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: June 30, 2021

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 or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
222 N. Pacific Coast Highway **Suite 500** **El Segundo** **California**	**90245**
(Address of principal executive offices)	**(Zip Code)**

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $0.10 par value	AJRD	New York Stock Exchange

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

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

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

Large accelerated filer	☒	Accelerated filer
Non-accelerated filer	☐	Smaller reporting company
Emerging growth company	☐	

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

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

As of July 19, 2021, the Company had 80,293,350 outstanding common shares, including unvested common shares, $0.10 par value.

Aerojet Rocketdyne Holdings, Inc.
Quarterly Report on Form 10-Q
For the Quarterly Period Ended June 30, 2021

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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 June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(In millions, except per share amounts)			
Net sales	$ 556.9	$ 512.4	$ 1,053.0	$ 988.5
Operating costs and expenses:				
Cost of sales (exclusive of items shown separately below)	446.1	415.2	864.1	810.1
Selling, general and administrative expense	13.6	10.7	22.6	19.8
Depreciation and amortization	15.7	17.4	30.9	34.6
Other expense (income), net	7.2	0.1	15.3	(2.1)
Total operating costs and expenses	482.6	443.4	932.9	862.4
Operating income	74.3	69.0	120.1	126.1
Non-operating:				
Retirement benefits expense	8.4	9.1	16.9	18.3
Loss on debt	0.5	—	9.6	—
Interest income	(0.7)	(1.0)	(1.3)	(4.2)
Interest expense	5.1	7.4	10.2	15.8
Total non-operating expense, net	13.3	15.5	35.4	29.9
Income before income taxes	61.0	53.5	84.7	96.2
Income tax provision	16.0	14.3	21.6	25.6
Net income	$ 45.0	$ 39.2	$ 63.1	$ 70.6
Earnings per share of common stock				
Basic earnings per share	$ 0.56	$ 0.50	$ 0.80	$ 0.90
Diluted				
Diluted earnings per share	$ 0.54	$ 0.47	$ 0.77	$ 0.84
Weighted average shares of common stock outstanding, basic	79.7	77.6	78.5	77.5
Weighted average shares of common stock outstanding, diluted	82.5	82.1	81.3	82.6
Cash dividends paid per share	$ —	$ —	$ 5.00	$ —

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(In millions)			
Net income	$ 45.0	$ 39.2	$ 63.1	$ 70.6
Other comprehensive income:				
Amortization of net actuarial losses and prior service costs, net of income taxes of $3.8 million, $3.4 million, $7.6 million, and $6.7 million	11.5	10.0	23.0	20.2
Comprehensive income	$ 56.5	$ 49.2	$ 86.1	$ 90.8

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	June 30, 2021	December 31, 2020
	(In millions, except per share amounts)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 571.3	$ 1,149.5
Restricted cash	3.0	3.0
Marketable securities	9.8	7.0
Accounts receivable	167.1	75.6
Contract assets	290.5	288.6
Other current assets	137.6	136.5
Total Current Assets	1,179.3	1,660.2
Noncurrent Assets		
Right-of-use assets	50.5	46.8
Property, plant and equipment, net	414.1	423.1
Recoverable environmental remediation costs	220.4	227.7
Deferred income taxes	73.5	81.1
Goodwill	161.4	161.4
Intangible assets	38.1	44.8
Other noncurrent assets	241.8	254.8
Total Noncurrent Assets	1,199.8	1,239.7
Total Assets	$ 2,379.1	$ 2,899.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	$ 174.1	$ 299.9
Accounts payable	99.5	99.1
Reserves for environmental remediation costs	41.7	39.8
Contract liabilities	389.8	407.2
Other current liabilities	170.9	609.7
Total Current Liabilities	876.0	1,455.7
Noncurrent Liabilities		
Long-term debt	310.4	324.4
Reserves for environmental remediation costs	252.1	260.8
Pension benefits	378.9	405.2
Operating lease liabilities	38.7	35.7
Other noncurrent liabilities	183.9	184.6
Total Noncurrent Liabilities	1,164.0	1,210.7
Total Liabilities	2,040.0	2,666.4
Commitments and contingencies (Note 8)		
Stockholders' Equity		
Preferred 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; 79.8 million shares issued and outstanding as of June 30, 2021; 76.8 million shares issued and outstanding as of December 31, 2020	8.0	7.7
Other capital	588.9	583.0
Treasury stock at cost, 2.1 million shares as of June 30, 2021 and December 31, 2020	(64.4)	(64.4)
Retained earnings (accumulated deficit)	11.2	(65.2)
Accumulated other comprehensive loss, net of income taxes	(204.6)	(227.6)
Total Stockholders' Equity	339.1	233.5
Total Liabilities and Stockholders' Equity	$ 2,379.1	$ 2,899.9

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Common Stock		Other Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount					
				(In millions)			
March 31, 2020	77.6	$ 7.7	$ 572.3	$ (13.2)	$ 276.3	$ (226.3)	$ 616.8
Net income	—	—	—	—	39.2	—	39.2
Amortization of net actuarial losses and prior service costs, net of income taxes	—	—	—	—	—	10.0	10.0
Repurchase of shares for withholding taxes and option costs under equity plans	(0.1)	—	(0.3)	—	—	—	(0.3)
Stock-based compensation and shares issued under equity plans	0.1	—	5.6	—	—	—	5.6
June 30, 2020	77.6	$ 7.7	$ 577.6	$ (13.2)	$ 315.5	$ (216.3)	$ 671.3
December 31, 2019	77.3	$ 7.7	$ 573.3	$ (12.7)	$ 244.9	$ (236.5)	$ 576.7
Net income	—	—	—	—	70.6	—	70.6
Amortization of net actuarial losses and prior service costs, net of income taxes	—	—	—	—	—	20.2	20.2
Purchase of treasury stock	—	—	—	(0.5)	—	—	(0.5)
Repurchase of shares for withholding taxes and option costs under equity plans	(0.2)	—	(8.2)	—	—	—	(8.2)
Stock-based compensation and shares issued under equity plans	0.5	—	12.5	—	—	—	12.5
June 30, 2020	77.6	$ 7.7	$ 577.6	$ (13.2)	$ 315.5	$ (216.3)	$ 671.3
March 31, 2021	79.6	$ 8.0	$ 583.3	$ (64.4)	$ (33.8)	$ (216.1)	$ 277.0
Net income	—	—	—	—	45.0	—	45.0
Amortization of net actuarial losses and prior service costs, net of income taxes	—	—	—	—	—	11.5	11.5
Purchase of treasury stock	—	—	—	—	—	—	—
Settlement of debt (see Note 11)	0.1	—	—	—	—	—	—
Repurchase of shares for withholding taxes and option costs under equity plans	—	—	—	—	—	—	—
Stock-based compensation and shares issued under equity plans	0.1	—	5.6	—	—	—	5.6
June 30, 2021	79.8	$ 8.0	$ 588.9	$ (64.4)	$ 11.2	$ (204.6)	$ 339.1
December 31, 2020	76.8	$ 7.7	$ 583.0	$ (64.4)	$ (65.2)	$ (227.6)	$ 233.5
Net income	—	—	—	—	63.1	—	63.1
Amortization of net actuarial losses and prior service costs, net of income taxes	—	—	—	—	—	23.0	23.0
Adjustment to dividends paid	—	—	—	—	13.3	—	13.3
Settlement of debt (see Note 11)	2.7	0.3	(4.1)	—	—	—	(3.8)
Repurchase of shares for withholding taxes and option costs under equity plans	—	—	(4.0)	—	—	—	(4.0)
Stock-based compensation and shares issued under equity plans	0.3	—	14.0	—	—	—	14.0
June 30, 2021	79.8	$ 8.0	$ 588.9	$ (64.4)	$ 11.2	$ (204.6)	$ 339.1

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Six months ended June 30,	
	2021	**2020**
	(In millions)	
Operating Activities		
Net income	$ 63.1	$ 70.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30.9	34.6
Amortization of debt discount and deferred financing costs	3.0	4.9
Stock-based compensation	10.1	7.7
Retirement benefits, net	2.8	15.9
Loss on debt	9.6	—
Other, net	(0.8)	0.1
Changes in assets and liabilities:		
Accounts receivable	(91.5)	32.1
Contract assets	(1.9)	(63.8)
Other current assets	(1.0)	31.6
Recoverable environmental remediation costs	7.3	10.3
Other noncurrent assets	12.3	7.6
Accounts payable	(0.9)	(47.5)
Contract liabilities	(17.4)	33.4
Other current liabilities	6.6	(7.3)
Deferred income taxes	—	4.1
Reserves for environmental remediation costs	(6.8)	(9.9)
Other noncurrent liabilities and other	(5.2)	3.2
Net Cash Provided by Operating Activities	20.2	127.6
Investing Activities		
Purchases of marketable securities	(1.9)	(25.0)
Capital expenditures	(12.3)	(16.2)
Net Cash Used in Investing Activities	(14.2)	(41.2)
Financing Activities		
Dividend payments	(428.5)	—
Debt repayments	(155.8)	(9.9)
Repurchase of shares for withholding taxes and option costs under equity plans	(4.0)	(8.2)
Proceeds from shares issued under equity plans	4.1	3.5
Purchase of treasury stock	—	(0.5)
Net Cash Used in Financing Activities	(584.2)	(15.1)
Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash	(578.2)	71.3
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	1,152.5	935.6
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 574.3	$ 1,006.9
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 7.2	$ 10.7
Cash paid for income taxes, net of refunds	18.6	2.0

See 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 the accounts of the Company and its 100% owned and majority owned subsidiaries, in accordance with the instructions to Form 10-Q. The December 31, 2020, 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 year ended December 31, 2020. Certain reclassifications have been made to financial information for prior years 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'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"), and major aerospace and defense prime contractors.

