plus contracts and time-and-material ("T&M") contracts. The majority of our total revenues are derived from fixed-price contracts; refer to the revenue disaggregation disclosures in Note 2: *Revenue from Contracts with Customers* to the Consolidated Financial Statements.

For fixed-price contracts, customers agree to pay a fixed amount, negotiated in advance for a specified scope of work.

For cost-plus contracts, typically we are reimbursed for allowable or otherwise defined total costs (defined as cost of revenues plus allowable general and administrative expenses) incurred, plus a fee. The contracts may also include incentives for various performance criteria, including quality, timeliness and cost-effectiveness. In addition, costs are generally subject to review by clients and regulatory audit agencies, and such reviews could result in costs being disputed as non-reimbursable under the terms of the contract.

T&M contracts provide for reimbursement of labor hours expended at a contractual fixed labor rate per hour, plus the actual costs of material and other direct non-labor costs. The fixed labor rates on T&M contracts include amounts for the cost of direct labor, indirect contract costs and profit.

Revenue from contracts with customers is recognized when the performance obligations are satisfied through the transfer of control over the good or service to the customer, which may occur either over time or at a point in time.

Revenues for the majority of our contracts are measured using the over time, percentage of completion cost-to-cost method of accounting to calculate percentage of completion. We believe this is an appropriate measure of progress toward satisfaction of performance obligations as this measure most accurately depicts the progress of our work and transfer of control to our customers. Due to the long-term nature of many of our contracts, developing the estimated total cost at completion often requires judgment. Factors that must be considered in estimating the cost of the work to be completed include the nature and complexity of the work to be performed, subcontractor performance and the risk and impact of delayed performance.

After establishing the estimated total cost at completion, we follow a standard Estimate at Completion ("EAC") process in which we review the progress and performance on our ongoing contracts. The following represents the *net* impact that changes in our estimates, particularly those regarding our fixed-price development programs, have had on our revenues for the three and six months ended **March 31, 2024** **June 30, 2024** and 2023, respectively:

		Three Months Ended March 31,			Three Months Ended June 30,			Six Months Ended June 30,			
(Dollars in millions)	(Dollars in millions)	2024	2023	(Dollars in millions)	2024	2023	(Dollars in millions)	2024	2023	2024	2023
Revenue											
Total % of revenue	Total % of revenue	1	%	2	%	Total % of revenue	1	%	2	%	1 % 2 %

Additionally, the timing of our cash flows is impacted by the timing of achievement of billable milestones on contracts. Historically, this has resulted and could continue to result in fluctuations in working capital levels and quarterly free cash flow results. As a result of such quarterly fluctuations in free cash flow results, we believe that quarter-to-quarter comparisons of our results of operations may not necessarily be meaningful and should not be relied upon as indicators of future performance.

Regulations

Increased audit, review, investigation and general scrutiny by U.S. government agencies of performance under government contracts and compliance with the terms of those contracts and applicable laws could affect our operating results. Negative publicity and increased scrutiny of government contractors in general, including us, relating to government expenditures for contractor services and incidents involving the mishandling of sensitive or classified information as well as the increasingly complex requirements of the DoD and the U.S. intelligence community, including those related to cybersecurity, could impact our ability to perform in the markets we serve.

International Sales

International revenue, including foreign military sales, foreign military financing, and direct commercial sales, accounted for approximately **14%** **13%** and **9%** **10%** of our revenue for the **three** **six** months ended **March 31, 2024** **June 30, 2024** and **March 31, 2023** **June 30, 2023**, respectively. The increase is due in part to incremental demand resulting from higher defense spending within Eastern Europe, compounded by continued military aid programs in support of Ukraine in its conflict with Russia. These efforts are highlighted by demand for our battle management, tactical radars and C-UAS products. Since our focus is primarily with the DoD and our investments are focused as such, we anticipate that international sales will continue to account for a similar percentage of revenue in the future. We remain subject to the spending levels, pace and priorities of the U.S. government as well as international governments and commercial customers, and to general economic conditions that could adversely affect us, our customers and our suppliers.

Additionally, some international sales may expose us to foreign exchange fluctuations and changing dynamics of foreign competitiveness based on variations in the value of the U.S. dollar relative to other currencies. The impact of those fluctuations is reflected throughout our Consolidated Financial Statements, but in the aggregate, did not have a material

impact on our results of operations for **three** months ended **March 31, 2024** **June 30, 2024**.

