# 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, 2017**

**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 1-01520**

# Aerojet Rocketdyne Holdings, Inc.

**(Exact name of registrant as specified in its charter)**

| Delaware | 34-0244000 |
| --- | --- |
| (State of Incorporation) | (I.R.S. Employer Identification No.) |
| 222 N. Sepulveda Blvd., Suite 500<br>El Segundo, California | 90245 |
| (Address of Principal Executive Offices) | (Zip Code) |

**Registrant's telephone number, including area code (310) 252-8100**

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

| | | | | |
| --- | --- | --- | --- | --- |
| Large accelerated filer | ☒ | | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | (Do not check if a smaller reporting company) | Smaller reporting company | ☐ |
| Emerging growth company | ☐ | | | |

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

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

As of October 26, 2017, there were 75.1 million outstanding shares of our common stock, including unvested common shares, $0.10 par value.

**Aerojet Rocketdyne Holdings, Inc.**
**Quarterly Report on Form 10-Q**
**For the Quarterly Period Ended September 30, 2017**

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## Part I — FINANCIAL INFORMATION

### Item 1. Financial Statements

**Aerojet Rocketdyne Holdings, Inc.**
**Condensed Consolidated Statements of Operations**
**(Unaudited)**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions, except per share amounts) | | | |
| Net sales | $ 484.1 | $ 463.8 | $ 1,349.0 | $ 1,229.1 |
| Operating costs and expenses: | | | | |
| Cost of sales (exclusive of items shown separately below) | 417.1 | 405.4 | 1,153.7 | 1,071.6 |
| Selling, general and administrative | 22.5 | 10.8 | 55.7 | 36.0 |
| Depreciation and amortization | 18.6 | 15.4 | 54.0 | 45.9 |
| Other expense, net | 0.6 | 17.6 | 1.0 | 19.3 |
| Total operating costs and expenses | 458.8 | 449.2 | 1,264.4 | 1,172.8 |
| Operating income | 25.3 | 14.6 | 84.6 | 56.3 |
| Non-operating (income) expense: | | | | |
| Loss on debt | — | 34.1 | — | 34.5 |
| Interest income | (1.0) | (0.1) | (2.3) | (0.4) |
| Interest expense | 7.7 | 5.9 | 22.9 | 27.4 |
| Total non-operating expense, net | 6.7 | 39.9 | 20.6 | 61.5 |
| Income (loss) before income taxes | 18.6 | (25.3) | 64.0 | (5.2) |
| Income tax provision (benefit) | 6.0 | (14.2) | 21.2 | (5.1) |
| Net income (loss) | $ 12.6 | $ (11.1) | $ 42.8 | $ (0.1) |
| Earnings (Loss) Per Share of Common Stock | | | | |
| Basic and Diluted | | | | |
| Net income (loss) per share | $ 0.17 | $ (0.17) | $ 0.57 | $ — |
| Weighted average shares of common stock outstanding, basic | 73.5 | 67.0 | 72.8 | 64.6 |
| Weighted average shares of common stock outstanding, diluted | 73.9 | 67.0 | 73.0 | 64.6 |

*See Notes to Unaudited Condensed Consolidated Financial Statements.*

**Aerojet Rocketdyne Holdings, Inc.**
**Condensed Consolidated Statements of Comprehensive Income (Loss)**
**(Unaudited)**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions) | | | |
| Net income (loss) | $ 12.6 | $ (11.1) | $ 42.8 | $ (0.1) |
| Other comprehensive income: | | | | |
| Amortization of actuarial losses and prior service credits, net of income taxes | 10.0 | 9.2 | 29.1 | 27.3 |
| Comprehensive income (loss) | $ 22.6 | $ (1.9) | $ 71.9 | $ 27.2 |

*See Notes to Unaudited Condensed Consolidated Financial Statements.*

**Aerojet Rocketdyne Holdings, Inc.**
**Condensed Consolidated Balance Sheets**
**(Unaudited)**

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| | (In millions, except per share amounts) | |
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents | $ 392.5 | $ 410.3 |
| Accounts receivable | 283.1 | 136.4 |
| Inventories | 160.8 | 185.1 |
| Recoverable from the U.S. government and other third parties for environmental remediation costs | 26.7 | 25.2 |
| Receivable from Northrop Grumman Corporation ("Northrop") | 6.0 | 6.0 |
| Other current assets, net | 71.0 | 91.7 |
| Total Current Assets | 940.1 | 854.7 |
| Noncurrent Assets | | |
| Property, plant and equipment, net | 349.6 | 366.0 |
| Real estate held for entitlement and leasing | 93.4 | 91.8 |
| Recoverable from the U.S. government and other third parties for environmental remediation costs | 225.5 | 239.8 |
| Receivable from Northrop | 60.0 | 62.0 |
| Deferred income taxes | 251.2 | 292.5 |
| Goodwill | 160.0 | 158.1 |
| Intangible assets | 88.4 | 94.4 |
| Other noncurrent assets, net | 126.7 | 90.2 |
| Total Noncurrent Assets | 1,354.8 | 1,394.8 |
| Total Assets | $ 2,294.9 | $ 2,249.5 |
| **LIABILITIES, REDEEMABLE COMMON STOCK, AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities | | |
| Current portion of long-term debt | $ 22.4 | $ 55.6 |
| Accounts payable | 126.2 | 96.2 |
| Reserves for environmental remediation costs | 35.8 | 37.1 |
| Postretirement medical and life insurance benefits | 5.2 | 5.2 |
| Advance payments on contracts | 182.7 | 221.8 |
| Other current liabilities | 192.6 | 167.8 |
| Total Current Liabilities | 564.9 | 583.7 |
| Noncurrent Liabilities | | |
| Long-term debt | 596.2 | 608.0 |
| Reserves for environmental remediation costs | 298.6 | 312.6 |
| Pension benefits | 486.5 | 548.2 |
| Postretirement medical and life insurance benefits | 35.4 | 37.4 |
| Other noncurrent liabilities | 162.0 | 124.0 |
| Total Noncurrent Liabilities | 1,578.7 | 1,630.2 |
| Total Liabilities | 2,143.6 | 2,213.9 |
| Commitments and contingencies (Note 8) | | |
| Redeemable common stock, par value of $0.10; 0.1 million shares issued and outstanding as of December 31, 2016 | — | 1.1 |
| Stockholders' Equity | | |
| Preference stock, par value of $1.00; 15.0 million shares authorized; none issued or outstanding | — | — |
| Common stock, par value of $0.10; 150.0 million shares authorized; 73.6 million shares issued and outstanding as of September 30, 2017; 69.2 million shares issued and outstanding as of December 31, 2016 | 7.4 | 6.9 |
| Other capital | 501.3 | 456.9 |
| Treasury stock at cost, 3.5 million shares as of September 30, 2017 and December 31, 2016 | (64.5) | (64.5) |
| Accumulated deficit | (19.0) | (61.8) |
| Accumulated other comprehensive loss, net of income taxes | (273.9) | (303.0) |
| Total Stockholders' Equity | 151.3 | 34.5 |
| Total Liabilities, Redeemable Common Stock and Stockholders' Equity | $ 2,294.9 | $ 2,249.5 |

*See Notes to Unaudited Condensed Consolidated Financial Statements.*

**Aerojet Rocketdyne Holdings, Inc.**
**Condensed Consolidated Statement of Stockholders' Equity**
**(Unaudited)**

| | Common Stock | | Other Capital | Treasury Stock | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | |
| | (In millions) | | | | | | |
| **December 31, 2016** | 69.2 | $ 6.9 | $ 456.9 | $ (64.5) | $ (61.8) | $ (303.0) | $ 34.5 |
| Net income | — | — | — | — | 42.8 | — | 42.8 |
| Amortization of actuarial losses and prior service credits, net of income taxes | — | — | — | — | — | 29.1 | 29.1 |
| Conversion of debt to common stock | 3.9 | 0.4 | 35.2 | — | — | — | 35.6 |
| Reclassification from redeemable common stock | 0.1 | — | 0.9 | — | — | — | 0.9 |
| Cumulative effect of change in accounting guidance (see Note 1) | — | | 0.3 | — | — | — | 0.3 |
| Repurchase of shares for withholding taxes and option costs under employee equity plans | (0.4) | — | (5.7) | — | — | — | (5.7) |
| Stock-based compensation and shares issued under equity plans | 0.8 | 0.1 | 13.7 | — | — | — | 13.8 |
| **September 30, 2017** | 73.6 | $ 7.4 | $ 501.3 | $ (64.5) | $ (19.0) | $ (273.9) | $ 151.3 |

*See Notes to Unaudited Condensed Consolidated Financial Statements.*

**Aerojet Rocketdyne Holdings, Inc.**
**Condensed Consolidated Statements of Cash Flows**
**(Unaudited)**

| | Nine months ended September 30, | |
|---|---|---|
| | **2017** | **2016** |
| | **(In millions)** | |
| **Operating Activities** | | |
| **Net income (loss)** | $ 42.8 | $ (0.1) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 54.0 | 45.9 |
| Amortization of debt discount and deferred financing costs | 6.3 | 1.7 |
| Stock-based compensation | 21.2 | 7.7 |
| Retirement benefits, net | (16.2) | 17.8 |
| Loss on debt | — | 34.5 |
| Loss on disposal of long-lived assets | 0.3 | 0.4 |
| Changes in assets and liabilities, net of effects from acquisition: | | |
| Accounts receivable | (135.2) | 22.2 |
| Inventories | 24.3 | (1.0) |
| Other current assets, net | 20.6 | (13.3) |
| Real estate held for entitlement and leasing | (2.2) | (4.5) |
| Receivable from Northrop | 2.0 | 0.9 |
| Recoverable from the U.S. government and other third parties for environmental remediation costs | 12.8 | (36.8) |
| Other noncurrent assets | (47.2) | (12.3) |
| Accounts payable | 28.1 | 11.5 |
| Advance payments on contracts | (39.1) | (26.9) |
| Other current liabilities | 8.5 | (57.8) |
| Deferred income taxes | 23.5 | 9.2 |
| Reserves for environmental remediation costs | (15.3) | 51.0 |
| Other noncurrent liabilities and other | 36.7 | (0.9) |
| Net Cash Provided by Operating Activities | 25.9 | 49.2 |
| **Investing Activities** | | |
| Purchase of Coleman Aerospace (see Note 5) | (17.0) | — |
| Proceeds from sale of technology | — | 0.5 |
| Capital expenditures | (10.5) | (30.5) |
| Net Cash Used in Investing Activities | (27.5) | (30.0) |
| **Financing Activities** | | |
| Proceeds from issuance of debt | — | 500.0 |
| Debt issuance costs | — | (3.7) |
| Debt repayments | (15.0) | (595.3) |
| Repurchase of shares for withholding taxes and option costs under employee equity plans | (5.7) | (2.4) |
| Proceeds from shares issued under equity plans | 4.5 | 3.0 |
| Net Cash Used in Financing Activities | (16.2) | (98.4) |
| **Net Decrease in Cash and Cash Equivalents** | (17.8) | (79.2) |
| Cash and Cash Equivalents at Beginning of Period | 410.3 | 208.5 |
| Cash and Cash Equivalents at End of Period | $ 392.5 | $ 129.3 |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid for interest | $ 15.2 | $ 35.2 |
| Cash paid for income taxes | 2.7 | 30.5 |
| Cash refund for income taxes | 21.3 | 0.2 |
| Conversion of debt to common stock | 35.6 | 43.0 |

*See Notes to Unaudited Condensed Consolidated Financial Statements.*

**Aerojet Rocketdyne Holdings, Inc.**
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Note 1. Basis of Presentation and Nature of Operations**

Aerojet Rocketdyne Holdings, Inc. (“Aerojet Rocketdyne Holdings” or the “Company”) has prepared the accompanying unaudited condensed consolidated financial statements, including its accounts and the accounts of its wholly-owned subsidiaries, in accordance with the instructions to Form 10-Q. The December 31, 2016 condensed consolidated balance sheet was derived from audited financial statements, but does not include all of the disclosures required by accounting principles generally accepted in the United States of America (“GAAP”). These interim financial statements should be read in conjunction with the financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016. Certain reclassifications have been made to financial information for the prior year to conform to the current year’s presentation.

The Company believes the accompanying unaudited condensed consolidated financial statements reflect all adjustments, including normal recurring accruals, necessary for a fair statement of its financial position, results of operations, and cash flows for the periods presented. All significant intercompany balances and transactions have been eliminated in consolidation. The preparation of the unaudited condensed consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. In addition, the operating results for interim periods may not be indicative of the results of operations for a full year.

The Company is a manufacturer of aerospace and defense products and systems with a real estate segment. The Company’s operations are organized into two segments:

*Aerospace and Defense* — includes the operations of the Company’s wholly-owned subsidiary Aerojet Rocketdyne, Inc. (“Aerojet Rocketdyne”), a leading technology-based designer, developer and manufacturer of aerospace and defense products and systems for the United States (“U.S.”) government, including the Department of Defense (“DoD”), the National Aeronautics and Space Administration (“NASA”), major aerospace and defense prime contractors as well as portions of the commercial sector.

*Real Estate* — includes the activities of the Company’s wholly-owned subsidiary Easton Development Company, LLC (“Easton”) related to the re-zoning, entitlement, sale, and leasing of the Company’s excess real estate assets. The Company is currently in the process of seeking zoning changes and other governmental approvals on its excess real estate assets to optimize its value.

A detailed description of the Company’s significant accounting policies can be found in the Company’s most recent Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

*AR1 Research and Development*

Company-sponsored research and development ("R&D") expenses (reported as a component of cost of sales) are generally reimbursed via allocation of such expenses among all contracts and programs in progress under U.S. government contractual arrangements. The newest large liquid booster engine development project, the AR1, accounted for $54.0 million of such reimbursable costs from its inception through September 30, 2017. In February 2016, the U.S. Air Force selected Aerojet Rocketdyne and United Launch Alliance ("ULA") to share in a public-private partnership to develop jointly the AR1 engine. The total agreement is valued at $804.0 million with the U.S. Air Force investing two-thirds of the funding required to complete development of the AR1 engine by 2019. The work is expected to be completed no later than December 31, 2019. The U.S. Air Force has obligated $174.0 million with Aerojet Rocketdyne contributing $77.7 million and ULA contributing $5.8 million in cash and $3.5 million in "in-kind" R&D expense. The total potential U.S. government investment, including all options, is $536.0 million. The total potential investment by Aerojet Rocketdyne and its partners, including all options, is $268.0 million. Under the terms of the AR1 agreement, the U.S. Air Force contributions are recognized proportionately as an offset to R&D expenses. In the event the Company records a receivable for a milestone prior to expending the prospective proportional share to be contributed by the Company, the amount is recorded as an accrued liability until earned. The AR1 inception to date project costs at September 30, 2017, were as follows (in millions):

| | | |
|---|---|---|
| AR1 R&D costs incurred | $ | 236.6 |
| Less amounts funded by the U.S. Air Force | | (141.2) |
| Less amounts funded by ULA | | (9.3) |
| AR1 R&D costs net of reimbursements | | 86.1 |
| AR1 R&D costs expensed and not applied to contracts | | (32.1) |
| Net AR1 R&D costs applied to contracts | $ | 54.0 |

*Revenue Recognition*

In the Company's Aerospace and Defense segment, recognition of profit on long-term contracts requires the use of assumptions and estimates related to total contract revenue, the total cost at completion and the measurement of progress towards completion. Due to the nature of the programs, developing the estimated total contract revenue and cost at completion requires the use of significant judgment. Estimates are continually evaluated as work progresses and are revised as necessary. Factors that must be considered in estimating the work to be completed include, but are not limited to: labor productivity, the nature and technical complexity of the work to be performed, availability and cost volatility of materials, subcontractor and vendor performance, warranty costs, volume assumptions, anticipated labor agreements, inflationary trends, schedule delays, availability of funding from the customer, and the recoverability of costs incurred outside the original contract included in any estimates to complete. The Company reviews contract performance and cost estimates for some contracts at least monthly and for others at least quarterly and more frequently when circumstances significantly change. When a change in estimate is determined to have an impact on contract profit, the Company will record a positive or negative adjustment to the statement of operations. Changes in estimates and assumptions related to the status of certain long-term contracts may have a material effect on the Company's operating results. The following table summarizes the impact of the change in significant contract accounting estimates on the Company's Aerospace and Defense segment operating results accounted for under the percentage-of-completion method of accounting:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions, except per share amounts) | | | |
| Favorable (unfavorable) effect of the changes in contract estimates on income before income taxes | $ 11.5 | $ 1.1 | $ 25.2 | $ (2.3) |
| Favorable (unfavorable) effect of the changes in contract estimates on net income | 6.9 | 0.7 | 15.1 | (1.4) |
| Favorable (unfavorable) effect of the changes in contract estimates on basic and diluted net income per share | 0.09 | 0.01 | 0.20 | (0.02) |

*Recently Adopted Accounting Pronouncements*

In August 2014, the Financial Accounting Standards Board ("FASB") issued an amendment to the accounting guidance related to the evaluation of an entity's ability to continue as a going concern. The amendment establishes management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern in connection with preparing financial statements for each annual and interim reporting period. The update also gives guidance to determine whether to disclose information about relevant conditions and events when there is substantial doubt about an entity's ability to continue as a going concern. The Company adopted this guidance as of December 31, 2016 and no additional information was required to be presented as a result of the adoption. As the accounting standard only impacted presentation, the new standard did not have an impact on the Company's financial position, results of operations, or cash flows.

In November 2015, the FASB issued guidance that requires deferred tax liabilities and assets to be classified as noncurrent in the consolidated balance sheet. The standard is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for financial statements that have not been previously issued. The Company adopted this guidance retrospectively to all periods presented as of December 31, 2016, which resulted in $36.5 million of current deferred income taxes as of December 31, 2015, being reclassified as noncurrent. As the accounting standard only impacted presentation, the new standard did not have an impact on the Company's financial position, results of operations, or cash flows.

In March 2016, the FASB amended the existing accounting guidance related to stock compensation. The amendment requires all income tax effects of awards to be recognized in the income statement when awards vest and allows a choice to account for forfeitures on an estimated or actual basis. There is also a requirement to present excess income tax benefits as an operating activity on the statement of cash flows. Effective January 1, 2017, the Company adopted the amendment requiring recognition of excess tax benefits and tax deficiencies in the income statement prospectively and the impact to the consolidated statement of operations for the first quarter of fiscal 2017. In addition, the Company elected to change its accounting policy to account for forfeitures when they occur for consistency with the U.S. government recovery accounting practices on a modified retrospective basis. The Company also elected to adopt the amendment related to the presentation of excess tax benefits within operating activities on the statement of cash flows, retrospectively.

*Recently Issued Accounting Pronouncements*

In May 2014, the FASB amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an

amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The effective date of the new standard is for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company plans to adopt the guidance during the first quarter of fiscal 2018, retrospectively with the cumulative effect recognized during that quarter (modified retrospective basis). The Company has developed a comprehensive implementation plan across all segments that include evaluating the impact of the new guidance on existing contracts, and updating impacted accounting policies, processes, controls and systems. The Company expects the primary impact of the new guidance will be a change in the timing of when revenue is recognized on certain fixed price and cost reimbursable type contracts. The new guidance prescribes that an entity recognizes revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when (or as) the customer obtains control of that asset. Under this new guidance, the Company expects to discontinue the use of the unit-of-delivery method on certain customer contracts and remeasure progress toward completion using the cost-to-cost method. The unit-of-delivery method totaled 44% of net sales for the first nine months of fiscal 2017. The Company expects the adoption of this new standard will have a material impact on net sales recognized in any given fiscal year and a material impact on the amount reported for contract backlog. The adoption will also result in the reclassification of contract related assets on the consolidated balance sheet.