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 fiscal year of the Company's subsidiary, Aerojet Rocketdyne, ends on the last Saturday in December.

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 year ended December 31, 2020.

Merger

On December 20, 2020, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Lockheed Martin Corporation ("Lockheed Martin") and Mizar Sub, Inc., a wholly-owned subsidiary of Lockheed Martin ("Merger Sub"), pursuant to which, subject to the terms and conditions thereof, Merger Sub will merge with and into the Company (the "Merger") with the Company being the surviving corporation and a wholly-owned subsidiary of Lockheed Martin. Subject to the terms and conditions set forth in the Merger Agreement, each share of common stock outstanding as of immediately prior to the effective time of the Merger will be automatically converted into the right to receive cash in an amount equal to $51.00 per share (adjusted from $56.00 following the payment of the Pre-Closing Dividend, as discussed below).

In December 2020, the Company's Board of Directors declared a one-time cash dividend of $5.00 per share (including shares underlying the 2.25% Convertible Senior Notes ("2¼% Notes") participating on an as-converted basis) (the "Pre-Closing Dividend"). On March 24, 2021, the Company paid the Pre-Closing Dividend to holders of record as of March 10, 2021. Payment of the Pre-Closing Dividend was made in connection with the anticipated acquisition of the Company by Lockheed Martin. Under the terms of the Merger Agreement, the Company's payment of the Pre-Closing Dividend adjusted the consideration to be paid by Lockheed Martin at closing from $56.00 per share to $51.00 per share.

On February 18, 2021, the Company received a request for additional information ("second request") from the Federal Trade Commission ("FTC") as part of the regulatory review process for the acquisition of the Company by Lockheed Martin.

On March 9, 2021, the stockholders of the Company voted in favor of approving the Merger Agreement at a special meeting. Closing of the Merger is anticipated to occur in the fourth quarter of 2021, subject to receipt of regulatory approval under the Hart Scott Rodino Antitrust Improvements Act of 1976, as amended, and satisfaction of other closing conditions specified in the Merger Agreement.

Coronavirus ("COVID-19") Pandemic

During the six months ended June 30, 2021, the Company's financial results and operations were not materially adversely impacted by the COVID-19 pandemic. As a defense industrial-base U.S. government contractor, the Company is considered an essential business by the U.S. and state governments and it continues to operate as such during the COVID-19 pandemic. The extent to which the Company's future financial results could be impacted by the COVID-19 pandemic depends on future developments that are highly uncertain and cannot be predicted at this time. The Company is not aware of any specific event or circumstance that would require an update to its estimates or judgments or a revision of the carrying value of its assets or liabilities as of the date of issuance of this Quarterly Report on Form 10-Q. These estimates may change, as new events occur and additional information is obtained. Actual results could differ materially from these estimates under different assumptions or conditions.

Recently Issued Accounting Pronouncements

In August 2020, the Financial Accounting Standards Board issued guidance which simplifies the accounting for convertible instruments. This guidance eliminates certain models that require separate accounting for embedded conversion features, in certain cases. Additionally, among other changes, the guidance eliminates certain of the conditions for equity classification for contracts in an entity's own equity. The guidance also requires entities to use the if-converted method for all convertible instruments in the diluted earnings per share calculation and include the effect of share settlement for instruments that may be settled in cash or shares, except for certain liability-classified share-based payment awards. This guidance is effective for the Company beginning in the first quarter of 2022 and must be applied using either a modified or full retrospective approach. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements.

Note 2. Earnings Per Share ("EPS") of Common Stock

The following table reconciles the numerator and denominator used to calculate basic and diluted EPS of common stock:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(In millions, except per share amounts)			
Numerator:				
Net income	$ 45.0	$ 39.2	$ 63.1	$ 70.6
Income allocated to participating securities	(0.3)	(0.5)	(0.4)	(1.0)
Net income for basic and diluted EPS	$ 44.7	$ 38.7	$ 62.7	$ 69.6
Denominator:				
Basic weighted average shares	79.7	77.6	78.5	77.5
Effect of:				
$2^1/_4$% Notes	2.8	4.3	2.8	4.9
Awards issued under equity plans	—	0.2	—	0.2
Diluted weighted average shares	82.5	82.1	81.3	82.6
Basic				
Basic EPS	$ 0.56	$ 0.50	$ 0.80	$ 0.90
Diluted				
Diluted EPS	$ 0.54	$ 0.47	$ 0.77	$ 0.84

Securities which would have been anti-dilutive are insignificant and are excluded from the computation of diluted earnings per share in all periods presented.

Note 3. Revenue Recognition

In the Company's Aerospace and Defense segment, the majority of revenue is earned from long-term contracts to design, develop, and manufacture aerospace and defense products for, and provide related services to, the Company's customers, including the U.S. government and major aerospace and defense prime contractors.

The Company evaluates the contract value and cost estimates for performance obligations at least quarterly and more frequently when circumstances significantly change. Factors 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 and performance delays, availability of funding from the customer, and the recoverability of costs incurred outside the original contract included in any estimates to complete. When the Company's estimate of total costs to be incurred to satisfy a performance obligation exceeds the expected revenue, the Company recognizes the loss immediately. When the Company determines that a change in estimates has an impact on the associated profit of a performance obligation, the Company records the cumulative 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 changes in significant contract accounting estimates on the Company's Aerospace and Defense segment operating results:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(In millions, except per share amounts)			
Net favorable effect of the changes in contract estimates on net sales	$ 25.7	$ 15.1	$ 23.8	$ 17.2
Net favorable effect of the changes in contract estimates on income before income taxes	24.0	15.7	21.6	18.2
Net favorable effect of the changes in contract estimates on net income	18.0	11.4	16.1	13.3
Net favorable effect of the changes in contract estimates on basic EPS	0.22	0.15	0.20	0.17
Net favorable effect of the changes in contract estimates on diluted EPS	0.22	0.14	0.20	0.16

For the six months ended June 30, 2021, net favorable changes in contract estimates were primarily driven by improved performance and risk retirements on the RS-68 and Patriot Advanced Capability-3 ("PAC-3") programs partially offset by cost growth on a portion of the Standard Missile program. For the six months ended June 30, 2020, net favorable changes in contract estimates were primarily driven by improved performance and risk retirements on the RL-10, PAC-3, and Terminal High Altitude Area Defense ("THAAD") programs partially offset by cost growth on a portion of the Standard Missile program.

In the Company's Aerospace and Defense segment, the timing of revenue recognition, customer invoicing, and collections produces accounts receivable, contract assets, and contract liabilities in the unaudited condensed consolidated balance sheets. The following table summarizes contract assets and liabilities:

	June 30, 2021	December 31, 2020
	(In millions)	
Contract assets	$ 294.7	$ 294.3
Reserve for overhead rate disallowance	(4.2)	(5.7)
Contract assets, net of reserve	290.5	288.6
Contract liabilities	389.8	407.2
Net contract liabilities, net of reserve	$ (99.3)	$ (118.6)

Net contract liabilities decreased by $19.3 million from December 31, 2020, primarily due to a decrease in contract advances and an increase in unbilled receivables. During the six months ended June 30, 2021, the Company recognized sales of $270.2 million that were included in the Company's contract liabilities as of December 31, 2020.

As of June 30, 2021, the Company's total remaining performance obligations, also referred to as backlog, totaled $6.7 billion. The Company expects to recognize approximately 33%, or $2.2 billion, of the remaining performance obligations as sales over the next twelve months, an additional 24% the following twelve months, and 43% thereafter.

The Company's contracts are largely categorized as either "fixed-price" (largely used by the U.S. government for production-type contracts) or "cost-reimbursable" (largely used by the U.S. government for development-type contracts). Fixed-price contracts present the risk of unreimbursed cost overruns, potentially resulting in lower than expected contract profits and margins. This risk is generally lower for cost-reimbursable contracts which, as a result, generally have a lower margin. The following table summarizes the percentages of net sales by contract type:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Fixed-price	60 %	61 %	56 %	61 %
Cost-reimbursable	40	39	44	39

The principal end user customers are primarily agencies of the U.S. government as illustrated in the following table:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
U.S. government	97 %	96 %	97 %	96 %
Non U.S. government	3	4	3	4

The Company's Real Estate segment represented less than 1% of the Company's net sales for the three and six months ended June 30, 2021 and 2020.

Note 4. Stock-Based Compensation

The following table summarizes stock-based compensation expense by type of award:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(In millions)			
Stock Appreciation Rights	$ 1.4	$ (0.4)	$ (0.3)	$ (1.9)
Stock options	—	0.1	—	0.2
Restricted stock and restricted stock units, service based	1.7	1.7	3.0	3.2
Restricted stock and restricted stock units, performance based	4.0	3.7	6.9	5.7
Employee stock purchase plan	0.2	0.2	0.5	0.5
Total stock-based compensation expense	$ 7.3	$ 5.3	$ 10.1	$ 7.7

Note 5. Balance Sheet Accounts

a. Fair Value of Financial Instruments

Financial instruments are classified using a three-tiered 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.

