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

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended: March 31, 2023

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 April 30, 2023, the Company had 80,758,891 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 March 31, 2023

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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 March 31,	
	2023	2022
	(In millions, except per share amounts)	
Net sales	$ 566.3	$ 511.1
Operating costs and expenses:		
Cost of sales (exclusive of items shown separately below)	488.2	425.5
Selling, general and administrative expense	10.3	8.2
Depreciation and amortization	13.3	14.4
Other expense, net		
Merger costs	20.0	—
Legal matters	—	16.1
Other	1.2	4.2
Total operating costs and expenses	533.0	468.4
Operating income	33.3	42.7
Non-operating:		
Retirement benefits (income) expense	(2.4)	0.3
Interest income and other	(3.8)	0.2
Interest expense	5.7	3.9
Total non-operating (income) expense, net	(0.5)	4.4
Income before income taxes	33.8	38.3
Income tax provision	6.0	10.5
Net income	$ 27.8	$ 27.8
Earnings per share of common stock		
Basic earnings per share	$ 0.34	$ 0.34
Diluted earnings per share	$ 0.34	$ 0.33
Weighted average shares of common stock outstanding, basic	80.6	80.2
Weighted average shares of common stock outstanding, diluted	80.7	85.8

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended March 31,	
	2023	2022
	(In millions)	
Net income	$ 27.8	$ 27.8
Other comprehensive (loss) income:		
Amortization of net actuarial (gains) losses and prior service costs, net of income taxes of $0.1 million and $1.8 million	(0.6)	5.2
Comprehensive income	$ 27.2	$ 33.0

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	March 31, 2023	December 31, 2022
	(In millions, except per share amounts)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 272.5	$ 322.1
Restricted cash	3.1	3.1
Marketable securities	11.2	10.5
Accounts receivable	177.4	126.6
Contract assets	417.0	451.1
Other current assets	116.8	155.6
Total Current Assets	998.0	1,069.0
Noncurrent Assets		
Right-of-use assets	51.4	54.5
Property, plant and equipment, net	411.9	420.2
Recoverable environmental remediation costs	216.1	221.5
Deferred income taxes	240.1	208.7
Goodwill	161.4	161.4
Intangible assets	26.6	28.3
Other noncurrent assets	207.5	208.2
Total Noncurrent Assets	1,315.0	1,302.8
Total Assets	$ 2,313.0	$ 2,371.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	$ 14.8	$ 14.7
Accounts payable	122.8	142.1
Reserves for environmental remediation costs	37.9	36.9
Contract liabilities	307.6	334.7
Other current liabilities	167.2	218.7
Total Current Liabilities	650.3	747.1
Noncurrent Liabilities		
Long-term debt	284.9	288.4
Reserves for environmental remediation costs	247.4	253.6
Pension benefits	227.2	229.3
Operating lease liabilities	44.5	46.2
Other noncurrent liabilities	295.9	265.9
Total Noncurrent Liabilities	1,099.9	1,083.4
Total Liabilities	1,750.2	1,830.5
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; 80.6 million shares outstanding as of March 31, 2023; 80.7 million shares outstanding as of December 31, 2022	8.1	8.0
Other capital	501.0	507.2
Treasury stock at cost, 2.0 million shares as of March 31, 2023 and December 31, 2022	(63.0)	(63.0)
Retained earnings	204.8	176.6
Accumulated other comprehensive loss, net of income taxes	(88.1)	(87.5)
Total Stockholders' Equity	562.8	541.3
Total Liabilities and Stockholders' Equity	$ 2,313.0	$ 2,371.8

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Common Stock												
	Shares		Amount		Other Capital		Treasury Stock		Retained Earnings		Accumulated Other Comprehensive Loss		Total Stockholders' Equity
	(In millions)												
December 31, 2021	80.1	$	8.0	$	578.1	$	(64.4)	$	102.6	$	(101.0)	$	523.3
Net income	—		—		—		—		27.8		—		27.8
Amortization of net actuarial losses and prior service costs, net of income taxes	—		—		—		—		—		5.2		5.2
Cumulative effect of change in accounting guidance	—		—		(5.6)		—		(1.0)		—		(6.6)
Repurchase of shares for withholding taxes under equity plans	(0.1)		—		(4.3)		—		—		—		(4.3)
Stock-based compensation and shares issued under equity plans	0.3		—		4.5		—		—		—		4.5
March 31, 2022	80.3	$	8.0	$	572.7	$	(64.4)	$	129.4	$	(95.8)	$	549.9
December 31, 2022	80.7	$	8.0	$	507.2	$	(63.0)	$	176.6	$	(87.5)	$	541.3
Net income	—		—		—		—		27.8		—		27.8
Amortization of net actuarial gains and prior service costs, net of income taxes	—		—		—		—		—		(0.6)		(0.6)
Adjustment to dividends	—		—		—		—		0.4		—		0.4
Repurchase of shares for withholding taxes under equity plans	(0.2)		—		(14.1)		—		—		—		(14.1)
Stock-based compensation and shares issued under equity plans	0.1		0.1		7.9		—		—		—		8.0
March 31, 2023	80.6	$	8.1	$	501.0	$	(63.0)	$	204.8	$	(88.1)	$	562.8

