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**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 September 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 of registrant as specified in its charter)

Delaware

(State or other jurisdiction  
of incorporation or organization)

13-2632319

(I.R.S. Employer  
Identification 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:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 October 29, 2024, there were 264,397,059 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 (this “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;

- 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;

- 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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>(Dollars in millions, except per share amounts)</i>				
<b>Revenues:</b>				
Products	\$ 762	\$ 651	\$ 2,116	\$ 1,761
Services	50	52	137	139
Total revenues	812	703	2,253	1,900
<b>Cost of revenues:</b>				
Products	(601)	(504)	(1,661)	(1,365)
Services	(32)	(37)	(91)	(97)
Total cost of revenues	(633)	(541)	(1,752)	(1,462)
<b>Gross profit</b>	179	162	501	438
General and administrative expenses	(98)	(96)	(306)	(286)
Amortization of intangibles	(6)	(5)	(17)	(16)
Other operating expenses, net	—	(2)	(5)	(10)
<b>Operating earnings</b>	75	59	173	126
Interest expense	(5)	(10)	(17)	(27)
Other, net	(1)	(1)	(3)	(2)
<b>Earnings before taxes</b>	69	48	153	97
Income tax provision	12	1	29	3
<b>Net earnings</b>	\$ 57	\$ 47	\$ 124	\$ 94
<b>Net earnings per share from common stock:</b>				
Basic earnings per share	\$ 0.22	\$ 0.18	\$ 0.47	\$ 0.36
Diluted earnings per share	\$ 0.21	\$ 0.18	\$ 0.46	\$ 0.36

See accompanying Notes to Consolidated Financial Statements.

LEONARDO DRS, INC.

Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
(Dollars in millions)				
<b>Net earnings</b>	\$ 57	\$ 47	\$ 124	\$ 94
<b>Other comprehensive income (loss):</b>				
Foreign currency translation loss, net of income taxes	—	(1)	(1)	—
Pension and other postretirement benefit plan adjustments, net of income taxes	—	1	1	2
<b>Other comprehensive income (loss), net of income taxes</b>	—	—	—	2
<b>Total comprehensive income</b>	<u>\$ 57</u>	<u>\$ 47</u>	<u>\$ 124</u>	<u>\$ 96</u>

See accompanying Notes to Consolidated Financial Statements.

**LEONARDO DRS, INC.**  
**Consolidated Balance Sheets**

	(Unaudited)	
	September 30, 2024	December 31, 2023
<i>(Dollars in millions, except per share amounts)</i>		
<b>ASSETS</b>		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 198	\$ 467
Accounts receivable, net	237	151
Contract assets	997	908
Inventories	363	329
Prepaid expenses	29	21
Other current assets	36	42
Total current assets	1,860	1,918
<i>Noncurrent assets:</i>		
Property, plant and equipment, net	415	402
Intangible assets, net	138	151
Goodwill	1,238	1,238
Deferred tax assets	124	123
Other noncurrent assets	86	89
Total noncurrent assets	2,001	2,003
<b>Total assets</b>	<b>\$ 3,861</b>	<b>\$ 3,921</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<i>Current liabilities:</i>		
Short-term borrowings and current portion of long-term debt	\$ 22	\$ 57
Accounts payable	292	398
Contract liabilities	315	335
Other current liabilities	251	288
Total current liabilities	880	1,078
<i>Noncurrent liabilities:</i>		
Long-term debt	345	349
Pension and other postretirement benefit plan liabilities	34	36
Deferred tax liabilities	6	4
Other noncurrent liabilities	122	129
Total noncurrent liabilities	507	518
Commitments and contingencies (Note 13)		
<i>Shareholders' equity:</i>		
Preferred stock, \$0.01 par value: 10,000,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value: 350,000,000 shares authorized; 264,308,455 and 262,525,390 issued and outstanding as of September 30, 2024 and December 31, 2023, respectively	3	3
Additional paid-in capital	5,200	5,175
Accumulated deficit	(2,682)	(2,806)
Accumulated other comprehensive loss	(47)	(47)
Total shareholders' equity	2,474	2,325
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,861</b>	<b>\$ 3,921</b>

See accompanying Notes to Consolidated Financial Statements.



LEONARDO DRS, INC.

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in millions)	Nine Months Ended September 30,	
	2024	2023
<b>Operating activities</b>		
Net earnings	\$ 124	\$ 94
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	68	63
Deferred income taxes	1	(13)
Share-based compensation expense	16	12
Other	1	1
Changes in assets and liabilities:		
Accounts receivable	(86)	(34)
Contract assets	(89)	(189)
Inventories	(34)	(64)
Prepaid expenses	(8)	3
Other current assets	6	(8)
Other noncurrent assets	14	13
Defined benefit obligations	(2)	(8)
Other current liabilities	(36)	(82)
Other noncurrent liabilities	(21)	6
Accounts payable	(106)	(129)
Contract liabilities	(20)	25
Net cash used in operating activities	(172)	(310)
<b>Investing activities</b>		
Capital expenditures	(56)	(42)
Proceeds from sales of assets	1	—
Net cash used in investing activities	(55)	(42)
<b>Financing activities</b>		
Net decrease in third party borrowings (maturities of 90 days or less)	(35)	(11)
Repayment of third party debt	(238)	(454)
Borrowings of third party debt	230	555
Proceeds from stock issuance	13	8
Cash outlay to reacquire equity instruments	(4)	(1)
Other	(8)	(4)
Net cash (used in) provided by financing activities	(42)	93
Effect of exchange rate changes on cash and cash equivalents	—	—
Net decrease in cash and cash equivalents	(269)	(259)
Cash and cash equivalents at beginning of year	467	306
Cash and cash equivalents at end of period	\$ 198	\$ 47

See accompanying Notes to Consolidated Financial Statements.