		Fair value measurement as of June 30, 2021		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	(In millions)			
Money market funds	$ 285.9	$ 285.9	$ —	$ —
Registered investment companies	1.9	1.9	—	—
Commercial paper	25.0	—	25.0	—
Equity securities	9.8	9.8	—	—
Total	$ 322.6	$ 297.6	$ 25.0	$ —

		Fair value measurement as of December 31, 2020		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	(In millions)			
Money market funds	$ 569.3	$ 569.3	$ —	$ —
Registered investment companies	2.5	2.5	—	—
Commercial paper	232.0	—	232.0	—
Equity securities	7.0	7.0	—	—
Total	$ 810.8	$ 578.8	$ 232.0	$ —

As of June 30, 2021 and December 31, 2020, the total estimated fair value for commercial paper was classified as cash and cash equivalents as the remaining maturity at date of purchase was less than three months.

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

The following table summarizes the estimated fair value and principal amount for outstanding debt obligations excluding finance lease obligations:

	Fair Value		Principal Amount	
	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
	(In millions)			
Term loan	$ 287.2	$ 306.5	$ 295.3	$ 308.5
2 1/4% Notes	293.9	609.5	158.2	300.0
Total	$ 581.1	$ 916.0	$ 453.5	$ 608.5

The fair value of the 2¼% Notes was determined using broker quotes that are based on open markets for the Company's debt securities (Level 2 securities). The fair value of the term loan was estimated based on a third-party model used to derive a relative value price using comparable corporate loans within the same industry, credit quality, and currency.

b. Accounts Receivable

	June 30, 2021	December 31, 2020
	(In millions)	
Billed receivables under long-term contracts	$ 166.9	$ 75.3
Other trade receivables	0.2	0.3
Accounts receivable	$ 167.1	$ 75.6

c. Other Current Assets

	June 30, 2021	December 31, 2020
	(In millions)	
Deferred costs recoverable from the U.S. government	$ 41.2	$ 41.0
Income tax receivable	43.9	46.9
Inventories	14.0	10.0
Prepaid expenses	17.6	18.0
Other	20.9	20.6
Other current assets	$ 137.6	$ 136.5

d. Property, Plant and Equipment, net

	June 30, 2021	December 31, 2020
	(In millions)	
Land	$ 71.1	$ 71.2
Buildings and improvements	452.2	433.4
Machinery and equipment, including capitalized software	480.0	471.3
Construction-in-progress	90.9	105.5
	1,094.2	1,081.4
Less: accumulated depreciation	(680.1)	(658.3)
Property, plant and equipment, net	$ 414.1	$ 423.1

e. Other Noncurrent Assets

	June 30, 2021	December 31, 2020
	(In millions)	
Real estate held for entitlement and leasing	$ 102.7	$ 101.8
Deferred costs recoverable from the U.S. government	54.8	54.7
Receivable from Northrop Grumman Corporation for environmental remediation costs	37.5	40.5
Other	46.8	57.8
Other noncurrent assets	$ 241.8	$ 254.8

f. Other Current Liabilities

	June 30, 2021	December 31, 2020
	(In millions)	
Accrued compensation and employee benefits	$ 111.9	$ 118.0
Dividend payable	1.7	447.8
Other	57.3	43.9
Other current liabilities	$ 170.9	$ 609.7

Note 6. Income Taxes

	Six months ended June 30,	
	2021	2020
	(In millions)	
Income tax provision	$ 21.6	$ 25.6

In the six months ended June 30, 2021, the income tax provision was $21.6 million for an effective tax rate of 25.5%. The Company’s effective tax rate differed from the 21% statutory federal income tax rate primarily due to state income taxes and certain expenditures which are permanently not deductible for tax purposes, partially offset by the impact of Research and Development ("R&D") credits.

In the six months ended June 30, 2020, the income tax provision was $25.6 million for an effective tax rate of 26.6%. The Company’s effective tax rate differed from the 21% statutory federal income tax rate primarily due to state income taxes and certain expenditures which are permanently not deductible for tax purposes, partially offset by the impact of R&D credits.

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 June 30, 2021, 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.

Note 7. Long-term Debt

	June 30, 2021	December 31, 2020
	(In millions)	
Term loan, bearing interest at variable rates (rate of 1.85% as of June 30, 2021), maturing in September 2023	$ 295.3	$ 308.5
Unamortized deferred financing costs	(1.1)	(1.4)
Total senior debt	294.2	307.1
Convertible senior notes, bearing interest at 2.25% per annum, interest payments due in June and December, maturing in December 2023	158.2	300.0
Unamortized discount and deferred financing costs	(12.7)	(28.4)
Total convertible senior notes	145.5	271.6
Finance leases	44.8	45.6
Total other debt	44.8	45.6
Total debt, net of unamortized discount and deferred financing costs	484.5	624.3
Less: Amounts due within one year	(174.1)	(299.9)
Total long-term debt, net of unamortized discount and deferred financing costs	$ 310.4	$ 324.4

Senior Credit Facility

The senior secured senior credit facility (the "Senior Credit Facility") matures on September 20, 2023, and consists of (i) a $650.0 million revolving line of credit (the "Revolver") and (ii) a $350.0 million term loan (the "Term Loan").

As of June 30, 2021, the Company had zero borrowings under the Revolver and issued $27.6 million in letters of credit.

The Term Loan and any borrowings under the Revolver bear interest at LIBOR plus an applicable margin ranging from 175 to 250 basis points based on the Company's leverage ratio (the "Consolidated Net Leverage Ratio") measured at the end of each quarter. In addition to interest, the Company must 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 eurocurrency rate loans and (ii) commitment fees ranging from 30 to 45 basis points per annum on the unused portion of the Revolver.

The Term Loan amortized at a rate of 7.5% per annum as of December 31, 2020, and increasing to 10.0% per annum from December 31, 2022, 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.

The Senior Credit Facility is secured by a first priority security interest in the Company’s assets, subject to certain customary exceptions, as well as pledges of its equity interests in certain subsidiaries.

The Senior Credit Facility contains financial 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) 3.75 to 1.00 from October 1, 2020, through September 30, 2021; and (b) 3.50 to 1.00 from October 1, 2021, thereafter, provided that the maximum leverage ratio for all periods shall be increased by 0.50 to 1.00 for two consecutive 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 and dividends) 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.

The Company was in compliance with its financial and non-financial covenants as of June 30, 2021.

2¼% 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.

In the six months ended June 30, 2021, the Company settled $141.8 million of its 2¼% Notes. The principal amount was settled in cash and the conversion premium was settled in common shares. See Note 11.

As of July 19, 2021, the Company has received $12.3 million of conversion notices from the holders of the 2¼% Notes that will settle in the third quarter of 2021. The Company will cash settle the principal amount of the 2¼% Notes and the conversion premium will be settled in common shares.

Holders may convert their 2¼% Notes at their option from July 1, 2021, through September 30, 2021, because the Company's closing stock price exceeded $33.80 for at least 20 days in the 30 day period prior to June 30, 2021. The Company has a stated intention to cash settle the principal amount of the 2¼% Notes with the conversion premium to be settled in common shares. Accordingly, the net balance of the 2¼% Notes of $145.5 million is classified as a current liability as of June 30, 2021.

As more fully described in the indenture governing the 2¼% Notes, the holders of the 2¼% Notes may surrender all or any portion of their 2¼% Notes for conversion at any time during any calendar quarter, (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% ($33.80) of the conversion price on each applicable trading day.

The following table summarizes information regarding the 2¼% Notes (in millions, except years, percentages, conversion rate, and conversion price):

	June 30, 2021	December 31, 2020
Carrying amount of equity component, net of equity issuance costs	$ —	$ 54.5
Remaining amortization period (years)	2.50	3.0
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 $48.29 on June 30, 2021, the if-converted value of the 2¼% Notes exceeded the aggregate principal amount of the 2¼% Notes by $135.6 million.

The following table presents the interest expense components for the 2¼% Notes:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(In millions)			
Interest expense-contractual interest	$ 0.8	$ 1.7	$ 1.6	$ 3.4
Interest expense-amortization of debt discount	1.1	2.0	2.2	3.9
Interest expense-amortization of deferred financing costs	0.1	0.1	0.2	0.3

Note 8. Commitments and Contingencies

a. 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 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. When only a range of amounts can be reasonably estimated and no amount within the range is more likely than another, the low end of the range 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.

