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, 2026

or

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

For the transition period from _______ to _______

Commission File Number 001-41565

Leonardo DRS, Inc.

(Exact name of registrant as specified in its charter)

Delaware	13-2632319
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2345 Crystal Drive
Suite 1000
Arlington, Virginia 22202
(703) 416-8000
(Address of principal executive offices, including zip code, and registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $0.01 par value	DRS	The Nasdaq Stock Market LLC

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

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

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

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

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

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

As of May 4, 2026, there were 266,762,087 shares of the registrant's common stock, par value of $0.01 per share, outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

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

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

- Disruptions, including from government shutdowns, or deteriorations in our relationship with the relevant agencies of the U.S. government, as well as any failure to pass routine audits or otherwise comply with governmental requirements including those related to security clearance or procurement rules, including the False Claims Act;
- Significant delays, including from government shutdowns, or reductions in appropriations for our programs and changes in U.S. government priorities and spending levels more broadly;
- Any failure to comply with the amended and restated proxy agreement with the U.S. Department of War, also known as the U.S. Department of Defense (the “DoW”);
- The effect of inflation and other cost pressures on our supply chain and/or our labor costs;
- Our mix of fixed-price, cost-plus and time-and-materials type contracts and any resulting impact on our cash flows due to cost overruns;
- Failure to properly comply with various covenants of the agreements governing our debt could negatively impact our business;
- Our dependence on U.S. government contracts, which often are only partially funded and are subject to immediate termination, some of which are classified, and the concentration of our customer base in the U.S. defense industry;
- Our use of estimates in pricing and accounting for many of our programs that are inherently uncertain and which may not prove to be accurate;
- Our ability to realize the full value of our backlog;
- Our ability to predict future capital needs or to obtain additional financing if needed, on terms acceptable to us, if at all;

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

- Termination of our leases or our inability to renew our leases on acceptable terms;
- Changes in estimates used in accounting for our pension plans, including with respect to the funding status thereof;
- Changes in future business or other market conditions that could cause business investments and/or recorded goodwill or other long-term assets to become impaired;
- Adverse consequences from any acquisitions such as operating difficulties, dilution and other harmful consequences or any modification, delay or prevention of any future acquisition or investment activity by the Committee on Foreign Investment in the United States;
- Natural disasters, severe weather or other significant disruptions;
- Failure to properly contain a global pandemic in a timely manner could materially affect how we and our business partners operate;
- Our compliance with environmental laws and regulations, and any environmental liabilities that may affect our reputation or financial position;
- Any conflict of interest that may arise because Leonardo US Holding, LLC, our majority stockholder, or Leonardo S.p.A., our indirect majority stockholder, may have interests that are different from, or conflict with, those of our other stockholders, including as a result of any ongoing business relationships Leonardo S.p.A. may have with us, and their significant ownership in us may discourage change of control transactions (our third amended and restated certificate of incorporation provides that we waive any interest or expectancy in corporate opportunities presented to Leonardo S.p.A); or
- Our obligations to provide certain services to Leonardo S.p.A., which may divert human and financial resources from our business.

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

Other risks, uncertainties and factors, including those discussed under *"Risk Factors"* in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2025, could cause our actual results to differ materially from those projected in any forward-looking statements we make. Readers should read the discussion of these factors carefully to better understand the risks and uncertainties inherent in our business and underlying any forward-looking statements.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

LEONARDO DRS, INC.

Consolidated Statements of Earnings (Unaudited)

	Three Months Ended March 31,	
(Dollars in millions, except per share amounts)	2026	2025
Revenues	$ 846	$ 799
Cost of revenues	(634)	(618)
Gross profit	212	181
General and administrative expenses	(130)	(117)
Amortization of acquired intangible assets	(5)	(5)
Operating earnings	77	59
Interest expense, net	—	(1)
Earnings before taxes	77	58
Income tax provision	(15)	(8)
Net earnings	$ 62	$ 50
Net earnings per share from common stock:		
Basic earnings per share	$ 0.23	$ 0.19
Diluted earnings per share	$ 0.23	$ 0.19

See accompanying Notes to Consolidated Financial Statements.

LEONARDO DRS, INC.

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in millions)	Three Months Ended March 31, 2026	Three Months Ended March 31, 2025
Net earnings	$ 62	$ 50
Other comprehensive (loss) income, net of income taxes:		
Net unrealized (loss) gain on derivative instruments	(1)	—
Other comprehensive (loss) income, net of income taxes	(1)	—
Total comprehensive income	$ 61	$ 50

See accompanying Notes to Consolidated Financial Statements.

LEONARDO DRS, INC.