Acquisitions

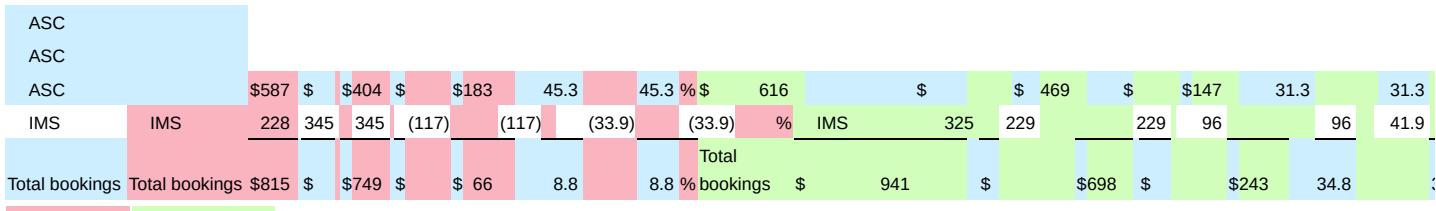
We consider the acquisition of businesses and investments that we believe will expand or complement our current portfolio and allow access to new customers or technologies. We also may explore the divestiture of businesses that no longer meet our needs or strategy or that could perform better outside of our organization.

Review of Operating Segments

The following is a discussion of operating results for each of our operating segments. We have elected to use revenue, adjusted EBITDA, adjusted EBITDA margin, and bookings to provide detailed

information on our segment performance. Additional information regarding our segments can be found in *Note 15: Segment Information* to the Consolidated Financial Statements.

		Three Months Ended March 31, 2024 vs. March 31, 2023			
		Three Months Ended June 30, 2024		Change	
(Dollars in millions)	(Dollars in millions)	2024	2023	\$	%
Revenues:					
ASC					
ASC					
ASC	\$ 433	\$ 391	\$ 42	10.7	10.7 %
IMS	IMS 261	189	189	72	72
Corporate & Eliminations	Corporate & Eliminations (6)	(11)	(11)	5	5
Total revenues	Total revenues \$ 688	\$ 569	\$ 119	20.9	20.9 %
Adjusted EBITDA:					
ASC					
ASC					
ASC	\$ 41	\$ 37	\$ 4	10.8	10.8 %
IMS	IMS 29	12	12	17	17
Corporate & Eliminations	Corporate & Eliminations —	—	—	—	NM
Total adjusted EBITDA	Total adjusted EBITDA \$ 70	\$ 49	\$ 21	42.9	42.9 %
Adjusted EBITDA Margin:					
ASC					
ASC					
ASC					
IMS					
IMS					
IMS					
Bookings:					
Bookings:					
Bookings:					



NM- percentage change not meaningful

(Dollars in millions)	Six Months Ended June 30,		Change	
	2024	2023	\$	%
Revenues:				
ASC	\$ 925	\$ 795	\$ 130	16.4 %
IMS	527	415	112	27.0 %
Corporate & Eliminations	(11)	(13)	2	(15.4)%
Total revenues	\$ 1,441	\$ 1,197	\$ 244	20.4 %
Adjusted EBITDA:				
ASC	\$ 96	\$ 73	\$ 23	31.5 %
IMS	56	38	18	47.4 %
Corporate & Eliminations	—	—	—	NM
Total adjusted EBITDA	\$ 152	\$ 111	\$ 41	36.9 %
Adjusted EBITDA Margin:				
ASC	10.4 %	9.2 %	120 bps	
IMS	10.6 %	9.2 %	140 bps	
Bookings:				
ASC	\$ 1,203	\$ 873	\$ 330	37.8 %
IMS	553	574	(21)	(3.7)%
Total bookings	\$ 1,756	\$ 1,447	\$ 309	21.4 %

NM- percentage change not meaningful

ASC

Revenue:

The ASC segment reported revenue of \$433 million \$492 million and \$925 million for the three and six months ended **March 31, 2024** June 30, 2024, an increase of 10.7% 21.8%, or \$42 million \$88 million, from the three months ended **March 31, 2023** June 30, 2023 and 16.4%, or \$130 million, from the six months ended June 30, 2023. The revenue increase is attributed to both our advanced sensing and network computing programs. Within our advanced sensing portfolio, revenue growth is highlighted by our ground vehicle, tactical radar and dismounted soldier sensing programs. This was offset in part by the timing of infrared counter measure program revenue realized in the period. Within our network computing programs, our revenue expansion was driven by strong performance from our naval computing solutions.