LEONARDO DRS, INC.

Consolidated Statements of Shareholders' Equity (Unaudited)

<i>(Dollars in millions)</i>	Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total
<b>Balance as of June 30, 2023</b>	\$ 3	\$ 5,160	\$ (47)	\$ (2,927)	\$ 2,189
Total comprehensive income	—	—	—	47	47
Share-based compensation activity	—	6	—	—	6
<b>Balance as of September 30, 2023</b>	<u>\$ 3</u>	<u>\$ 5,166</u>	<u>\$ (47)</u>	<u>\$ (2,880)</u>	<u>\$ 2,242</u>
<b>Balance as of June 30, 2024</b>	\$ 3	\$ 5,189	\$ (47)	\$ (2,739)	\$ 2,406
Total comprehensive income	—	—	—	57	57
Share-based compensation activity	—	11	—	—	11
<b>Balance as of September 30, 2024</b>	<u>\$ 3</u>	<u>\$ 5,200</u>	<u>\$ (47)</u>	<u>\$ (2,682)</u>	<u>\$ 2,474</u>
<b>Balance as of December 31, 2022</b>	\$ 3	\$ 5,147	\$ (49)	\$ (2,974)	\$ 2,127
Total comprehensive income	—	—	2	94	96
Share-based compensation activity	—	19	—	—	19
<b>Balance as of September 30, 2023</b>	<u>\$ 3</u>	<u>\$ 5,166</u>	<u>\$ (47)</u>	<u>\$ (2,880)</u>	<u>\$ 2,242</u>
<b>Balance as of December 31, 2023</b>	\$ 3	\$ 5,175	\$ (47)	\$ (2,806)	\$ 2,325
Total comprehensive income	—	—	—	124	124
Share-based compensation activity	—	25	—	—	25
<b>Balance as of September 30, 2024</b>	<u>\$ 3</u>	<u>\$ 5,200</u>	<u>\$ (47)</u>	<u>\$ (2,682)</u>	<u>\$ 2,474</u>

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% and 80% of our total revenues as an end-user for the nine months ended September 30, 2024 and 2023, respectively. Specific international and commercial market opportunities exist within these segments and comprise approximately 19% and 20% of our total revenues for the nine months ended September 30, 2024 and 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 passive and active 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.

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.

**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 years beginning after December 15, 2024, on a retrospective basis. We are currently evaluating the

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

impact of adopting this new pronouncement and will adopt the amendments for annual disclosures in fiscal 2024.

*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 and plan to adopt these amendments using the prospective approach for annual disclosures in fiscal 2025.

**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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>(Dollars in millions, except per share amounts)</i>				
Revenue and operating earnings	\$ (10)	\$ 6	\$ (29)	\$ (14)
Total % of revenue	1 %	1 %	1 %	1 %
Net earnings	\$ (8)	\$ 5	\$ (23)	\$ (11)
Impact on diluted earnings per share	\$ (0.03)	\$ 0.02	\$ (0.09)	\$ (0.04)

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.

**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

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

assets. However, we sometimes receive advances or deposits from our customers before revenue is recognized, resulting in contract liabilities. Contract assets and contract liabilities as of the dates presented were:

<i>(Dollars in millions)</i>	September 30, 2024	December 31, 2023
Contract assets	\$ 997	\$ 908
Contract liabilities	315	335

Revenue recognized in the nine months ended September 30, 2024 and 2023, that was included in the contract liability balance at the beginning of each period was \$275 million and \$157 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.

As of September 30, 2024, our total backlog was \$ 8,264 million. We expect to recognize approximately 12% of our September 30, 2024 backlog as revenue over the next three months, with the remainder to be recognized thereafter. Approximately 50% 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:

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<b>Revenue by Geographical Region</b>				
United States	\$ 426	\$ 376	\$ 1,159	\$ 1,046
International	101	50	282	162
Intersegment Sales	6	5	17	18
<b>Total</b>	<b>\$ 533</b>	<b>\$ 431</b>	<b>\$ 1,458</b>	<b>\$ 1,226</b>
<b>Revenue by Customer Relationship</b>				
Prime contractor	\$ 200	\$ 227	\$ 616	\$ 570
Subcontractor	327	199	825	638
Intersegment Sales	6	5	17	18
<b>Total</b>	<b>\$ 533</b>	<b>\$ 431</b>	<b>\$ 1,458</b>	<b>\$ 1,226</b>
<b>Revenue by Contract Type</b>				
Firm-Fixed Price	\$ 446	\$ 356	\$ 1,198	\$ 1,015
Flexibly Priced <sup>(1)</sup>	81	70	243	193
Intersegment Sales	6	5	17	18
<b>Total</b>	<b>\$ 533</b>	<b>\$ 431</b>	<b>\$ 1,458</b>	<b>\$ 1,226</b>

(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 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:

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<b>Revenue by Geographical Region</b>				
United States	\$ 277	\$ 272	\$ 796	\$ 680
International	8	5	16	12
Intersegment Sales	—	—	—	—
<b>Total</b>	<b>\$ 285</b>	<b>\$ 277</b>	<b>\$ 812</b>	<b>\$ 692</b>
<b>Revenue by Customer Relationship</b>				
Prime contractor	\$ 58	\$ 62	\$ 182	\$ 156
Subcontractor	227	215	630	536
Intersegment Sales	—	—	—	—
<b>Total</b>	<b>\$ 285</b>	<b>\$ 277</b>	<b>\$ 812</b>	<b>\$ 692</b>
<b>Revenue by Contract Type</b>				
Firm-Fixed Price	\$ 238	\$ 234	\$ 670	\$ 572
Flexibly Priced <sup>(1)</sup>	47	43	142	120
Intersegment Sales	—	—	—	—
<b>Total</b>	<b>\$ 285</b>	<b>\$ 277</b>	<b>\$ 812</b>	<b>\$ 692</b>

(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:

<i>(Dollars in millions)</i>	September 30, 2024	December 31, 2023
Accounts receivable	\$ 238	\$ 152
Less allowance for credit losses	(1)	(1)
<b>Accounts receivable, net</b>	<b>\$ 237</b>	<b>\$ 151</b>

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 September 30, 2024 and December 31, 2023, respectively.