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended March 31,	
	2023	2022
	(In millions)	
Operating Activities		
Net income	$ 27.8	$ 27.8
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	13.3	14.4
Stock-based compensation	4.5	(0.9)
Retirement benefits, net	(3.3)	(6.6)
Other, net	(0.5)	0.9
Changes in assets and liabilities:		
Accounts receivable	(50.8)	(82.8)
Contract assets	34.1	(17.8)
Other current assets	38.9	5.9
Recoverable environmental remediation costs	5.4	5.5
Other noncurrent assets	0.5	6.8
Accounts payable	(20.3)	(19.0)
Contract liabilities	(27.1)	0.2
Other current liabilities	(49.6)	45.3
Deferred income taxes	(31.2)	(45.8)
Reserves for environmental remediation costs	(5.2)	(2.7)
Other noncurrent liabilities	30.7	(6.2)
Net Cash Used in Operating Activities	(32.8)	(75.0)
Investing Activities		
Capital expenditures	(1.6)	(2.2)
Net Cash Used in Investing Activities	(1.6)	(2.2)
Financing Activities		
Dividend payments	(0.5)	(1.2)
Debt repayments	(3.9)	(7.1)
Repurchase of shares for withholding taxes under equity plans	(14.1)	(4.3)
Proceeds from shares issued under equity plans	3.3	0.3
Net Cash Used in Financing Activities	(15.2)	(12.3)
Net Decrease in Cash, Cash Equivalents and Restricted Cash	(49.6)	(89.5)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	325.2	703.4
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 275.6	$ 613.9
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 5.4	$ 2.6

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

Note 1. Basis of Presentation and Nature of Operations

Aerojet Rocketdyne Holdings, Inc. ("Aerojet Rocketdyne Holdings" or the "Company") has prepared the accompanying unaudited condensed consolidated financial statements, including 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, 2022, 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/A No. 2 for the year ended December 31, 2022. Certain reclassifications have been made to financial information for prior periods to conform to the current period'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 Annual Report on Form 10-K/A No. 2 for the year ended December 31, 2022.

Out of Period Adjustment

During the three months ended March 31, 2023, the Company recorded an out of period adjustment related to the completeness and accuracy of its accounting for excess costs on fixed-price contracts in nearly complete or inactive status. The out of period adjustment resulted in a decrease in net sales of $6.0 million, an increase in cost of sales of $0.5 million, and a decrease in the income tax provision of $1.7 million in the three months ended March 31, 2023. The Company has evaluated the effects of this error, both qualitatively and quantitatively, and does not believe the correction was material to any current or prior interim or annual periods that were affected.

L3Harris Technologies, Inc. ("L3Harris") Merger Agreement

On December 17, 2022, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement"), with L3Harris and Aquila Merger Sub Inc., a Delaware corporation and a wholly-owned subsidiary of L3Harris ("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 L3Harris.

Subject to the terms and conditions set forth in the Merger Agreement, each share of the Company's common stock outstanding as of immediately prior to the effective time of the Merger will be canceled and converted into the right to receive $58.00 in cash, without interest, plus, if the closing occurs after September 17, 2023, $0.0025 for each calendar day elapsed after such date up to and including the closing date.

On March 15, 2023, the Company received a request for additional information from the Federal Trade Commission as part of the regulatory review process for the acquisition of the Company by L3Harris.

On March 16, 2023, 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 2023, subject to various customary conditions, including regulatory clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

Recently Adopted 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. The Company adopted the new guidance as of January 1, 2022, using the modified retrospective approach resulting in the following adjustment (i) a decrease of $1.9 million in deferred tax liabilities, (ii) a decrease of $5.6 million in other capital, (iii) a decrease of $1.0 million in retained earnings, and (iv) an increase of $8.5 million in debt. During the three months ended September 30, 2022, the Company settled its outstanding convertible debt.

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 March 31,	
	2023	2022
	(In millions, except per share amounts)	
Numerator:		
Net income	$ 27.8	$ 27.8
Income allocated to participating securities	(0.1)	(0.1)
Net income for basic EPS	$ 27.7	$ 27.7
Interest on convertible debt (see Note 1)	—	0.7
Net income for diluted EPS	$ 27.7	$ 28.4
Denominator:		
Basic weighted average shares	80.6	80.2
Effect of:		
Awards issued under equity plans	0.1	—
Convertible debt (See Note 1)	—	5.6
Diluted weighted average shares	80.7	85.8
Basic		
Basic EPS	$ 0.34	$ 0.34
Diluted		
Diluted EPS	$ 0.34	$ 0.33

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 March 31,	
	2023	2022
	(In millions, except per share amounts)	
Net unfavorable effect of the changes in contract estimates on net sales	$ (15.5)	$ (0.2)
Net unfavorable effect of the changes in contract estimates on income before income taxes	(16.5)	(2.7)
Net unfavorable effect of the changes in contract estimates on net income	(13.6)	(2.0)
Net unfavorable effect of the changes in contract estimates on basic and diluted EPS	(0.17)	(0.02)

For the three months ended March 31, 2023, net unfavorable changes in contract estimates were primarily driven by (i) out of period adjustment of $6.5 million related to the completeness and accuracy of our accounting for excess costs on fixed-price contracts in nearly complete or inactive status and (ii) cost growth on the Guided Multiple Launch Rocket System ("GMLRS") 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:

	March 31, 2023	December 31, 2022
	(In millions)	
Contract assets	$ 421.5	$ 458.3
Reserve for overhead rate disallowance	(4.5)	(7.2)
Contract assets, net of reserve	417.0	451.1
Contract liabilities	307.6	334.7
Net contract assets, net of reserve	$ 109.4	$ 116.4

Net contract assets decreased by $7.0 million from December 31, 2022. During the three months ended March 31, 2023, the Company recognized sales of $123.1 million that were included in the Company's contract liabilities as of December 31, 2022.

As of March 31, 2023, the Company’s total remaining performance obligations, also referred to as backlog, totaled $6.8 billion. The Company expects to recognize approximately 35%, or $2.4 billion, of the remaining performance obligations as sales over the next twelve months, an additional 27% the following twelve months, and 38% 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 March 31,	
	2023	2022
Fixed-price	54 %	56 %
Cost-reimbursable	46	44

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

	Three months ended March 31,	
	2023	2022
U.S. government	96 %	95 %
Non U.S. government	4	5

The Company's Real Estate segment represented less than 1% of the Company's net sales for the three months ended March 31, 2023 and 2022.