Adjusted EBITDA and Adjusted EBITDA Margin:

ASC's adjusted EBITDA increased by \$4 million \$19 million, or 10.8% to \$41 million 52.8%, from \$37 million \$36 million for the three months ended **March 31, 2024** when compared June 30, 2023 to \$55 million for the three months ended **March 31, 2023** June 30, 2024. The increase was driven by increased revenue contribution offset slightly by an increase in G&A expenditures.

Adjusted This drove adjusted EBITDA margin remained consistent at 9.5% for up 230 bps to 11.2% compared to the 8.9% realized during the three months ended **March 31, 2024** and **March 31, 2023** June 30, 2023.

For the six months ended June 30, 2024, adjusted EBITDA increased by \$23 million, or 31.5%, from \$73 million for the six months ended June 30, 2023 to \$96 million for the six months ended June 30, 2024. The consistent margin is increase was driven by the incremental increased revenue contribution offset slightly by an increase in G&A expenditures. This drove adjusted EBITDA margin up 120 bps to 10.4% compared to the 9.2% realized during the six month period offset by the incremental G&A investments detailed above, ended June 30, 2023.

Bookings:

The ASC segment generated an \$183 million \$147 million, or 45.3% 31.3%, increase in bookings for the three months ended **March 31, 2024** June 30, 2024 when compared to the three months ended **March 31, 2023** June 30, 2023. The increase in new awards is driven by increased demand in both our advanced sensing and network computing force protection products.

Advanced sensing results were highlighted by international demand for our dismounted soldier solutions, coupled with continued demand for airborne and electronic warfare sensing force protection programs. Our network computing award increase was driven by increased demand for our naval computing solutions. Bookings continue to exceed the revenue output driving an increase in backlog over the period.

For the six months ended June 30, 2024 bookings increased \$330 million, or 37.8%, from the six months ended June 30, 2023, to \$1,203 million.

IMS

Revenue:

IMS segment revenue increased by \$72 million \$40 million, or 38.1% 17.7%, to \$261 million \$266 million for the three months ended March 31, 2024 June 30, 2024 from \$189 million \$226 million for the three months ended March 31, 2023 June 30, 2023, attributed to continued momentum progress in our naval power and propulsion submarine programs as we execute our existing backlog, highlighted by the Columbia Class efforts.

IMS segment revenue increased by \$112 million, or 27.0%, to \$527 million for the six months ended June 30, 2024 from \$415 million for the six months ended June 30, 2023, attributed to continued progress in our naval power and propulsion submarine programs as we execute our existing backlog, highlighted by the Columbia Class efforts.

Adjusted EBITDA and Adjusted EBITDA Margin:

IMS's adjusted EBITDA increased by \$17 million \$1 million, or 141.7% 3.8%, to \$29 million \$27 million for the three months ended March 31, 2024 June 30, 2024 from \$12 million \$26 million for the three months ended March 31, 2023 June 30, 2023. The increase for the quarter is attributed to operational leverage created by the increased revenue output as well as continued program improvement on our Columbia Class submarine program. This drove Adjusted EBITDA margin decreased 130 bps to 10.2% compared to the 11.5% realized during the three months ended June 30, 2023 primarily due to program delays and related costs realized within our land systems integration business on a foreign surveillance integration program.

For the six months ended June 30, 2024, adjusted EBITDA increased by \$18 million, or 47.4%, to \$56 million for the six months ended June 30, 2024 from \$38 million for the six months ended June 30, 2023. The increase for the period is attributed to operational leverage created by the increased revenue output as well as continued program improvement on our Columbia Class submarine program, offset in part by the program delays on our foreign surveillance program, resulting in adjusted EBITDA margin up 480 140 bps to 11.1% 10.6% compared to the 6.3% 9.2% realized during the three month period six months ended March 31, 2023 June 30, 2023.

Bookings:

Booking contributions decreased increased by \$117 million \$96 million, or 33.9% 41.9%, to \$325 million for the three months ended March 31, 2024, to \$228 million June 30, 2024 from \$345 million \$229 million for the three months ended March 31, 2023 June 30, 2023. The increase for the quarter is largely attributed to new awards realized on our Columbia Class electric power and propulsion, C-UAS and short-range air defense programs.