During the nine months ended September 30, 2024 and 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:

<i>(Dollars in millions)</i>	Nine Months Ended September 30,	
	2024	2023
Beginning balance	\$ 192	\$ 243
Sales of receivables	60	110
Cash returned to purchasers	(241)	(332)
<b>Outstanding balance sold to purchasers</b>	<b>11</b>	<b>21</b>
Cash collected, not remitted to purchasers <sup>(1)</sup>	(1)	(1)
<b>Remaining sold receivables</b>	<b>\$ 10</b>	<b>\$ 20</b>

(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:

<i>(Dollars in millions)</i>	September 30, 2024	December 31, 2023
Raw materials	\$ 90	\$ 66
Work in progress	267	254
Finished goods	6	9
<b>Total inventories</b>	<b>\$ 363</b>	<b>\$ 329</b>



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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:

<i>(Dollars in millions)</i>	September 30, 2024	December 31, 2023
Land, buildings and improvements	\$ 372	\$ 342
Plant and machinery	198	197
Equipment and other	354	334
Total property, plant and equipment, at cost	924	873
Less accumulated depreciation	(509)	(471)
<b>Total property, plant and equipment, net</b>	<b>\$ 415</b>	<b>\$ 402</b>

Depreciation expense related to property, plant and equipment was \$ 17 million and \$51 million for the three and nine months ended September 30, 2024, respectively, and \$16 million and \$47 million for the three and nine months ended September 30, 2023, respectively.

**Note 7. Other Liabilities**

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

<i>(Dollars in millions)</i>	September 30, 2024	December 31, 2023
Salaries, wages and accrued bonuses	\$ 70	\$ 73
Fringe benefits	66	63
Litigation	—	2
Restructuring costs	1	10
Provision for contract losses	39	36
Operating lease liabilities	27	23
Taxes payable	9	46
Other <sup>(1)</sup>	39	35
<b>Total other current liabilities</b>	<b>\$ 251</b>	<b>\$ 288</b>
Operating lease liabilities	\$ 66	\$ 68
Unrecognized tax benefits	37	36
Other <sup>(1)</sup>	19	25
<b>Total other noncurrent liabilities</b>	<b>\$ 122</b>	<b>\$ 129</b>

(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)	September 30, 2024			December 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired intangible assets	\$ 1,087	\$ (956)	\$ 131	\$ 1,087	\$ (940)	\$ 147
Patents and licenses	14	(7)	7	10	(6)	4
<b>Total intangible assets</b>	<b>\$ 1,101</b>	<b>\$ (963)</b>	<b>\$ 138</b>	<b>\$ 1,097</b>	<b>\$ (946)</b>	<b>\$ 151</b>

Amortization expense related to intangible assets was \$ 6 million and \$17 million for the three and nine months ended September 30, 2024, respectively, and \$5 million and \$16 million for the three and nine months ended September 30, 2023, respectively.

**Note 9. Income Taxes**

Our effective tax rate was 17.4% and 19.0% for the three and nine months ended September 30, 2024, respectively, and 2.1% and 3.1% for the three and nine months ended September 30, 2023, respectively. For the three and nine months ended September 30, 2023, the effective tax rate was lower than the statutory rate primarily due to the recognition of discrete tax benefits associated with historic research and development credits.

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

(Dollars in millions)	September 30, 2024	December 31, 2023
Gross deferred tax assets	\$ 257	\$ 258
Less valuation allowance	23	21
Deferred tax assets	234	237
Deferred tax liabilities	116	118
<b>Net deferred tax asset</b>	<b>\$ 118</b>	<b>\$ 119</b>

On August 16, 2022, the U.S. government enacted the Inflation Reduction Act of 2022 (the "IRA") which, among other items, allows a company to purchase transferable tax credits. During the three and nine months ended September 30, 2024, the Company purchased \$25 million in tax credits for approximately \$23 million in cash. These credits were used to offset the Company's federal tax liability for 2023.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Note 10. Debt**

The Company's debt consists of the following:

<i>(Dollars in millions)</i>	September 30, 2024	December 31, 2023
2022 Term Loan A	\$ 205	\$ 214
Outstanding revolver	—	—
Finance lease and other	162	158
Short-term borrowings	1	35
<b>Total debt principal</b>	<b>368</b>	<b>407</b>
Less unamortized debt issuance costs and discounts	(1)	(1)
<b>Total debt, net</b>	<b>367</b>	<b>406</b>
Less short-term borrowings and current portion of long-term debt	(22)	(57)
<b>Total long-term debt</b>	<b>\$ 345</b>	<b>\$ 349</b>

**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 September 30, 2024 was \$205 million. The fair value of the 2022 Term Loan A at September 30, 2024 was approximately \$ 201 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.

**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 September 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 September 30, 2024 and December 31, 2023. The weighted average interest rate on the 2022 Revolving Credit Facility as of September 30, 2024 was 6.78%.

The Company also maintains uncommitted working capital credit facilities with certain financial institutions in the aggregate of \$ 130 million and \$65 million at September 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 \$47 million and \$41 million as of September 30, 2024 and December 31, 2023, respectively, which reduces the available capacity of the Financial Institution Credit Facilities by an equal amount.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Short-term Borrowings**

As of September 30, 2024 and December 31, 2023, the Company recognized \$ 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.