Merger-Related Litigation

For information regarding the Myers Action, the Hiramitsu Action, the Feinhals Action, the Stein Action, the Clark Action, the Coffman Action, the Wilhelm Action, and the Patel Action, see Note 8(a) in the consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2020, which is incorporated herein by reference. In addition, on February 24, 2021, a lawsuit entitled *Sam Carlisle v. Aerojet Rocketdyne Holdings, Inc. et al., Case No. 1:21-cv-00281*, was filed in the United States District Court for the District of Delaware against the Company and the members of the Company's Board of Directors (the "Carlisle Action"). On February 26, 2021, a lawsuit entitled *Rachel Harney v. Aerojet Rocketdyne Holdings, Inc. et al., Case No. 2:21-cv-00913*, was filed in the United States District Court for the Eastern District of Pennsylvania against the Company and the members of the Company's Board of Directors (the "Harney Action"). On March 1, 2021, a lawsuit entitled D*arrell J. Clark v. Aerojet Rocketdyne Holdings, Inc. et al., Case No. 1:21-cv-01749*, was filed in the United States District Court for the Southern District of New York against the Company and the members of the Company's Board of Directors (the "Darrell Clark Action"). The Myers Action, the Hiramitsu Action, the Feinhals Action, the Stein Action, the Clark Action, the Coffman Action, the Wilhelm Action, the Patel Action, the Carlisle Action, the Harney Action and the Darrell Clark Action are collectively referred to as the "Actions." The Actions alleged that the defendants violated Sections 14(a) (and Rule 14a-9 promulgated thereunder) and 20(a) of the Exchange Act by, among other things, omitting certain allegedly material information with respect to the Merger in the preliminary proxy statement filed by the Company on January 25, 2021, (in the case of the Myers Action, the Hiramitsu Action, the Feinhals Action, the Stein Action, the Clark Action and the Coffman Action) and the definitive proxy statement filed by the Company on February 5, 2021, (in the case of the Wilhelm Action, the Patel Action, the Carlisle Action, the Harney Action and the Darrell Clark Action). The Myers Action, the Feinhals Action and the Darrell Clark Action also alleged that the members of the Company's Board of Directors breached their fiduciary duties in connection with the Merger, and the Myers Action further alleged that the Company aided and abetted the directors' alleged breaches of fiduciary duties. The plaintiffs in the Actions sought, among other things, injunctive relief, money damages and the costs of the Actions, including reasonable attorneys' and experts' fees.

In April 2021, following the Company's filing of additional definitive proxy soliciting materials, the plaintiffs in each of the Actions voluntarily dismissed their lawsuits. Following the dismissal of the Actions, the Company agreed to pay an immaterial amount of plaintiffs' attorneys' fees and expenses to resolve plaintiffs' claims that they had the right to recover their attorneys' fees and expenses in connection with the Actions. No assurance can be given that additional lawsuits will not be filed against the Company and/or its directors and officers in connection with the Merger.

Asbestos Litigation

The Company has been, and continues to be, named as a defendant in lawsuits alleging personal injury or death and seeking various monetary damages due to exposure to asbestos in building materials, products, or in manufacturing operations. The majority of cases are pending in Illinois state courts. There were 119 asbestos cases pending as of June 30, 2021.

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. The aggregate settlement costs and legal and administrative fees associated with the Company's asbestos litigation has been immaterial for the last three years. As of June 30, 2021, the Company has accrued an immaterial amount related to pending claims.

United States ex. rel. Markus vs. Aerojet Rocketdyne Holdings

In the case captioned United States ex. rel. Markus vs. Aerojet Rocketdyne Holdings, Inc. et al., Case No. 2:15-CV-02245- WBS-AC, the Department of Justice completed its review of the case and declined to intervene in June 2018. The case was originally filed under seal in the U.S. District Court, Eastern District of California in September 2017 and alleged causes of action against the Company based on false claims, retaliation, and wrongful termination of employment seeking injunctive relief, civil penalties, and compensatory and punitive damages. In February 2019, the Company filed a Motion to Dismiss the False Claims Act ("FCA") counts of the complaint and a Motion to Compel Arbitration on the employment based claims. In May 2019, the court dismissed one count of the FCA claim, denied the motion to dismiss the remaining FCA counts, and moved the employment based claims to arbitration. The Company continues to vigorously contest the complaint's allegations and has not recorded any liability for this matter as of June 30, 2021.

b. Environmental Matters

The Company is involved in approximately 40 environmental matters under the Comprehensive Environmental Response Compensation and Liability Act, the Resource Conservation Recovery Act, and other federal, state, and local 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 15 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 June 30, 2021, the aggregate range of these anticipated environmental costs was $293.8 million to $444.0 million and the accrued amount was $293.8 million. See Note 8(c) for a summary of the environmental reserve activity. Of these accrued liabilities, approximately 98% 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. A 2002 PCD revision (a) separated the Sacramento site into multiple operable units to allow quicker implementation of remedies 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. Obligations under the $75 million aggregate guarantee are limited to $10 million in any year. Both the $75 million aggregate guarantee and the $10 million annual limitation are subject to adjustment annually for inflation.

Aerojet Rocketdyne is involved in various stages of soil and groundwater investigation, remedy selection, design, construction, operation and maintenance associated with the operable units, all of which are conducted under the direction and oversight of the EPA, including unilateral administrative orders, and the California Department of Toxic Substances Control ("DTSC") and Regional Water Quality Control Board, Central Valley Region ("RWQCB"). 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 continuing to work with the EPA to address and remedy the remaining findings of the 2016 five-year remedy review and has established EPA approved action plans which include additional extraction wells, treatment, and monitoring. The Company's action plans and implementation will be evaluated at the next EPA five-year remedy review scheduled to occur in 2021.

The entire southern portion of the site known as Rio Del Oro was under state orders issued in the 1990s from DTSC and the RWQCB to investigate and remediate soil and groundwater contamination. In 2008, the DTSC released all but approximately 400 acres of the Rio Del Oro property from DTSC's environmental orders regarding soil contamination although the property remains subject to the RWQCB's orders to investigate and remediate groundwater environmental contamination emanating offsite from the property.

As of June 30, 2021, the estimated range of anticipated costs discussed above for the Sacramento, California site was $206.7 million to $331.5 million and the accrued amount was $206.7 million included as a component of the Company's environmental reserves. Expenditures associated with this matter are partially recoverable. See Note 8(c) 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. In 2002, Aerojet Rocketdyne, along with seven other PRPs (the "Cooperating Respondents") signed a project agreement with the San Gabriel Basin Water Quality Authority, the Main San Gabriel Basin Watermaster, and five water companies. The 2002 project agreement terminated in 2017 and the parties executed a project agreement which became operational on May 9, 2017. The agreement has a ten-year term and requires 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.

Pursuant to the 2017 agreement with the remaining Cooperating Respondents, 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 Grumman Corporation ("Northrop") in October 2001, the EPA approved a prospective purchaser agreement with Northrop to absolve it of a 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 June 30, 2021, the estimated range of anticipated costs was $69.9 million to $84.5 million and the accrued amount was $69.9 million included as a component of the Company's environmental reserves. Expenditures associated with this matter are partially recoverable. See Note 8(c) for further discussion on recoverability.

c. 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 project agreement, which expires in May 2027. 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.

The following table summarizes the Company's environmental reserve activity:

	Aerojet Rocketdyne-Sacramento	Aerojet Rocketdyne-BPOU	Other Aerojet Rocketdyne Sites	Total Aerojet Rocketdyne	Other	Total Environmental Reserve
	(In millions)					
December 31, 2020	$ 208.4	$ 76.2	$ 10.6	$ 295.2	$ 5.4	$ 300.6
Additions/Adjustments	7.8	0.6	2.8	11.2	0.1	11.3
Expenditures	(9.5)	(6.9)	(1.4)	(17.8)	(0.3)	(18.1)
June 30, 2021	$ 206.7	$ 69.9	$ 12.0	$ 288.6	$ 5.2	$ 293.8

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.

Estimated Recoveries

On January 12, 1999, Aerojet Rocketdyne and the U.S. government reached a settlement agreement ("Global Settlement") covering environmental costs associated with the Company's Sacramento site and its former Azusa site. Pursuant to the Global Settlement, the Company can recover 88% of its environmental remediation costs through the establishment of prices for Aerojet Rocketdyne's products and services sold to the U.S. government. 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 which was reached in June 2017. The following table summarizes the Northrop Agreement activity (in millions):

Total reimbursable costs under the Northrop Agreement	$ 189.7
Amount reimbursed to the Company through June 30, 2021	(146.2)
Receivable from Northrop included in the unaudited balance sheet at June 30, 2021	$ 43.5

Environmental remediation costs are primarily incurred by the Company's Aerospace and Defense segment, and certain of these costs are recoverable from the Company's contracts with the U.S. government. The Company currently estimates approximately 12% 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 with the U.S. government 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 from U.S. government contracts and programs.

While the Company continues to seek an arrangement with the U.S. government to recover environmental expenditures in excess of the reimbursement ceiling identified in the 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 following table summarizes the financial information for the impact of environmental reserves and recoveries to the unaudited condensed consolidated statements of operations:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(In millions)			
Expense to unaudited condensed consolidated statements of operations	$ 0.6	$ 0.7	$ 1.1	$ 0.2

d. Arrangements with Off-Balance Sheet Risk

As of June 30, 2021, arrangements with off-balance sheet risk consisted of:

- $27.6 million in outstanding commercial letters of credit, the majority of which may be renewed, primarily to collateralize obligations for environmental remediation and insurance coverage.
- $57.3 million in outstanding surety bonds to primarily satisfy indemnification obligations for environmental remediation coverage
- $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 has open purchase orders and other commitments to suppliers, subcontractors, and other outsourcing partners for equipment, materials, and supplies in the normal course of business. These amounts are based on volumes consistent with anticipated requirements to fulfill purchase orders or contracts for product deliveries received, or expected to be received, from customers. A substantial portion of these amounts are recoverable through the Company's contracts with the U.S. government.