In February 2016, the FASB issued guidance requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The effective date of the new standard is for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The Company is evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

In August 2016, the FASB issued an amendment to the accounting guidance related to classification of certain cash receipts and cash payments in the statement of cash flows. The standard provides guidance for eight targeted changes with respect to how cash receipts and cash payments are classified in the statement of cash flows, with the objective of reducing diversity in practice. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

In January 2017, the FASB issued an amendment to the accounting guidance related to goodwill impairment. The update eliminates "Step 2" which involves determining the implied fair value of goodwill and comparing it to the carrying amount of goodwill to measure the goodwill impairment loss, if any. The quantitative assessment "Step 1" will be used to determine both the existence and amount of goodwill impairment. The standard should be applied on a prospective basis and is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company plans to adopt this new accounting guidance in conjunction with its annual impairment test on October 1, 2017. The Company does not expect the adoption to have a significant impact on its consolidated financial statements.

In March 2017, the FASB amended the existing accounting guidance relating to the presentation of net periodic pension cost and net periodic postretirement benefit cost ( the “NPPC”) in the income statement. The amended guidance requires the service cost component to be presented in the same line item or items as other compensation arising from the services rendered by the pertinent employees during the period, and other components of the NPPC to be presented in the statement of operations separately from service cost components and outside a subtotal of income from operations. If a separate line item or items are used to present the other components of the NPPC, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the statement of operations to present the other components of NPPC must be disclosed. The new guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued. The Company is evaluating the impact of adopting this new accounting standard on its consolidated financial statements.

**Note 2. Income (Loss) Per Share of Common Stock**

A reconciliation of the numerator and denominator used to calculate basic and diluted income (loss) per share of common stock ("EPS") is presented in the following table:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions, except per share amounts) | | | |
| Numerator: | | | | |
| Net income (loss) | $ 12.6 | $ (11.1) | $ 42.8 | $ (0.1) |
| Income allocated to participating securities | (0.3) | — | (0.9) | — |
| Net income (loss) for basic earnings per share | 12.3 | (11.1) | 41.9 | (0.1) |
| Interest on 4 1/16% Convertible Subordinated Debentures (“4 1/16% Debentures”) | — | — | 0.1 | — |
| Net income (loss) for diluted earnings per share | $ 12.3 | $ (11.1) | $ 42.0 | $ (0.1) |
| Denominator: | | | | |
| Basic weighted average shares | 73.5 | 67.0 | 72.8 | 64.6 |
| Effect of: | | | | |
| 4 1/16% Debentures | — | — | 0.1 | — |
| 2.25% Convertible Senior Notes ("2 1/4% Notes") (1) | 0.3 | — | — | — |
| Employee stock options and stock purchase plan | 0.1 | — | 0.1 | — |
| Diluted weighted average shares | 73.9 | 67.0 | 73.0 | 64.6 |
| Basic and Diluted | | | | |
| Net income (loss) per share | $ 0.17 | $ (0.17) | $ 0.57 | $ — |

________

(1) The Company's 2 1/4% Notes were not included in the computation of diluted EPS for the first nine months of fiscal 2017 because the average market price of the common stock did not exceed the conversion price and the Company only expects the conversion premium for the 2 1/4% Notes to be settled in common shares.

The following table sets forth the potentially dilutive securities excluded from the computation because their effect would have been anti-dilutive:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions) | | | |
| 4 1/16% Debentures | — | 5.8 | — | 8.0 |
| Employee stock options and stock purchase plan | — | 0.1 | — | 0.1 |
| Unvested restricted shares | 1.6 | 1.5 | 1.6 | 1.4 |
| Total potentially dilutive securities | 1.6 | 7.4 | 1.6 | 9.5 |

**Note 3. Stock-Based Compensation**

Total stock-based compensation expense by type of award was as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions) | | | |
| Stock appreciation rights | $ 8.3 | $ (0.3) | $ 10.7 | $ 1.6 |
| Stock options | 0.3 | 0.3 | 1.0 | 0.6 |
| Restricted shares, service based | 0.9 | 0.9 | 3.3 | 2.5 |
| Restricted shares, performance based | 1.3 | 1.3 | 5.7 | 2.7 |
| Employee stock purchase plan | 0.2 | 0.1 | 0.5 | 0.3 |
| Total stock-based compensation expense | $ 11.0 | $ 2.3 | $ 21.2 | $ 7.7 |

Stock-based compensation in the first nine months of fiscal 2017 includes expenses associated with the accelerated vesting of stock awards to a former executive officer and the August 2016 stock award granted to the Executive Chairman that vests according to the attainment of share prices ranging from $22 per share to $27 per share of the Company's common stock. In addition, the third quarter of fiscal 2017 includes a significant increase in the fair value of the stock appreciation rights.

**Note 4. Balance Sheet Accounts**

***a. Fair Value of Financial Instruments***

The accounting standards use a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The following are measured at fair value:

| | | Fair value measurement at September 30, 2017 | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | (In millions) | | | |
| Money market funds | $ 122.1 | $ 122.1 | $ — | $ — |

| | | Fair value measurement at December 31, 2016 | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | (In millions) | | | |
| Money market funds | $ 328.5 | $ 328.5 | $ — | $ — |

As of September 30, 2017, the carrying amounts of cash and cash equivalents and the grantor trust by investment type is as follows:

| | Total | Cash and Cash Equivalents | Money Market Funds |
|---|---|---|---|
| | (In millions) | | |
| Cash and cash equivalents | $ 392.5 | $ 277.3 | $ 115.2 |
| Grantor trust (included as a component of other current and noncurrent assets) | 6.9 | — | 6.9 |
| | $ 399.4 | $ 277.3 | $ 122.1 |

The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued compensation, and other accrued liabilities, approximate fair value because of their short maturities.

The estimated fair value and principal amount for the Company's outstanding debt is presented below:

| | Fair Value | | Principal Amount | |
|---|---|---|---|---|
| | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 |
| | (In millions) | | | |
| Term loan | $ 375.0 | $ 390.0 | $ 375.0 | $ 390.0 |
| 2 1/4% Notes | 446.0 | 294.9 | 300.0 | 300.0 |
| 4 1/16% Debentures (1) | — | 70.8 | — | 35.6 |
| | $ 821.0 | $ 755.7 | $ 675.0 | $ 725.6 |

________

(1) In December 2016, the Company notified holders of its 4 1/16% Debentures that the Company would redeem, on February 3, 2017, all of their 4 1/16% Debentures at a purchase price equal to 100% of the principal amount of the 4 1/16% Debentures to be redeemed, plus any accrued and unpaid interest. In January 2017, $35.6 million of the 4 1/16% Debentures (the entire amount outstanding as of December 31, 2016) were converted to 3.9 million shares of common stock.

The fair values of the 2 1/4% Notes and 4 1/16% Debentures were determined using broker quotes that are based on open markets for the Company's debt securities (Level 2 securities). The term loan bore interest at variable rates, which adjusted based on market conditions, and its carrying value approximated fair value.

***b. Accounts Receivable***

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| | (In millions) | |
| Billed | $ 145.4 | $ 55.7 |
| Unbilled | 177.6 | 124.1 |
| Reserve for overhead rate disallowance | (40.8) | (44.5) |
| Total receivables under long-term contracts | 282.2 | 135.3 |
| Other receivables | 0.9 | 1.1 |
| Accounts receivable | $ 283.1 | $ 136.4 |

***c. Inventories***

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| | (In millions) | |
| Long-term contracts at average cost | $ 605.0 | $ 551.9 |
| Progress payments | (445.5) | (368.2) |
| Total long-term contract inventories | 159.5 | 183.7 |
| Total other inventories | 1.3 | 1.4 |
| Inventories | $ 160.8 | $ 185.1 |

***d. Other Current Assets, net***

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| | (In millions) | |
| Recoverable from the U.S. government for acquisition related integration costs | $ 11.9 | $ 11.9 |
| Recoverable from the U.S. government for competitive improvement program obligations (see Note 10) | 20.7 | 7.6 |
| Prepaid expenses | 17.0 | 16.5 |
| Cost-share and other receivables, net | 10.7 | 17.8 |
| Income taxes receivable | 5.1 | 26.8 |
| Indemnification receivable from United Technologies Corporation, net | 0.2 | 5.5 |
| Other | 5.4 | 5.6 |
| Other current assets, net | $ 71.0 | $ 91.7 |

***e. Property, Plant and Equipment, net***

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| | (In millions) | |
| Land | $ 71.2 | $ 71.4 |
| Buildings and improvements | 317.0 | 304.2 |
| Machinery and equipment | 542.7 | 540.8 |
| Construction-in-progress | 20.5 | 30.4 |
| | 951.4 | 946.8 |
| Less: accumulated depreciation | (601.8) | (580.8) |
| Property, plant and equipment, net | $ 349.6 | $ 366.0 |

***f. Other Noncurrent Assets, net***

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| | (In millions) | |
| Recoverable from the U.S. government for conditional asset retirement obligations | $ 21.1 | $ 20.3 |
| Recoverable from the U.S. government for restructuring costs | 27.1 | 12.8 |
| Recoverable from the U.S. government for acquisition related integration costs | 2.0 | 10.9 |
| Recoverable from the U.S. government for competitive improvement program obligations (see Note 10) | 22.9 | 1.3 |
| Deferred financing costs | 2.8 | 3.4 |
| Grantor trusts | 26.6 | 16.6 |
| Income taxes receivable | 10.7 | 10.8 |
| Notes receivable, net | 9.0 | 9.0 |
| Other | 4.5 | 5.1 |
| Other noncurrent assets, net | $ 126.7 | $ 90.2 |

***g. Other Current Liabilities***

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| | (In millions) | |
| Accrued compensation and employee benefits | $ 102.5 | $ 105.7 |
| Contract related liabilities | 47.4 | 24.7 |
| Competitive improvement program obligations (see Note 10) | 21.3 | 7.6 |
| Income taxes payable | 0.3 | 2.1 |
| Interest payable | 2.2 | 4.1 |
| Contract loss provisions | 4.5 | 6.8 |
| Other | 14.4 | 16.8 |
| Other current liabilities | $ 192.6 | $ 167.8 |

***h. Other Noncurrent Liabilities***

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| | (In millions) | |
| Conditional asset retirement obligations | $ 40.3 | $ 30.6 |
| Pension benefits, non-qualified | 17.1 | 17.5 |
| Deferred compensation | 31.1 | 19.8 |
| Deferred revenue | 12.8 | 13.3 |
| Competitive improvement program obligations (see Note 10) | 22.9 | 1.3 |
| Uncertain income tax positions | 24.4 | 28.4 |
| Other | 13.4 | 13.1 |
| Other noncurrent liabilities | $ 162.0 | $ 124.0 |

***i. Accumulated Other Comprehensive Loss, Net of Income Taxes***

Changes in accumulated other comprehensive loss by components, net of income taxes:

| | Actuarial Losses, Net | Prior Service Credits, Net | Total |
|---|---|---|---|
| | | (In millions) | |
| December 31, 2016 | $ (303.2) | $ 0.2 | $ (303.0) |
| Amortization of actuarial losses and prior service credits, net of $18.5 million of income taxes | 29.1 | — | 29.1 |
| September 30, 2017 | $ (274.1) | $ 0.2 | $ (273.9) |

***j. Redeemable Common Stock***

On May 30, 2017, the Company made a registered rescission offer to buy back unregistered shares from eligible Plan participants at the original purchase price plus interest, or to reimburse eligible Plan participants for losses they may have incurred if their shares had been sold. The registered rescission offer expired on June 30, 2017, and settlement payments of $3.5 million under the offer were completed in the third quarter of fiscal 2017 (see Note 13).

The Company inadvertently failed to register with the Securities Exchange Commission ("SEC") the issuance of certain of its common shares in its defined contribution 401(k) employee benefit plan (the "Plan"). As a result, certain Plan participants who purchased such securities pursuant to the Plan may have had the right to rescind certain of their purchases for consideration equal to the purchase price paid for the securities (or if such security has been sold, to receive consideration with respect to any loss incurred on such sale) plus interest from the date of purchase. In June 2008, the Company filed a registration statement on Form S-8 to register future transactions in the Company's stock fund in the Plan.

**Note 5. Acquisition**

On February 24, 2017, the Company closed on an agreement to purchase substantially all of the assets of Coleman Aerospace, a systems engineering and integration provider, from L3 Technologies, Inc. ("L3"). Coleman Aerospace operates now as a subsidiary of Aerojet Rocketdyne, Inc. and was renamed Aerojet Rocketdyne Coleman Aerospace, Inc. ("Coleman"). The acquisition builds upon and expands the Company's capabilities in mission analysis and systems engineering, and increases its product portfolio to include vehicle integration for small-, medium- and intermediate-range ballistic missile targets and other small launch vehicles.

The aggregate consideration paid to L3 for the purchase of Coleman was $17.0 million, which included $15.0 million of cash paid at closing and a $2.0 million working capital adjustment paid in the third quarter of fiscal 2017. The Company incurred $1.0 million of expenses related to the acquisition of Coleman.

The preliminary purchase price allocation has been developed based on preliminary estimates of the fair value of the assets and liabilities of Coleman that the Company acquired. In addition, the allocation of the preliminary purchase price to acquired intangible assets is based on preliminary fair value estimates.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in millions):

| | | |
|---|---|---|
| Current assets | $ | 12.0 |
| Property, plant and equipment | | 3.8 |
| Total tangible assets acquired | | 15.8 |
| Intangible assets acquired | | 4.2 |
| Deferred income taxes | | 0.3 |
| Total assets acquired | | 20.3 |
| Liabilities assumed, current | | (5.2) |
| Total identifiable net assets acquired | | 15.1 |
| Goodwill (Consideration less total identifiable net assets acquired) | $ | 1.9 |

The purchase price allocation resulted in the recognition of $1.9 million in goodwill, all of which is deductible for tax purposes and included within the Company's Aerospace and Defense segment. Goodwill recognized from the acquisition primarily relates to the expected contributions of Coleman to the Company's overall corporate strategy.

The estimated fair value of Coleman's intangible assets acquired included the following:

| | | Gross Carrying Amount (in millions) | Amortization Period (years) |
|---|---|---|---|
| Trade name | $ | 0.5 | 8 |
| Customer relationships | | 2.8 | 8 |
| Developed technology | | 0.9 | 10 |
| Total intangible assets | $ | 4.2 | |

The acquisition of Coleman was not considered a significant business combination.

**Note 6. Income Taxes**

| | Nine months ended September 30, | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | (In millions) | | | |
| Income tax provision (benefit) | $ | 21.2 | $ | (5.1) |

In the first nine months of fiscal 2017, the income tax provision was at an effective tax rate less than the federal statutory rate primarily due to tax benefits attributable to the expiration of the statute of limitations, excess tax benefits from the exercise and vesting of stock-based compensation, and the revisions of estimated tax balances based on expected tax filings.

In the first nine months of fiscal 2016, the income tax benefit was at an effective tax rate greater than the federal statutory rate primarily due to tax benefits attributable to the expiration of the statute of limitations.

A valuation allowance is required when it is more-likely-than-not that all or a portion of deferred tax assets may not be realized. Assessing the need for a valuation allowance requires management to evaluate, on a quarterly basis, all available evidence, both positive and negative. As of September 30, 2017, the Company continues to believe that the weight of the positive evidence outweighed the negative evidence regarding the realization of its net deferred tax assets.

In the next twelve months, the Company believes it is reasonably possible that the unrecognized tax benefits could decrease by approximately $23.9 million as a result of the resolution of certain outstanding positions.

In the second quarter of fiscal 2017, the Company received a refund of $21.3 million from the Internal Revenue Service associated with federal taxes on deposit.

**Note 7. Long-term Debt**

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| | (In millions) | |
| Term loan, bearing interest at variable rates (rate of 3.24% as of September 30, 2017), maturing in June 2021 | $ 375.0 | $ 390.0 |
| Unamortized deferred financing costs | (1.8) | (2.0) |
| Total senior debt | 373.2 | 388.0 |
| Senior convertible notes, bearing interest at 2.25% per annum, interest payments due in June and December, maturing in December 2023 | 300.0 | 300.0 |
| Unamortized discount and deferred financing costs | (54.6) | (60.0) |
| Total convertible senior notes | 245.4 | 240.0 |
| Convertible subordinated debentures, bearing interest at 4.0625% per annum, interest payments due in June and December, maturing in December 2039 | — | 35.6 |
| Total convertible subordinated notes | — | 35.6 |
| Total debt, net of unamortized discount and deferred financing costs | 618.6 | 663.6 |
| Less: Amounts due within one year | (22.4) | (55.6) |
| Total long-term debt, net of unamortized discount and deferred financing costs | $ 596.2 | $ 608.0 |

*Senior Credit Facility*

On June 17, 2016, the Company entered into a new $750.0 million senior secured senior credit facility (the "Senior Credit Facility"). The Senior Credit Facility matures on June 17, 2021 and consists of (i) a $350.0 million revolving line of credit (the "Revolver") and (ii) a $400.0 million term loan (the "Term Loan"). Under the Revolver, up to an aggregate of $100.0 million is available for the issuance of letters of credit and up to an aggregate of $10.0 million is available for swingline loans. The Senior Credit Facility amends and replaces the prior $300.0 million credit facility which was set to mature in May 2019.

On the closing date, the Company borrowed $100.0 million of loans under the Revolver and used the proceeds to repay in full the $90.0 million of outstanding term loans under the prior credit facility, fees incurred for the Senior Credit Facility, and for general corporate purposes. As of September 30, 2017, the Company had $375.0 million outstanding under the Term Loan, zero borrowings under the Revolver, and had issued $39.1 million letters of credit.

The Term Loan and loans under the Revolver bear interest at LIBOR (or the base rate) plus an applicable margin ranging from 175 to 250 basis points based on the Company's leverage ratio (the "Consolidated Net Leverage Ratio") at the end of the most recent fiscal quarter. In addition to interest, the Company must also pay certain fees including (i) letter of credit fees ranging from 175 to 250 basis points per annum on the amount of issued but undrawn letters of credit and (ii) commitment fees ranging from 30 to 45 basis points per annum on the unused portion of the Revolver.

The Term Loan amortizes at a rate of 5.0% per annum of the original drawn amount starting on September 30, 2016, increasing to 7.5% per annum on September 30, 2018, and increasing to 10.0% per annum from September 30, 2020 to be paid in equal quarterly installments with any remaining amounts, along with outstanding borrowings under the Revolver, due on the maturity date. Outstanding borrowings under the Revolver and the Term Loan may be voluntarily repaid at any time, in whole or in part, without premium or penalty.

Subject to certain restrictions, all the obligations under the Senior Credit Facility are guaranteed by the Company and the existing and future material domestic subsidiaries, other than Easton (the "Guarantors"). As collateral security for the amount outstanding under the Senior Credit Facility and the guarantees thereof, the Company and the Guarantors (collectively, the "Loan Parties") have granted to the administrative agent for the benefit of the lenders: (i) certain equity interests of the Loan Parties; (ii) first priority liens on substantially all of the tangible and intangible personal property of the Loan Parties; and (iii) first priority liens on certain real properties located in Los Angeles, California, Culpepper, Virginia and Redmond, Washington (but excluding all other owned real properties).

The Senior Credit Facility contains covenants requiring the Company to (i) maintain an interest coverage ratio (the "Consolidated Interest Coverage Ratio") of not less than 3.00 to 1.00 and (ii) maintain a Consolidated Net Leverage Ratio not to exceed (a) 4.00 to 1.00 for period ended September 30, 2017; (b) 3.75 to 1.00 for periods ending from December 31, 2017 through September 30, 2018; and (c) 3.50 to 1.00 for periods ending from December 31, 2018 thereafter, provided that the maximum leverage ratio for all periods shall be increased by 0.50 to 1.00 for two quarters after consummation of a qualified acquisition.

The Company may generally make certain investments, redeem debt subordinated to the Senior Credit Facility and make certain restricted payments (such as stock repurchases) if the Company's Consolidated Net Leverage Ratio does not exceed 3.25

to 1.00 pro forma for such transaction. The Company is otherwise subject to customary covenants including limitations on asset sales, incurrence of additional debt, and limitations on certain investments and restricted payments.

| Financial Covenant | Actual Ratios as of September 30, 2017 | Required Ratios |
|---|---|---|
| Consolidated Interest Coverage Ratio, as defined under the Senior Credit Facility | 10.97 to 1.00 | Not less than: 3.00 to 1.00 |
| Consolidated Net Leverage Ratio, as defined under the Senior Credit Facility | 2.47 to 1.00 | Not greater than: 4.00 to 1.00 |

The Company was in compliance with its financial and non-financial covenants as of September 30, 2017.