**Note 11. Pension and Other Postretirement Benefits**

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

	Defined Benefit Pension Plans		Postretirement Benefit Plans		Supplemental Retirement Plans	
	Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,	
	2024	2023	2024	2023	2024	2023
(Dollars in millions)						
Interest cost	\$ 1	\$ 2	\$ —	\$ —	\$ —	\$ 1
Expected return on plan assets	(1)	(2)	—	—	—	—
Settlement expense	1	—	—	—	—	—
<b>Net periodic benefit cost</b>	<b>\$ 1</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1</b>

	Defined Benefit Pension Plans		Postretirement Benefit Plans		Supplemental Retirement Plans	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023	2024	2023
(Dollars in millions)						
Interest cost	\$ 5	\$ 6	\$ —	\$ —	\$ 1	\$ 1
Expected return on plan assets	(4)	(5)	—	—	—	—
Amortization of net actuarial gain	—	1	—	—	—	—
Settlement expense	1	—	—	—	—	—
<b>Net periodic benefit cost</b>	<b>\$ 2</b>	<b>\$ 2</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1</b>	<b>\$ 1</b>

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

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Note 12. Earnings Per Share (“EPS”)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>(In millions, except per share amounts)</i>				
Net earnings	\$ 57	\$ 47	\$ 124	\$ 94
Basic weighted average number of shares outstanding	264	262	263	261
Impact of dilutive share-based awards	4	3	4	3
Diluted weighted average number of shares outstanding	268	265	267	264
Earnings per share attributable to common shareholders - basic	\$ 0.22	\$ 0.18	\$ 0.47	\$ 0.36
Earnings per share attributable to common shareholders - diluted	\$ 0.21	\$ 0.18	\$ 0.46	\$ 0.36

Basic 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).

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.

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.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 nine months ended September 30, 2024:

(Dollars in millions)

<b>Balance at December 31, 2023</b>	<b>\$</b>	<b>26</b>
Additional provision		12
Reversal and utilization		(10)
<b>Balance at September 30, 2024</b>	<b>\$</b>	<b>28</b>

**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 \$6 million and \$17 million for the three and nine months ended September 30, 2024, respectively, and \$8 million and \$19 million for the three and nine months ended September 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 \$3 million and \$5 million for the three and nine months ended September 30, 2024, respectively, and \$2 million and \$3 million for the three and nine months ended September 30, 2023, respectively. The receivables related to these transactions with the ultimate majority stockholder and its other affiliates of \$7 million and \$8 million, respectively, and payables of \$4 million and \$4 million, respectively, as of September 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 \$12 million at September 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, 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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 September 30, 2024 and 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 September 30, 2024 and 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
(Dollars in millions)				
ASC	\$ 533	\$ 431	\$ 1,458	\$ 1,226
IMS	285	277	812	692
Corporate & Eliminations	(6)	(5)	(17)	(18)
<b>Total revenues</b>	<b>\$ 812</b>	<b>\$ 703</b>	<b>\$ 2,253</b>	<b>\$ 1,900</b>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
(Dollars in millions)				
ASC	\$ 6	\$ 5	\$ 17	\$ 18
IMS	—	—	—	—
<b>Total intersegment revenues</b>	<b>\$ 6</b>	<b>\$ 5</b>	<b>\$ 17</b>	<b>\$ 18</b>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
(Dollars in millions)				
<b>Adjusted EBITDA</b>				
ASC	\$ 64	\$ 48	\$ 160	\$ 121
IMS	36	34	92	72
Corporate & Eliminations	—	—	—	—
<b>Total adjusted EBITDA</b>	<b>\$ 100</b>	<b>\$ 82</b>	<b>\$ 252</b>	<b>\$ 193</b>
Amortization of intangibles	(6)	(5)	(17)	(16)
Depreciation	(17)	(16)	(51)	(47)
Restructuring costs	—	(2)	(5)	(10)
Interest expense	(5)	(10)	(17)	(27)
Deal-related transaction costs	(1)	(1)	(5)	(4)
Other one-time non-operational events	(2)	—	(4)	8
Income tax provision	(12)	(1)	(29)	(3)
<b>Net earnings</b>	<b>\$ 57</b>	<b>\$ 47</b>	<b>\$ 124</b>	<b>\$ 94</b>

## 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 (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 nine months ended September 30, 2024, accounted for approximately 81% 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 37% and 32%, 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 passive and active 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.

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 5% of our workforce as of September 30, 2024 residing in Israel.

#### ***Business Environment***

Revenues derived directly, as a prime contractor, or indirectly, as a subcontractor, from contracts with the U.S. government represented 81% and 80% of our total revenues for the nine months ended September 30, 2024 and 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 nine months ended September 30, 2024, and are principally derived directly or indirectly from contracts with the U.S. Navy and U.S. Army, which represented 37% and 32%, respectively, of our total revenues for the nine months ended September 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. In March 2024, the U.S. President's fiscal year ("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.

To prevent a government shutdown at the end of FY 2024, Congress passed a Continuing Resolution ("CR") at the end of September, and the President signed the legislation into law on September 26, 2024. The extension is effective through December 20, 2024, allowing lawmakers more time to potentially complete the FY 2025 appropriations bills. In the event of a U.S. government shutdown or an extended period of CR, our business, program performance and results of operations could be impacted by the resulting disruptions to federal government offices, workers, and operations, including, but not limited to, program cancellations, schedule delays, production halts and other disruptions and nonpayment, which could adversely affect our results of operations. The significance of these impacts will primarily be based on the length of the CR or shutdown.