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 9. Retirement Benefits

The following table presents the components of retirement benefits expense (income):

	Pension Benefits		Postretirement Medical and Life Insurance Benefits	
	Three months ended June 30,			
	2021	2020	2021	2020
	(In millions)			
Interest cost on benefit obligation	$ 8.3	$ 10.6	$ 0.2	$ 0.2
Expected return on assets	(15.4)	(15.1)	—	—
Amortization of prior service costs	0.1	—	—	—
Amortization of net losses (gains)	16.0	14.4	(0.8)	(1.0)
Retirement benefits expense (income)	$ 9.0	$ 9.9	$ (0.6)	$ (0.8)

	Pension Benefits		Postretirement Medical and Life Insurance Benefits	
	Six months ended June 30,			
	2021	2020	2021	2020
	(In millions)			
Interest cost on benefit obligation	$ 16.7	$ 21.2	$ 0.3	$ 0.4
Expected return on assets	(30.7)	(30.2)	—	—
Amortization of prior service costs	0.1	0.1	—	—
Amortization of net losses (gains)	31.9	28.7	(1.4)	(1.9)
Retirement benefits expense (income)	$ 18.0	$ 19.8	$ (1.1)	$ (1.5)

Note 10. 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 following table presents selected financial information for each reportable segment:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(In millions)			
Net Sales:				
Aerospace and Defense	$ 556.0	$ 511.9	$ 1,051.5	$ 986.3
Real Estate	0.9	0.5	1.5	2.2
Total Net Sales	$ 556.9	$ 512.4	$ 1,053.0	$ 988.5
Segment Performance:				
Aerospace and Defense	$ 84.9	$ 70.3	$ 137.3	$ 122.9
Environmental remediation provision adjustments	(0.6)	(0.6)	(1.0)	(0.1)
GAAP/Cost Accounting Standards retirement benefits expense difference	2.7	4.6	5.9	9.3
Unusual items (see Note 11)	(2.9)	(1.8)	(4.6)	(1.8)
Aerospace and Defense Total	84.1	72.5	137.6	130.3
Real Estate	(0.3)	(0.4)	(0.6)	(1.0)
Total Segment Performance	$ 83.8	$ 72.1	$ 137.0	$ 129.3
Reconciliation of segment performance to income before income taxes:				
Segment performance	$ 83.8	$ 72.1	$ 137.0	$ 129.3
Interest expense	(5.1)	(7.4)	(10.2)	(15.8)
Interest income	0.7	1.0	1.3	4.2
Stock-based compensation	(7.3)	(5.3)	(10.1)	(7.7)
Corporate retirement benefits	(1.6)	(1.8)	(3.3)	(3.8)
Corporate and other	(5.8)	(5.1)	(11.4)	(10.0)
Unusual items (see Note 11)	(3.7)	—	(18.6)	—
Income before income taxes	$ 61.0	$ 53.5	$ 84.7	$ 96.2

The following table summarizes customers that represented more than 10% of net sales:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Lockheed Martin	31 %	32 %	29 %	33 %
NASA	19	23	22	23
Raytheon Technologies Corporation	18	17	17	17

Note 11. Unusual Items

The following table presents total unusual items in the unaudited condensed consolidated statements of operations:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(In millions)			
Unusual items				
Merger costs (component of other expense, net)	$ 6.1	$ —	$ 13.6	$ —
Loss on debt	0.5	—	9.6	—
Legal related matter (component of other expense, net)	—	1.8	—	1.8
	$ 6.6	$ 1.8	$ 23.2	$ 1.8

In the six months ended June 30, 2021, the Company recorded $13.6 million of costs associated with the Merger. See Note 1 for additional information. The components of the Merger costs are as follows (in millions):

Legal	$ 7.4
Employee compensation (including $2.2 million of recurring employee costs)	5.3
Consulting and other professional costs	0.9
	$ 13.6

In the six months ended June 30, 2021, the Company settled $141.8 million of its 2¼% Notes as a result of receiving conversion notices from the holders of the 2¼% Notes. The principal amount of $141.8 million was settled in cash and the conversion premium was settled in 2.7 million common shares. The Company incurred a pre-tax charge of $9.6 million in the six months ended June 30, 2021, associated with the settlement of the 2¼% Notes.

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, 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 year ended December 31, 2020, and periodic reports subsequently filed with the Securities and Exchange Commission ("SEC").

Overview

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"), and major aerospace and defense prime contractors.

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.

Merger

On December 20, 2020, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Lockheed Martin Corporation ("Lockheed Martin") and Mizar Sub, Inc., a wholly-owned subsidiary of Lockheed Martin ("Merger Sub"), pursuant to which, subject to the terms and conditions thereof, Merger Sub will merge with and into the Company (the "Merger") with the Company being the surviving corporation and a wholly-owned subsidiary of Lockheed Martin. Subject to the terms and conditions set forth in the Merger Agreement, each share of common stock outstanding as of immediately prior to the effective time of the Merger will be automatically converted into the right to receive cash in an amount equal to $51.00 per share (adjusted from $56.00 following the payment of the Pre-Closing Dividend, as discussed below).

In December 2020, the Company’s Board of Directors declared a one-time cash dividend of $5.00 per share (including shares underlying the 2.25% Convertible Senior Notes ("2¼% Notes") participating on an as-converted basis) (the "Pre-Closing Dividend"). On March 24, 2021, the Company paid the Pre-Closing Dividend to holders of record as of March 10, 2021. Payment of the Pre-Closing Dividend was made in connection with the anticipated acquisition of the Company by Lockheed Martin. Under the terms of the Merger Agreement, the Company's payment of the Pre-Closing Dividend adjusted the consideration to be paid by Lockheed Martin at closing from $56.00 per share to $51.00 per share.

On February 18, 2021, the Company received a request for additional information ("second request") from the Federal Trade Commission ("FTC") as part of the regulatory review process for the acquisition of the Company by Lockheed Martin.

On March 9, 2021, the stockholders of the Company voted in favor of approving the Merger Agreement at a special meeting. Closing of the Merger is anticipated to occur in the fourth quarter of 2021, subject to receipt of regulatory approval under the Hart Scott Rodino Antitrust Improvements Act of 1976, as amended, and satisfaction of other closing conditions specified in the Merger Agreement.

Financial Highlights

A summary of the significant financial highlights for the three and six months ended June 30, 2021, which management uses to evaluate our operating performance and financial condition, is presented below.

	Three months ended June 30,		Six Months ended June 30,	
	2021	2020	2021	2020
	(In millions, except percentage and per share amounts)			
Net sales	$ 556.9	$ 512.4	$ 1,053.0	$ 988.5
Net income	45.0	39.2	63.1	70.6
Net income as a percentage of net sales	8.1 %	7.7 %	6.0 %	7.1 %
Adjusted Net Income (Non-GAAP measure*)	49.1	38.5	78.3	67.9
Adjusted Net Income (Non-GAAP measure*) as a percentage of net sales	8.8 %	7.5 %	7.4 %	6.9 %
Earnings Per Share ("EPS") - Diluted	0.54	0.47	0.77	0.84
Adjusted EPS (Non-GAAP measure*)	0.59	0.46	0.96	0.81
Adjusted EBITDAP (Non-GAAP measure*)	86.6	76.3	145.1	138.7
Adjusted EBITDAP (Non-GAAP measure*) as a percentage of net sales	15.6 %	14.9 %	13.8 %	14.0 %
Cash provided by operating activities	89.6	144.7	20.2	127.6
Free cash flow (Non-GAAP measure*)	81.1	131.5	7.9	111.4

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* We provide Non-GAAP measures as a supplement to financial results presented in accordance with 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 "Use of Non-GAAP Financial Measures."

Our business outlook is affected by both increasing complexity in the global security environment and continuing worldwide economic pressures, including those resulting from the coronavirus ("COVID-19") pandemic. A significant component of our strategy in this environment is to focus on protecting our employees' health and safety, delivering excellent performance to our customers, driving improvements and efficiencies across our operations, and creating value through the enhancement and expansion of our business.

Some of the significant challenges we face are as follows: uncertainty associated with the COVID-19 pandemic and the actions taken by governments, companies, and individuals in response, including the distribution and efficacy of vaccines (including against evolving variants), dependence upon U.S. government programs and contracts, future reductions or changes in U.S. government spending in our markets, environmental matters, capital structure, underfunded pension plan, and cyber security.

COVID-19

During the six months ended June 30, 2021, there was minimal adverse impact to our financial results and operations as a result of the COVID-19 outbreak. The safety and welfare of our employees remains our top priority, and throughout the year, we have continued to operate within our established safety protocols, which include selected and site-specific work and travel restrictions, in addition to other measures intended to reduce the spread of COVID-19. We have also continued to evaluate new opportunities to protect our employees. Although we have not experienced significant absenteeism or supply chain disruption, the extent to which the COVID-19 pandemic impacts our future financial results depends on future developments which are highly uncertain and cannot be predicted, including new information and COVID-19 variants which may emerge impacting the severity of the pandemic and the actions being taken to contain and treat it, including the distribution of a vaccine, and other indirect effects that may come as a result of actions taken by governments, companies, and individuals in response to the pandemic and its economic impact.