Note 4. Stock-Based Compensation

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

	Three months ended March 31,	
	2023	2022
	(In millions)	
Stock Appreciation Rights	$ (0.2)	$ (4.9)
Restricted stock and restricted stock units, service based	1.5	1.4
Restricted stock and restricted stock units, performance based	3.2	2.6
Total stock-based compensation expense	$ 4.5	$ (0.9)

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.

	Total	Fair value measurement as of March 31, 2023 Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	(In millions)			
Money market funds	$ 161.2	$ 161.2	$ —	$ —
Commercial paper	19.9	—	19.9	—
Registered investment companies	0.6	0.6	—	—
Equity securities	11.2	11.2	—	—
Total	$ 192.9	$ 173.0	$ 19.9	$ —

	Total	Fair value measurement as of December 31, 2022 Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	(In millions)			
Money market funds	$ 206.1	$ 206.1	$ —	$ —
Commercial paper	49.9	—	49.9	—
Registered investment companies	0.7	0.7	—	—
Equity securities	10.5	10.5	—	—
Total	$ 267.2	$ 217.3	$ 49.9	$ —

As of March 31, 2023 and December 31, 2022, 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	
	March 31, 2023	December 31, 2022	March 31, 2023	December 31, 2022
	(In millions)			
Term Loan	$ 256.7	$ 259.4	$ 259.0	$ 262.3

The fair value of the Term Loan (as defined below) was estimated based on a third-party model used to derive a relative value price using comparable corporate loans within a similar industry, credit quality, and currency.

b. Accounts Receivable

	March 31, 2023	December 31, 2022
	(In millions)	
Billed receivables under long-term contracts	$ 177.1	$ 126.3
Other trade receivables	0.3	0.3
Accounts receivable	$ 177.4	$ 126.6

c. Other Current Assets

	March 31, 2023	December 31, 2022
	(In millions)	
Deferred costs recoverable from the U.S. government	$ 37.7	$ 36.9
Income tax receivable	20.4	24.7
Inventories	18.2	15.8
Prepaid expenses	17.2	16.4
Other	23.3	61.8
Other current assets	$ 116.8	$ 155.6

d. Property, Plant and Equipment, net

	March 31, 2023	December 31, 2022
	(In millions)	
Land	$ 71.1	$ 71.1
Buildings and improvements	541.2	535.4
Machinery and equipment, including capitalized software	520.2	517.5
Construction-in-progress	31.7	37.5
	1,164.2	1,161.5
Less: accumulated depreciation	(752.3)	(741.3)
Property, plant and equipment, net	$ 411.9	$ 420.2

e. Other Noncurrent Assets

	March 31, 2023	December 31, 2022
	(In millions)	
Real estate held for entitlement and leasing	$ 106.5	$ 105.9
Deferred costs recoverable from the U.S. government	61.9	61.9
Receivable from Northrop Grumman Corporation ("Northrop") for environmental remediation costs	27.0	28.5
Other	12.1	11.9
Other noncurrent assets	$ 207.5	$ 208.2

f. Other Current Liabilities

	March 31, 2023	December 31, 2022
	(In millions)	
Accrued compensation and employee benefits	$ 109.9	$ 157.2
Other	57.3	61.5
Other current liabilities	$ 167.2	$ 218.7

g. Other Noncurrent Liabilities

	March 31, 2023	December 31, 2022
	(In millions)	
Uncertain income tax positions	$ 181.2	$ 151.3
Other	114.7	114.6
Other current liabilities	$ 295.9	$ 265.9

Note 6. Income Taxes

	Three months ended March 31,	
	2023	2022
	(In millions)	
Income tax provision	$ 6.0	$ 10.5

In the three months ended March 31, 2023, the income tax provision was $6.0 million for an effective tax rate of 17.8%. The Company's effective tax rate differed from the 21.0% statutory federal income tax rate primarily due to (i) windfall deductions from stock-based compensation; (ii) Research and Development ("R&D") credits; and (iii) state income taxes, partially offset by certain expenditures that are permanently not deductible for tax purposes.

In the three months ended March 31, 2022, the income tax provision was $10.5 million for an effective tax rate of 27.4%. The Company's effective tax rate differed from the 21.0% statutory federal income tax rate primarily due to state income taxes and certain expenditures that are permanently not deductible for tax purposes, partially offset by the impact of R&D credits and original issue discount on convertible debt.

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 March 31, 2023, 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

	March 31, 2023	December 31, 2022
	(In millions)	
Term Loan, bearing interest at variable rates (rate of 6.72% as of March 31, 2023), maturing in September 2025	$ 259.0	$ 262.3
Unamortized deferred financing costs	(0.8)	(0.8)
Total senior debt	258.2	261.5
Finance leases	41.5	41.6
Total other debt	41.5	41.6
Total debt, net of unamortized discount and deferred financing costs	299.7	303.1
Less: Amounts due within one year	(14.8)	(14.7)
Total long-term debt, net of unamortized discount and deferred financing costs	$ 284.9	$ 288.4

Senior Credit Facility

On September 28, 2022, the senior secured credit facility (the "Senior Credit Facility") was amended and consists of (i) a $650.0 million revolving line of credit (the "Revolver") and (ii) a $269.1 million term loan (the "Term Loan"). The Term Loan facility decreased from an aggregate principal amount of up to $350.0 million to $269.1 million and the amendment extended the maturity date from September 20, 2023, to September 20, 2025, amortized at a rate of 5.0% per annum. The amended Senior Credit Facility also changed the interest rate benchmark for loans from the London Inter-Bank Offered Rate ("LIBOR") to the Secured Overnight Financing Rate ("SOFR"). Other than the changes mentioned above, the amended Senior Credit Facility has substantially similar terms as the original facility.