*2.25% Convertible Senior Notes*

On December 14, 2016, the Company issued $300.0 million aggregate principal amount of 2¼% Notes in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

The Company separately accounted for the liability and equity components of the 2¼% Notes. The initial liability component of the 2¼% Notes was valued based on the present value of the future cash flows using an estimated borrowing rate at the date of the issuance for similar debt instruments without the conversion feature, which equals the effective interest rate of 5.8% on the liability component. The equity component, or debt discount, was initially valued equal to the principal value of the 2¼% Notes, less the liability component. The debt discount is being amortized as a non-cash charge to interest expense over the period from the issuance date through December 15, 2023.

The debt issuance costs of $5.8 million incurred in connection with the issuance of the 2¼% Notes were capitalized and bifurcated into deferred financing costs of $4.7 million and equity issuance costs of $1.1 million. The deferred financing costs are being amortized to interest expense from the issuance date through December 15, 2023.

The 2¼% Notes consisted of the following (in millions, except years, percentages, conversion rate, and conversion price):

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Carrying value, long-term | $ 245.4 | $ 240.0 |
| Unamortized discount and deferred financing costs | 54.6 | 60.0 |
| Principal amount | $ 300.0 | $ 300.0 |
| Carrying amount of equity component, net of equity issuance costs | $ 54.5 | $ 54.5 |
| Remaining amortization period (years) | 6.3 | 7.0 |
| Effective interest rate | 5.8% | 5.8% |
| Conversion rate (shares of common stock per $1,000 principal amount) | 38.4615 | 38.4615 |
| Conversion price (per share of common stock) | $ 26.00 | $ 26.00 |

Based on the Company's closing stock price of $35.01 on September 30, 2017, the if-converted value of the 2¼% Notes exceeded the aggregate principal amount of the 2¼% Notes by $104.0 million.

The following table presents the interest expense components for the 2¼% Notes for the first nine months of fiscal 2017 (in millions):

| | |
|---|---|
| Interest expense-contractual interest | $ 5.1 |
| Interest expense-amortization of debt discount | 5.0 |
| Interest expense-amortization of deferred financing costs | 0.4 |
| | $ 10.5 |

*4.0625% Convertible Subordinated Debentures*

As of September 30, 2017, the Company fully redeemed the outstanding principal amount of its 4 $^{1}/_{16}$% Debentures. In December 2016, the Company notified holders of its 4 $^{1}/_{16}$% Debentures that the Company would redeem, on February 3, 2017, all of their 4 $^{1}/_{16}$% Debentures at a purchase price equal to 100% of the principal amount of the 4 $^{1}/_{16}$% Debentures to be redeemed, plus any accrued and unpaid interest. In January 2017, $35.6 million of the 4 $^{1}/_{16}$% Debentures (the entire amount outstanding as of December 31, 2016) were converted to 3.9 million shares of common stock.

**Note 8. Commitments and Contingencies**

***a. Capital Lease Commitments***

In September 2017, the Company entered into an agreement to lease 122,000-square feet of office space in Huntsville, Alabama. The term of the lease is twenty years and is expected to commence in March 2018 resulting in an estimated financial commitment of $48.8 million representing a present value of $25.1 million. The lease obligation over the next five fiscal years is as follows: zero in fiscal 2017, $1.2 million in fiscal 2018, and approximately $2.0 million each year for fiscal 2019 through fiscal 2021.

In October 2017, the Company entered into an agreement to lease a new 136,000-square-foot advanced manufacturing facility located in Huntsville, Alabama. The term of the lease is thirty-one years and is expected to commence in December 2018 resulting in an estimated financial commitment of $32.8 million representing a present value of $21.0 million. The lease obligation over the next five fiscal years is as follows: zero in fiscal 2017, $0.9 million in fiscal 2018, and $1.6 million each year for fiscal 2019 through fiscal 2021.

***b. Legal Matters***

The Company and its subsidiaries are subject to legal proceedings, including litigation in U.S. federal and state courts, which arise out of, and are incidental to, the ordinary course of the Company's on-going and historical businesses. The Company is also subject from time to time to suits under the U.S. federal False Claims Act, known as "*qui tam*" actions, and to governmental investigations by federal and state agencies. The Company cannot predict the outcome of such proceedings with any degree of certainty. Loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded. These estimates are often initially developed substantially earlier than when the ultimate loss is known, and are refined each quarterly reporting period as additional information becomes available. For legal settlements where the cash payments are fixed and determinable, the Company will estimate an interest factor and discount the liability accordingly.

*Asbestos Litigation*

The Company has been, and continues to be, named as a defendant in lawsuits alleging personal injury or death due to exposure to asbestos in building materials, products, or in manufacturing operations. The majority of cases are pending in Texas and Illinois. There were 63 asbestos cases pending as of September 30, 2017.

Given the lack of any significant consistency to claims (i.e., as to product, operational site, or other relevant assertions) filed against the Company, the Company is generally unable to make a reasonable estimate of the future costs of pending claims or unasserted claims. As of September 30, 2017, the Company has accrued an immaterial amount related to pending claims.

*Inflective, Inc. ("Inflective") Litigation*

On December 18, 2014, Inflective filed a complaint against Aerojet Rocketdyne and Kathleen E. Redd, individually, in the Superior Court of the State of California, Sacramento County, *Inflective, Inc. v Aerojet Rocketdyne, Inc., Kathleen E. Redd, et al, Case No. 34-2014-00173068.* Inflective asserted in the complaint causes for breach of contract, breach of implied contract, false promise, inducing breach of contract, intentional interference with contractual relations, negligent interference with prospective economic relations, and intentional interference with prospective economic relations and sought compensatory damages in excess of $3.0 million, punitive damages, interest and attorney's costs. The complaint arose out of the Company's implementation of ProjectOne, a company-wide enterprise resource planning ("ERP") system, for which Inflective had been a consultant to the Company. After a series of motions and demurrers over nearly two years in which the Court dismissed the claims against Ms. Redd and certain claims against the Company, the Company entered into a settlement of the litigation with Inflective during the second quarter of fiscal 2017 and the case was dismissed with prejudice. The terms of the settlement are not material to the Company's financial statements.

Separately, Satish Rachaiah, a former consultant on ProjectOne (working for Inflective), attempted to intervene in the action and assert claims against Aerojet Rocketdyne arising out of Aerojet Rocketdyne's alleged interference with his employment with Inflective. Aerojet Rocketdyne opposed intervention, and the Court ultimately denied Mr. Rachaiah's motion to intervene. On December 30, 2015, Rachaiah filed a separate lawsuit in the Superior Court of the State of California, Sacramento County, *Satish Rachaiah v. Aerojet Rocketdyne, Inc.*, *Case No. 34-2015-00188516*. The Company received the complaint on April 7, 2016, and an amended complaint was served on June 17, 2016. Rachaiah asserted the same claims in the complaint as attempted when he tried to intervene. On June 3, 2016, the Court granted Rachaiah's motion to consolidate the case with the Inflective litigation, finding that the two cases involve common parties, witnesses, legal issues and facts. Aerojet Rocketdyne filed a demurrer to Rachaiah's first amended complaint on July 22, 2016. On September 26, 2016, the Court granted the demurrer in part and overruled it in part, dismissing the plaintiff's claims for intentional and negligent interference with prospective economic relations with leave to amend. On October 6, 2016, Rachaiah filed a second amended complaint, once again asserting claims for intentional and negligent interference with prospective economic relations. Aerojet

Rocketdyne filed its answer to the second amended complaint on November 11, 2016. Discovery is in process. No liability for the Rachaiah matter has been recorded by the Company as of September 30, 2017.

*Socorro*

On May 12, 2015, a complaint for personal injuries, loss of consortium and punitive damages was filed by James Chavez, Andrew Baca, and their respective spouses, against Aerojet Rocketdyne and the Board of Regents of New Mexico Tech in the Seventh Judicial District, County of Socorro, New Mexico, *James Chavez, et al., vs. Aerojet Rocketdyne, Inc., et al., Case No. D725CV201500047*. Messrs. Chavez and Baca were employees of Aerotek, a contractor to Aerojet Rocketdyne, who were injured when excess energetic materials being managed by the Energetic Materials Research and Testing Center, a research division of New Mexico Tech, ignited in an unplanned manner. The complaint alleges causes of action based on negligence and negligence per se, strict liability, and willful, reckless and wanton conduct against Aerojet Rocketdyne, and seeks unspecified compensatory and punitive damages. The Company has filed its answer and discovery has commenced. Trial is scheduled for February 5, 2018. No liability for this matter has been recorded by the Company as of September 30, 2017.

*Occupational Safety*

On January 16, 2015, the Company received a notice that the State of California, Division of Occupational Safety & Health ("Cal\OSHA"), Bureau of Investigation ("BOI") is conducting an investigation into an accident that occurred at the Rancho Cordova facility in November 2013. The accident involved the deflagration of solid rocket propellant following a remote cutting operation and resulted in injuries to two employees, one of whom ultimately died from his injuries. Cal\OSHA issued nine citations relating to the accident with penalties of approximately $0.1 million, all of which the Company has appealed. The BOI is the criminal investigatory arm of Cal\OSHA and is required by law to investigate any occupational fatality to determine if criminal charges will be recommended. In August 2016, the BOI advised that it had completed its investigation and the criminal aspect of the case was closed. Pre-hearing conferences on the Company's appeal of the citations were held on May 22, 2017 and September 11, 2017. The judge will likely set a hearing date for early 2018.

*Department of Justice ("DOJ") Investigation*

The Company is responding to a civil investigative demand issued by the DOJ in the first quarter of fiscal 2017 requesting information relating to allegations under the False Claims Act that the Company may have previously made false representations to the U.S. government regarding the Company's compliance with certain regulatory cybersecurity requirements. The Company is cooperating with the DOJ in its investigation of the false claim allegations.

***c. Environmental Matters***

The Company is involved in approximately forty environmental matters under the Comprehensive Environmental Response Compensation and Liability Act, the Resource Conservation Recovery Act, and other federal, state, local, and foreign laws relating to soil and groundwater contamination, hazardous waste management activities, and other environmental matters at some of its current and former facilities. The Company is also involved in a number of remedial activities at third party sites, not owned by the Company, where it is designated a potentially responsible party ("PRP") by either the U.S. Environmental Protection Agency ("EPA") and/or a state agency. In many of these matters, the Company is involved with other PRPs. In some instances, the Company's liability and proportionate share of costs have not been determined largely due to uncertainties as to the nature and extent of site conditions and the Company's involvement. While government agencies frequently claim PRPs are jointly and severally liable at such sites, in the Company's experience, interim and final allocations of liability and costs are generally made based on relative contributions of waste or contamination. Anticipated costs associated with environmental remediation that are probable and estimable are accrued. In cases where a date to complete remedial activities at a particular site cannot be determined by reference to agreements or otherwise, the Company projects costs over an appropriate time period not exceeding fifteen years. In such cases, generally the Company does not have the ability to reasonably estimate environmental remediation costs that are beyond this period. Factors that could result in changes to the Company's estimates include completion of current and future soil and groundwater investigations, new claims, future agency demands, discovery of more or less contamination than expected, discovery of new contaminants, modification of planned remedial actions, changes in estimated time required to remediate, new technologies, and changes in laws and regulations.

As of September 30, 2017, the aggregate range of these anticipated environmental costs was $334.4 million to $496.4 million and the accrued amount was $334.4 million. See Note 8(d) for a summary of the environmental reserve activity. Of these accrued liabilities, approximately 99% relates to the Company's U.S. government contracting business and a portion of this liability is recoverable. The significant environmental sites are discussed below. The balance of the accrued liabilities, which are not recoverable from the U.S. government, relate to other sites for which the Company's obligations are probable and estimable.

*Sacramento, California Site*

In 1989, a federal district court in California approved a Partial Consent Decree ("PCD") requiring Aerojet Rocketdyne, among other things, to conduct a Remedial Investigation and Feasibility Study to determine the nature and extent of impacts due to the release of chemicals from the Sacramento, California site, monitor the American River and offsite public water supply wells, operate Groundwater Extraction and Treatment facilities that collect groundwater at the site perimeter, and pay certain government oversight costs. The primary chemicals of concern for both on-site and off-site groundwater are trichloroethylene, perchlorate, and n-nitrosodimethylamine. The PCD has been revised several times, most recently in 2002. The 2002 PCD revision (a) separated the Sacramento site into multiple operable units to allow quicker implementation of remedy for critical areas; (b) required the Company to guarantee up to $75 million (in addition to a prior $20 million guarantee) to assure that Aerojet Rocketdyne's Sacramento remediation activities are fully funded; and (c) removed approximately 2,600 acres of non-contaminated land from the EPA superfund designation.

Aerojet Rocketdyne is involved in various stages of soil and groundwater investigation, remedy selection, design, and remedy construction associated with the operable units. In 2002, the EPA issued a Unilateral Administrative Order ("UAO") requiring Aerojet Rocketdyne to implement the EPA-approved remedial action in the Western Groundwater Operable Unit. An identical order was issued by the California Regional Water Quality Control Board, Central Valley ("Central Valley RWQCB"). On July 7, 2011, the EPA issued Aerojet Rocketdyne its Approval of Remedial Action Construction Completion Report for Western Groundwater Operable Unit and its Determination of Remedy as Operational and Functional. On September 20, 2011, the EPA issued two UAOs to Aerojet Rocketdyne to complete a remedial design and implement remedial action for the Perimeter Groundwater Operable Unit. One UAO addresses groundwater and the other addresses soils within the Perimeter Groundwater Operable Unit. Issuance of the UAOs is the next step in the superfund process for the Perimeter Groundwater Operable Unit. Aerojet Rocketdyne submitted a final Remedial Investigation Report for the Boundary Operable Unit in 2010 and a revised Feasibility Study for the Boundary Operable Unit in 2012. A Record of Decision was issued by the EPA on August 4, 2015. Aerojet Rocketdyne anticipates the EPA will issue a UAO or negotiate a consent decree for implementation of the remedy. A draft Remedial Investigation Report for the Island Operable Unit was submitted in January 2013 and the Final Remedial Investigation Report was issued on September 3, 2015. A portion of the Island Operable Unit, Area 40, is being handled separately and Aerojet Rocketdyne submitted a draft Feasibility Study to the agencies on June 23, 2016. The remaining operable units are under various stages of investigation. On September 22, 2016, the EPA completed its first five-year remedy review of the Sacramento superfund site. The five-year review required by statute and regulation applies to all remedial actions which result in hazardous substances above levels that allow unlimited use and unrestricted exposure. The Company is working with the EPA to address the findings of the five-year remedy review.

Following completion of the five-year review, the EPA required Aerojet Rocketdyne to conduct a vapor intrusion evaluation of several of its Sacramento facility buildings, and off-site businesses and residences. The evaluation was conducted to determine whether and to what extent volatile organic compounds, such as trichloroethylene, may be present in indoor air or in soil at concentrations that exceed EPA thresholds that would require some type of mitigation. Sample results in two buildings resulted in short-term responses, including efforts to increase air flow and prevent vapors from entering the buildings. Off-site soil gas sampling did not identify trichloroethylene concentrations that warranted indoor air monitoring of residences or commercial buildings. A second phase of indoor air sampling which includes resampling a subset of the on-site buildings sampled in the first phase and off-site soil gas sampling, as determined by EPA, began in September 2017.

The entire southern portion of the site known as Rio Del Oro was under state orders issued in the 1990s from the Department of Toxic Substances Control ("DTSC") to investigate and remediate environmental contamination in the soils and the Central Valley RWQCB to investigate and remediate groundwater environmental contamination. On March 14, 2008, the DTSC released all but approximately 400 acres of the Rio Del Oro property from DTSC's environmental orders regarding soil contamination. Aerojet Rocketdyne expects the approximately 400 acres of Rio Del Oro property that remain subject to the DTSC orders to be released once the soil remediation has been completed. The Rio Del Oro property remains subject to the Central Valley RWQCB's orders to investigate and remediate groundwater environmental contamination emanating offsite from such property. Pursuant to a settlement agreement entered into in 2009, Aerojet Rocketdyne and The Boeing Company ("Boeing") have defined responsibilities with respect to future costs and environmental projects relating to this property.

As of September 30, 2017, the estimated range of anticipated costs discussed above for the Sacramento, California site was $202.3 million to $320.3 million and the accrued amount was $202.3 million included as a component of the Company's environmental reserves. Expenditures associated with this matter are partially recoverable. See Note 8(d) below for further discussion on recoverability.

*Baldwin Park Operable Unit ("BPOU")*

As a result of its former Azusa, California operations, in 1994 Aerojet Rocketdyne was named a PRP by the EPA in the area of the San Gabriel Valley Basin superfund site known as the BPOU. Between 1995 and 1997, the EPA issued Special Notice Letters to Aerojet Rocketdyne and eighteen other companies requesting that they implement a groundwater remedy. On June 30, 2000, the EPA issued a UAO ordering the PRPs to implement a remedy consistent with the 1994 record of decision. Aerojet Rocketdyne, along with seven other PRPs (the "Cooperating Respondents") signed a project agreement in late March

2002 with the San Gabriel Basin Water Quality Authority, the Main San Gabriel Basin Watermaster, and five water companies (the "Water Entities"). The project agreement, which had a term of fifteen years, became effective May 9, 2002 and terminated in May 2017. In April 2017, the parties executed a new project agreement which became operational on May 9, 2017. The new agreement has a ten year term and has similar provisions as the 2002 project agreement requiring the Cooperating Respondents to fund through an escrow account the ongoing operation, maintenance, and administrative costs of certain treatment and water distribution facilities owned and operated by the water companies. There are also provisions in the project agreement for maintaining financial assurance.

Aerojet Rocketdyne and three of the remaining Cooperating Respondents entered into an agreement establishing final allocation among them and which also establishes as to the other Cooperating Respondent, that entity's obligation to pay an interim allocation at their current interim allocation and an arbitration process to establish their final allocation for project agreement related costs. Aerojet Rocketdyne's current share of future BPOU costs will be approximately 74%.

As part of Aerojet Rocketdyne's sale of its Electronics and Information Systems ("EIS") business to Northrop in October 2001, the EPA approved a prospective purchaser agreement with Northrop to absolve it of pre-closing liability for contamination caused by the Azusa, California operations, which liability remains with Aerojet Rocketdyne. As part of that agreement, the Company agreed to provide a $25 million guarantee of its obligations under the project agreement.

As of September 30, 2017, the estimated range of anticipated costs was $119.1 million to $155.5 million and the accrued amount was $119.1 million included as a component of the Company's environmental reserves. Expenditures associated with this matter are partially recoverable. See Note 8(d) below for further discussion on recoverability.

*Wabash, Indiana Site*

As part of the Company's automotive business that was divested in 2004, the Company owned and operated a former rubber processing plant in Wabash, Indiana from 1937 to 2004. Pursuant to a request from the Indiana Department of Environmental Management ("IDEM"), the Company conducted an initial site investigation of the soil and groundwater at the site and a report was submitted to IDEM. By letter of June 11, 2014, IDEM directed the Company to conduct additional investigation of the site, including a vapor intrusion investigation in areas in and around the site where trichloroethylene levels in groundwater were found to exceed screening levels for vapor intrusion. Vapor mitigation systems were installed in one residence and one business where indoor air screening levels were exceeded. The Company acquired a separate residence in August 2016 where indoor air screening levels were exceeded and a mitigation system was not economically feasible. The Company anticipates donating the property to the City of Wabash for use in connection with a city park. The Company conducted further investigations of the site in accordance with the IDEM request and approved work plan. The Company met with IDEM on May 24, 2016, to present the results of the further investigation and IDEM requested the Company to submit a remedial action plan. The remedial action plan was submitted in January 2017 and approved by IDEM in March 2017. The work plan focuses on periodic monitoring and specific plans for long term remedial actions for on-site soils which will be deferred until City of Wabash access has been secured and a redevelopment plan is in place. The Company sent demands to other former owners/operators of the site to participate in the site work, but they declined to participate. As of September 30, 2017, the estimated range of the Company's share of anticipated costs for the Wabash, Indiana site was $0.4 million to $0.7 million and the accrued amount was $0.4 million. None of the expenditures related to this matter are recoverable from the U.S. government.