As a defense industrial-base U.S. government contractor, we are considered an essential business by the U.S. and state governments and we continue to operate as such during the COVID-19 pandemic. We are taking a variety of measures to maintain the availability and functionality of our critical infrastructure, to promote the safety and security of our employees and to support the communities in which we operate. In making decisions regarding our operations, we take into account public and private sector policies and initiatives to reduce the transmission of COVID-19, such as the adoption of mask-wearing protocols, enhanced cleaning protocols and health monitoring, as well as the imposition of travel restrictions, the promotion of social distancing, and the adoption of work-from-home requirements for employees where practicable. All of these policies and initiatives could impact our operations. Due to the evolving nature of the COVID-19 pandemic, corresponding U.S. government policies, and the uncertainty relating to vaccination rates and vaccine efficacy against new COVID-19 variants, we are not able at this time to estimate its full impact on our financial results and operations.

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.

The following table summarizes end user net sales to the U.S. government and its agencies, including net sales to significant customers disclosed below:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
U.S. government	97 %	96 %	97 %	96 %
Non U.S. government	3	4	3	4

The following table summarizes the percentages of net sales for significant programs, all of which are included in the U.S. government sales and are comprised of multiple contracts:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
RS-25	16 %	19 %	19 %	19 %
Standard Missile	14	14	13	13
Patriot Advanced Capability-3 ("PAC-3")	10	9	8	9
Terminal High Altitude Area Defense ("THAAD")	8	10	8	11

The following table summarizes customers that represented more than 10% of net sales, each of which involves sales of several product lines and programs:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Lockheed Martin	31 %	32 %	29 %	33 %
NASA	19	23	22	23
Raytheon Technologies Corporation	18	17	17	17

Industry Update

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. Information concerning our industry appears in Part 1, Item 1, Business under the caption "Industry Overview" in our Annual Report on Form 10-K for the year ended December 31, 2020.

Environmental Matters

Our current and former business operations are subject to, and affected by, federal, state, and local 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 as of June 30, 2021.

The following table summarizes our recoverable amounts, environmental reserves, and range of liability, as of June 30, 2021:

	Recoverable Amounts (1)	Environmental Reserves	Estimated Range of Liability
		(In millions)	
Sacramento	$ 182.0	$ 206.7	$206.7 - $331.5
Baldwin Park Operable Unit	61.5	69.9	69.9 - 84.5
Other Aerojet Rocketdyne sites	11.9	12.0	12.0 - 21.4
Other sites	0.8	5.2	5.2 - 6.6
Total	$ 256.2	$ 293.8	$293.8 - $444.0

(1) Excludes the receivable from Northrop Grumman Corporation ("Northrop") of $43.5 million as of June 30, 2021, related to environmental costs already paid (and therefore not reserved) by us in prior years and reimbursable under our agreement with Northrop.

Environmental remediation costs are primarily incurred by our Aerospace and Defense segment, and certain of these costs are recoverable from our contracts with the U.S. government. We currently estimate approximately 12% of our future Aerospace and Defense segment environmental remediation costs will not likely be reimbursable and are expensed.

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. As of June 30, 2021, we had $484.5 million of debt outstanding.

Retirement Benefits

The American Rescue Plan Act of 2021 ("ARPA") that was signed into law on March 11, 2021, provided funding relief to sponsors of defined benefit pension plans. In line with provisions of ARPA, we expect to make cash contributions of approximately $18 million to our tax-qualified defined benefit pension plan in 2021. We generally are able to recover contributions related to our tax-qualified defined benefit pension plan as allowable costs on our U.S. government contracts, but there are differences between when we contribute to our tax-qualified defined benefit pension plan under pension funding rules and when it is recoverable under CAS.

The COVID-19 pandemic and resulting global disruptions have continued to cause significant economic uncertainty and volatility in financial markets which could adversely impact the funded status of our tax-qualified defined benefit pension plan. The funded status of our pension plan is impacted by the investment experience of the plan assets, by any changes in U.S. law, and by changes in the statutory interest rates used by the tax-qualified pension plan in the U.S. to calculate funding requirements. Accordingly, if the performance of our plan 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 pension plan could be higher than we expect.

Cyber Security

We routinely defend against various cyber and other security threats against our defenses to protect the confidentiality, integrity and availability of our information technology infrastructure, supply chain, business or customer information and other threats. We are also subject to similar security threats at customer sites that we operate and manage as a contractual requirement.

The threats we face range from attacks common to most industries to more advanced and persistent, highly organized adversaries, insider threats and other threat vectors targeting us and other defense and aerospace companies; because we protect national security information. In addition, cyber threats are evolving, growing in their frequency and include, but are not limited to, malicious software, destructive malware, attempts to gain unauthorized access to data, disruption or denial of service attacks, and other electronic security breaches that could lead to disruptions in mission critical systems, unauthorized release of confidential, personal or otherwise protected information (ours or that of our employees, customers or partners), and corruption of data, networks or systems. We also could be impacted by cyber threats or other disruptions or vulnerabilities found in products we use or in our partners' or customers' systems that are used in connection with our business.

In response to the COVID-19 pandemic, where practicable, we have required employees to work remotely, and expanded our information technology and communication support to enhance their connectivity. We continue to assess our information technology systems and are engaged in cooperative efforts with our customers, suppliers, and subcontractors to seek to minimize the impact of cyber threats, other security threats or business disruptions.

Results of Operations

Net Sales:

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change*	2021	2020	Change**
			(In millions)			
Net sales	$ 556.9	$ 512.4	$ 44.5	$ 1,053.0	$ 988.5	$ 64.5

* *Primary reason for change.* The increase in net sales was primarily driven by the Ground Based Strategic Deterrent ("GBSD") and Army Tactical Missile Systems ("ATACMS") programs partially offset by a decline on the THAAD program.

** *Primary reason for change.* The increase in net sales was primarily driven by the GBSD, RS-25, and ATACMS programs partially offset by declines on the THAAD and PAC-3 programs.

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

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change*	2021	2020	Change**
			(In millions, except percentage amounts)			
Cost of sales (exclusive of items shown separately below)	$ 446.1	$ 415.2	$ 30.9	$ 864.1	$ 810.1	$ 54.0
Percentage of net sales	80.1 %	81.0 %		82.1 %	82.0 %	

* *Primary reason for change.* The decrease in cost of sales as a percentage of net sales was primarily driven by favorable contract performance on the RS-68 program.

** *Primary reason for change.* Cost of sales as a percentage of net sales was comparable with the prior year period.

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

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change*	2021	2020	Change*
	(In millions, except percentage amounts)					
Components of SG&A:						
SG&A excluding stock-based compensation	$ 6.3	$ 5.4	$ 0.9	$ 12.5	$ 12.1	$ 0.4
Stock-based compensation	7.3	5.3	2.0	10.1	7.7	2.4
SG&A	$ 13.6	$ 10.7	$ 2.9	$ 22.6	$ 19.8	$ 2.8
Percentage of net sales	2.4 %	2.1 %		2.1 %	2.0 %	
Percentage of net sales excluding stock-based compensation	1.1 %	1.1 %		1.2 %	1.2 %	

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

Depreciation and Amortization:

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change*	2021	2020	Change*
	(In millions)					
Components of depreciation and amortization:						
Depreciation	$ 11.7	$ 13.3	$ (1.6)	$ 22.9	$ 26.4	$ (3.5)
Amortization	3.3	3.4	(0.1)	6.6	6.8	(0.2)
Accretion	0.7	0.7	—	1.4	1.4	—
Depreciation and amortization	$ 15.7	$ 17.4	$ (1.7)	$ 30.9	$ 34.6	$ (3.7)

* *Primary reason for change.* The decrease in depreciation and amortization expense was primarily due to the completion of depreciation expense associated with the enterprise resource planning system which was placed into service in June 2013.

Other Expense (income), net:

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change*	2021	2020	Change*
	(In millions)					
Other expense (income), net	$ 7.2	$ 0.1	$ 7.1	$ 15.3	$ (2.1)	$ 17.4

* *Primary reason for change.* The increase in other expense, net was primarily due to costs associated with the Merger (see Note 11 of the Notes to Unaudited Condensed Consolidated Financial Statements).

Retirement Benefits Expense:

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change*	2021	2020	Change*
	(In millions)					
Components of retirement benefits expense:						
Interest cost on benefit obligation	$ 8.5	$ 10.8	$ (2.3)	$ 17.0	$ 21.6	$ (4.6)
Expected return on assets	(15.4)	(15.1)	(0.3)	(30.7)	(30.2)	(0.5)
Amortization of prior service costs	0.1	—	0.1	0.1	0.1	—
Amortization of net losses	15.2	13.4	1.8	30.5	26.8	3.7
Retirement benefits expense	$ 8.4	$ 9.1	$ (0.7)	$ 16.9	$ 18.3	$ (1.4)

* *Primary reason for change.* The decrease in retirement benefits expense was primarily due to lower interest costs on the benefit obligation, partially offset by higher actuarial losses in the current period as a result of a decrease in the discount rate used to calculate the benefit obligation at December 31, 2020.

Loss on debt:

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change*
			(In millions)			
Loss on debt	$ 0.5	$ —	$ 0.5	$ 9.6	$ —	$ 9.6

* *Primary reason for change.* In the six months ended June 30, 2021, we settled $141.8 million of our 2¼% Notes as a result of receiving conversion notices from the holders of the 2¼% Notes. The principal amount of $141.8 million was settled in cash and the conversion premium was settled in 2.7 million common shares. We incurred a pre-tax charge of $9.6 million in the six months ended June 30, 2021, associated with the settlement of the 2¼% Notes.