As of March 31, 2023, the Company had zero borrowings under the Revolver and issued $22.6 million in letters of credit.

The Term Loan and any borrowings under the Revolver bear interest at SOFR plus a SOFR adjustment of 10 basis points for all terms and 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; (ii) alternative currency rate loans ranging from 175 to 250 basis points per annum; and (iii) commitment fees ranging from 30 to 45 basis points per annum on the unused portion of the Revolver.

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 of not less than 3.00 to 1.00 and (ii) maintain a Consolidated Net Leverage Ratio not to exceed 3.50 to 1.00 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 was in compliance with its financial and non-financial covenants as of March 31, 2023.

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.

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 187 asbestos cases pending as of March 31, 2023.

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 March 31, 2023, the Company has accrued an immaterial amount related to pending claims.

U.S. Securities and Exchange Commission ("SEC") Subpoena

The Company received a subpoena from the SEC in November 2022 seeking documents related to securities filings and other public disclosures issued in connection with the 2022 election of directors. The Company is cooperating fully with the SEC and its staff.

Civil Investigative Demand

The Company is responding to a civil investigative demand issued by the Department of Justice ("DOJ") in December 2022 pursuant to the False Claims Act ("FCA") requesting documents and information relating to the Company's compliance with certain regulatory cybersecurity requirements. The Company is cooperating fully with the DOJ.

City of Wabash, Indiana v. Aerojet Rocketdyne Holdings

On November 15, 2021, a lawsuit entitled *City of Wabash, Indiana v. Aerojet Rocketdyne Holdings, Inc., Case No. 3:21-cv-878* was filed in the United States District Court for the Northern District of Indiana against the Company alleging causes of action under the Comprehensive Environmental Response Compensation and Liability Act and the Indiana Environmental Legal Action Statute and seeking damages, reasonable attorneys' fees and costs. The action was served on the Company on January 11, 2022. The Company will vigorously contest the complaint's allegations and has not recorded any liability for this matter as of March 31, 2023.

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 March 31, 2023, the aggregate range of these anticipated environmental costs was $285.3 million to $441.4 million and the accrued amount was $285.3 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 worked with the EPA to address and remedy the findings of the 2016 five-year remedy review. On September 15, 2021, the EPA issued its second five-year remedy review and concluded that the remedies are functioning as intended for the soil and groundwater contamination and that the vapor intrusion investigation and mitigation activities are protective against vapor intrusion risks. The Company is working with the EPA, DTSC, and RWQCB on the implementation of required onsite land use restrictions.

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 March 31, 2023, the estimated range of anticipated costs discussed above for the Sacramento, California site was $224.1 million to $358.5 million and the accrued amount was $224.1 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 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 March 31, 2023, the estimated range of anticipated costs was $45.2 million to $55.4 million and the accrued amount was $45.2 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, 2022	$ 223.6	$ 50.8	$ 10.8	$ 285.2	$ 5.3	$ 290.5
Additions/Adjustments	4.5	(1.7)	0.2	3.0	0.1	3.1
Expenditures	(4.0)	(3.9)	(0.3)	(8.2)	(0.1)	(8.3)
March 31, 2023	$ 224.1	$ 45.2	$ 10.7	$ 280.0	$ 5.3	$ 285.3

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 March 31, 2023	(156.7)
Receivable from Northrop included in the unaudited balance sheet at March 31, 2023	$ 33.0

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 March 31, 2023	Three months ended March 31, 2022
	(In millions)	
Expense to unaudited condensed consolidated statements of operations	$ 0.5	$ 0.4

d. Arrangements with Off-Balance Sheet Risk

As of March 31, 2023, arrangements with off-balance sheet risk consisted of:

- $22.6 million in outstanding commercial letters of credit, the majority of which may be renewed, primarily to collateralize obligations for environmental remediation and insurance coverage.
- $76.6 million in outstanding surety bonds to primarily satisfy indemnification obligations for environmental remediation coverage.
- $31.5 million in commitments associated with professional consulting services related to the Merger with L3Harris.
- $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 (income) expense:

	Pension Benefits		Postretirement Medical and Life Insurance Benefits	
	Three months ended March 31,			
	2023	2022	2023	2022
	(In millions)			
Interest cost on benefit obligation	$ 12.5	$ 8.9	$ 0.2	$ 0.1
Expected return on assets	(14.4)	(15.7)	—	—
Amortization of net losses (gains)	—	7.7	(0.7)	(0.7)
Retirement benefits (income) expense	$ (1.9)	$ 0.9	$ (0.5)	$ (0.6)

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 March 31,	
	2023	2022
	(In millions)	
Net Sales:		
Aerospace and Defense	$ 565.7	$ 510.5
Real Estate	0.6	0.6
Total Net Sales	$ 566.3	$ 511.1
Segment Performance:		
Aerospace and Defense	$ 55.7	$ 62.7
Environmental remediation provision adjustments	(0.3)	(0.4)
GAAP/Cost Accounting Standards retirement benefits expense difference	9.5	9.2
Unusual items (see Note 11)	(3.8)	(16.3)
Aerospace and Defense Total	61.1	55.2
Real Estate	(0.3)	(0.1)
Total Segment Performance	$ 60.8	$ 55.1
Reconciliation of segment performance to income before income taxes:		
Segment performance	$ 60.8	$ 55.1
Interest expense	(5.7)	(3.9)
Interest income and other	3.8	(0.2)
Stock-based compensation	(4.5)	0.9
Corporate retirement benefits	0.8	—
Corporate and other	(5.2)	(8.2)
Unusual items (see Note 11)	(16.2)	(5.4)
Income before income taxes	$ 33.8	$ 38.3