#### ***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 Regulation ("FAR") and the Defense Federal Acquisition Regulation 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, which represented 94% of our total revenues for the nine months ended September 30, 2024. Our remaining revenue was generated from service related contracts. Additionally, 83% of our revenue was derived from firm-fixed price contracts for the nine months ended September 30, 2024. This was consistent with the prior year comparable period which realized product related revenue of 93% and revenue from firm-fixed price contracts of 84% for the nine months ended September 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 nine months ended September 30, 2024 and 2023, flexibly priced contracts represented 17% and 16% 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 of 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 nine months ended September 30, 2024, as compared to the three and nine months ended September 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 September 30,		Change	
	2024	2023	\$	%
<i>(Dollars in millions, except per share amounts)</i>				
Total revenues	\$ 812	\$ 703	\$ 109	15.5 %
Total cost of revenues	(633)	(541)	(92)	17.0 %
Gross profit	\$ 179	\$ 162	\$ 17	10.5 %
Gross margin	22.0 %	23.0 %	(100)bps	
General and administrative expenses	(98)	(96)	(2)	2.1 %
Amortization of intangibles	(6)	(5)	(1)	20.0 %
Other operating expenses, net	—	(2)	2	(100.0)%
Operating earnings	\$ 75	\$ 59	\$ 16	27.1 %
Interest expense	(5)	(10)	5	(50.0)%
Other, net	(1)	(1)	—	— %
Earnings before taxes	\$ 69	\$ 48	\$ 21	43.8 %
Income tax provision	12	1	11	1100.0 %
Net earnings	\$ 57	\$ 47	\$ 10	21.3 %
Basic EPS	\$ 0.22	\$ 0.18	\$ 0.04	22.2 %
Diluted EPS	\$ 0.21	\$ 0.18	\$ 0.03	16.7 %
Backlog	\$ 8,264	\$ 4,719	\$ 3,545	75.1 %
Bookings	\$ 1,051	\$ 1,055	\$ (4)	(0.4)%

	Nine Months Ended September 30,		Change	
	2024	2023	\$	%
<i>(Dollars in millions, except per share amounts)</i>				
Total revenues	\$ 2,253	\$ 1,900	\$ 353	18.6 %
Total cost of revenues	(1,752)	(1,462)	(290)	19.8 %
Gross profit	\$ 501	\$ 438	\$ 63	14.4 %
Gross margin	22.2 %	23.1 %	(90)bps	
General and administrative expenses	(306)	(286)	(20)	7.0 %
Amortization of intangibles	(17)	(16)	(1)	6.3 %
Other operating expenses, net	(5)	(10)	5	(50.0)%
Operating earnings	\$ 173	\$ 126	\$ 47	37.3 %
Interest expense	(17)	(27)	10	(37.0)%
Other, net	(3)	(2)	(1)	50.0 %
Earnings before taxes	\$ 153	\$ 97	\$ 56	57.7 %
Income tax provision	29	3	26	866.7 %
Net earnings	\$ 124	\$ 94	\$ 30	31.9 %
Basic EPS	\$ 0.47	\$ 0.36	\$ 0.11	30.6 %
Diluted EPS	\$ 0.46	\$ 0.36	\$ 0.10	27.8 %
Backlog	\$ 8,264	\$ 4,719	\$ 3,545	75.1 %
Bookings	\$ 2,807	\$ 2,502	\$ 305	12.2 %

### Revenue

Our revenue generation of \$812 million for the three months ended September 30, 2024 represents an increase of \$109 million, or 15.5%, as compared to the three months ended September 30, 2023. The revenue increase is primarily attributed to our continued backlog growth across each of our operating segments. This is highlighted by our efforts within advanced sensing, force protection and weapon system support activities.

Our revenue generation of \$2,253 million for the nine months ended September 30, 2024 represents an increase of \$353 million, or 18.6%, as compared to the nine months ended September 30, 2023. The revenue increase for the nine months ended September 30, 2024 is consistent with the three months ended September 30, 2024, driven by our continued backlog growth across each of our operating segments, highlighted by our efforts in each of our key market areas including advanced sensing, electric power and propulsion, force protection and network computing.

#### ***Cost of Revenues***

Cost of revenues increased by \$92 million, or 17.0%, from \$541 million to \$633 million for the three months ended September 30, 2024 as compared to the three months ended September 30, 2023. The cost of revenues increase was primarily due to the increased revenue contribution realized during the period.

Cost of revenues increased by \$290 million, or 19.8%, from \$1,462 million to \$1,752 million for the nine months ended September 30, 2024 as compared to the nine months ended September 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 \$17 million, or 10.5%, to \$179 million for the three months ended September 30, 2024, as compared to \$162 million for the three months ended September 30, 2023 and gross profit increased by \$63 million, or 14.4%, to \$501 million for the nine months ended September 30, 2024 as compared to \$438 million for the nine months ended September 30, 2023, resulting from the revenue and cost of revenues trends noted above.

#### ***General and Administrative Expenses***

General and administrative ("G&A") expenses increased by \$2 million, or 2.1%, for the three months ended September 30, 2024 as compared to the three months ended September 30, 2023. G&A increased by \$20 million, or 7.0%, for the nine months ended September 30, 2024 as compared to the nine months ended September 30, 2023, primarily due to the reversal of a legal liability accrual during the prior year period.

#### ***Amortization of Intangibles***

Amortization of intangibles increased \$1 million for the three and nine months ended September 30, 2024 as compared to the three and nine months ended September 30, 2023.

#### ***Other Operating Expenses, Net***

There were no other operating expenses for the three months ended September 30, 2024 compared to \$2 million for the three months ended September 30, 2023. Other operating expenses were \$5 million for the nine months ended September 30, 2024 compared to \$10 million for the nine months ended September 30, 2023. The expense in both periods is attributed to restructuring efforts implemented in our ASC segment.