For the six months ended June 30, 2024 bookings decreased by \$21 million, or 3.7%, from the six months ended June 30, 2023 to \$553 million. The decrease for the quarter six months ended is largely attributed to the timing of Columbia funding. Class funding received in the prior year. This was largely offset by new awards realized on our Patriot Canister and short-range air defense programs.

Liquidity and Capital Resources

We endeavor to ensure the most efficient conversion of operating income into cash for deployment in our business and to maximize stockholder value through cash deployment activities. In addition to our cash position, we use various financial measures to assist in capital deployment decision-making, including cash provided by (used in) operating activities and free cash flow, a non-GAAP measure described in more detail below. We believe that the combination of our existing cash, access to credit

facilities as described in Note 10: Debt to the Consolidated Financial Statements, and future cash that we expect to generate from our operations will be sufficient to meet our short and long-term liquidity needs. There can be no assurance, however, that our business will continue to generate cash flow at current levels or that anticipated operational improvements will be achieved. We may also pursue acquisitions or other strategic priorities that will require additional liquidity beyond the liquidity we generate through our operations. Our cash balance as of March 31, 2024 June 30, 2024, was \$160 million \$149 million compared to \$467 million as of December 31, 2023.

The following table summarizes our cash flows for the periods presented:

(Dollars in millions)	Three Months Ended March 31,		Six Months Ended June 30,	
	2024	2023	(Dollars in millions)	2024
Net cash used in operating activities				
Net cash used in investing activities				
Net cash (used in) provided by financing activities				
Effect of exchange rate changes on cash and cash equivalents				
Net decrease in cash and cash equivalents				
Free cash flow ⁽¹⁾				

(1) Free cash flow is a non-GAAP measure. The reasons we use this non-GAAP financial measure and its reconciliation to the most directly comparable U.S. GAAP financial measure is provided above under "—Key Non-GAAP Operating Measures."

Operating Activities

Cash usage related to operating activities decreased by \$69 \$115 million from \$334 million \$346 million for the three six months ended March 31, 2023 June 30, 2023 to \$265 million \$231 million for the three six months ended March 31, 2024 June 30, 2024. This was primarily due to lower cash used to fund working capital for the three six months ended

March 31, 2024 June 30, 2024 when compared to the three six months ended March 31, 2023 June 30, 2023. The increased working capital for the period was driven by a reduction of our accounts payable balance and investments made in contract assets during the period.

Investing Activities

Net cash used in investing activities decreased increased by \$4 \$18 million for the three six months ended March 31, 2024 June 30, 2024 when compared to the three six months ended March 31, 2023 June 30, 2023, primarily due to lower higher capital expenditures expenditures attributed to our naval expansion project in South Carolina.

Financing Activities

Net cash used in financing activities for the three six months ended March 31, 2024 June 30, 2024 was \$32 million \$43 million compared to net cash provided by financing activities of \$216 million \$101 million for the three six months ended March 31, 2023 June 30, 2023. The change was primarily due to the reduction of revolver borrowing, reducing the outstanding revolver balance of \$215 million from \$110 million at March 31, 2023 June 30, 2023 compared to no outstanding revolver balance at March 31, 2024 and June 30, 2024. Additionally, we realized a net decrease in third party borrowings (maturities of 90 days or less) in the current period period when compared to the same period in the prior year.

Free Cash Flow (non-GAAP)

Free cash flow usage decreased by \$71 million \$82 million to \$275 million \$274 million for the three six months ended March 31, 2024 June 30, 2024 from \$346 million \$356 million for the three six months ended March 31, 2023 June 30, 2023. This was primarily due to lower cash used in operating activities noted above for the three six months ended March 31, 2024 June 30, 2024 when compared to the three six months ended March 31, 2023 June 30, 2023.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2023.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Equity Risk

We currently have limited risk related to fluctuations in marketable securities. Outside of pension assets, the only investments the Company holds are overnight money market accounts. Fluctuations are unlikely and would have limited impact on the financial statements of the Company.

Interest Rate Risk

We are exposed to interest rate risk on variable-rate borrowings under our 2022 Term Loan A, which had an outstanding balance of \$211 \$208 million, and our 2022 Revolving Credit Facility, which had no amounts outstanding, as of March 31, 2024 June 30, 2024. A 0.5% increase or decrease in our weighted average interest rate on our variable debt outstanding as of March 31, 2024 June 30, 2024 would result in an increase or decrease in our annual interest expense of approximately \$1 million. The carrying value of the Company's borrowings under the 2022 Credit Agreement approximate their fair values at March 31, 2024 June 30, 2024. See Note 10: Debt to the Consolidated Financial Statements for additional information.