***d. Environmental Reserves and Estimated Recoveries***

*Environmental Reserves*

The Company reviews on a quarterly basis estimated future remediation costs and has an established practice of estimating environmental remediation costs over a fifteen year period, except for those environmental remediation costs with a specific contractual term. Environmental liabilities at the BPOU site are currently estimated through the term of the new project agreement. As the period for which estimated environmental remediation costs lengthens, the reliability of such estimates decreases. These estimates consider the investigative work and analysis of engineers, outside environmental consultants, and the advice of legal staff regarding the status and anticipated results of various administrative and legal proceedings. In most cases, only a range of reasonably possible costs can be estimated. In establishing the Company's reserves, the most probable estimate is used when determinable; otherwise, the minimum amount is used when no single amount in the range is more probable. Accordingly, such estimates can change as the Company periodically evaluates and revises these estimates as new information becomes available. The Company cannot predict whether new information gained as projects progress will affect the estimated liability accrued. The timing of payment for estimated future environmental costs is influenced by a number of factors such as the regulatory approval process, and the time required designing, constructing, and implementing the remedy.

A summary of the Company's environmental reserve activity is shown below:

| | Aerojet Rocketdyne-Sacramento | Aerojet Rocketdyne-BPOU | Other Aerojet Rocketdyne Sites | Total Aerojet Rocketdyne | Other (1) | Total Environmental Reserve |
|---|---|---|---|---|---|---|
| | | | (In millions) | | | |
| December 31, 2016 | $ 210.1 | $ 126.8 | $ 8.5 | $ 345.4 | $ 4.3 | $ 349.7 |
| Additions | 9.7 | 3.1 | 0.9 | 13.7 | 0.6 | 14.3 |
| Expenditures | (17.5) | (10.8) | (1.0) | (29.3) | (0.3) | (29.6) |
| September 30, 2017 | $ 202.3 | $ 119.1 | $ 8.4 | $ 329.8 | $ 4.6 | $ 334.4 |

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(1) Related to the Company's legacy business operations that are primarily non-recoverable from the U.S. government.

The effect of the final resolution of environmental matters and the Company’s obligations for environmental remediation and compliance cannot be accurately predicted due to the uncertainty concerning both the amount and timing of future expenditures and due to regulatory or technological changes. The Company continues its efforts to mitigate past and future costs through pursuit of claims for recoveries from insurance coverage and other PRPs and continued investigation of new and more cost effective remediation alternatives and associated technologies.

As part of the acquisition of the Atlantic Research Corporation (“ARC”) propulsion business in 2003, Aerojet Rocketdyne entered into an agreement with ARC pursuant to which Aerojet Rocketdyne is responsible for up to $20.0 million of costs (“Pre-Close Environmental Costs”) associated with environmental issues that arose prior to Aerojet Rocketdyne’s acquisition of the ARC propulsion business. ARC is responsible for any cleanup costs relating to the ARC acquired businesses in excess of $20.0 million. Pursuant to a separate agreement with the U.S. government which was entered into prior to the completion of the ARC acquisition, these costs are recovered through the establishment of prices for Aerojet Rocketdyne’s products and services sold to the U.S. government. The Company reached the $20.0 million cap on cleanup costs in the first quarter of fiscal 2017 and expects that additional costs will be incurred due to contamination existing at the time of the acquisition and still requiring remediation and monitoring. On May 6, 2016, ARC informed Aerojet Rocketdyne that it was disputing certain costs that Aerojet Rocketdyne attributed to the $20.0 million Pre-Close Environmental Costs (“ARC Claim”). The Company has met with ARC and responded to the ARC Claim on June 23, 2017. Certain costs related to the ARC Claim may be allocable to Aerojet Rocketdyne and will be determined in conjunction with the Company’s evaluation and ultimate resolution of the ARC Claim.

*Estimated Recoveries*

On January 12, 1999, Aerojet Rocketdyne and the U.S. government implemented the October 1997 Agreement in Principle (“Global Settlement”) resolving certain prior environmental and facility disagreements, with retroactive effect to December 1, 1998. Under the Global Settlement, Aerojet Rocketdyne and the U.S. government resolved disagreements about an appropriate cost-sharing ratio with respect to the clean-up costs of the environmental contamination. The Global Settlement cost-sharing ratio does not have a defined term over which costs will be recovered. Additionally, in conjunction with the sale of the EIS business in 2001, Aerojet Rocketdyne entered into an agreement with Northrop (the “Northrop Agreement”) whereby Aerojet Rocketdyne is reimbursed by Northrop for a portion of environmental expenditures eligible for recovery under the Global Settlement, subject to an annual billing limitation of $6.0 million and a cumulative limitation of $189.7 million. The cumulative expenditure limitation of $189.7 million was reached in the second quarter of fiscal 2017. A summary of the Northrop Agreement activity is shown below (in millions):

| | |
|---|---|
| Total reimbursable costs under the Northrop Agreement | $ 189.7 |
| Amount reimbursed to the Company through September 30, 2017 | (123.7) |
| Potential future cost reimbursements available | 66.0 |
| Less: Receivable from Northrop included in the unaudited condensed consolidated balance sheet as of September 30, 2017 | (66.0) |
| Potential future recoverable amounts available under the Northrop Agreement | $ — |

Most of the environmental remediation costs are incurred by the Company's Aerospace and Defense segment, and certain of these costs are allowable to be included in the Company's contracts with the U.S. government. Excluding the receivable from Northrop of $66.0 million, the Company currently estimates approximately 24% of its future Aerospace and Defense segment environmental remediation costs will not likely be reimbursable and are expensed.

Allowable environmental remediation costs are charged to the Company’s contracts as the costs are incurred. Because these costs are recovered through forward-pricing arrangements, the ability of Aerojet Rocketdyne to continue recovering

these costs from the U.S. government depends on Aerojet Rocketdyne's sustained business volume under U.S. government contracts and programs.

While the Company is currently seeking an arrangement with the U.S. government to recover environmental expenditures in excess of the reimbursement ceiling identified in the Northrop Agreement and Global Settlement, there can be no assurances that such a recovery will be obtained, or if not obtained, that such unreimbursed environmental expenditures will not have a materially adverse effect on the Company's operating results, financial condition, and/or cash flows.

*Environmental reserves and estimated recoveries impact to unaudited condensed consolidated statements of operations*

The expenses associated with adjustments to the environmental reserves are recorded as a component of other expense, net in the unaudited condensed consolidated statements of operations. Summarized financial information for the impact of environmental reserves and recoveries to the unaudited condensed consolidated statements of operations is set forth below:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions) | | | |
| Estimated recoverable amounts under U.S. government contracts | $ 4.4 | $ 53.7 | $ 12.1 | $ 60.0 |
| Expense to unaudited condensed consolidated statement of operations | 0.5 | 16.4 | 2.2 | 16.9 |
| Total environmental reserve adjustments | $ 4.9 | $ 70.1 | $ 14.3 | $ 76.9 |

**Note 9. Arrangements with Off-Balance Sheet Risk**

As of September 30, 2017, arrangements with off-balance sheet risk consisted of:

- $39.1 million in outstanding commercial letters of credit, the majority of which may be renewed, primarily to collateralize obligations for environmental remediation and insurance coverage.
- $55.4 million in outstanding surety bonds to primarily satisfy indemnification obligations for environmental remediation coverage.
- Up to $120.0 million aggregate in guarantees by the Company of Aerojet Rocketdyne's obligations to U.S. government agencies for environmental remediation activities.
- Guarantees, jointly and severally, by the Company's material domestic subsidiaries of their obligations under the Senior Credit Facility.

In addition to the items discussed above, the Company has and will from time to time enter into certain types of contracts that require the Company to indemnify parties against potential third-party and other claims. These contracts primarily relate to: (i) divestiture agreements, under which the Company may provide customary indemnification to purchasers of its businesses or assets including, for example, claims arising from the operation of the businesses prior to disposition, and liability to investigate and remediate environmental contamination existing prior to disposition; (ii) certain real estate leases, under which the Company may be required to indemnify property owners for claims arising from the use of the applicable premises; and (iii) certain agreements with officers and directors, under which the Company may be required to indemnify such persons for liabilities arising out of their relationship with the Company. The terms of such obligations vary. Generally, a maximum obligation is not explicitly stated.

Additionally, the Company issues purchase orders to suppliers for equipment, materials, and supplies in the normal course of business. These purchase commitments are generally for volumes consistent with anticipated requirements to fulfill purchase orders or contracts for product deliveries received, or expected to be received, from customers and would be subject to reimbursement if a cost-plus contract is terminated. During the third quarter of fiscal 2017, the Company outsourced certain information technology and cyber security functions resulting in a significant financial commitment over the next five years.

The Company provides product warranties in conjunction with certain product sales. The majority of the Company's warranties are a one-year standard warranty for parts, workmanship, and compliance with specifications. On occasion, the Company has made commitments beyond the standard warranty obligation. While the Company has contracts with warranty provisions, there is not a history of any significant warranty claims experience. A reserve for warranty exposure is made on a product by product basis when it is both estimable and probable. These costs are included in the program's estimate at completion and are expensed in accordance with the Company's revenue recognition methodology as allowed under GAAP for that particular contract.

**Note 10. Cost Reduction Plans**

During fiscal 2015, the Company initiated the first phase ("Phase I") of the competitive improvement program (the "CIP") comprised of activities and initiatives aimed at reducing costs in order for the Company to continue to compete successfully. Phase I is composed of three major components: (i) facilities optimization and footprint reduction; (ii) product affordability; and (iii) reduced administrative and overhead costs. On April 6, 2017, the Board of Directors approved the second phase ("Phase II") of the Company's previously announced CIP. Pursuant to Phase II, the Company plans to expand its CIP and further consolidate its Sacramento, California, and Gainesville, Virginia sites, while centralizing and expanding its existing presence in Huntsville, Alabama. The Company currently estimates that it will incur restructuring and related costs of the Phase I and II programs of approximately $235.1 million (including approximately $60.5 million of capital expenditures). The Company has incurred $71.6 million of such costs through September 30, 2017, including $29.8 million in capital expenditures. A summary of the Company's liabilities related to Phase I and II activity is shown below:

| | Severance | Retention | Total |
|---|---|---|---|
| | | (In millions) | |
| December 31, 2016 | $ 6.8 | $ 2.1 | $ 8.9 |
| Accrual | 33.3 | 4.3 | 37.6 |
| Payments | (2.0) | (0.3) | (2.3) |
| September 30, 2017 | $ 38.1 | $ 6.1 | $ 44.2 |

The costs associated with Phase I and II will be a component of the Company's U.S. government forward pricing rates, and therefore, will be recovered through the pricing of the Company's products and services to the U.S. government. In addition to the employee-related Phase I and II obligations, the Company incurred non-cash accelerated depreciation expense of $3.5 million and $0.6 million in the first nine months of fiscal 2017 and 2016, respectively, associated with changes in the estimated useful lives of long-lived assets.

**Note 11. Retirement Benefits**

*Pension Benefits*

The Company's defined benefit pension plan future benefit accrual was discontinued in fiscal 2009. As of the last measurement date of December 31, 2016, the assets, projected benefit obligations, and unfunded pension obligation for the tax-qualified pension plans were approximately $925.1 million, $1,492.1 million, and $548.2 million, respectively.

The Company expects to make cash contributions of $75.8 million to its tax-qualified defined benefit pension plan in fiscal 2017 of which $34.0 million is expected to be recoverable from its U.S. government contracts in fiscal 2017 with the remaining $41.8 million expected to be recoverable from its U.S. government contracts in the future. The Company has funded $67.0 million to its tax-qualified defined benefit pension plan in the first nine months of fiscal 2017 and in the fourth quarter of fiscal 2017 expects to fund $8.8 million. The Company generally is able to recover cash contributions related to its tax-qualified defined benefit pension plan as allowable costs on U.S. government contracts, but there can be differences between when the Company contributes cash to its tax-qualified defined benefit pension plan under pension funding rules and recovers the costs under the U.S. government Cost Accounting Standards.

On October 17, 2017, the Company's tax-qualified defined benefit pension plan purchased non-participating annuity contracts in the amount of $34.7 million for approximately 2,800 participants which will reduce future service costs of the pension plan.

The funded status of the Company's tax-qualified pension plan may be adversely affected by the investment experience of the plan's assets, by any changes in U.S. law and by changes in the statutory interest rates used by tax-qualified pension plans in the U.S. to calculate funding requirements. Accordingly, if the performance of the plan's assets does not meet assumptions, if there are changes to the Internal Revenue Service regulations or other applicable law, or if other actuarial assumptions are modified, future contributions to the underfunded pension plans could be higher than the Company expects.

*Medical and Life Insurance Benefits*

The Company provides medical and life insurance benefits to certain eligible retired employees, with varied coverage by employee group. Generally, employees hired after January 1, 1997, are not eligible for retiree medical and life insurance benefits. The medical benefit plan provides for cost sharing between the Company and its retirees in the form of retiree contributions, deductibles, and coinsurance. Medical and life insurance benefit obligations are unfunded. Medical and life insurance benefit cash payments for eligible retired employees are recoverable from the Company's U.S. government contracts.

Components of retirement benefit expense (benefit) are:

| | Pension Benefits | | Postretirement Medical and Life Insurance Benefits | |
|---|---|---|---|---|
| | Three months ended September 30, | | | |
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions) | | | |
| Service cost | $ 3.7 | $ 3.6 | $ — | $ — |
| Interest cost on benefit obligation | 14.4 | 16.0 | 0.4 | 0.5 |
| Assumed return on plan assets | (16.1) | (17.5) | — | — |
| Amortization of prior service credits | — | — | — | (0.3) |
| Recognized net actuarial losses (gains) | 17.0 | 15.9 | (1.1) | (0.9) |
| Retirement benefit expense (benefit) | $ 19.0 | $ 18.0 | $ (0.7) | $ (0.7) |

| | Pension Benefits | | Postretirement Medical and Life Insurance Benefits | |
|---|---|---|---|---|
| | Nine months ended September 30, | | | |
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions) | | | |
| Service cost | $ 11.2 | $ 10.5 | $ — | $ — |
| Interest cost on benefit obligation | 43.2 | 48.1 | 1.1 | 1.4 |
| Assumed return on plan assets | (48.4) | (52.6) | — | — |
| Amortization of prior service credits | 0.1 | 0.1 | (0.1) | (0.9) |
| Recognized net actuarial losses (gains) | 50.9 | 47.8 | (3.1) | (2.7) |
| Retirement benefit expense (benefit) | $ 57.0 | $ 53.9 | $ (2.1) | $ (2.2) |

**Note 12. Operating Segments and Related Disclosures**

The Company’s operations are organized into two operating segments based on different products and customer bases: Aerospace and Defense, and Real Estate.

The Company evaluates its operating segments based on several factors, of which the primary financial measure is segment performance. Segment performance represents net sales less applicable costs, expenses and unusual items relating to the segment operations. Segment performance excludes corporate income and expenses, legacy income or expenses, unusual items not related to the segment operations, interest expense, interest income, and income taxes.

Customers that represented more than 10% of net sales for the periods presented were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Lockheed Martin Corporation | 24% | 25% | 22% | 29% |
| United Launch Alliance | 22% | 24% | 22% | 21% |
| NASA | 19% | 14% | 19% | 14% |
| Raytheon Company | 15% | 22% | 15% | 19% |

The Company's sales to each of the major customers listed above involve several product lines and programs.

Sales to the U.S. government and its agencies, including sales to the Company’s significant customers discussed above, were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Percentage of net sales | 94% | 92% | 93% | 91% |

Selected financial information for each operating segment is as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions) | | | |
| **Net Sales:** | | | | |
| Aerospace and Defense | $ 482.5 | $ 462.2 | $ 1,344.2 | $ 1,224.3 |
| Real Estate | 1.6 | 1.6 | 4.8 | 4.8 |
| **Total Net Sales** | $ 484.1 | $ 463.8 | $ 1,349.0 | $ 1,229.1 |
| **Segment Performance:** | | | | |
| **Aerospace and Defense** | $ 53.5 | $ 46.4 | $ 151.6 | $ 122.3 |
| Environmental remediation provision adjustments | (0.5) | (16.4) | (1.6) | (16.8) |
| Retirement benefits, net (1) | (6.4) | (5.6) | (14.4) | (16.8) |
| Unusual items | 0.1 | (0.2) | 2.0 | — |
| **Aerospace and Defense Total** | 46.7 | 24.2 | 137.6 | 88.7 |
| **Real Estate** | 0.5 | 0.8 | 2.1 | 2.5 |
| **Total Segment Performance** | $ 47.2 | $ 25.0 | $ 139.7 | $ 91.2 |
| **Reconciliation of segment performance to income (loss) before income taxes:** | | | | |
| Segment performance | $ 47.2 | $ 25.0 | $ 139.7 | $ 91.2 |
| Interest expense | (7.7) | (5.9) | (22.9) | (27.4) |
| Interest income | 1.0 | 0.1 | 2.3 | 0.4 |
| Stock-based compensation expense | (11.0) | (2.3) | (21.2) | (7.7) |
| Corporate retirement benefits | (5.0) | (4.8) | (15.0) | (14.2) |
| Corporate and other expense, net | (5.9) | (3.3) | (17.9) | (13.0) |
| Unusual items | — | (34.1) | (1.0) | (34.5) |
| **Income (loss) before income taxes** | $ 18.6 | $ (25.3) | $ 64.0 | $ (5.2) |

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(1) Retirement benefits are net of cash funding to the Company's tax-qualified defined benefit pension plan which are recoverable costs under the Company's U.S. government contracts. The Company's recoverable tax-qualified pension costs in the third quarter and first nine months of fiscal 2017 totaled $6.9 million and $25.5 million, respectively. The Company's recoverable tax-qualified pension costs in the third quarter and first nine months of fiscal 2016 totaled $6.9 million and $20.7 million, respectively.

**Note 13. Unusual Items**

Total unusual items, comprised of a component of other expense, net and loss on debt in the unaudited condensed consolidated statements of operations, was as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions) | | | |
| Unusual items | | | | |
| Legal related matters | $ (0.1) | $ 0.2 | $ (2.0) | $ — |
| Loss on debt | — | 34.1 | — | 34.5 |
| Acquisition costs | — | — | 1.0 | — |
| | $ (0.1) | $ 34.3 | $ (1.0) | $ 34.5 |

*Fiscal 2017 activity:*

The Company recorded $2.0 million of realized gains, net of interest associated with the failure to register with the SEC the issuance of certain of the Company’s common shares under the defined contribution 401(k) employee benefit plan (see Note 4(j)).

The Company recorded $1.0 million of costs related to the acquisition of Coleman (see Note 5).

*Fiscal 2016 activity:*

On July 18, 2016, the Company redeemed $460.0 million principal amount of its 7.125% Second-Priority Senior Secured Notes ("7 1/8% Notes"), representing all of the outstanding 7 1/8% Notes, at a redemption price equal to 105.344% of the principal amount, plus accrued and unpaid interest. The Company incurred a pre-tax charge of $34.1 million in the third quarter of fiscal 2016 associated with the extinguishment of the 7 1/8% Notes. The $34.1 million pre-tax charge was comprised of $24.6 million paid in excess of the par value and $9.5 million associated with the write-off of unamortized deferred financing costs. The Company funded the redemption in part through a $400.0 million drawdown from its Term Loan facility.

The Company retired $13.0 million principal amount of its delayed draw term loan resulting in a loss of $0.3 million.

The Company recorded a charge of $0.1 million associated with the amendment to the Senior Credit Facility.

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

*Unless otherwise indicated or required by the context, as used in this Quarterly Report on Form 10-Q, the terms "the Company," "we," "our" and "us" refer to Aerojet Rocketdyne Holdings, Inc. and all of its subsidiaries that are consolidated in conformity with accounting principles generally accepted in the United States of America ("GAAP").*

The preparation of the consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. In addition, since our operating cycle is primarily based on long-term contracts with various delivery schedules, our operating results for interim periods may not be indicative of the results of operations for a full year or future periods. This section contains a number of forward-looking statements, all of which are based on current expectations and are subject to risks and uncertainties including those described in this Quarterly Report under the heading "Forward-Looking Statements." Actual results may differ materially. This section should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and periodic reports subsequently filed with the Securities and Exchange Commission ("SEC").