#### ***Operating Earnings***

Operating earnings increased by \$16 million to \$75 million for the three months ended September 30, 2024. Operating earnings increased by \$47 million to \$173 million for the nine months ended September 30, 2024. The increase was driven by the gross profit impacts noted above.

**Interest Expense**

Interest expense decreased by \$5 million to \$5 million for the three months ended September 30, 2024, as compared to \$10 million for the three months ended September 30, 2023. Interest expense decreased by \$10 million to \$17 million for the nine months ended September 30, 2024, as compared to \$27 million for the nine months ended September 30, 2023. The reduction in interest expense is attributed to reduced borrowings on our credit facilities during the current year periods.

**Other, Net**

Other, net remained relatively consistent for the three and nine months ended September 30, 2024 and 2023.

**Earnings Before Taxes**

Earnings before taxes increased by \$21 million to \$69 million for the three months ended September 30, 2024 from \$48 million for the three months ended September 30, 2023 and increased by \$56 million to \$153 million for the nine months ended September 30, 2024 from \$97 million for the nine months ended September 30, 2023. This was primarily due to the increases in operating earnings and decreased interest expense as noted above.

**Income Tax Provision**

Income tax provision increased by \$11 million to \$12 million for the three months ended September 30, 2024, from \$1 million for the three months ended September 30, 2023. Income tax provision increased by \$26 million to \$29 million for the nine months ended September 30, 2024, from \$3 million for the nine months ended September 30, 2023. This increase was attributed to an increase in earnings before taxes noted above, coupled with the recognition of a discrete tax benefit associated with historic research and development credits recorded during the three and nine months ended September 30, 2023. Our effective tax rate was 17.4% and 19.0% for the three and nine months ended September 30, 2024, respectively, compared to 2.1% and 3.1% for the three and nine months ended September 30, 2023, respectively.

**Net Earnings**

Net earnings increased by \$10 million to \$57 million for the three months ended September 30, 2024, when compared to the three months ended September 30, 2023. Net earnings increased by \$30 million to \$124 million for the nine months ended September 30, 2024, when compared to the nine months ended September 30, 2023. This was driven by an increase in earnings before taxes offset by the income tax provision increase as noted above.

**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 September 30, 2024, incorporating both funded and unfunded components:

(Dollars in millions)		September 30, 2024
Funded	\$	3,899
Unfunded		4,365
<b>Total backlog</b>	<b>\$</b>	<b>8,264</b>

Total backlog increased by \$3,545 million to \$8,264 million as of September 30, 2024, from \$4,719 million as of September 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

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 for the three months ended September 30, 2024 decreased to \$1,051 million as compared to \$1,055 million for the three months ended September 30, 2023. Bookings for the nine months ended September 30, 2024 increased to \$2,807 million as compared to \$2,502 million for the nine months ended September 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.

(Dollars in millions, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Adjusted EBITDA <sup>(1)</sup>	\$ 100	\$ 82	\$ 252	\$ 193
Adjusted EBITDA margin <sup>(1)</sup>	12.3%	11.7%	11.2%	10.2%
Adjusted diluted EPS <sup>(1)</sup>	\$ 0.24	\$ 0.20	\$ 0.56	\$ 0.42
Free cash flow <sup>(1)</sup>			\$ (226)	\$ (335)

(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:*

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net earnings	\$ 57	\$ 47	\$ 124	\$ 94
Income tax provision	12	1	29	3
Amortization of intangibles	6	5	17	16
Depreciation	17	16	51	47
Restructuring costs	—	2	5	10
Interest expense	5	10	17	27
Deal-related transaction costs	1	1	5	4
Other one-time non-operational events	2	—	4	(8)
Adjusted EBITDA	\$ 100	\$ 82	\$ 252	\$ 193
Adjusted EBITDA margin	12.3%	11.7%	11.2%	10.2%

Adjusted EBITDA increased by \$18 million, or 22.0%, to \$100 million for the three months ended September 30, 2024 as compared to the three months ended September 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 nine months ended September 30, 2024, adjusted EBITDA increased by \$59 million, or 30.6%, to \$252 million from \$193 million for the nine months ended September 30, 2023.

Adjusted EBITDA margin was 12.3% and 11.2% for the three and nine months ended September 30, 2024, respectively, and 11.7% and 10.2% for the three and nine months ended September 30, 2023, respectively. The increase for the quarter was primarily due to operational leverage realized on the 15.5% increase in revenue during the three months ended September 30, 2024 as compared to the three months ended September 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:*

(In millions, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net earnings	\$ 57	\$ 47	\$ 124	\$ 94
Deal-related transaction costs	1	1	5	4
Amortization of intangibles	6	5	17	16
Restructuring costs	—	2	5	10
Other one-time non-operational events	2	—	4	(8)
Tax effect of adjustments	(2)	(2)	(6)	(5)
Adjusted net earnings	\$ 64	\$ 53	\$ 149	\$ 111
Diluted weighted average number of shares outstanding	268	265	267	264
Diluted EPS	\$ 0.21	\$ 0.18	\$ 0.46	\$ 0.36
Adjusted diluted EPS	\$ 0.24	\$ 0.20	\$ 0.56	\$ 0.42

Diluted weighted average number of shares outstanding for the three and nine months ended September 30, 2024 was 268 million and 267 million, respectively, an increase of 3 million and 3 million shares as compared to the three and nine months ended September 30, 2023, respectively. The increased share count is attributed to stock option exercises and equity vesting. Adjusted diluted EPS of \$0.24 and \$0.56 for the three and nine months ended September 30, 2024 increased \$0.04 and \$0.14, respectively, as compared to the same 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:

(Dollars in millions)	Nine Months Ended September 30,	
	2024	2023
Net cash used in operating activities	\$ (172)	\$ (310)
Transaction-related expenditures, net of tax	1	17
Capital expenditures	(56)	(42)
Proceeds from sales of assets	1	—
Free cash flow	<u>\$ (226)</u>	<u>\$ (335)</u>

Free cash flow usage decreased by \$109 million to \$226 million for the nine months ended September 30, 2024 from \$335 million for the nine months ended September 30, 2023. This was primarily due to lower cash used to fund working capital for the nine months ended September 30, 2024 when compared to the nine months ended September 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 nine months ended September 30, 2024 and 2023, respectively:

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenue	\$ (10)	\$ 6	\$ (29)	\$ (14)
Total % of revenue	1 %	1 %	1 %	1 %

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 13% and 9% of our revenue for the nine months ended September 30, 2024 and 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 the nine months ended September 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.