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

	Three months ended March 31,	
	2023	2022
Lockheed Martin Corporation	31 %	34 %
Raytheon Technologies Corporation	20	17
NASA	19	18

Note 11. Unusual Items

The following table presents total unusual items, component of other expense, net, in the unaudited condensed consolidated statements of operations:

	Three months ended March 31,	
	2023	2022
	(In millions)	
Unusual items		
Merger costs	$ 20.0	$ —
Legal matters	—	16.1
Proxy contest and related litigation costs	—	3.1
Terminated merger costs	—	2.5
	$ 20.0	$ 21.7

In the three months ended March 31, 2023, the Company recorded $20.0 million of costs associated with the Merger with L3Harris. See Note 1 for additional information. The components of the Merger costs are as follows (in millions):

Consulting and other professional costs	$ 11.4
Legal	4.6
Internal labor (including $0.8 million of recurring employee costs)	4.0
	$ 20.0

In the three months ended March 31, 2022, the Company incurred $16.1 million associated with legal matters.

In the three months ended March 31, 2022, the Company incurred $3.1 million of costs associated with the proxy contest and related litigation costs.

In the three months ended March 31, 2022, the Company incurred terminated merger costs of $2.5 million.

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" and as further detailed in Part I, Item 1A of our Annual Report on Form 10-K/A No. 2 for the year ended December 31, 2022. Actual results may differ materially. This section should be read in conjunction with our Annual Report on Form 10-K and subsequent amendments for the year ended December 31, 2022, 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.

Out of Period Adjustment

During the three months ended March 31, 2023, we recorded an out of period adjustment related to the completeness and accuracy of our accounting for excess costs on fixed-price contracts in nearly complete or inactive status. The out of period adjustment resulted in a decrease in net sales of $6.0 million, an increase in cost of sales of $0.5 million, and a decrease in the income tax provision of $1.7 million in the three months ended March 31, 2023. We have evaluated the effects of this error, both qualitatively and quantitatively, and do not believe the correction was material to any current or prior interim or annual periods that were affected.

L3Harris Technologies, Inc. ("L3Harris") Merger Agreement

On December 17, 2022, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement"), with L3Harris and Aquila Merger Sub Inc., a Delaware corporation and a wholly-owned subsidiary of L3Harris ("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 L3Harris.

Subject to the terms and conditions set forth in the Merger Agreement, each share of the Company's common stock outstanding as of immediately prior to the effective time of the Merger will be canceled and converted into the right to receive $58.00 in cash, without interest, plus, if the closing occurs after September 17, 2023, $0.0025 for each calendar day elapsed after such date up to and including the closing date.

On March 15, 2023, the Company received a request for additional information from the Federal Trade Commission as part of the regulatory review process for the acquisition of the Company by L3Harris.

On March 16, 2023, 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 2023, subject to various customary conditions, including regulatory clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

Financial Highlights

A summary of the significant financial highlights for the three months ended March 31, 2023 and 2022, which management uses to evaluate our operating performance and financial condition, is presented below.

	Three months ended March 31,	
	2023	2022
	(In millions, except percentage and per share amounts)	
Net sales	$ 566.3	$ 511.1
Net income	27.8	27.8
Net income as a percentage of net sales	4.9 %	5.4 %
Adjusted Net Income (Non-GAAP measure*)	34.4	36.9
Adjusted Net Income (Non-GAAP measure*) as a percentage of net sales	6.1 %	7.2 %
Earnings Per Share ("EPS") - Diluted	0.34	0.33
Adjusted EPS (Non-GAAP measure*)	0.43	0.44
Adjusted EBITDAP (Non-GAAP measure*)	58.7	69.3
Adjusted EBITDAP (Non-GAAP measure*) as a percentage of net sales	10.4 %	13.6 %
Cash used in operating activities	(32.8)	(75.0)
Free cash flow (Non-GAAP measure*)	(34.4)	(77.2)

* 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 war between Russia and Ukraine. A significant component of our strategy in this environment is to focus on delivering excellent performance to our customers, driving improvements and efficiencies across our operations, and creating value through the enhancement and expansion of our business.

Some of the significant challenges we face are as follows: uncertainty associated with our 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, cyber security and other security threats, and the actions taken by governments.

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 March 31,	
	2023	2022
U.S. government	96 %	95 %
Non U.S. government	4	5

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 March 31,	
	2023	2022
RS-25	14 %	15 %
Standard Missile	11	12
Patriot Advanced Capability-3 ("PAC-3")	10	12

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 March 31,	
	2023	2022
Lockheed Martin Corporation	31 %	34 %
Raytheon Technologies Corporation	20	17
NASA	19	18

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, 2022.

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 periodically assess compliance with these regulations and we believe our current operations are materially in compliance with applicable environmental laws and regulations as of March 31, 2023.

The following table summarizes our recoverable amounts, environmental reserves, and range of liability, as of March 31, 2023:

	Recoverable Amounts (1)	Environmental Reserves	Estimated Range of Liability
		(In millions)	
Sacramento	$ 197.2	$ 224.1	$224.1 - $358.5
Baldwin Park Operable Unit	39.7	45.2	45.2 - 55.4
Other Aerojet Rocketdyne sites	10.7	10.7	10.7 - 20.9
Other sites	0.9	5.3	5.3 - 6.6
Total	$ 248.5	$ 285.3	$285.3 - $441.4

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(1) Excludes the receivable from Northrop Grumman Corporation ("Northrop") of $33.0 million as of March 31, 2023, 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 March 31, 2023, we had $299.7 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 $7 million to our tax-qualified defined benefit pension plan in 2023. 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 Cost Accounting Standards ("CAS").

Recent macroeconomic and geopolitical developments 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 also 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 and Other Security Threats

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.