**Overview**

We are a manufacturer of aerospace and defense products and systems with a real estate segment. Our operations are organized into two segments:

*Aerospace and Defense* — includes the operations of our wholly-owned subsidiary Aerojet Rocketdyne, Inc. ("Aerojet Rocketdyne"), a leading technology-based designer, developer and manufacturer of aerospace and defense products and systems for the United States ("U.S.") government, including the Department of Defense ("DoD"), the National Aeronautics and Space Administration ("NASA"), major aerospace and defense prime contractors as well as portions of the commercial sector.

*Real Estate* — includes the activities of our wholly-owned subsidiary Easton Development Company, LLC ("Easton") related to the re-zoning, entitlement, sale, and leasing of our excess real estate assets. We currently are in the process of seeking zoning changes and other governmental approvals on our excess real estate assets to optimize their value.

A summary of the significant financial highlights for the third quarter of fiscal 2017 which management uses to evaluate our operating performance and financial condition is presented below.

- Net sales for the third quarter of fiscal 2017 totaled $484.1 million compared with $463.8 million for the third quarter of fiscal 2016.
- Net income for the third quarter of fiscal 2017 was $12.6 million, or $0.17 diluted income per share, compared with a net loss of $(11.1) million, or $(0.17) loss per share, for the third quarter of fiscal 2016.
- Adjusted EBITDAP (Non-GAAP measure*) for the third quarter of fiscal 2017 was $55.2 million compared with $40.6 million for the third quarter of fiscal 2016.
- Segment performance before environmental remediation provision adjustments, retirement benefits, net, and unusual items (Non-GAAP measure*) was $54.0 million for the third quarter of fiscal 2017, compared with $47.2 million for the third quarter of fiscal 2016.
- Cash used in operating activities in the third quarter of fiscal 2017 totaled $(11.8) million compared with $45.1 million of cash provided by operating activities in the third quarter of fiscal 2016.
- Total funded backlog as of September 30, 2017 was $2.1 billion compared with $2.3 billion as of December 31, 2016.

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* We provide Non-GAAP measures as a supplement to financial results based on GAAP. A reconciliation of the Non-GAAP measures to the most directly comparable GAAP measures is presented later in the Management's Discussion and Analysis under the heading "Operating Segment Information" and "Use of Non-GAAP Financial Measures."

We are operating in an environment that is characterized by both increasing complexity in the global security environment and continuing worldwide economic pressures. A significant component of our strategy in this environment is to focus on delivering excellent performance to our customers, driving improvements and efficiencies across our operations, and creating value through the enhancement and expansion of our business.

We continuously evaluate a broad range of options that could be implemented to increase operational efficiency across all sites, and improve our overall market competitiveness. Our decisions will be focused on moving us forward to solidify our leadership in the propulsion markets.

Some of the significant challenges we face are as follows: dependence upon U.S. government programs and contracts, future reductions or changes in U.S. government spending in our markets, implementation of the competitive improvement program (the "CIP"), environmental matters, capital structure, and our underfunded retirement benefit plans.

**Major Customers**

The principal end user customers of our products and technology are primarily agencies of the U.S. government. Since a majority of our sales are, directly or indirectly, to the U.S. government, funding for the purchase of our products and services generally follows trends in U.S. aerospace and defense spending. However, individual U.S. government agencies, which include the military services, NASA, the Missile Defense Agency, and the prime contractors that serve these agencies, exercise independent purchasing power within "budget top-line" limits. Therefore, sales to the U.S. government are not regarded as sales to one customer, but rather each contracting agency is viewed as a separate customer.

Sales to the U.S. government and its agencies, including sales to our significant customers disclosed below, were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Percentage of net sales | 94% | 92% | 93% | 91% |

The RS-25 program, which is comprised of several contracts and included in U.S. government sales, represented 16% and 13% of net sales for the third quarter of fiscal 2017 and 2016, respectively. In addition, the RS-25 program represented 16% and 12% of net sales for the first nine months of fiscal 2017 and 2016, respectively. The Terminal High Altitude Area Defense ("THAAD") program, which is comprised of several contracts and included in U.S. government sales, was less than 10% of net sales for the third quarter and first nine months of fiscal 2017. The THAAD program represented 13% and 14% of net sales for the third quarter and first nine months of fiscal 2016, respectively. The Standard Missile program, which is comprised of several contracts and included in U.S. government sales, was less than 10% of net sales for the third quarter and first nine months of fiscal 2017. The Standard Missile program represented 12% and 10% of net sales for the third quarter and first nine months of fiscal 2016, respectively.

Customers that represented more than 10% of net sales for the periods presented were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Lockheed Martin Corporation | 24% | 25% | 22% | 29% |
| United Launch Alliance | 22% | 24% | 22% | 21% |
| NASA | 19% | 14% | 19% | 14% |
| Raytheon Company | 15% | 22% | 15% | 19% |

Our sales to each of the major customers listed above involve several product lines and programs.

**Industry Update**

Our primary aerospace and defense customers include the DoD and its agencies, NASA, and the prime contractors that supply products to these customers. We rely on U.S. government spending on aerospace and defense products and systems, and our backlog depends, in large part, on continued funding by the U.S. government for the programs in which we are involved. These funding levels are not generally correlated with any specific economic cycle, but rather follow the cycle of general public policy and political support for this type of funding. Moreover, although our contracts often contemplate that our services will be performed over a period of several years, the U.S. Congress must appropriate funds for a given program and the U.S. President must sign into law such appropriations legislation each government fiscal year ("GFY") and may significantly increase, decrease or eliminate, funding for a program. A decrease in DoD and/or NASA expenditures, the elimination or curtailment of a material program in which we are or hope to be involved, or changes in payment patterns of our customers as a result of changes in U.S. government outlays, could have a material adverse effect on our operating results, financial condition, and/or cash flows.

Congress was not able to pass full year appropriations for either DoD or NASA prior to the start of GFY 2017 on October 1, 2016, necessitating a short-term Continuing Resolution ("CR") into December 2016. After the 2016 U.S. Presidential Election in November 2016, Congress passed another CR into mid-2017 to allow the new Administration an opportunity to shape federal spending. On May 5, 2017, President Trump signed into law the Consolidated Appropriations Act of 2017, an omnibus appropriations bill for GFY 2017, including appropriations for DoD and NASA; however, the delayed completion of the GFY2017 spending bills resulted in a delay to the release of the President's Budget Request for GFY2018. With a truncated legislative cycle, Congress was unable to pass GFY 2018 bills before October 1, 2017, necessitating another CR through December 8, 2017.

The Space Launch Systems ("SLS") appears to remain a top Congressional priority as the CR included a provision to allow NASA the funding flexibility for SLS and deep exploration to remain on track. The SLS program also has enjoyed wide,

bipartisan support in both chambers of Congress. We maintain a strong relationship with NASA and our propulsion systems have been powering NASA launch vehicles and spacecraft since the inception of the U.S. space program. Our booster, upper stage and Orion vehicle propulsion systems are currently baselined on the new SLS vehicle and both upper stage and booster engines are in development for future SLS variants. Due to the retirement of the space shuttle fleet, U.S. astronauts have been dependent on Russian Soyuz flights for access to and from the International Space Station ("ISS") for the better part of this decade. NASA has been working to re-establish U.S. manned space capability as soon as possible through development of a new “space taxi” to ferry astronauts and cargo to the ISS. In 2014, Boeing’s CST-100 Starliner capsule, powered by Aerojet Rocketdyne propulsion, was selected by NASA to transport astronauts to and from the ISS. As Boeing’s business partner, Aerojet Rocketdyne will be providing the propulsion system for this new capsule, thereby supplementing its work for NASA on the SLS designed for manned deep space exploration. In both instances, we have significant propulsion content and we look forward to supporting these generational programs for NASA.

The competitive dynamics of our multi-faceted marketplace vary by product line and customer as we experience many of the same influences felt by the broader aerospace and defense industry. The large majority of products we manufacture are highly complex, technically sophisticated and extremely hazardous to build, demanding rigorous manufacturing procedures and highly specialized manufacturing equipment. While historically these factors, coupled with the high cost to establish the infrastructure required to meet these needs, posed substantial barriers to entry, modern design tools and manufacturing techniques (e.g., additive manufacturing) available to new entrants with the ability to self-fund start-up as well as development costs has led to increased competition in space related markets. To date, the competition has been limited to a few participants who tend to be narrowly focused on products that are sub-elements of our overall product portfolio. For example, entrepreneurs such as SpaceX and Blue Origin, who have been or are in the process of developing liquid fuel propulsion capabilities are primarily focused on the development of space propulsion systems for heavy lift launch vehicles and are not pursuing or participating in the missile defense or tactical propulsion business segments that make up a substantial portion of our overall business. These new entrepreneurs have signaled their intent to compete primarily on price and are therefore bringing pressure to bear on existing cost paradigms and manufacturing methodologies.

**Competitive Improvement Program**

During fiscal 2015, we initiated the first phase ("Phase I") of the CIP comprised of activities and initiatives aimed at reducing costs in order for us to continue to compete successfully. Phase I is composed of three major components: (i) facilities optimization and footprint reduction; (ii) product affordability; and (iii) reduced administrative and overhead costs. On April 6, 2017, the Board of Directors approved the second phase (“Phase II”) of our previously announced CIP. Pursuant to Phase II, our plans are to expand CIP and further consolidate our Sacramento, California, and Gainesville, Virginia sites, while centralizing and expanding our existing presence in Huntsville, Alabama.

When fully implemented, we anticipate that the CIP will result in annual cost reductions as follows (in millions):

| | | |
|---|---|---|
| Annual cost reductions related to Phase I (expected during 2019) | $ | 145.0 |
| Annual cost reductions related to Phase II (expected during 2021) | | 85.0 |
| Total annual cost reductions | $ | 230.0 |

We currently estimate that we will incur restructuring and related costs of the Phase I and II programs of approximately $235.1 million (including approximately $60.5 million of capital expenditures). We have incurred $71.6 million through September 30, 2017, including $29.8 million in capital expenditures.

**Environmental Matters**

Our current and former business operations are subject to, and affected by, federal, state, local, and foreign environmental laws and regulations relating to the discharge, treatment, storage, disposal, investigation, and remediation of certain materials, substances, and wastes. Our policy is to conduct our business with due regard for the preservation and protection of the environment. We continually assess compliance with these regulations and we believe our current operations are materially in compliance with all applicable environmental laws and regulations.

A summary of our recoverable amounts, environmental reserves, and estimated range of liability as of September 30, 2017 is presented below:

| | Recoverable Amounts (1) | Environmental Reserves | Estimated Range of Liability |
|---|---|---|---|
| | | (In millions) | |
| Sacramento | $ 153.1 | $ 202.3 | $202.3 - $320.3 |
| Baldwin Park Operable Unit | 90.1 | 119.1 | 119.1 - 155.5 |
| Other Aerojet Rocketdyne sites | 8.4 | 8.4 | 8.4 - 14.3 |
| Other sites | 0.6 | 4.6 | 4.6 - 6.3 |
| Total | $ 252.2 | $ 334.4 | $334.4 - $496.4 |

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(1) Excludes the receivable from Northrop Grumman Corporation ("Northrop") of $66.0 million as of September 30, 2017 related to environmental costs already paid (and therefore not reserved) by the Company in prior years and reimbursable under our agreement with Northrop.

Most of our environmental costs are incurred by our Aerospace and Defense segment, and certain of these future costs are allowable to be included in our contracts with the U.S. government. The cumulative expenditure limitation under our agreement with Northrop was reached in the second quarter of fiscal 2017. See Note 8(c) and (d) of the Notes to Unaudited Condensed Consolidated Financial Statements.

**Capital Structure**

We have a substantial amount of debt for which we are required to make interest and principal payments. Interest on long-term financing is not a recoverable cost under our U.S. government contracts. Debt outstanding is presented below:

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| | (In millions) | |
| Total debt | $ 618.6 | $ 663.6 |
| Plus: unamortized debt discount and deferred financing costs | 56.4 | 62.0 |
| Debt principal | $ 675.0 | $ 725.6 |

**Retirement Benefits**

We expect to make cash contributions of $75.8 million to our tax-qualified defined benefit pension plan in fiscal 2017 of which $34.0 million is expected to be recoverable from our U.S. government contracts in fiscal 2017 with the remaining $41.8 million expected to be recoverable from our U.S. government contracts in the future. We have funded $67.0 million to our tax-qualified defined benefit pension plan in the first nine months of fiscal 2017 and in the fourth quarter of fiscal 2017 we expect to fund $8.8 million. We generally are able to recover cash contributions related to our tax-qualified defined benefit pension plan as allowable costs on our U.S. government contracts, but there can be differences between when we contribute cash to our tax-qualified defined benefit pension plan under pension funding rules and recover it under the Cost Accounting Standards.

The funded status of our retirement benefit plans may be adversely affected by investment experience, by any changes in U.S. law and by changes in the statutory interest rates used by tax-qualified pension plans in the U.S. to calculate funding requirements. Accordingly, if the performance of our retirement benefit assets does not meet our assumptions, if there are changes to the Internal Revenue Service regulations or other applicable law or if other actuarial assumptions are modified, our future contributions to our underfunded retirement benefit plans could be higher than we expect.

Additionally, the level of returns on retirement benefit assets, changes in interest rates, changes in legislation, and other factors affect our financial results. The timing of recognition of retirement benefit expense or income in our financial statements differs from the timing of the required funding under the Pension Protection Act or the amount of funding that can be recorded in our overhead rates through our U.S. government contracting business.

**Results of Operations**

**Net Sales:**

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change* | 2017 | 2016 | Change** |
| | | | (In millions) | | | |
| Net sales: | $ 484.1 | $ 463.8 | $ 20.3 | $ 1,349.0 | $ 1,229.1 | $ 119.9 |

* *Primary reason for change.* The increase in net sales was primarily due to an increase of $31.3 million in space programs primarily driven by the RS-25 program development and integration effort in support of the SLS development program. The increase in net sales was partially offset by a decrease of $20.2 million in defense programs primarily driven by lower deliveries on the THAAD and Standard Missile programs partially offset by the net sales generated from the Coleman Aerospace acquisition.

** *Primary reason for change.* The increase in net sales was primarily due to an increase of $162.6 million in space programs primarily driven by the following (i) the RS-25 program development and integration effort in support of the SLS development program; (ii) increased development effort and production volume on the Commercial Crew Development program; and (iii) increased deliveries on the Atlas V program. The increase in net sales was partially offset by a decrease of $52.2 million in defense programs primarily driven by lower deliveries on the THAAD and Standard Missile programs partially offset by the net sales generated from the Coleman Aerospace acquisition.

**Cost of Sales (exclusive of items shown separately below):**

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change* | 2017 | 2016 | Change** |
| | | | (In millions, except percentage amounts) | | | |
| Cost of sales (exclusive of items shown separately below): | $ 417.1 | $ 405.4 | $ 11.7 | $ 1,153.7 | $ 1,071.6 | $ 82.1 |
| Percentage of net sales | 86.2% | 87.4% | | 85.5% | 87.2% | |
| Percentage of net sales excluding retirement benefits | 83.4% | 84.7% | | 82.6% | 84.1% | |
| Components of cost of sales: | | | | | | |
| Cost of sales excluding retirement benefits | $ 403.8 | $ 392.9 | $ 10.9 | $ 1,113.8 | $ 1,034.1 | $ 79.7 |
| Retirement benefits | 13.3 | 12.5 | 0.8 | 39.9 | 37.5 | 2.4 |
| Cost of sales | $ 417.1 | $ 405.4 | $ 11.7 | $ 1,153.7 | $ 1,071.6 | $ 82.1 |

* *Primary reason for change.* The decrease in cost of sales as a percentage of net sales excluding retirement benefits was primarily due to favorable contract performance on the THAAD program due to reduced program risks and cost reductions.

** *Primary reason for change.* The decrease in cost of sales as a percentage of net sales excluding retirement benefits was primarily due to favorable contract performance on the THAAD program due to reduced program risks and cost reductions partially offset by cost growth and manufacturing inefficiencies in the first nine months of fiscal 2017 on electric propulsion contracts.

**Selling, General and Administrative ("SG&A"):**

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change* | 2017 | 2016 | Change** |
| | (In millions, except percentage amounts) | | | | | |
| SG&A: | $ 22.5 | $ 10.8 | $ 11.7 | $ 55.7 | $ 36.0 | $ 19.7 |
| Percentage of net sales | 4.6% | 2.3% | | 4.1% | 2.9% | |
| Components of SG&A: | | | | | | |
| SG&A excluding retirement benefits and stock-based compensation | $ 6.5 | $ 3.7 | $ 2.8 | $ 19.5 | $ 14.1 | $ 5.4 |
| Stock-based compensation | 11.0 | 2.3 | 8.7 | 21.2 | 7.7 | 13.5 |
| Retirement benefits | 5.0 | 4.8 | 0.2 | 15.0 | 14.2 | 0.8 |
| SG&A | $ 22.5 | $ 10.8 | $ 11.7 | $ 55.7 | $ 36.0 | $ 19.7 |

* *Primary reason for change.* The increase in SG&A expense was primarily driven by an increase of $8.7 million in stock-based compensation primarily as a result of increases in the fair value of stock appreciation rights.

** *Primary reason for change.* The increase in SG&A expense was primarily driven by an increase of $13.5 million in stock-based compensation primarily as a result of increases in the fair value of stock appreciation rights, the accelerated vesting of stock awards to a former executive officer, and the August 2016 stock award granted to the Executive Chairman that vested according to the attainment of share prices ranging from $22 per share to $27 per share of our common stock.

**Depreciation and Amortization:**

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change* | 2017 | 2016 | Change* |
| | (In millions) | | | | | |
| Depreciation and amortization: | $ 18.6 | $ 15.4 | $ 3.2 | $ 54.0 | $ 45.9 | $ 8.1 |
| Components of depreciation and amortization: | | | | | | |
| Depreciation | $ 15.2 | $ 12.1 | $ 3.1 | $ 43.9 | $ 35.9 | $ 8.0 |
| Amortization | 3.4 | 3.3 | 0.1 | 10.1 | 10.0 | 0.1 |

* *Primary reason for change.* The increase in depreciation expense was primarily the result of increased accelerated depreciation associated with changes in the estimated useful lives of long-lived assets and capital projects being placed in service to support the cost saving initiatives of the CIP.

**Other Expense, net and loss on debt:**

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change* | 2017 | 2016 | Change** |
| | (In millions) | | | | | |
| Other expense, net and loss on debt: | $ 0.6 | $ 51.7 | $ (51.1) | $ 1.0 | $ 53.8 | $ (52.8) |

* *Primary reason for change.* The decrease was primarily due to a decrease of $34.4 million in unusual items (discussed below) and a decrease of $15.9 million in environmental remediation expenses (see Note 8(d) of the Notes to Unaudited Condensed Consolidated Financial Statements).

** *Primary reason for change.* The decrease was primarily due to a decrease of $35.5 million in unusual items (discussed below) and a decrease of $14.7 million in environmental remediation expenses (see Note 8(d) of the Notes to Unaudited Condensed Consolidated Financial Statements).

Total unusual items, comprised of a component of other expense, net and loss on debt in the Unaudited Condensed Consolidated Statements of Operations, was as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions) | | | |
| Unusual items | | | | |
| Legal related matters | $ (0.1) | $ 0.2 | $ (2.0) | $ — |
| Loss on debt | — | 34.1 | — | 34.5 |
| Acquisition costs | — | — | 1.0 | — |
| | $ (0.1) | $ 34.3 | $ (1.0) | $ 34.5 |

*Fiscal 2017 Activity:*

We recorded $2.0 million of realized gains, net of interest associated with the failure to register with the SEC the issuance of certain of our common shares under the defined contribution 401(k) employee benefit plan. On May 30, 2017, we made a registered rescission offer to buy back unregistered shares from eligible Plan participants at the original purchase price plus interest, or to reimburse eligible Plan participants for losses they may have incurred if their shares had been sold. The registered rescission offer expired on June 30, 2017 and settlement payments of $3.5 million under the offer have been completed in the third quarter of fiscal 2017.