(Dollars in millions)	Three Months Ended September 30,		Change	
	2024	2023	\$	%
<b>Revenues:</b>				
ASC	\$ 533	\$ 431	\$ 102	23.7 %
IMS	285	277	8	2.9 %
Corporate & Eliminations	(6)	(5)	(1)	20.0 %
Total revenues	\$ 812	\$ 703	\$ 109	15.5 %
<b>Adjusted EBITDA:</b>				
ASC	\$ 64	\$ 48	\$ 16	33.3 %
IMS	36	34	2	5.9 %
Corporate & Eliminations	—	—	—	NM
Total adjusted EBITDA	\$ 100	\$ 82	\$ 18	22.0 %
<b>Adjusted EBITDA Margin:</b>				
ASC	12.0 %	11.1 %	90 bps	
IMS	12.6 %	12.3 %	30 bps	
<b>Bookings:</b>				
ASC	\$ 685	\$ 820	\$ (135)	(16.5)%
IMS	366	235	131	55.7 %
Total bookings	\$ 1,051	\$ 1,055	\$ (4)	(0.4)%

NM- percentage change not meaningful

(Dollars in millions)	Nine Months Ended September 30,		Change	
	2024	2023	\$	%
<b>Revenues:</b>				
ASC	\$ 1,458	\$ 1,226	\$ 232	18.9 %
IMS	812	692	120	17.3 %
Corporate & Eliminations	(17)	(18)	1	(5.6)%
Total revenues	\$ 2,253	\$ 1,900	\$ 353	18.6 %
<b>Adjusted EBITDA:</b>				
ASC	\$ 160	\$ 121	\$ 39	32.2 %
IMS	92	72	20	27.8 %
Corporate & Eliminations	—	—	—	NM
Total adjusted EBITDA	\$ 252	\$ 193	\$ 59	30.6 %
<b>Adjusted EBITDA Margin:</b>				
ASC	11.0 %	9.9 %	110 bps	
IMS	11.3 %	10.4 %	90 bps	
<b>Bookings:</b>				
ASC	\$ 1,888	\$ 1,693	\$ 195	11.5 %
IMS	919	809	110	13.6 %
Total bookings	\$ 2,807	\$ 2,502	\$ 305	12.2 %

NM- percentage change not meaningful

## **ASC**

### *Revenue:*

The ASC segment reported revenue of \$533 million and \$1,458 million for the three and nine months ended September 30, 2024, respectively, an increase of 23.7%, or \$102 million, from the three months ended September 30, 2023 and 18.9%, or \$232 million, from the nine months ended September 30, 2023. The revenue increase is attributed to both our advanced sensing and force protection programs. Within our advanced sensing portfolio, revenue growth is highlighted by our ground vehicle and dismounted soldier sensing programs while our force protection programs were enhanced by our tactical radar portfolio. This was offset in part by a reduction in airborne sensing revenue realized in the period.

### *Adjusted EBITDA and Adjusted EBITDA Margin:*

ASC's adjusted EBITDA increased by \$16 million, or 33.3%, from \$48 million for the three months ended September 30, 2023 to \$64 million for the three months ended September 30, 2024. The increase was driven by increased revenue contribution offset slightly by an increase in G&A expenditures. This drove adjusted EBITDA margin up 90 bps to 12.0% compared to the 11.1% realized during the three months ended September 30, 2023.

For the nine months ended September 30, 2024, adjusted EBITDA increased by \$39 million, or 32.2%, from \$121 million for the nine months ended September 30, 2023 to \$160 million for the nine months ended September 30, 2024. The increase was driven by increased revenue contribution offset slightly by an increase in G&A expenditures. This drove adjusted EBITDA margin up 110 bps to 11.0% compared to the 9.9% realized during the nine month period ended September 30, 2023.

### *Bookings:*

The ASC segment generated a \$135 million, or 16.5%, decrease in bookings for the three months ended September 30, 2024 when compared to the three months ended September 30, 2023. The decrease in new awards is largely attributed to accelerated awards realized during the year, which pulled our new awards to earlier in the year. The decline in the current quarter is also attributed to our dismounted soldier sensing programs which received incremental funding in the third quarter of 2023 compared to the award receipt in the second quarter of 2024. Bookings continue to exceed the revenue output driving an increase in backlog over the period.

For the nine months ended September 30, 2024 bookings increased \$195 million, or 11.5%, from the nine months ended September 30, 2023, to \$1,888 million.

## **IMS**

### *Revenue:*

IMS segment revenue increased by \$8 million, or 2.9%, to \$285 million for the three months ended September 30, 2024 from \$277 million for the three months ended September 30, 2023, which is attributed to increased contribution from our short-range air defense force protection programs. This was offset in part by a reduction in surface ship power program revenue realized during the period.