Foreign Currency Risk

In certain circumstances, we may be exposed to foreign currency risk. However, as the overwhelming majority of our revenue is derived from U.S. sources directly as a prime contractor or indirectly as a subcontractor for the U.S. government as end-customer, we have limited foreign currency exposure. Currently, our exposure is primarily with the Canadian dollar and limited to receivables owed of \$29 \$27 million as of March 31, 2024 June 30, 2024. A 10% fluctuation in exchange rates would not have a material impact on our financial statements. We do not enter into or issue derivative instruments for trading purposes.

Inflation Risk

We have experienced inflationary pressures to our supply chain costs, including those associated with micro-electronics, commodities (e.g., metals), and others. These costs have impacted our profitability. Bids for longer-term firm-fixed price contracts typically include assumptions for labor and other cost escalations in amounts that have been sufficient to cover cost increases over the period of performance. However, these costs could rise further and may not be mitigated. As a result, they could affect our financial results negatively in the future.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the quarterly period ended March 31, 2024 June 30, 2024, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and principal financial officer has concluded that during the period covered by this report, our disclosure controls and procedures were effective.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarterly period ended **March 31, 2024** **June 30, 2024** covered by this Quarterly Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information relating to legal proceedings, see *Note 13: Commitments and Contingencies* to the Consolidated Financial Statements in Part 1, Item 1.

ITEM 1A. RISK FACTORS

As of the date of this Quarterly Report, there have been no material changes to the risk factors discussed under "Risk Factors" in Part 1, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(c) Furnish the information required by Item 408(a) of Regulation S-K (17 CFR 229.408(a)).

During the three months ended **March 31, 2024** **June 30, 2024**, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
10.1†	Leonardo DRS, Inc. Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 16, 2024)
10.2†	Leonardo DRS, Inc. 2022 Omnibus Equity Compensation Plan (amended and restated effective May 15, 2024) (incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-8 dated May 17, 2024, File No. 333-279493)
31.1*	Certification by principal executive officer pursuant to Rule 13A-14(a) or 15D-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification by principal financial officer pursuant to Rule 13A-14(a) or 15D-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification by principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification by principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document – the instance document does not appear on the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

† Management contract or compensatory plan or arrangement.

* Filed herewith.

SIGNATURES

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

Date: **May 1, 2024** **July 30, 2024**

LEONARDO DRS, INC.

By: _____ /s/ William J. Lynn III
Name: William J. Lynn III
Title: Chief Executive Officer

/s/ Michael D. Dippold
Name: Michael D. Dippold
Title: Executive Vice President and Chief Financial Officer

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Certification of Principal Executive Officer
Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as
Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, William J. Lynn III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended **March 31, 2024** **June 30, 2024** of Leonardo DRS, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designated such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's **first** **second** fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **May 1, 2024** **July 30, 2024**

/s/ William J. Lynn III
William J. Lynn III
Chief Executive Officer
(Principal Executive Officer)

**Certification of Principal Financial Officer
Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as
Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Michael D. Dippold, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended **March 31, 2024** June 30, 2024 of Leonardo DRS, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designated such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's **first** **second** fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **May 1, 2024** July 30, 2024

/s/ Michael D. Dippold

Michael D. Dippold
Chief Financial Officer
(Principal Financial Officer)

**Certification of Principal Executive Officer
Pursuant to 18 U.S.C. Section 1350 as
Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Leonardo DRS, Inc. (the "Company") on Form 10-Q for the period ended **March 31, 2024** June 30, 2024, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, as the Chief Executive Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report, which this statement accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **May 1, 2024** July 30, 2024

/s/ William J. Lynn III

William J. Lynn III
Chief Executive Officer
(Principal Executive Officer)

This written statement accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934.

**Certification of Principal Financial Officer
Pursuant to 18 U.S.C. Section 1350 as
Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Leonardo DRS, Inc. (the "Company") on Form 10-Q for the period ended **March 31, 2024** **June 30, 2024**, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, as the Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report, which this statement accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **May 1, 2024** July 30, 2024

/s/ Michael D. Dippold

Michael D. Dippold
Chief Financial Officer
(Principal Financial Officer)

This written statement accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934.

DISCLAIMER

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