Interest Income:

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change*
			(In millions)			
Interest income	$ 0.7	$ 1.0	$ (0.3)	$ 1.3	$ 4.2	$ (2.9)

* *Primary reason for change.* The decrease in interest income was primarily due to lower average cash balances and market rates.

Interest Expense:

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change*	2021	2020	Change*
			(In millions)			
Components of interest expense:						
Contractual interest and other	$ 3.6	$ 4.9	$ (1.3)	$ 7.2	$ 10.9	$ (3.7)
Amortization of debt discount and deferred financing costs	1.5	2.5	(1.0)	3.0	4.9	(1.9)
Interest expense	$ 5.1	$ 7.4	$ (2.3)	$ 10.2	$ 15.8	$ (5.6)

**Primary reason for change.* The decrease in interest expense was primarily due to (i) the settlement of $141.8 million of our 2¼% Notes during the six months ended June 30, 2021, and (ii) lower variable interest rates and average obligations on our senior secured senior credit facility (the "Senior Credit Facility").

Income Taxes:

The income tax provision was as follows:

	Six months ended June 30,	
	2021	2020
	(In millions)	
Income tax provision	$ 21.6	$ 25.6

In the six months ended June 30, 2021, the income tax provision was $21.6 million for an effective tax rate of 25.5%. Our effective tax rate differed from the 21% statutory federal income tax rate primarily due to state income taxes and certain expenditures which are permanently not deductible for tax purposes, partially offset by the impact of Research and Development ("R&D") credits.

In the six months ended June 30, 2020, the income tax provision was $25.6 million for an effective tax rate of 26.6%. Our effective tax rate differed from the 21% statutory federal income tax rate primarily due to state income taxes and certain expenditures which are permanently not deductible for tax purposes, partially offset by the impact of R&D credits.

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, and unusual items not related to the segment. We believe that segment performance provides information useful to investors in understanding our operational performance.

Aerospace and Defense Segment

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change*	2021	2020	Change**
	(In millions, except percentage amounts)					
Net sales	$ 556.0	$ 511.9	$ 44.1	$ 1,051.5	$ 986.3	$ 65.2
Segment performance	84.1	72.5	11.6	137.6	130.3	7.3
Segment margin	15.1 %	14.2 %		13.1 %	13.2 %	

* *Primary reason for change.* The increase in net sales was primarily driven by the GBSD and ATACMS programs partially offset by a decline on the THAAD program.

The increase in segment margin was primarily driven by favorable contract performance on the RS-68 program.

** *Primary reason for change.* The increase in net sales was primarily driven by the GBSD, RS-25, and ATACMS programs partially offset by declines on the THAAD and PAC-3 programs.

Segment margin was comparable with the prior year period.

Our contracts are largely categorized as either "fixed-price" (largely used by the U.S. government for production-type contracts) or "cost-reimbursable" (largely used by the U.S. government for development-type contracts). Fixed-price contracts present the risk of unreimbursed cost overruns, potentially resulting in lower than expected contract profits and margins. This risk is generally lower for cost-reimbursable contracts which, as a result, generally have a lower margin. The following table summarizes the percentages of net sales by contract type:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Fixed-price	60 %	61 %	56 %	61 %
Cost-reimbursable	40	39	44	39

During the three months ended June 30, 2021, we had $24.0 million of net favorable changes in contract estimates on operating results before income taxes compared with net favorable changes of $15.7 million during the three months ended June 30, 2020. During the six months ended June 30, 2021, we had $21.6 million of net favorable changes in contract estimates on operating results before income taxes compared with net favorable changes of $18.2 million during the six months ended June 30, 2020.

Real Estate Segment

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change*
	(In millions)					
Net sales	$ 0.9	$ 0.5	$ 0.4	$ 1.5	$ 2.2	$ (0.7)
Segment performance	(0.3)	(0.4)	0.1	(0.6)	(1.0)	0.4

* *Primary reason for change.* Net sales consist primarily of rental property operations. The decrease in net sales and segment performance were driven primarily by a decrease in new tenant starts as a result of the COVID-19 pandemic.

Backlog

As of June 30, 2021, our total remaining performance obligations, also referred to as backlog, totaled $6.7 billion compared with $6.7 billion as of December 31, 2020. We expect to recognize approximately 33%, or $2.2 billion, of the remaining performance obligations as sales over the next twelve months, an additional 24% the following twelve months, and 43% thereafter. A summary of our backlog is as follows:

	June 30, 2021	December 31, 2020
	(In billions)	
Funded backlog	$ 3.0	$ 3.0
Unfunded backlog	3.7	3.7
Total backlog	$ 6.7	$ 6.7

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.

Use of Non-GAAP Financial Measures

Adjusted EBITDAP, Adjusted Net Income, and Adjusted EPS

We provide the Non-GAAP financial measures of our performance called Adjusted EBITDAP, Adjusted Net Income, and Adjusted EPS. We use these metrics to measure our operating and total Company performance. We believe that for management and investors to effectively compare core performance from period to period, the metrics should exclude items that are not indicative of, or are unrelated to, results from our ongoing business operations such as retirement benefits (pension and postretirement benefits), significant non-cash expenses, the impacts of financing decisions on earnings, and items incurred outside the ordinary, ongoing and customary course of our business. Accordingly, we define Adjusted EBITDAP as GAAP net income adjusted to exclude interest expense, interest income, income taxes, depreciation and amortization, retirement benefits net of amounts that are recoverable under our U.S. government contracts, and unusual items (see Note 11 in the unaudited condensed consolidated financial statements for additional information). Adjusted Net Income and Adjusted EPS exclude retirement benefits net of amounts that are recoverable under our U.S. government contracts and unusual items which we do not believe are reflective of such ordinary, ongoing and customary activities. Adjusted Net Income and Adjusted EPS do not represent, and should not be considered an alternative to, net income or diluted EPS as determined in accordance with GAAP.

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(In millions, except per share and percentage amounts)			
Net income	$ 45.0	$ 39.2	$ 63.1	$ 70.6
Interest expense	5.1	7.4	10.2	15.8
Interest income	(0.7)	(1.0)	(1.3)	(4.2)
Income tax provision	16.0	14.3	21.6	25.6
Depreciation and amortization	15.7	17.4	30.9	34.6
GAAP retirement benefits expense	8.4	9.1	16.9	18.3
CAS recoverable retirement benefits expense	(9.5)	(11.9)	(19.5)	(23.8)
Unusual items	6.6	1.8	23.2	1.8
Adjusted EBITDAP	$ 86.6	$ 76.3	$ 145.1	$ 138.7
Net income as a percentage of net sales	8.1 %	7.7 %	6.0 %	7.1 %
Adjusted EBITDAP as a percentage of net sales	15.6 %	14.9 %	13.8 %	14.0 %
Net income	$ 45.0	$ 39.2	$ 63.1	$ 70.6
GAAP retirement benefits expense	8.4	9.1	16.9	18.3
CAS recoverable retirement benefits expense	(9.5)	(11.9)	(19.5)	(23.8)
Unusual items	6.6	1.8	23.2	1.8
Income tax impact of adjustments (1)	(1.4)	0.3	(5.4)	1.0
Adjusted Net Income	$ 49.1	$ 38.5	$ 78.3	$ 67.9
Diluted EPS	$ 0.54	$ 0.47	$ 0.77	$ 0.84
Adjustments	0.05	(0.01)	0.19	(0.03)
Adjusted EPS	$ 0.59	$ 0.46	$ 0.96	$ 0.81
Diluted weighted average shares, as reported and adjusted	82.5	82.1	81.3	82.6

(1) The income tax impact is calculated using the federal and state statutory rates in the corresponding period.

Free Cash Flow

We also provide the Non-GAAP financial measure of Free Cash Flow. Free Cash Flow 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 use Free Cash Flow, 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 to investors because it provides supplemental information to assist them in viewing the business using the same tools that management uses to evaluate progress in achieving our goals. The following table summarizes Free Cash Flow:

	Three months ended June 30,				Six months ended June 30,			
	2021		2020		2021		2020	
	(In millions)							
Net cash provided by operating activities	$	89.6	$	144.7	$	20.2	$	127.6
Capital expenditures		(8.5)		(13.2)		(12.3)		(16.2)
Free Cash Flow	$	81.1	$	131.5	$	7.9	$	111.4

Because our method for calculating these 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 and Issued 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 adopted and issued accounting pronouncements.

Contractual Obligations

There have been no material changes to our contractual obligations as previously reported in our Annual Report on Form 10-K for the year ended December 31, 2020.

Arrangements with Off-Balance Sheet Risk

See Note 8(d) of the Notes to Unaudited Condensed Consolidated Financial Statements for off-balance sheet risk.

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 contract costs, 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 the Notes to Unaudited Condensed Consolidated Financial Statements.

The areas most affected by our accounting policies and estimates are revenue recognition, other contract considerations, 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.

A detailed description of our significant accounting policies can be found in our most recent Annual Report on Form 10-K for the year ended December 31, 2020.