IMS segment revenue increased by \$120 million, or 17.3%, to \$812 million for the nine months ended September 30, 2024 from \$692 million for the nine months ended September 30, 2023, which is 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 \$2 million, or 5.9%, to \$36 million for the three months ended September 30, 2024 from \$34 million for the three months ended September 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. As a result of the Columbia Class performance, adjusted EBITDA margin increased 30 bps to 12.6% compared to the 12.3% realized during the three months ended September 30, 2023.

For the nine months ended September 30, 2024, adjusted EBITDA increased by \$20 million, or 27.8%, to \$92 million for the nine months ended September 30, 2024 from \$72 million for the nine months ended September 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 90 bps to 11.3% compared to the 10.4% realized during the nine months ended September 30, 2023.

#### *Bookings:*

Booking contributions increased by \$131 million, or 55.7%, to \$366 million for the three months ended September 30, 2024 from \$235 million for the three months ended September 30, 2023. The increase for the quarter is largely attributed to new awards realized on our Columbia Class electric power and propulsion and short-range air defense programs.

For the nine months ended September 30, 2024 bookings increased by \$110 million, or 13.6%, from the nine months ended September 30, 2023 to \$919 million. The increase for the nine months ended is largely attributed to the receipt of short-range air defense program awards offset in part by accelerated receipt of Columbia Class funding in the prior year.

### **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 September 30, 2024, was \$198 million compared to \$467 million as of December 31, 2023.

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

	Nine Months Ended September 30,	
	2024	2023
<i>(Dollars in millions)</i>		
Net cash used in operating activities	\$ (172)	\$ (310)
Net cash used in investing activities	(55)	(42)
Net cash (used in) provided by financing activities	(42)	93
Effect of exchange rate changes on cash and cash equivalents	—	—
Net decrease in cash and cash equivalents	\$ (269)	\$ (259)
Free cash flow <sup>(1)</sup>	\$ (226)	\$ (335)

(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 \$138 million from \$310 million for the nine months ended September 30, 2023 to \$172 million for the nine months ended September 30, 2024. This was primarily due to lower cash used to fund working capital for the nine months ended September 30, 2024 when compared to the nine months ended September 30, 2023. The decrease in cash used to fund working capital for the period was caused by a reduction of investments made in contract assets during the period.

### ***Investing Activities***

Net cash used in investing activities increased by \$13 million for the nine months ended September 30, 2024 when compared to the nine months ended September 30, 2023, primarily due to higher capital expenditures attributed to our naval expansion project in South Carolina.

### ***Financing Activities***

Net cash used in financing activities for the nine months ended September 30, 2024 was \$42 million compared to net cash provided by financing activities of \$93 million for the nine months ended September 30, 2023. The change was primarily due to the reduction of revolver borrowing, reducing the outstanding balance from \$110 million at September 30, 2023 compared to no outstanding revolver balance at September 30, 2024. Additionally, we realized a higher net decrease in third party borrowings (maturities of 90 days or less) in the current period when compared to the same period in the prior year.

### ***Free Cash Flow (non-GAAP)***

Free cash flow usage decreased by \$109 million to \$226 million for the nine months ended September 30, 2024 from \$335 million for the nine months ended September 30, 2023. This was primarily due to lower cash used in operating activities noted above for the nine months ended September 30, 2024 when compared to the nine months ended September 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 \$205 million, and our 2022 Revolving Credit Facility, which had no amounts outstanding, as of September 30, 2024. A 0.5% increase or decrease in our weighted average interest rate on our variable debt outstanding as of September 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 September 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 million as of September 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 September 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 September 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)).

#### ***Securities Trading Plans of Directors and Executive Officers***

During the three months ended September 30, 2024, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted, modified or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement” as such terms are defined under Item 408 of Regulation S-K, except as follows<sup>(1)</sup>:

Name and title	Date of adoption of 10b5-1 Plan <sup>(2)</sup>	Scheduled expiration date of 10b5-1 Plan <sup>(3)</sup>	Aggregate number of shares of common stock to be purchased or sold <sup>(4)(5)</sup>
William J. Lynn III, Chief Executive Officer	8/27/2024	8/29/2025	Up to 180,000 shares
John Baylouny, Executive Vice President, Chief Operating Officer	8/13/2024	4/30/2025	Up to 40,715 shares
Michael D. Dippold, Executive Vice President, Chief Financial Officer	8/13/2024	6/30/2025	Up to 76,863 shares
Mark A. Dorfman, Executive Vice President, General Counsel & Secretary	8/21/2024	6/30/2025	Up to 67,268 shares
Sally Wallace, Executive Vice President Operations	8/29/2024	4/30/2025	Up to 8,393 shares
Pamela Morrow, Senior Vice President Controller	8/29/2024	6/30/2025	Up to 31,093 shares

(1) Each trading arrangement listed is a “Rule 10b5-1 Trading Arrangement” and is intended to satisfy the affirmative defense of Rule 10b5-1(c), as amended.

(2) Transactions under each Rule 10b5-1 Plan commence no earlier than 90 days after adoption, or such later date as required by Rule 10b5-1.

(3) Each Rule 10b5-1 Plan may expire on the earlier of the scheduled expiration date or such earlier date as all shares under the plan are sold.

- (4) Each Rule 10b5-1 Plan provides for shares to be sold on multiple predetermined dates.
- (5) The actual number of shares under each Rule 10b5-1 Plan may be different than the aggregate number of shares listed based on tax withholdings and performance and vesting conditions of performance-based stock units and restricted stock units (as applicable).

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
31.1*	<a href="#"><u>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</u></a>
31.2*	<a href="#"><u>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</u></a>
32.1*	<a href="#"><u>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</u></a>
32.2*	<a href="#"><u>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</u></a>
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)

\* 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: October 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

**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 September 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 third 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: October 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 September 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 third 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: October 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 September 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: October 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 September 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: October 30, 2024

/s/ Michael D. Dippold

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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.