We recorded $1.0 million of costs related to the acquisition of Coleman Aerospace from L3 Technologies, Inc. (see Note 5 of the Notes to Unaudited Condensed Consolidated Financial Statements).

*Fiscal 2016 Activity:*

On July 18, 2016, we redeemed $460.0 million principal amount of our 7.125% Second-Priority Senior Secured Notes ("7 $^{1}/_{8}$% Notes"), representing all of the outstanding 7 $^{1}/_{8}$% Notes, at a redemption price equal to 105.344% of the principal amount, plus accrued and unpaid interest. We incurred a pre-tax charge of $34.1 million in the third quarter of fiscal 2016 associated with the extinguishment of the 7 $^{1}/_{8}$% Notes. The $34.1 million pre-tax charge was comprised of $24.6 million paid in excess of the par value and $9.5 million associated with the write-off of unamortized deferred financing costs.

We retired $13.0 million principal amount of our delayed draw term loan resulting in a loss of $0.3 million.

We recorded a charge of $0.1 million associated with the amendment to our $750.0 million senior secured senior credit facility (the "Senior Credit Facility").

**Interest Income:**

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change* | 2017 | 2016 | Change* |
| | (In millions) | | | | | |
| Interest income: | $ 1.0 | $ 0.1 | $ 0.9 | $ 2.3 | $ 0.4 | $ 1.9 |

* *Primary reason for change.* The increase in interest income was primarily due to higher average cash balances and interest rates.

**Interest Expense:**

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change* | 2017 | 2016 | Change** |
| | (In millions) | | | | | |
| Interest expense: | $ 7.7 | $ 5.9 | $ 1.8 | $ 22.9 | $ 27.4 | $ (4.5) |
| Components of interest expense: | | | | | | |
| Contractual interest and other | 5.6 | 5.5 | 0.1 | 16.6 | 25.7 | (9.1) |
| Amortization of debt discount and deferred financing costs | 2.1 | 0.4 | 1.7 | 6.3 | 1.7 | 4.6 |
| Interest expense | $ 7.7 | $ 5.9 | $ 1.8 | $ 22.9 | $ 27.4 | $ (4.5) |

* *Primary reason for change.* The increase in interest expense was primarily due to the amortization of the debt discount related to the issuance of the 2 $^{1}/_{4}$% Convertible Senior Notes ("2 $^{1}/_{4}$% Notes") in December 2016 at an effective interest rate of 5.8%.

** *Primary reason for change.* The decrease in interest expense was primarily due to the retirement of the principal amount of our delayed draw term loan in the first quarter of fiscal 2016, the redemption of the 7 $^{1}/_{8}$% Senior Secured Notes in the third quarter of fiscal 2016, and the conversion of 4 $^{1}/_{16}$% Convertible Subordinated Debentures (“4 $^{1}/_{16}$% Debentures”) to common shares. The decrease was partially offset by interest expense on the debt incurred on the Senior Credit Facility at a variable interest rate of 3.24% as of September 30, 2017 and the issuance of the 2 $^{1}/_{4}$% Notes in December 2016 at an effective interest rate of 5.8%.

**Income Tax provision:**

The income tax provision was as follows:

| | Nine months ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| | (In millions) | |
| Income tax provision (benefit) | $ 21.2 | $ (5.1) |

In the first nine months of fiscal 2017, the income tax provision was at an effective tax rate less than the federal statutory rate primarily due to tax benefits attributable to the expiration of the statute of limitations, excess tax benefits from the exercise and vesting of stock-based compensation, and the revisions of estimated tax balances based on expected tax filings.

In the first nine months of fiscal 2016, the income tax benefit was at an effective tax rate greater than the federal statutory rate primarily due to tax benefits attributable to the expiration of the statute of limitations.

A valuation allowance is required when it is more-likely-than-not that all or a portion of deferred tax assets may not be realized. Assessing the need for a valuation allowance requires management to evaluate, on a quarterly basis, all available evidence, both positive and negative. As of September 30, 2017, we continue to believe that the weight of the positive evidence outweighed the negative evidence regarding the realization of our net deferred tax assets.

See Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements for a discussion on uncertain income tax positions.

**Retirement Benefits:**

Components of retirement benefit expense are:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions) | | | |
| Service cost | $ 3.7 | $ 3.6 | $ 11.2 | $ 10.5 |
| Interest cost on benefit obligation | 14.8 | 16.5 | 44.3 | 49.5 |
| Assumed return on plan assets | (16.1) | (17.5) | (48.4) | (52.6) |
| Amortization of prior service credits | — | (0.3) | — | (0.8) |
| Recognized net actuarial losses | 15.9 | 15.0 | 47.8 | 45.1 |
| Retirement benefits | $ 18.3 | $ 17.3 | $ 54.9 | $ 51.7 |

Market conditions and interest rates significantly affect the assets and liabilities of our retirement benefit plans. Pension accounting permits market gains and losses to be deferred and recognized over a period of years. This “smoothing” results in the creation of other accumulated income or losses which will be amortized to retirement benefit expense or benefit in future years. The accounting method we utilize recognizes one-fifth of the unamortized gains and losses associated with the market-related value of pension assets and all other gains and losses, including changes in the discount rate used to calculate benefit costs each year. Investment gains or losses for this purpose are the difference between the expected return and the actual return on the market-related value of assets which smoothes market related asset values over three years. Although the smoothing period mitigates some volatility in the calculation of annual retirement benefit expense, future expenses are impacted by changes in the market value of assets and changes in interest rates.

**Operating Segment Information:**

We evaluate our operating segments based on several factors, of which the primary financial measure is segment performance. Segment performance represents net sales less applicable costs, expenses and provisions for unusual items relating to the segment. Excluded from segment performance are: corporate income and expenses, interest expense, interest income, income taxes, legacy income or expenses, and unusual items not related to the segment. We believe that segment performance provides information useful to investors in understanding our underlying operational performance. In addition, we provide the Non-GAAP financial measure of our operational performance called segment performance before environmental remediation provision adjustments, retirement benefits, and unusual items. We believe the exclusion of the items listed above

permits an evaluation and a comparison of results for ongoing business operations, and it is on this basis that management internally assesses operational performance.

*Aerospace and Defense Segment*

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change* | 2017 | 2016 | Change** |
| | (In millions, except percentage amounts) | | | | | |
| Net sales | $ 482.5 | $ 462.2 | $ 20.3 | $ 1,344.2 | $ 1,224.3 | $ 119.9 |
| Segment performance | 46.7 | 24.2 | 22.5 | 137.6 | 88.7 | 48.9 |
| Segment margin | 9.7% | 5.2% | | 10.2% | 7.2% | |
| Segment margin before environmental remediation provision adjustments, retirement benefits, net, and unusual items (Non-GAAP measure) | 11.1% | 10.0% | | 11.3% | 10.0% | |
| Components of segment performance: | | | | | | |
| Aerospace and Defense | $ 53.5 | $ 46.4 | $ 7.1 | $ 151.6 | $ 122.3 | $ 29.3 |
| Environmental remediation provision adjustments | (0.5) | (16.4) | 15.9 | (1.6) | (16.8) | 15.2 |
| Retirement benefits, net | (6.4) | (5.6) | (0.8) | (14.4) | (16.8) | 2.4 |
| Unusual items | 0.1 | (0.2) | 0.3 | 2.0 | — | 2.0 |
| Aerospace and Defense total | $ 46.7 | $ 24.2 | $ 22.5 | $ 137.6 | $ 88.7 | $ 48.9 |

* *Primary reason for change.* The increase in net sales was primarily due to an increase of $31.3 million in space programs primarily driven by the RS-25 program development and integration effort in support of the SLS development program. The increase in net sales was partially offset by a decrease of $20.2 million in defense programs primarily driven by lower deliveries on the THAAD and Standard Missile programs partially offset by the net sales generated from the Coleman Aerospace acquisition.

Segment margin before environmental remediation provision adjustments, retirement benefits, net and unusual items increased primarily due to favorable contract performance on the THAAD program due to reduced program risks and cost reductions.

** *Primary reason for change.* The increase in net sales was primarily due to an increase of $162.6 million in space programs primarily driven by the following: (i) the RS-25 program development and integration effort in support of the SLS development program; (ii) increased development effort and production volume on the Commercial Crew Development program; and (iii) increased deliveries on the Atlas V program. The increase in net sales was partially offset by a decrease of $52.2 million in defense programs primarily driven by lower deliveries on the THAAD and Standard Missile programs partially offset by the net sales generated from the Coleman Aerospace acquisition.

Segment margin before environmental remediation provision adjustments, retirement benefits, net and unusual items increased primarily due to favorable contract performance on the THAAD program due to reduced program risks and cost reductions partially offset by losses in the current period on electric propulsion contracts.

A summary of our backlog is as follows:

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| | (In billions) | |
| Funded backlog | $ 2.1 | $ 2.3 |
| Unfunded backlog | 2.2 | 2.2 |
| Total contract backlog | $ 4.3 | $ 4.5 |

Total backlog includes both funded backlog (unfilled orders for which funding is authorized, appropriated and contractually obligated by the customer) and unfunded backlog (firm orders for which funding has not been appropriated). Indefinite delivery and quantity contracts and unexercised options are not reported in total backlog. Backlog is subject to

funding delays or program restructurings/cancellations which are beyond our control. Of our September 30, 2017 total contract backlog, approximately 45%, or $1.9 billion, is expected to be filled within one year as compared with 38%, or $1.7 billion, at December 31, 2016.

*Real Estate Segment*

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change* | 2017 | 2016 | Change* |
| | (In millions) | | | | | |
| Net sales | $ 1.6 | $ 1.6 | $ — | $ 4.8 | $ 4.8 | $ — |
| Segment performance | 0.5 | 0.8 | (0.3) | 2.1 | 2.5 | (0.4) |

* *Primary reason for change.* Net sales and segment performance consist primarily of rental property operations.

**Use of Non-GAAP Financial Measures**

In addition to segment performance (discussed above), we provide the Non-GAAP financial measure of our operational performance called Adjusted EBITDAP. We use this metric to measure our operating performance. We believe that to effectively compare core operating performance from period to period, the metric should exclude items relating to retirement benefits (pension and postretirement benefits), significant non-cash expenses, the impacts of financing decisions on earnings, and items incurred outside the ordinary, on-going and customary course of our operations. Accordingly, we define Adjusted EBITDAP as GAAP net income (loss) adjusted to exclude income tax provision (benefit), interest expense, interest income, depreciation and amortization, retirement benefits net of cash funding to our tax-qualified defined benefit pension plan that are recoverable under our U.S. government contracts, and unusual items which we do not believe are reflective of such ordinary, on-going and customary activities. Adjusted EBITDAP does not represent, and should not be considered an alternative to, net income, as determined in accordance with GAAP.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions, except percentage amounts) | | | |
| Net income (loss) | $ 12.6 | $ (11.1) | $ 42.8 | $ (0.1) |
| Income tax provision (benefit) | 6.0 | (14.2) | 21.2 | (5.1) |
| Interest expense | 7.7 | 5.9 | 22.9 | 27.4 |
| Interest income | (1.0) | (0.1) | (2.3) | (0.4) |
| Depreciation and amortization | 18.6 | 15.4 | 54.0 | 45.9 |
| Retirement benefits, net (1) | 11.4 | 10.4 | 29.4 | 31.0 |
| Unusual items | (0.1) | 34.3 | (1.0) | 34.5 |
| Adjusted EBITDAP | $ 55.2 | $ 40.6 | $ 167.0 | $ 133.2 |
| Net income (loss) as a percentage of net sales | 2.6% | (2.4)% | 3.2% | — % |
| Adjusted EBITDAP as a percentage of net sales | 11.4% | 8.8 % | 12.4% | 10.8 % |

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(1) Retirement benefits are net of cash funding to our tax-qualified defined benefit pension plan which are recoverable costs under our U.S. government contracts. Our recoverable tax-qualified pension costs in the third quarter of fiscal 2017 and 2016 totaled $6.9 million for both periods. Our recoverable tax-qualified pension costs in the first nine months of fiscal 2017 and 2016 totaled $25.5 million and $20.7 million, respectively.

In addition to segment performance and Adjusted EBITDAP, we provide the Non-GAAP financial measure of free cash flow. We use this financial measure, both in presenting our results to stakeholders and the investment community, and in our internal evaluation and management of the business. Management believes that this financial measure is useful because it presents our business using the same tools that management uses to evaluate progress in achieving our performance metrics for annual cash and long-term compensation incentive plans.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions) | | | |
| Net cash (used in) provided by operating activities | $ (11.8) | $ 45.1 | $ 25.9 | $ 49.2 |
| Capital expenditures | (4.4) | (11.0) | (10.5) | (30.5) |
| Free cash flow(1) | $ (16.2) | $ 34.1 | $ 15.4 | $ 18.7 |

(1) Free Cash Flow, a Non-GAAP financial measure, is defined as cash flow from operating activities less capital expenditures. Free Cash Flow should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to cash flows from operations presented in accordance with GAAP. We believe Free Cash Flow is useful as it provides supplemental information to assist investors in viewing the business using the same tools that management uses to evaluate progress in achieving our goals.

Because our method for calculating the Non-GAAP measures may differ from other companies' methods, the Non-GAAP measures presented above may not be comparable to similarly titled measures reported by other companies. These measures are not recognized in accordance with GAAP, and we do not intend for this information to be considered in isolation or as a substitute for GAAP measures.

**Other Information**

*Recently Adopted Accounting Pronouncements*

See Note 1 of the Notes to Unaudited Condensed Consolidated Financial Statements for information relating to our discussion of the effects of recent accounting pronouncements.

*Critical Accounting Policies and Estimates*

Our financial statements are prepared in accordance with GAAP that offer acceptable alternative methods for accounting for certain items affecting our financial results, such as determining inventory cost, depreciating long-lived assets, and recognizing revenues.

The preparation of financial statements requires the use of estimates, assumptions, judgments, and interpretations that can affect the reported amounts of assets, liabilities, revenues, and expenses, the disclosure of contingent assets and liabilities and other supplemental disclosures. The development of accounting estimates is the responsibility of our management. Management discusses those areas that require significant judgment with the audit committee of our board of directors. All of our financial disclosures in our filings with the SEC have been reviewed with the audit committee. Although we believe that the positions we have taken with regard to uncertainties are reasonable, others might reach different conclusions and our positions can change over time as more information becomes available. If an accounting estimate changes, its effects are accounted for prospectively and, if significant, disclosed in notes of the consolidated financial statements.

The areas most affected by our accounting policies and estimates are revenue recognition, other contract considerations, goodwill, retirement benefit plans, litigation, environmental remediation costs and recoveries, and income taxes. Except for income taxes and litigation matters related to legacy operations, which are not allocated to our operating segments, these areas affect the financial results of our business segments.

In our Aerospace and Defense segment, recognition of profit on long-term contracts requires the use of assumptions and estimates related to total contract revenue, the total cost at completion and the measurement of progress towards completion. Due to the nature of the programs, developing the estimated total contract revenue and cost at completion requires the use of significant judgment. Estimates are continually evaluated as work progresses and are revised as necessary. Factors that must be considered in estimating the work to be completed include, but not limited to: labor productivity, the nature and technical complexity of the work to be performed, availability and cost volatility of materials, subcontractor and vendor performance, warranty costs, volume assumptions, anticipated labor agreements, inflationary trends, schedule delays, availability of funding from the customer, and the recoverability of costs incurred outside the original contract included in any estimates to complete. We review contract performance and cost estimates for some contracts at least monthly and for others at least quarterly and more frequently when circumstances significantly change. When a change in estimate is determined to have an impact on contract profit, we will record a positive or negative adjustment to the statement of operations. Changes in estimates and assumptions related to the status of certain long-term contracts may have a material effect on our operating results. The following table summarizes the impact of the change in significant contract accounting estimates on our Aerospace and Defense segment operating results accounted for under the percentage-of-completion method of accounting:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions, except per share amounts) | | | |
| Favorable (unfavorable) effect of the changes in contract estimates on income before income taxes | $ 11.5 | $ 1.1 | $ 25.2 | $ (2.3) |
| Favorable (unfavorable) effect of the changes in contract estimates on net income | 6.9 | 0.7 | 15.1 | (1.4) |
| Favorable (unfavorable) effect of the changes in contract estimates on basic and diluted net income per share | 0.09 | 0.01 | 0.20 | (0.02) |

A detailed description of our significant accounting policies can be found in our most recent Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

*Arrangements with Off-Balance Sheet Risk*

As of September 30, 2017, arrangements with off-balance sheet risk consisted of:

- $39.1 million in outstanding commercial letters of credit, the majority of which may be renewed, primarily to collateralize obligations for environmental remediation and insurance coverage.
- $55.4 million in outstanding surety bonds to primarily satisfy indemnification obligations for environmental remediation coverage.
- Up to $120.0 million aggregate in guarantees by us of Aerojet Rocketdyne's obligations to U.S. government agencies for environmental remediation activities.
- Guarantees, jointly and severally, by our material domestic subsidiaries of their obligations under our Senior Credit Facility.

In addition to the items discussed above, we have and will from time to time enter into certain types of contracts that require us to indemnify parties against potential third-party and other claims. These contracts primarily relate to: (i) divestiture agreements, under which we may provide customary indemnification to purchasers of our businesses or assets including, for example, claims arising from the operation of the businesses prior to disposition, liability to investigate and remediate environmental contamination existing prior to disposition; (ii) certain real estate leases, under which we may be required to indemnify property owners for claims arising from the use of the applicable premises; and (iii) certain agreements with officers and directors, under which we may be required to indemnify such persons for liabilities arising out of their relationship with us. The terms of such obligations vary. Generally, a maximum obligation is not explicitly stated.

Additionally, we issue purchase orders and make other commitments to suppliers for equipment, materials, and supplies in the normal course of business. These purchase commitments are generally for volumes consistent with anticipated requirements to fulfill purchase orders or contracts for product deliveries received, or expected to be received, from customers and would be subject to reimbursement if the contract is terminated. During the third quarter of fiscal 2017, we outsourced certain information technology and cyber security functions resulting in a significant financial commitment over the next five years.

We provide product warranties in conjunction with certain product sales. The majority of our warranties are one-year standard warranties for parts, workmanship, and compliance with specifications. On occasion, we have made commitments beyond the standard warranty obligation. While we have contracts with warranty provisions, there is not a history of any significant warranty claims experience. A reserve for warranty exposure is made on a product by product basis when it is both estimable and probable. These costs are included in the program's estimate at completion and are expensed in accordance with our revenue recognition methodology as allowed under GAAP for that particular contract.

**Liquidity and Capital Resources**

***Net Cash Provided by (Used in) Operating, Investing, and Financing Activities***

The change in cash and cash equivalents was as follows:

| | Nine months ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| | (In millions) | |
| Net Cash Provided by Operating Activities | $ 25.9 | $ 49.2 |
| Net Cash Used in Investing Activities | (27.5) | (30.0) |
| Net Cash Used in Financing Activities | (16.2) | (98.4) |
| **Net Decrease in Cash and Cash Equivalents** | $ (17.8) | $ (79.2) |

***Net Cash Provided by Operating Activities***

The $25.9 million of cash provided by operating activities in the first nine months of fiscal 2017 was primarily the result of $200.7 million of cash generated by income from operations before income taxes adjusted for non-cash items which was offset by cash used to fund working capital (defined as accounts receivables, inventories, other current assets, accounts payables, contract advances, real estate activities, and other current liabilities). The funding of working capital was comprised of the following: (i) an increase of $135.2 million in accounts receivables due to the timing of net sales and milestone billings on a space program contract and (ii) a decrease of $39.1 million in cash advances on long-term contracts, partially offset by a decrease of $24.3 million in inventories primarily due to a decrease in overhead costs. Further, we funded $67.0 million to our tax-qualified defined benefit pension plan in the first nine months of fiscal 2017 which was partially offset by $21.3 million of income tax refunds received in the first nine months of fiscal 2017.