Russia's invasion of Ukraine and the global response to the invasion has exacerbated these cyber and other security threats we face. 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 March 31,		
	2023	2022	Change*
	(In millions)		
Net sales	$ 566.3	$ 511.1	$ 55.2

* *Primary reason for change.* The increase in net sales was primarily driven by an increase on the Next Generation Interceptor ("NGI"), RL10, and Patriot GEM-T programs.

Cost of Sales (exclusive of items shown separately below)

	Three months ended March 31,		
	2023	2022	Change*
	(In millions, except percentage amounts)		
Cost of sales (exclusive of items shown separately below)	$ 488.2	$ 425.5	$ 62.7
Percentage of net sales	86.2 %	83.3 %	

* *Primary reason for change.* The increase in cost of sales as a percentage of net sales was primarily driven by (i) out of period adjustment of $6.5 million (a decrease in net sales of $6.0 million and an increase in cost of sales of $0.5 million) related to the completeness and accuracy of our accounting for excess costs on fixed-price contracts in nearly complete or inactive status and (ii) cost growth on the Guided Multiple Launch Rocket System ("GMLRS") program.

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

	Three months ended March 31,		
	2023	2022	Change*
	(In millions, except percentage amounts)		
Components of SG&A:			
SG&A excluding stock-based compensation	$ 5.8	$ 9.1	$ (3.3)
Stock-based compensation	4.5	(0.9)	5.4
SG&A	$ 10.3	$ 8.2	$ 2.1
Percentage of net sales	1.8 %	1.6 %	
Percentage of net sales excluding stock-based compensation	1.0 %	1.8 %	

* *Primary reason for change.* The increase in SG&A expense was primarily driven by higher stock-based compensation partially offset by lower legal costs. See Note 4 of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information on stock-based compensation.

Depreciation and Amortization

	Three months ended March 31,		
	2023	2022	Change*
	(In millions)		
Components of depreciation and amortization:			
Depreciation	$ 11.2	$ 12.0	$ (0.8)
Amortization	1.5	1.7	(0.2)
Accretion	0.6	0.7	(0.1)
Depreciation and amortization	$ 13.3	$ 14.4	$ (1.1)

* *Primary reason for change.* Depreciation and amortization expense was essentially unchanged.

Other Expense, net

	Three months ended March 31,		
	2023	2022	Change*
	(In millions)		
Components of other expense, net:			
Merger costs	$ 20.0	$ —	$ 20.0
Legal matters	—	16.1	(16.1)
Proxy contest and related litigation costs	—	3.1	(3.1)
Terminated merger costs	—	2.5	(2.5)
Other	1.2	(1.4)	2.6
Other expense, net	$ 21.2	$ 20.3	$ 0.9

* *Primary reason for change.* The change in other expense, net was primarily due to $20.0 million of costs associated with the Merger offset by (i) $16.1 million of costs associated with legal matters; (ii) $3.1 million of costs associated with the proxy contest and associated litigation; and (iii) $2.5 million of terminated merger costs. See Note 11 of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information.

Retirement Benefits (Income) Expense

	Three months ended March 31,		
	2023	2022	Change*
	(In millions)		
Components of retirement benefits (income) expense:			
Interest cost on benefit obligation	$ 12.7	$ 9.0	$ 3.7
Expected return on assets	(14.4)	(15.7)	1.3
Amortization of net (gains) losses	(0.7)	7.0	(7.7)
Retirement benefits (income) expense	$ (2.4)	$ 0.3	$ (2.7)

* *Primary reason for change.* The change in retirement benefits (income) expense was primarily due to the amortization of net actuarial gains in the current period partially offset by an increase in interest costs as a result of higher discount rates used to calculate the benefits obligation at December 31, 2022.

Interest Income and Other

	Three months ended March 31,		
	2023	2022	Change*
	(In millions)		
Interest income and other	$ 3.8	$ (0.2)	$ 4.0

* *Primary reason for change.* The increase in interest income and other was primarily due to a higher rate of return on our cash and cash equivalents balances.

Interest Expense

	Three months ended March 31,		
	2023	2022	Change*
	(In millions)		
Components of interest expense:			
Contractual interest and other	$ 5.5	$ 3.5	$ 2.0
Amortization of deferred financing costs	0.2	0.4	(0.2)
Interest expense	$ 5.7	$ 3.9	$ 1.8

**Primary reason for change.* The increase in interest expense was primarily due to higher interest rates on borrowings under our senior secured credit facility (the "Senior Credit Facility").

Income Taxes

The income tax provision was as follows:

	Three months ended March 31,	
	2023	2022
	(In millions)	
Income tax provision	$ 6.0	$ 10.5

In the three months ended March 31, 2023, the income tax provision was $6.0 million for an effective tax rate of 17.8%. Our effective tax rate differed from the 21.0% statutory federal income tax rate primarily due to (i) windfall deductions from stock-based compensation; (ii) Research and Development ("R&D") credits; and (iii) state income taxes, partially offset by certain expenditures that are permanently not deductible for tax purposes.

In the three months ended March 31, 2022, the income tax provision was $10.5 million for an effective tax rate of 27.4%. Our effective tax rate differed from the 21% statutory federal income tax rate primarily due to state income taxes and certain expenditures that are permanently not deductible for tax purposes, partially offset by the impact of R&D credits and original issue discount on convertible debt.

Beginning in 2022, the Tax Cuts and Jobs Act of 2017 eliminated the option to deduct research and experimental expenditures currently and requires taxpayers to amortize such costs incurred in the U.S. over five years. As a result, we expect to make additional income tax payments over the next four years that will have an adverse effect on our operating results, financial condition, and cash flows.