Liquidity and Capital Resources

The following table summarizes the changes in cash, cash equivalents and restricted cash:

	Six months ended June 30,			
	2021		2020	
	(In millions)			
Net cash provided by operating activities	$	20.2	$	127.6
Net cash used in investing activities		(14.2)		(41.2)
Net cash used in financing activities		(584.2)		(15.1)
Net decrease in cash, cash equivalents and restricted cash	$	(578.2)	$	71.3

Net Cash Provided by Operating Activities

The decrease in cash provided by operating activities for the six months ended June 30, 2021, compared with the six months ended June 30, 2020, was primarily due to an increase in accounts receivable due to the timing of sales and billing during the current period and an increase in income taxes paid, partially offset by improved cash flow from the timing of vendor payments.

Net Cash Used in Investing Activities

During the six months ended June 30, 2021 and 2020, we had capital expenditures of $12.3 million and $16.2 million, respectively.

During the six months ended June 30, 2021 and 2020, we had marketable securities purchases of $1.9 million and $25.0 million, respectively.

Net Cash Used in Financing Activities

During the six months ended June 30, 2021, we had dividend payments of $428.5 million.

During the six months ended June 30, 2021 and 2020, we had debt repayments of $155.8 million and $9.9 million, respectively. See a summary of our debt activity below.

During the six months ended June 30, 2021 and 2020, we had net proceeds (disbursements) from shares issued under our equity plans of $0.1 million and ($4.7) million, respectively.

Debt Activity and Covenants

The following table summarizes our debt principal activity:

	December 31, 2020	Principal Payments	June 30, 2021
		(In millions)	
Term loan	$ 308.5	$ (13.2)	$ 295.3
2¼% Notes	300.0	(141.8)	158.2
Finance leases	45.6	(0.8)	44.8
Total Debt Activity	$ 654.1	$ (155.8)	$ 498.3

We were in compliance with our financial and non-financial covenants under the Senior Credit Facility as of June 30, 2021.

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 the Senior Credit Facility coupled with cash generated from our future operations will provide sufficient funds to meet our operating plan for the next twelve months. The operating plan for this period provides for full operation of our businesses, including interest and debt payments. As of June 30, 2021, we had $571.3 million of cash and cash equivalents as well as $622.4 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 June 30, 2021. 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, as well as to withstand unanticipated business volatility, including any impact arising from the COVID-19 pandemic. 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.

The CARES Act was enacted on March 27, 2020, in response to the COVID-19 pandemic and the negative impacts that it is having on the global economy and U.S. companies. The CARES Act includes various financial measures to assist companies, including temporary changes to income and non-income-based tax laws. Through these provisions, as of June 30, 2021, we have delayed $21.4 million of payroll tax payments that otherwise would have been paid in 2020. Additionally, in accordance with the provisions of the CARES Act, we accelerated depreciation on qualified improvement property placed in service after December 31, 2017 for income tax purposes.

In light of the pending Merger, we do not expect to pursue strategic acquisitions at this time. In addition, pursuant to the Merger Agreement, we are restricted from paying additional dividends to shareholders prior to the closing of the Merger. If the Merger is not completed for any reason, we would expect to consider exploring possible strategic acquisitions. Potential future business 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 any future acquisitions. Other sources of capital could include the issuance of common and/or preferred stock, the placement of debt, or combination of both. 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 any 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(a) and 8(b) in the 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.

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 year ended December 31, 2020, and should be read in conjunction with the risk factors therein and the information described in this Quarterly Report.

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 generally 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 year ended December 31, 2020, and include, but are not limited to, the following:

- failure to complete the Merger could negatively impact the price of our common stock, as well as our future business and financial results;
- reductions, delays or changes in U.S. government spending;
- cancellation or material modification of one or more significant contracts;
- failure of the Company's subcontractors or suppliers to perform their contractual obligations;
- loss of key qualified suppliers of technologies, components, and materials;
- the release, unplanned ignition, explosion, or improper handling of dangerous materials used in the Company's businesses;
- risks inherent to the real estate market;
- the COVID-19 pandemic and its impact on economic and other conditions world-wide, including global spending, sourcing and the business operations of the Company and its customers and suppliers, among others;
- cost overruns on the Company's contracts that require the Company to absorb excess costs;
- 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;
- 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;
- 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;
- changes in estimates related to contract accounting;
- 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;
- the substantial amount of debt that 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;
- changes in LIBOR reporting practices or the method by which LIBOR is determined;
- failure to secure contracts;
- costs and time commitment related to potential and/or actual acquisition activities, including the Merger, may exceed expectations;
- failure to comply with regulations applicable to contracts with the U.S. government;
- failure of the Company's information technology infrastructure or failure to perform by the Company's third party service providers;
- product failures, schedule delays or other problems with existing or new products and systems;
- 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;
- significant risk exposures and potential liabilities that are inadequately covered by insurance;
- limitations associated with our stockholders' ability to obtain favorable judgement from the Court of Chancery in the State of Delaware;

- business disruptions to the extent not covered by insurance;
- changes or clarifications to current tax law or procedural guidance could adversely impact the Company's tax liabilities and effective tax rate;
- exposures and uncertainties related to claims and litigation, including litigation arising from the Merger;
- effects of changes in discount rates and actuarial estimates, actual returns on plan assets, and government regulations on defined benefit pension plans;
- inability to protect the Company's patents and proprietary rights; 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 year ended December 31, 2020.

Interest Rate Risk

We are exposed to market risk principally due to changes in interest rates related to our borrowings, cash and cash equivalents, marketable securities, and pension assets and liabilities.

Borrowings

As of June 30, 2021, our debt principal excluding finance lease obligations totaled $453.5 million: $158.2 million, or 35%, was at a fixed rate of 2.25%; and $295.3 million, or 65%, was at a variable rate of 1.85%.

The following table summarizes the estimated fair value and principal amount for outstanding debt obligations excluding finance lease obligations:

	Fair Value		Principal Amount	
	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
	(In millions)			
Term loan	$ 287.2	$ 306.5	$ 295.3	$ 308.5
2¼% Notes	293.9	609.5	158.2	300.0
Total	$ 581.1	$ 916.0	$ 453.5	$ 608.5

The fair value of the 2¼% Notes was determined using broker quotes that are based on open markets for our debt securities (Level 2 securities). The fair value of the term loan was estimated based on a third-party model used to derive a relative value price using comparable corporate loans within the same industry, credit quality, and currency.

Cash and Marketable Securities

We also have exposure to changes in interest rates related to interest earned and market value on our cash and cash equivalents and marketable securities. Our cash and cash equivalents and marketable securities consist of cash, time deposits, money market funds, and investment grade corporate debt securities. Our investment policy and strategy are focused on preservation of capital and supporting our liquidity requirements. Changes in U.S. interest rates affect the interest earned on our cash and cash equivalents and marketable securities, and the market value of those securities.

Pension Assets and Liabilities

Our tax-qualified pension assets and liabilities are subject to interest rate risk. Information concerning our interest rate risk related to our tax-qualified pension assets and liabilities can be found in Part 7, Item 1, Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Critical Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2020.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Based on our management's evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our 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")) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting

There were no changes in internal control over financial reporting that occurred during the most recent 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 year ended December 31, 2020.

Item 1A. Risk Factors

There have been no material changes from our risk factors as previously reported in our Annual Report on Form 10-K for the year ended December 31, 2020.

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

Issuer Purchases of Equity Securities

The table below provides information about shares surrendered to the Company during the three months ended June 30, 2021, to pay employee withholding taxes due upon the vesting of restricted stock.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased under the Plans or Programs
April 1, 2021 through April 30, 2021	992	$ 47.74	—	—
May 1, 2021 through May 31, 2021	297	$ 47.10	—	—
June 1, 2021 through June 30, 2021	—	$ —	—	—
Total	1,289	$ 47.59	—	—

On March 13, 2020, we announced that our Board of Directors authorized and approved a new share repurchase program allowing us to repurchase our outstanding common stock with an aggregate market value of up to $100 million over a period of up to 18 months; however, management has discretion as to whether any repurchases will be executed. The timing of any share repurchases will be based on available liquidity, cash flows and general market conditions. The repurchase program may be executed through various methods, including open market purchases or privately negotiated transactions. As of June 30, 2021, we have $48.3 million of market value remaining for repurchase under the program at management's discretion.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Table Item No.	Exhibit Description	Incorporated herein by reference: Form	File Number	Exhibit	Filing Date	Filed or Furnished herewith
31.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.					X
31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.					X
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(b) under the Securities 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.					X
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X
101.SCH*	XBRL Taxonomy Extension Schema Document					X
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document					X
104*	Cover Page Interactive Data File (included as Exhibit 101) -- the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					X

* 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: July 26, 2021

By: /s/ Eileen P. Drake
Eileen P. Drake
Chief Executive Officer and President
(Principal Executive Officer)

Date: July 26, 2021

By: /s/ Daniel L. Boehle
Daniel L. Boehle
Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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: July 26, 2021

/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, Daniel L. Boehle, 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: July 26, 2021

/s/ Daniel L. Boehle

Daniel L. Boehle

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 June 30, 2021 (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 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: July 26, 2021

The undersigned hereby certifies that to his knowledge the quarterly report on Form 10-Q of Aerojet Rocketdyne Holdings, Inc. for the period ended June 30, 2021 (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 operations of the Company, as of the dates and the periods expressed in the Report.

/s/ Daniel L. Boehle
Daniel L. Boehle
Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Date: July 26, 2021