The $49.2 million of cash provided by operating activities in the first nine months of fiscal 2016 was primarily the result of $136.7 million of cash generated by the net loss before income taxes adjusted for non-cash items which was offset by cash used to fund working capital (defined as accounts receivables, inventories, other current assets, accounts payable, contract advances, real estate activities, and other current liabilities). The funding of working capital is primarily due to the following: (i) a decrease of $26.9 million in cash advances on long-term contracts; (ii) an increase of $13.3 million in other current assets, net primarily related to income taxes; and (iii) a decrease of $57.8 million in other current liabilities primarily due to the timing of payments associated with employee compensation, income taxes, and interest expense. The funding of working capital was partially offset by a decrease of $22.2 million in accounts receivable primarily due to the timing of net sales. In addition, we funded $29.9 million to our tax-qualified defined benefit pension plan during the first nine months of fiscal 2016.

***Net Cash Used In Investing Activities***

During the first nine months of fiscal 2017, we purchased Coleman Aerospace for $17.0 million.

During the first nine months of fiscal 2017 and 2016, we had capital expenditures of $10.5 million and $30.5 million, respectively. The decrease in capital expenditures is primarily due to timing of expenditures related to our fiscal 2017 capital plan.

***Net Cash Used in Financing Activities***

During the first nine months of fiscal 2017, we had debt repayments of $15.0 million (see below). During the first nine months of fiscal 2016, we had debt repayments of $595.3 million.

***Debt Activity and Covenants***

Our debt principal activity since December 31, 2016 was as follows:

| | December 31, 2016 | Cash Payments | Non-cash Equity Conversion | September 30, 2017 |
|---|---|---|---|---|
| | | (In millions) | | |
| Term loan | $ 390.0 | $ (15.0) | $ — | $ 375.0 |
| 2 $^{1}/_{4}$% Notes | 300.0 | — | — | 300.0 |
| 4 $^{1}/_{16}$% Debentures | 35.6 | — | (35.6) | — |
| Total Debt and Borrowing Activity | $ 725.6 | $ (15.0) | $ (35.6) | $ 675.0 |

Our Senior Credit Facility contains covenants requiring us to (i) maintain an interest coverage ratio (the "Consolidated Interest Coverage Ratio") of not less than 3.00 to 1.00 and (ii) maintain a leverage ratio ( the "Consolidated Net Leverage Ratio") not to exceed (a) 4.00 to 1.00 for period ended September 30, 2017; (b) 3.75 to 1.00 for periods ending from December 31, 2017 through September 30, 2018; and (c) 3.50 to 1.00 for periods ending from December 31, 2018 thereafter, provided that the maximum leverage ratio for all periods shall be increased by 0.50 to 1.00 for two quarters after consummation of a qualified acquisition. We may generally make certain investments, redeem debt subordinated to the Senior Credit Facility and make certain restricted payments (such as stock repurchases) if our Consolidated Net Leverage Ratio does not exceed 3.25 to 1.00 pro forma for such transaction. We are otherwise subject to customary covenants including limitations on asset sales, incurrence of additional debt, and limitations on certain investments and restricted payments.

| Financial Covenant | Actual Ratios as of September 30, 2017 | Required Ratios |
|---|---|---|
| Consolidated Interest Coverage Ratio, as defined under the Senior Credit Facility | 10.97 to 1.00 | Not less than: 3.00 to 1.00 |
| Consolidated Net Leverage Ratio, as defined under the Senior Credit Facility | 2.47 to 1.00 | Not greater than: 4.00 to 1.00 |

We were in compliance with our financial and non-financial covenants as of September 30, 2017.

***Outlook***

Short-term liquidity requirements consist primarily of recurring operating expenses, including but not limited to costs related to our capital and environmental expenditures, company-funded R&D expenditures, debt service requirements, and retirement benefit plans. We believe that our existing cash and cash equivalents and availability under our revolving credit facility will provide sufficient funds to meet our operating plan, which includes our CIP Phase I and Phase II, and AR1 engine development costs, for the next twelve months. The operating plan for this period provides for full operation of our businesses, and interest and principal payments on our debt. As of September 30, 2017, we had $392.5 million of cash and cash equivalents as well as $310.9 million of available borrowings under our Senior Credit Facility. Based on our existing debt agreements, we were in compliance with our financial and non-financial covenants as of September 30, 2017. Our failure to comply with these covenants could result in an event of default that, if not cured or waived by the lenders, could result in the acceleration of the Senior Credit Facility and 2¼% Notes. In addition, our failure to pay principal and interest when due is a default under the Senior Credit Facility, and in certain cases, would cause a cross default on the 2¼% Notes.

We are committed to a cash management strategy that maintains liquidity to adequately support the operation of the business, our growth strategy and to withstand unanticipated business volatility. We believe that cash generated from operations, together with our current levels of cash and investments as well as availability under our revolving credit facility, should be sufficient to maintain our ongoing operations, support working capital requirements, fund the CIP, cash contributions to our tax-qualified defined benefit pension plan, and fund anticipated capital expenditures related to projected business growth. Our cash management strategy includes maintaining the flexibility to pay down debt and/or repurchase shares depending on economic and other conditions. In connection with the implementation of our cash management strategy, our management may seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise if we believe that it is in our best interests. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

We expect to make cash contributions of $75.8 million to our tax-qualified defined benefit pension plan in fiscal 2017 of which $34.0 million is expected to be recoverable from our U.S. government contracts in fiscal 2017 with the remaining $41.8 million expected to be recoverable from our U.S. government contracts in the future. We have funded $67.0 million to our tax-qualified defined benefit pension plan in the first nine months of fiscal 2017 and in the fourth quarter of fiscal 2017 we expect to fund $8.8 million. We generally are able to recover cash contributions related to our tax-qualified defined benefit pension plan as allowable costs on our U.S. government contracts, but there can be differences between when we contribute cash to our tax-qualified defined benefit pension plan under pension funding rules and recover it under the Cost Accounting Standards.

Potential future acquisitions depend, in part, on the availability of financial resources at an acceptable cost of capital. We expect to utilize cash on hand and cash generated by operations, as well as cash available under our Senior Credit Facility, which may involve renegotiation of credit limits to finance future acquisitions. Other sources of capital could include the issuance of common and/or preferred stock, and the placement of debt. We periodically evaluate capital markets and may access such markets when circumstances appear favorable. We believe that sufficient capital resources will be available from one or several of these sources to finance future acquisitions. However, no assurances can be made that acceptable financing will be available, or that acceptable acquisition candidates will be identified, or that any such acquisitions will be accretive to earnings.

As disclosed in Notes 8(b) and 8(c) of the Notes to Unaudited Condensed Consolidated Financial Statements, we have exposure for certain legal and environmental matters. We believe that it is currently not possible to estimate the impact, if any, that the ultimate resolution of certain of these matters will have on our financial position, results of operations, or cash flows.

In September 2017, we entered into an agreement to lease 122,000-square feet of office space in Huntsville, Alabama. The term of the lease is twenty years and is expected to commence in March 2018 resulting in an estimated financial commitment of $48.8 million representing a present value of $25.1 million. The lease obligation over the next five fiscal years is as follows: zero in fiscal 2017, $1.2 million in fiscal 2018, and approximately $2.0 million each year for fiscal 2019 through fiscal 2021.

In October 2017, we entered into an agreement to lease a new 136,000-square-foot advanced manufacturing facility located in Huntsville, Alabama. The term of the lease is thirty-one years and is expected to commence in December 2018

resulting in an estimated financial commitment of $32.8 million representing a present value of $21.0 million. The lease obligation over the next five fiscal years is as follows: zero in fiscal 2017, $0.9 million in fiscal 2018, and $1.6 million each year for fiscal 2019 through fiscal 2021.

Major factors that could adversely impact our forecasted operating cash and our financial condition are described in the section “Risk Factors” in Item 1A of our Annual Report to the SEC on Form 10-K for the fiscal year ended December 31, 2016.

**Forward-Looking Statements**

Certain information contained in this report should be considered “forward-looking statements” as defined by Section 21E of the Private Securities Litigation Reform Act of 1995. All statements in this report other than historical information may be deemed forward-looking statements. These statements present (without limitation) the expectations, beliefs, plans and objectives of management and future financial performance and assumptions underlying, or judgments concerning, the matters discussed in the statements. The words “believe,” “estimate,” “anticipate,” “project” and “expect,” and similar expressions, are intended to identify forward-looking statements. Forward-looking statements involve certain risks, estimates, assumptions and uncertainties, including with respect to future sales and activity levels, cash flows, contract performance, the outcome of litigation and contingencies, environmental remediation and anticipated costs of capital. A variety of factors could cause actual results or outcomes to differ materially from those expected and expressed in our forward-looking statements. Important risk factors that could cause actual results or outcomes to differ from those expressed in the forward-looking statements are described in the section “Risk Factors” in Item 1A of our Annual Report to the SEC on Form 10-K for the fiscal year ended December 31, 2016 include the following:

- future reductions or changes in U.S. government spending;
- cancellation or material modification of one or more significant contracts;
- negative audit findings of the Company's business by the U.S. government;
- the estimates or judgments the Company makes, or the assumptions the Company relies on, in preparing consolidated financial statements could prove to be inaccurate;
- cost overruns on the Company's contracts that require the Company to absorb excess costs;
- failure of the Company's subcontractors or suppliers to perform their contractual obligations;
- failure to secure contracts;
- failure to comply with regulations applicable to contracts with the U.S. government;
- failure to comply with applicable laws, including laws relating to export controls and anti-corruption or bribery laws;
- the Company's Competitive Improvement Program may not be successful in aligning the Company's operations to current market conditions or in achieving the anticipated costs savings and other benefits within the expected timeframes;
- the Company's international sales are subject to applicable laws relating to export controls, the violation of which could adversely affect its operations;
- costs and time commitment related to potential and/or actual acquisition activities may exceed expectations;
- the Company's inability to adapt to rapid technological changes;
- failure of the Company's information technology infrastructure including a successful cyber-attack, accident, unsuccessful outsourcing of certain information technology and cyber security functions, or security breach that could result in disruptions to the Company's operations;
- product failures, schedule delays or other problems with existing or new products and systems;
- the release, explosion, or unplanned ignition of dangerous materials used in the Company's businesses;
- loss of key qualified suppliers of technologies, components, and materials;
- the funded status of the Company's defined benefit pension plan and the Company's obligation to make cash contributions in excess of the amount that the Company can recover in its current period overhead rates;
- effects of changes in discount rates and actuarial estimates, actual returns on plan assets, and government regulations on defined benefit pension plans;
- the possibility that environmental and other government regulations that impact the Company become more stringent or subject the Company to material liability in excess of its established reserves;
- environmental claims related to the Company's current and former businesses and operations including the inability to protect or enforce previously executed environmental agreements;
- reductions in the amount recoverable from environmental claims;
- the results of significant litigation;
- significant risk exposures and potential liabilities that are inadequately covered by indemnity or insurance;

- inability to protect the Company's patents and proprietary rights;
- business disruptions to the extent not covered by insurance;
- the substantial amount of debt which places significant demands on the Company's cash resources and could limit the Company's ability to borrow additional funds or expand its operations;
- the Company's ability to comply with the financial and other covenants contained in the Company's debt agreements;
- risks inherent to the real estate market;
- changes in economic and other conditions in the Sacramento, California metropolitan area real estate market or changes in interest rates affecting real estate values in that market;
- additional costs related to past or future divestitures;
- the loss of key employees and shortage of available skilled employees to achieve anticipated growth;
- a strike or other work stoppage or the Company's inability to renew collective bargaining agreements on favorable terms;
- fluctuations in sales levels causing the Company's quarterly operating results and cash flows to fluctuate;
- restatement of previously issued consolidated financial statements may lead to additional risks and uncertainties;
- failure to maintain effective internal controls in accordance with the Sarbanes-Oxley Act; and
- those risks detailed in the Company's reports filed with the SEC.

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

There have been no material changes to our disclosures related to certain market risks as reported under Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in our Annual Report to the SEC on Form 10-K for the fiscal year ended December 31, 2016.

**Interest Rate Risk**

We are exposed to market risk principally due to changes in interest rates. Debt with interest rate risk includes borrowings under our Senior Credit Facility. Other than pension assets and liabilities, we do not have any significant exposure to interest rate risk related to our investments.

As of September 30, 2017, our debt principal amounts totaled $675.0 million: $300.0 million, or 44%, was at a fixed rate of 2.25%; and $375.0 million, or 56%, was at a variable rate of 3.24%.

The estimated fair value and principal amount of our outstanding debt is presented below:

| | Fair Value | | Principal Amount | |
|---|---|---|---|---|
| | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 |
| | (In millions) | | | |
| Term loan | $ 375.0 | $ 390.0 | $ 375.0 | $ 390.0 |
| 2 1/4% Notes | 446.0 | 294.9 | 300.0 | 300.0 |
| 4 1/16% Debentures (1) | — | 70.8 | — | 35.6 |
| | $ 821.0 | $ 755.7 | $ 675.0 | $ 725.6 |

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(1) In December 2016, we notified holders of our 4 1/16% Debentures that we would redeem, on February 3, 2017, all of their 4 1/16% Debentures at a purchase price equal to 100% of the principal amount of the 4 1/16% Debentures to be redeemed, plus any accrued and unpaid interest. In January 2017, $35.6 million of the 4 1/16% Debentures (the entire amount outstanding as of December 31, 2016) were converted to 3.9 million shares of common stock.

The fair values of the 2 1/4% Notes and 4 1/16% Debentures were determined using broker quotes that are based on open markets for the Company’s debt securities (Level 2 securities). The term loan bore interest at variable rates, which adjusted based on market conditions, and its carrying value approximated fair value.

**Item 4. Controls and Procedures**

*Evaluation of disclosure controls and procedures*

Management has conducted an evaluation (with the participation of our Chief Executive Officer and Chief Financial Officer), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of September 30, 2017. As a result of the material weakness in the Company’s internal control over financial reporting discussed below, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were not effective as of September 30, 2017.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure as of the end of the period covered by this report.

We previously identified and disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, a material weakness in our internal control over financial reporting as we did not maintain adequate controls over the completeness and accuracy of our accounting for income taxes, including the income tax provision and related tax assets and liabilities.

*Income tax accounting remediation efforts*

Management has strengthened the income tax function by hiring additional key internal tax personnel with the requisite background and knowledge. During the the third quarter of fiscal 2017, through these resources, management has designed and implemented quarterly controls to validate the completeness and accuracy of financial information utilized in the preparation of our income tax provision, including the related income tax assets and liabilities. Notwithstanding the above, the identified material weakness in our internal control over financial reporting will not be considered remediated until the new controls are in operation for a sufficient period of time (including certain annual controls which are still being designed), and are concluded by management to be designed and operating effectively.

*Changes in internal control over financial reporting*

Other than the controls over income tax accounting implemented during the third quarter of fiscal 2017, as discussed above, there were no changes in internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the effectiveness of our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

Except as disclosed in Note 8 of the Notes to Unaudited Condensed Consolidated Financial Statements, which is incorporated herein by reference, there have been no significant developments in the pending legal proceedings as previously reported in Part 1, Item 3, Legal Proceedings in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

*Asbestos Cases.* The following table sets forth information related to our historical product liability costs associated with our asbestos litigation cases since December 31, 2016 (dollars in millions):

| | | |
|---|---|---|
| Claims filed as of December 31, 2016 | | 64 |
| Claims filed | | 19 |
| Claims dismissed | | (17) |
| Claims settled | | (3) |
| Claims pending as of September 30, 2017 | | 63 |
| Aggregate settlement costs | $ | 0.1 |
| Average settlement costs (1) | $ | — |

________

(1) Less than $0.1 million.

### Item 1A. Risk Factors

There have been no material changes from our risk factors as previously reported in our Annual Report to the SEC on Form 10-K for the fiscal year ended December 31, 2016.

### 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

*Changes to Director Compensation Program*

On November 1, 2017, the Board of Directors (the “Board”) of the Company, upon recommendation of the Organization & Compensation Committee of the Board (the “Committee”), approved the following changes to the Company’s compensation program for non-employee Directors, effective November 15, 2017:

- increase of annual cash retainer fee from $55,000 per annum to $70,000 per annum;
- increase of annual equity retainer value from $90,000 per annum to $100,000 per annum;
- elimination of the Board and Board committee meeting fees that are paid for meetings in excess of a specified number (while maintaining all other existing Board and Board committee services fees); and
- elimination of the Board Chairman fee for so long as the Company maintains an Executive Chairman.

*Adoption of Executive Change in Control Severance Policy*

On November 1, 2017, the Board, upon recommendation of the Committee, adopted an executive change in control severance policy (the “CIC Policy”).

The CIC Policy provides certain executive officers of the Company and its subsidiaries who have been designated in writing by the Board, other than Warren Lichtenstein and Eileen Drake, with compensation and benefits upon a termination of their employment by the Company without “cause” or by executive for “good reason” (including due to executive’s death or disability) within the 6-month period preceding a “change in control” through the 18-month period following a “change in control” (each, as defined in the CIC Policy).

In the event of an applicable termination of employment, the executive shall be entitled to the following:

- lump sum payment equal to executive's annual base salary;
- prorated portion of incentive compensation under the Company's Short-Term Incentive Plan ("STIP") to the "termination date" (as defined in the CIC Policy), and full STIP payment for the prior fiscal year;
- lump sum payment equal to the target incentive compensation executive could have received under the STIP for the fiscal year in which the termination date occurs;
- payment of COBRA benefit premiums until the earlier of the 12-month anniversary of the termination date or when eligible for health insurance coverage through another employer;
- to the extent unvested, immediate full vesting of all of the executive's equity awards (at target performance, if applicable); and
- outplacement services for a period of 12 months starting no later than 90 days from date of termination with a maximum value of $15,000.

Receipt of compensation and benefits under the CIC Policy is contingent on the executive's timely execution of a release in a form prescribed by the Company.

The foregoing description of the CIC Policy does not purport to be complete and is qualified in its entirety by reference to the full text of the CIC Policy, which is attached as Exhibit 10.1 to this Quarterly Report on Form 10-Q and incorporated herein by reference.

**Item 6. Exhibits**

| No. | Description |
|---|---|
| 10.1* | Aerojet Rocketdyne Holdings, Inc. Executive Change in Control Severance Policy |
| 31.1* | Certification of Principal Executive Officer pursuant to Rule 13a — 14 (a) of the Securities Exchange Act of 1934, as amended. |
| 31.2* | Certification of Principal Financial Officer pursuant to Rule 13a — 14 (a) of the Securities Exchange Act of 1934, as amended. |
| 32.1* | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a — 14(b) of the Securities and Exchange Act of 1934, as amended, and 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101* | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) Unaudited Condensed Consolidated Statements of Operations, (ii) Unaudited Condensed Consolidated Statements of Comprehensive Income, (iii) Unaudited Condensed Consolidated Balance Sheets, (iv) Unaudited Condensed Consolidated Statement of Stockholders' Equity, (v) Unaudited Condensed Consolidated Statements of Cash Flows, and (vi) Unaudited Notes to Unaudited Condensed Consolidated Financial Statements. |

* 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.

| | | | |
|---|---|---|---|
| | | | Aerojet Rocketdyne Holdings, Inc. |
| Date: | November 2, 2017 | By: | /s/ Eileen P. Drake |
| | | | Eileen P. Drake<br>Chief Executive Officer and President<br>(Principal Executive Officer) |
| Date: | November 2, 2017 | By: | /s/ Paul R. Lundstrom |
| | | | Paul R. Lundstrom Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) |

## EXHIBIT INDEX

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_______
* Filed herewith.

Exhibit 10.1

# AEROJET ROCKETDYNE HOLDINGS, INC.

## EXECUTIVE CHANGE IN CONTROL SEVERANCE POLICY

## As of November 1, 2017

Section. 1. *Introduction*.

(a) The purpose of this Executive Change in Control Severance Policy (the "**Policy**") is to provide for the payment of severance benefits to Eligible Officers (as defined below) of Aerojet Rocketdyne Holdings, Inc. (the "**Company**") who incur a qualified termination of employment in connection with a Change in Control (as defined below) and to provide certain additional benefits if such termination occurs. An "**Eligible Officer**" means an executive officer of the Company or any of its subsidiaries, other than the Company's Executive Chairman and Chief Executive Officer, who has been designated in writing by the Board of Directors of the Company (the "**Board**") (or its Organization & Compensation Committee, including any replacement or successor committee (the "**Compensation Committee**")) as eligible to participate in the Policy. Once an employee is designated as an Eligible Officer, such employee shall be an Eligible Officer for the duration of the Policy.