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 March 31,		
	2023	2022	Change*
	(In millions, except percentage amounts)		
Net sales	$ 565.7	$ 510.5	$ 55.2
Segment performance	61.1	55.2	5.9
Segment margin	10.8 %	10.8 %	

* *Primary reason for change.* The increase in net sales was primarily driven by an increase on the NGI, RL10, and Patriot GEM-T programs.

Segment margin was unchanged for the period. The out-of-period adjustment resulted in a decrease in segment margin of 1.1% for the three months ended March 31, 2023.

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 March 31,	
	2023	2022
Fixed-price	54 %	56 %
Cost-reimbursable	46	44

During the three months ended March 31, 2023, we had $16.5 million of net unfavorable changes in contract estimates on operating results before income taxes compared with net unfavorable changes of $2.7 million during the three months ended March 31, 2022.

Real Estate Segment

	Three months ended March 31,	
	2023	2022
	(In millions)	
Net sales	$ 0.6	$ 0.6
Segment performance	(0.3)	(0.1)

Net sales and segment performance consist primarily of rental property operations.

Backlog

As of March 31, 2023, our total remaining performance obligations, also referred to as backlog, totaled $6.8 billion. We expect to recognize approximately 35%, or $2.4 billion, of the remaining performance obligations as sales over the next twelve months, an additional 27% the following twelve months, and 38% thereafter. A summary of our backlog is as follows:

	March 31, 2023	December 31, 2022
	(In billions)	
Funded backlog	$ 3.0	$ 3.1
Unfunded backlog	3.8	3.7
Total backlog	$ 6.8	$ 6.8

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 March 31,	
	2023	2022
	(In millions, except per share and percentage amounts)	
Net income	$ 27.8	$ 27.8
Interest expense	5.7	3.9
Interest income and other	(3.8)	0.2
Income tax provision	6.0	10.5
Depreciation and amortization	13.3	14.4
GAAP retirement benefits (income) expense	(2.4)	0.3
CAS recoverable retirement benefits expense	(7.9)	(9.5)
Unusual items	20.0	21.7
Adjusted EBITDAP	$ 58.7	$ 69.3
Net income as a percentage of net sales	4.9 %	5.4 %
Adjusted EBITDAP as a percentage of net sales	10.4 %	13.6 %
Net income	$ 27.8	$ 27.8
GAAP retirement benefits (income) expense	(2.4)	0.3
CAS recoverable retirement benefits expense	(7.9)	(9.5)
Unusual items	20.0	21.7
Income tax impact of adjustments (1)	(3.1)	(3.4)
Adjusted Net Income	$ 34.4	$ 36.9
Diluted EPS	$ 0.34	$ 0.33
Adjustments	0.09	0.11
Adjusted EPS	$ 0.43	$ 0.44
Diluted weighted average shares, as reported and adjusted	80.7	85.8

(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 March 31,	
	2023	2022
	(In millions)	
Net cash used in operating activities	$ (32.8)	$ (75.0)
Capital expenditures	(1.6)	(2.2)
Free Cash Flow	$ (34.4)	$ (77.2)

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.

Liquidity and Capital Resources

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 and the foreseeable future. As of March 31, 2023, we had $272.5 million of cash and cash equivalents as well as $627.4 million of available borrowings under our Senior Credit Facility. However, there are a number of factors that could positively or negatively impact our liquidity position, including:

- failure to complete the Merger;
- reductions, delays or changes in U.S. government spending;
- cost overruns on the Company's contracts that require the Company to absorb excess costs;
- potential funding of pension liabilities either voluntarily or as required by law or regulation;
- compliance with covenants and other terms and conditions related to our financing arrangements;
- environmental claims related to the Company's current and former businesses and operations;
- reductions in the amount recoverable from environmental claims;
- changes or clarifications to current tax law; and
- risks and uncertainties detailed in Item 1A of our Annual Report on Form 10-K/A No. 2 for the year ended December 31, 2022.

Cash and Cash Equivalents and Short Term Investments

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. Our strategy is focused on the preservation of capital and supporting our liquidity requirements that meet high credit quality standards, as specified in our investment policy approved by the Audit Committee of our Board of Directors.

We continually evaluate opportunities to sell additional equity or debt securities, obtain credit facilities, obtain finance and operating lease arrangements, enter into financing obligations, repurchase common stock, pay dividends, or repurchase, refinance, or otherwise restructure our debt for strategic reasons or to further strengthen our financial position.

As of March 31, 2023, our combined balance of cash and cash equivalents and restricted cash decreased by $49.6 million to $275.6 million from a balance of $325.2 million as of December 31, 2022.

The cash used in operating activities in the three months ended March 31, 2023, of $32.8 million was primarily due to (i) an increase in accounts receivable due to the timing of sales and billings and (ii) the timing of payments for payables and employee compensation. These factors were partially offset by income before income taxes adjusted for non-cash items.

The cash used in investing activities in the three months ended March 31, 2023, of $1.6 million was related to capital expenditures.

Cash used in financing activities in the three months ended March 31, 2023, was $15.2 million resulting from (i) debt payments of $3.9 million; (ii) $10.8 million of net cash used by our equity plans; and (iii) $0.5 million of dividend payments.

Senior Credit Facility

The Senior Credit Facility matures on September 20, 2025, and consists of (i) a $650.0 million revolving line of credit (the "Revolver") and (ii) a $269.1 million Term Loan. The Term Loan and any borrowings under the Revolver bear interest at the Secured Overnight Financing Rate ("SOFR") plus a SOFR adjustment of 10 basis points for all terms and an applicable margin ranging from 175 to 250 basis points based on our leverage ratio measured at the end of each quarter. In addition to interest, we 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; (ii) alternative currency rate loans ranging from 175 to 250 basis points per annum; and (iii) 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 5.0% per annum as of March 31, 2023. The Company was in compliance with its financial and non-financial covenants as of March 31, 2023.

Other Information

There have been no material changes to our known contractual obligations and other obligations as previously reported in our Annual Report on Form 10-K for the year ended December 31, 2022.

As part of our ongoing business, we have not participated in transactions that generate material relationships with unconsolidated entities or financial partnerships, as is defined in rules promulgated by the SEC, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. See Note 8(d) in the Notes to Unaudited Condensed Consolidated Financial Statements for information relating to our off-balance sheet risk.

Critical Accounting Policies and Estimates

Our financial statements have been prepared with GAAP, which require management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, net revenue and expenses, and the disclosure of contingent assets and liabilities. Our estimates are based on historical experience and assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. We believe that the accounting estimates employed and the resulting balances are reasonable; however, actual results may differ from these estimates and such differences may be material. We believe the following critical accounting policies are most affected by our accounting policies and estimates: revenue recognition, retirement benefit plans, environmental remediation costs and recoveries, and income taxes. Except for income taxes, 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/A No.2 for the year ended December 31, 2022.There have been no material changes to these critical accounting policies.

Recently Adopted Accounting Pronouncements

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

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," "plan," "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. We caution you that any forward-looking statements made in this report are not guarantees of future performance, events or results, and you should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. We do not intend, and we undertake no obligation, to update any forward-looking information to reflect new information, future events or otherwise, except as required by law. 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/A No. 2 for the year ended December 31, 2022, and include, but are not limited to, the following:

- failure to complete the proposed merger with L3Harris;
- litigation risk and contractual restrictions on the Company while the proposed merger with L3Harris is pending;
- other effects of the proposed merger with L3Harris, including its potential to distract management's focus from the day-to-day operations of the Company and the negative impact the pending merger may have on employee retention;
- 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;
- impacts of the war in Ukraine;
- the release, unplanned ignition, explosion, or improper handling of dangerous materials used in the Company's businesses;
- risks inherent to the real estate market;
- impacts of climate change;
- 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;
- failure to secure contracts;
- costs and time commitment related to potential and/or actual acquisition activities 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;
- failure to fully remediate the existing material weakness and maintain effective internal controls;
- 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;
- 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

Policies and Procedures

As an element of our normal business practice, we have established policies and procedures for managing our exposure to changes in interest rates and foreign currency exchange rates.

Interest Rate Risk

The objective in managing exposure to interest rate changes is to limit the impact of interest rate changes on earnings and cash flow and to make overall borrowing costs more predictable. To achieve this objective, we may use interest rate hedge transactions or other interest rate hedge instruments to manage the net exposure to interest rate changes related to our portfolio of borrowings and to balance our fixed rate compared with variable rate debt. We did not enter into any interest rate hedge transactions or instruments during the past three years.

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 March 31, 2023, principal debt obligations totaled $259.0 million (excluding finance leases) at a variable rate of 6.72%. The fair value of our debt obligations as of March 31, 2023 totaled $256.7 million (excluding finance leases).

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 and Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2022.

Foreign Currency Risk

Although the majority of our business is transacted in U.S. dollars, from time to time, we may be exposed to the risks associated with changes in the euro exchange rate. As of March 31, 2023, our total exposure to the euro currency was not significant. From time to time, we may employ established policies and procedures governing the use of financial instruments to manage our exposure to foreign currency risks. We have not entered into any foreign currency hedge transactions during the past three years.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Management has conducted an evaluation (with the participation of our Chief Executive Officer and Chief Financial Officer), of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of March 31, 2023. Disclosure controls and procedures are designed to ensure that information required to be disclosed in company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure as of the end of the period covered by this report.

Based on our management's evaluation (with the participation of our Chief Executive Officer and Chief Financial Officer), as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective due to the material weakness in internal control over financial reporting described below.

Material Weakness in Internal Control over Financial Reporting

The Company previously reported a material weakness in internal control over financial reporting as the Company did not design and maintain effective controls related to the completeness and accuracy of its accounting for excess costs on fixed-price contracts in nearly complete or inactive status. Specifically, the Company did not have appropriate controls in place to ensure that certain project costs identified as residual material on fixed-price contracts in nearly complete or inactive status were accurately reflective of the underlying physical inventory that was available to transfer from these contracts to similar contracts.

Remediation Plan for the Material Weakness

In order to remediate the material weakness, we plan to design a control (or controls) to ensure that project costs identified as residual material transfers on nearly complete and inactive fixed-price contracts represent valid physical inventory available for transfer to similar contracts. The material weakness cannot be considered remediated until the newly designed control activity operates for a sufficient period of time and management has concluded, through testing, that the control is operating effectively.

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

See Note 8 of the Notes to Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Report for information related to our legal proceedings.

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/A No. 2 for the year ended December 31, 2022.

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 March 31, 2023, 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
January 1, 2023 through January 31, 2023	—	$ —	—	—
February 1, 2023 through February 28, 2023	176,113	55.89	—	—
March 1, 2023 through March 31, 2023	—	—	—	—
Total	176,113	$ 55.89	—	—

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				Filed or Furnished herewith
		Form	File Number	Exhibit	Filing Date	
3.1	Aerojet Rocketdyne Holdings, Inc. Second Amended and Restated Bylaws (as amended June 30, 2022)	10-Q	1-01520	3.1	August 1, 2022	
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

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:	May 4, 2023	By:	/s/ Eileen P. Drake
			Eileen P. Drake Chief Executive Officer and President (Principal Executive Officer)
Date:	May 4, 2023	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: May 4, 2023

/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: May 4, 2023

/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 March 31, 2023 (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: May 4, 2023

The undersigned hereby certifies that to his knowledge the quarterly report on Form 10-Q of Aerojet Rocketdyne Holdings, Inc. for the period ended March 31, 2023 (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: May 4, 2023