Section. 2. *Amendment or Termination of the Policy*. The Board or the Compensation Committee may amend or terminate the Policy at any time, except:

(a) During the 18-month period following a Change in Control, the Policy may not be terminated or amended in a way that would adversely affect an Eligible Officer without such Eligible Officer's written consent.

(b) With respect to any individual who is an Eligible Officer as of the date of any termination or amendment of the Policy, and subject to Section 2(a), unless such termination or amendment is determined by the Board (or the Compensation Committee) in its sole discretion to be necessary or appropriate to minimize or eliminate adverse tax treatment to Eligible Officers or to the Company (whether under Section 409A (as defined below) or otherwise), then without such Eligible Officer's written consent, the termination or amendment of the Policy shall not be effective as it applies to such Eligible Officer until (x) the first anniversary of the date the termination or amendment of the Policy is approved or adopted by the Board (or the Compensation Committee) or (y) if such approval or adoption date occurs within the 12-month period prior to a Change in Control, the 18-month anniversary of the Change in Control.

(c) No such amendment or termination of the Policy shall give the Company (or any successor) the right to recover any amount paid to an Eligible Officer prior to the date of such amendment or termination, or to cause the cessation of severance payments and benefits to an Eligible Officer who has executed a Release (as defined below).

Nothing in this Section 2 shall be construed to limit the ability of the Company to amend the Equity Plan, adopt or amend any successor or replacement equity compensation plan, or enter into any agreement with an Eligible Officer, regardless of the effect on the Policy.

Section. 3. *Eligibility for Change in Control Severance Benefits Under the Policy*.

(a) In order to be eligible to receive any benefits under Section 4 of this Policy, the Eligible Officer must execute an acknowledgment form in the form attached to this Policy as Exhibit A.

(b) In order to be eligible to receive any benefits under Section 4 of this Policy, the Eligible Officer must, within 60 days following the Termination Date (as defined below) (such 60-day period referred to as the "**Release Period**"), execute a general waiver and release of all claims in favor of the Company, in a form prescribed by the Company (the "**Release**"), and such Release must become effective, binding and irrevocable by the end of the Release Period in accordance with its terms. In addition to the general waiver and release of claims, such Release shall also provide that the Eligible Officer:

(i) will not engage in any conduct that is injurious to the Company's reputation or interest, including but not limited to publicly disparaging (or inducing or encouraging others to publicly disparage) the Company;

(ii) shall return to the Company any and all originals and copies of documents, materials, records, credit cards, keys, building passes, computers, smartphones, tablets, PDAs and other electronic devices or other items in his or her possession or control belonging to the Company or containing proprietary information relating to the Company;

(iii) will cooperate with the Company and its/their counsel in connection with any investigation, administrative proceeding or litigation relating to any matter in which the Eligible Officer was involved or of which Eligible Officer has knowledge; and

(iv) that, in the event the Eligible Officer is subpoenaed by any person or entity (including, but not limited to, any government agency) to give testimony (in a deposition, court proceeding or otherwise) that in any way relates to the Eligible Officer's employment with the Company, the Eligible Officer will give prompt notice of such request to the

Company, and subject to applicable law, will make no disclosure until the Company has had a reasonable opportunity to contest the right of the requesting person or entity to such disclosure.

(c) An Eligible Officer will not receive benefits under the Policy if an Eligible Officer's employment with the Company terminates for any reason not specified in Section 4 hereof.

(d) All benefits that an Eligible Officer may be or become entitled to under this Policy will terminate immediately if the Eligible Officer, at any time, violates any proprietary information, intellectual property or confidentiality obligation to the Company or the terms of the Release.

Section. 4. *Change in Control Severance Benefits*. In the event that an Eligible Officer incurs a termination of employment by reason of a Change in Control Termination at any time, and subject to the provisions of Section 6, the Eligible Officer shall be entitled to, in lieu of any other severance compensation and benefits whatsoever, the following payments and benefits (subject to the terms and conditions of this Policy), in addition to payment of any Accrued Obligations:

(i) a one-time lump sum cash payment equal to such Eligible Officer's annual base salary in effect on the Termination Date (or, if greater, the Eligible Officer's annual base salary in effect immediately prior to the Change in Control), payable within 15 days following the last date on which the Release can be revoked;

(ii) a prorated (to the Termination Date) portion of the incentive compensation payment such Eligible Officer would have received under the Company's Short-Term Incentive Plan (the "**STIP**") for the fiscal year in which the Termination Date occurs, and the full incentive compensation payment such Eligible Officer would have received under the STIP for the fiscal year prior to the year in which the Termination Date occurs to the extent not yet paid, each based on actual performance as determined by the Board or the Compensation Committee in its discretion for other STIP participants following year-end, and payable at the same time as such other STIP participants receive payments under the STIP;

(iii) a one-time lump sum cash payment equal to the "target" incentive compensation such Eligible Officer could have received under the STIP for the fiscal year in which the Termination Date occurs, payable within 15 days following the last date on which the Release can be revoked;

(iv) so long as the Eligible Officer timely elects (and remains eligible for) health benefits continuation pursuant to COBRA, payment by the Company of the Eligible Officer's applicable premiums (including spouse or family coverage if the Eligible Officer had such coverage on the Termination Date) for such continuation coverage under COBRA (payable as and when such payments become due) during the period commencing on the Termination Date and ending on the earliest to occur of (a) the 12-month anniversary of the Termination Date, and (b) the date on which the Eligible Officer and his or her covered dependents, if any, become eligible for health insurance coverage through another employer;

(v) to the extent unvested, effective on the effective date of the Release, immediate full vesting of all of the Eligible Officer's equity awards (at target performance, if applicable); and

(vi) outplacement services provided by the Company-designated outplacement firm for a period of 12 months starting no later than ninety (90) days from the Eligible Officer's date of termination with a maximum value of $15,000.

Severance compensation and benefits received under the Policy will not be included in compensation or earnings for purposes of determining benefits under any employee welfare or pension benefit plan (including 401(k) plan) of the Company except to the extent provided specifically under the terms of such plan.

The Company's obligation to pay the Eligible Officer the amounts provided and to make the arrangements provided shall not be subject to set-off, counterclaim or recoupment of amounts owed by the Eligible Officer to the Company or its affiliates. The Eligible Officer shall not be required to mitigate the amount of any payment provided for pursuant to this Policy by seeking other employment, and no amounts otherwise earned shall be set-off against the amounts due.

Section. 5. *Definitions*. For purposes of this Policy:

(i) "**Accrued Obligations**" means, each as determined and payable in accordance with the applicable Company policy or benefit plan, (x) accrued and unpaid wages, (y) accrued and unused vacation, and (z) to the extent vested, any other payments or benefits pursuant to any Company benefit plans.

(ii) "**Cause**" means that the Eligible Officer: (A) pleads "guilty" or "no contest" to or is indicted for or convicted of a felony under federal or state law or as a crime under federal or state law which involves Eligible Officer's fraud or dishonesty; (B) in carrying out the Eligible Officer's duties, engages in conduct that constitutes gross negligence or willful misconduct; (C) fails to reasonably and materially perform the responsibilities of Eligible Officer's position (other than any such failure resulting from incapacity due to physical or mental illness); (D) engages in misconduct

that causes material harm to the reputation of the Company; or (E) materially breaches any term of this Policy or written policy of the Company, provided that if the Company provides written notice of Cause pursuant to (C) through (E), the Eligible Officer shall be given thirty (30) days from the date of such written notice to cure such conduct.

(iii) “**Change in Control**” shall have the meaning prescribed to such term in the Company’s 2009 Equity and Performance Incentive Plan in effect as of the date the Policy is originally adopted (the “**Equity Plan**”); provided, however, and notwithstanding the foregoing, in the event a “change in control” (or such similar term) were to occur under the Equity Plan as subsequently amended or under a successor or replacement equity compensation plan adopted by the Company, a Change in Control shall be deemed to have occurred under the Policy.

(iv) “**Change in Control Termination**” means, within 18 months following a Change in Control, and subject to the following sentence, any termination of the Eligible Officer’s employment with the Company (or its successor) (A) by the Company (or its successor) for any reason other than Cause or (B) by the Eligible Officer for Good Reason. For avoidance of doubt, a “Change in Control Termination” shall include termination of the Eligible Officer’s employment with the Company (or its successor) due to the Eligible Officer’s Disability (as such term is defined under Section 409A) or death after a Change in Control. A Change in Control Termination also includes any termination of the Eligible Officer’s employment with the Company that occurs pursuant to clauses (A) or (B) of the first sentence of this paragraph if such termination occurs within six-months prior to the occurrence of a Change in Control and the Change in Control occurs. In the event the prior sentence applies to an Eligible Officer, the Eligible Officer’s date of termination shall be deemed to be the date of the Change in Control.

(v) “**Good Reason**” means the occurrence of one of the following events without the Eligible Officer’s consent: (A) a material diminution in Eligible Officer’s base salary or target annual bonus opportunity percentage (but not including any diminution related to a broader compensation reduction that is not limited to any particular employee or executive), (ii) a requirement that the Eligible Officer be based anywhere other than within 75 miles of such Eligible Officer’s principal place of employment as of the date hereof, or (iii) a material diminution in the Eligible Officer’s title, duties, or responsibilities from those in effect as of the date hereof (other than temporarily while the Eligible Officer is physically or mentally incapacitated or as required by applicable law); provided, however, that no event shall constitute Good Reason unless the Eligible Officer has notified the Company in writing of the Eligible Officer’s intention to so terminate the Eligible Officer’s employment, such notice: (i) to state in detail the particular acts or failures to act that constitute the grounds on which the proposed termination for Good Reason is based, (ii) to be given within sixty (60) days after the first occurrence of such acts or failures to act, and (iii) the Company shall have thirty (30) days following receipt of such notice to cure such acts or failures to act in all material respects. If the Company has not cured such acts or failures to act within the thirty (30) day cure period, then the Eligible Officer’s employment shall be immediately terminated for Good Reason.

**Section. 6.** *Tax Provisions*.

(a) *Withholding Taxes*. The Company may withhold from any amounts payable under this Policy such federal, state, local and other taxes as may be required to be withheld pursuant to any applicable law or regulation.

(b) Section 409A.

(i) This Policy and the payments and benefits hereunder are intended to qualify for the short-term deferral exception to Section 409A of the Internal Revenue Code of 1986, as amended (the “**Code**”), and all regulations, rulings and other guidance issued thereunder, all as amended and in effect from time to time (“**Section 409A**”), described in Treasury Regulation Section 1.409A-1(b)(4) to the maximum extent possible, and to the extent they do not so qualify, they are intended to qualify for the involuntary separation pay plan exception to Section 409A described in Treasury Regulation Section 1.409A-1(b)(9)(iii) to the maximum extent possible.

(ii) To the extent Section 409A is applicable to this Policy, this Policy is intended to comply with Section 409A. Without limiting the generality of the foregoing, if on the date of termination of employment the Eligible Officer is a “specified employee” within the meaning of Section 409A as determined in accordance with the Company’s procedures for making such determination, to the extent required in order to comply with Section 409A, amounts that would otherwise be payable under this Policy during the six-month period immediately following the Termination Date shall instead be paid within 10 days of the first business day after the date that is six months following the Termination Date (or, if earlier, the date of death of the Eligible Officer).

(iii) To the extent the Release Period crosses two calendar years, and to the extent required in order to comply with Section 409A, amounts that would otherwise be payable under this Policy during the Release Period in the initial calendar year shall be paid within 10 days of the January 1$^{st}$ of the second calendar year.

(iv) All references herein to “**Termination Date**” or “termination of employment” shall mean separation from service as an employee within the meaning of Section 409A(a)(2)(A)(i) of the Code and Treasury Regulation Section 1.409A-1(h).

(v) The Company makes no representation or warranty and shall have no liability to any Eligible Officer or any other person if any provisions of this Policy are determined to constitute deferred compensation subject to Section 409A but do not satisfy an exemption from, or the requirements of, Section 409A. The Company shall not have any liability to any Eligible Officer or any other person in the event Section 409A applies to payments and benefits under the Policy in a manner that results in adverse tax consequences for the Eligible Officer or such person.

(vi) Except as otherwise expressly provided herein, to the extent any expense reimbursement or the provision of any in-kind benefit under this Policy is determined to be subject to Section 409A, the amount of any such expenses eligible for reimbursement, or the provision of any in-kind benefit, in one calendar year shall not affect the expenses eligible for reimbursement in any other taxable year (except for any lifetime or other aggregate limitation applicable to medical expenses), in no event shall any expenses be reimbursed after the last day of the calendar year following the calendar year in which such Eligible Officer incurred such expenses, and in no event shall any right to reimbursement or the provision of any in-kind benefit be subject to liquidation or exchange for another benefit.

(c) *Section 280G Contingent Cutback*. In the event that the payments and benefits provided for in this Policy or otherwise payable to an Eligible Officer (i) constitute “parachute payments” within the meaning of Section 280G of the Code and (ii) but for this provision, would be subject to the excise tax imposed by Section 4999 of the Code, then such severance and other payments and benefits shall be payable either (i) in full or (ii) as to such lesser amount that would result in no portion of such payments and benefits being subject to the excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by such Eligible Officer on an after-tax basis, of the greatest amount of payments and benefits under this Policy or otherwise, notwithstanding that all or some portion of such payments and benefits may be taxable under Section 4999 of the Code. To the extent any of such benefits and payments provided for in this Policy are “deferred compensation” within the meaning of Section 409A, any reduction shall be made in the following manner: first a pro rata reduction of (i) cash payments subject to Section 409A as deferred compensation and (ii) cash payments not subject to Section 409A, and second a pro rata cancellation of (x) equity-based compensation subject to Section 409A as deferred compensation and (y) equity-based compensation not subject to Section 409A; *provided* that reduction in either cash payments or equity compensation benefits shall be made pro rata between and among benefits that are subject to Section 409A and benefits that are exempt from Section 409A. Unless the Company and such Eligible Officer otherwise agree in writing, any determination required under this provision shall be made in writing by the Company’s independent public accountants (the “**Accountants**”), whose determination shall be conclusive and binding upon such Eligible Officer and the Company for all purposes. For purposes of making the calculations required by this provision, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and such Eligible Officer shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this provision. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this provision.

**Section. 7.** *Miscellaneous*.

(a) *Entire Agreement; No Duplication of Benefits*. Any amounts payable hereunder shall be reduced by any notice under, or payments in lieu of notice under, the WARN Act (or similar state law). Any amounts payable under this Policy shall not be duplicative or cumulative of any other severance benefits, and to the extent an Eligible Officer has executed an individually negotiated written agreement with the Company relating to severance benefits after a “change in control” (or such similar term) that is in effect on his or her Termination Date, no amounts will be due hereunder.

(b) *No Implied Employment Contract*. This Policy is not an employment contract. Nothing in this Policy or any other instrument executed pursuant to this Policy shall confer upon an Eligible Officer any right to continue in the Company’s employ or service nor limit in any way the Company’s right to terminate an Eligible Officer’s employment at any time for any reason. The Company and the Eligible Officer acknowledge that the Eligible Officer’s employment is and shall continue to be “at-will”, as defined under applicable law, except to the extent otherwise expressly provided in a written agreement between the Eligible Officer and the Company.

(c) *Exclusive Discretion*. The Board, the Compensation Committee or another authorized committee thereof will have the exclusive discretion and authority to establish rules, forms, and procedures for the administration of the Policy and to construe and interpret the Policy and to decide any and all questions of fact, interpretation, definition, computation or administration arising in connection with the operation of the Policy, including, but not limited to, the eligibility to participate in the Policy and amount of benefits paid under the Policy, and its rules, interpretations, computations and other actions will be binding and conclusive on all persons.

(d) *Notice*. Notices and all other communications contemplated by this Policy shall be in writing and shall be deemed to have been duly given when personally delivered, sent by facsimile or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Eligible Officer, mailed notices shall be addressed to him or her at the home address or facsimile number shown on the Company’s corporate records, unless a different address or facsimile number

is subsequently communicated to the Company in writing. In the case of the Company, mailed notices or notices sent by facsimile shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of the Company's General Counsel (or, in the event the Eligible Officer is the General Counsel of the Company, then to the Company's Chief Executive Officer).

(e) *No Waiver*. The failure of a party to insist upon strict adherence to any term of this Policy on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Policy.

(f) *Severability*. In the event that any one or more of the provisions of this Policy shall be or become invalid, illegal or unenforceable in any respect or to any degree, the validity, legality and enforceability of the remaining provisions of this Policy shall not be affected thereby. The parties intend to give the terms of this Policy the fullest force and effect so that if any provision shall be found to be invalid or unenforceable, the court reaching such conclusion may modify or interpret such provision in a manner that shall carry out the parties' intent and shall be valid and enforceable.

(g) *Successors*. The Company shall have the right to assign its rights and obligations under this Policy to an entity that (whether direct or indirect, by purchase, merger, consolidation or otherwise) acquires all or substantially all of the assets of the Company. The rights and obligations of the Company under this Policy shall inure to the benefit and shall be binding upon the successors and assigns of the Company. In the case of any transaction in which a successor would not by the foregoing provision or by operation of law be bound by the Policy, the Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to the Company to expressly and unconditionally assume the Policy in writing and honor the obligations of the Company hereunder, in the same manner and to the same extent that the Company would be required to perform if no succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall entitle Eligible Officers to such severance compensation and benefits from the Company in the same amount and on the same terms as the Eligible Officer would be entitled hereunder if the Eligible Officer had terminated his or her employment with Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

An Eligible Officer shall not have any right to assign his or her obligations under this Policy and shall only be entitled to assign his or her rights under this Policy upon his or her death, solely to the extent permitted by this Policy, or as otherwise agreed to by the Company.

(h) *Creditor Status of Eligible Officers*. In the event that any Eligible Officer acquires a right to receive payments from the Company under the Policy such right shall be no greater than the right of any unsecured general creditor of the Company.

(i) *Governing Law*. This Policy is intended to be governed by and will be construed in accordance with the laws of the State of Delaware.

<u>**EXHIBIT A**</u>

**PARTICIPANT ACKNOWLEDGMENT AND ACCEPTANCE OF THE
AEROJET ROCKETDYNE HOLDINGS, INC.
EXECUTIVE CHANGE IN CONTROL SEVERANCE POLICY**

I acknowledge that I have received this official plan document attached as Annex A hereto for the Aerojet Rocketdyne Holdings, Inc. Executive Change in Control Severance Policy (the "**Policy**"), and confirm that I have read and understand the terms of the Policy. Furthermore, I agree that any compensation and benefits I may be due under the Policy will be paid under the rules, restrictions, terms and conditions as stated therein (and as may be subsequently modified). The Company agrees not to remove the undersigned as an Eligible Officer (as defined in the Policy) without the undersigned's written consent.

________________________________________
[NAME]
Date:

Agreed and Acknowledged:

Aerojet Rocketdyne Holdings, Inc.

By:___________________________________
Name:
Title:
Date:

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Eileen P. Drake, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Aerojet Rocketdyne Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2017

/s/ Eileen P. Drake

Eileen P. Drake

Chief Executive Officer and President
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Paul R. Lundstrom, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Aerojet Rocketdyne Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2017

/s/ Paul R. Lundstrom

Paul R. Lundstrom

Vice President and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

**Exhibit 32.1**

**CERTIFICATIONS**
**PURSUANT TO 18 UNITED STATES CODE §1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies that to her knowledge the quarterly report on Form 10-Q of Aerojet Rocketdyne Holdings, Inc. for the period ended September 30, 2017 (the Report), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of the operations of the Company, as of the dates and the periods expressed in the Report.

/s/ Eileen P. Drake
Eileen P. Drake

Chief Executive Officer and President
(Principal Executive Officer)

Date: November 2, 2017

The undersigned hereby certifies that to his knowledge the quarterly report on Form 10-Q of Aerojet Rocketdyne Holdings, Inc. for the period ended September 30, 2017 (the Report), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of the operations of the Company, as of the dates and the periods expressed in the Report.

/s/ Paul R. Lundstrom
Paul R. Lundstrom
Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Date: November 2, 2017