Consolidated Balance Sheets

(Dollars in millions, except per share amounts)		(Unaudited) March 31, 2026		December 31, 2025
ASSETS				
Current assets:				
Cash and cash equivalents	$	328	$	647
Accounts receivable, net		324		334
Contract assets		975		931
Inventories		371		352
Prepaid expenses		27		26
Other current assets		31		36
Total current assets		2,056		2,326
Noncurrent assets:				
Property, plant and equipment, net		512		512
Intangible assets, net		106		112
Goodwill		1,238		1,238
Deferred tax assets		89		88
Other noncurrent assets		210		210
Total noncurrent assets		2,155		2,160
Total assets	$	4,211	$	4,486
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Short-term borrowings and current portion of long-term debt	$	11	$	26
Accounts payable		187		351
Contract liabilities		640		585
Other current liabilities		267		269
Total current liabilities		1,105		1,231
Noncurrent liabilities:				
Long-term debt		140		321
Pension and other postretirement benefit plan liabilities		32		35
Deferred tax liabilities		4		3
Other noncurrent liabilities		160		166
Total noncurrent liabilities		336		525
Commitments and contingencies (Note 12)				
Stockholders' equity:				
Preferred stock, $0.01 par value: 10,000,000 shares authorized; none issued		—		—
Common stock, $0.01 par value: 350,000,000 shares authorized; 265,965,593 and 265,822,404 shares issued and outstanding as of March 31, 2026 and December 31, 2025, respectively		3		3
Additional paid-in capital		5,062		5,083
Accumulated deficit		(2,253)		(2,315)
Accumulated other comprehensive loss		(42)		(41)
Total stockholders' equity		2,770		2,730
Total liabilities and stockholders' equity	$	4,211	$	4,486

See accompanying Notes to Consolidated Financial Statements.

LEONARDO DRS, INC.

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in millions)	Three Months Ended March 31, 2026	Three Months Ended March 31, 2025
Operating activities		
Net earnings	$ 62	$ 50
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	24	23
Deferred income taxes	—	1
Stock-based compensation expense	4	8
Changes in assets and liabilities:		
Accounts receivable	10	(1)
Contract assets	(44)	(110)
Inventories	(19)	(27)
Prepaid expenses	(1)	(1)
Other current assets	4	14
Other noncurrent assets	4	6
Defined benefit obligations	(3)	(5)
Accounts payable	(152)	(126)
Contract liabilities	55	68
Other current liabilities	(3)	(32)
Other noncurrent liabilities	(7)	(6)
Net cash used in operating activities	(66)	(138)
Investing activities		
Capital expenditures	(30)	(32)
Proceeds from sales of assets	1	—
Net cash used in investing activities	(29)	(32)
Financing activities		
Net (decrease) increase in borrowings (maturities of 90 days or less)	(4)	2
Repayments of borrowings	(191)	(3)
Proceeds from stock issuance	3	—
Repurchases of common stock	(4)	(3)
Payments of employee taxes withheld from stock-based awards	—	(17)
Dividends paid	(7)	(7)
Dividends paid to related party	(17)	(17)
Other	(4)	(3)
Net cash used in financing activities	(224)	(48)
Effect of exchange rate changes on cash and cash equivalents	—	—
Net decrease in cash and cash equivalents	(319)	(218)
Cash and cash equivalents at beginning of year	647	598
Cash and cash equivalents at end of period	$ 328	$ 380

See accompanying Notes to Consolidated Financial Statements.

LEONARDO DRS, INC.

Consolidated Statements of Stockholders' Equity (Unaudited)

(In millions, except per share amounts)	Shares of common stock	Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total
Balance as of December 31, 2024	265	$ 3	$ 5,194	$ (47)	$ (2,593)	$ 2,557
Total comprehensive income	—	—	—	—	50	50
Stock-based compensation activity	1	—	(9)	—	—	(9)
Cash dividends of $0.09 per share	—	—	(24)	—	—	(24)
Repurchases of common stock	—	—	(3)	—	—	(3)
Balance as of March 31, 2025	266	$ 3	$ 5,158	$ (47)	$ (2,543)	$ 2,571
Balance as of December 31, 2025	266	$ 3	$ 5,083	$ (41)	$ (2,315)	$ 2,730
Total comprehensive income	—	—	—	(1)	62	61
Stock-based compensation activity	—	—	7	—	—	7
Cash dividends of $0.09 per share	—	—	(24)	—	—	(24)
Repurchases of common stock	—	—	(4)	—	—	(4)
Balance as of March 31, 2026	266	$ 3	$ 5,062	$ (42)	$ (2,253)	$ 2,770

See accompanying Notes to Consolidated Financial Statements.

Note 1. Summary of Significant Accounting Policies

A. Organization

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

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

These capabilities directly align with our two reportable operating segments: Advanced Sensing and Computing (“ASC”) and Integrated Mission Systems (“IMS”). The U.S. government is our largest customer and accounts for approximately 79% and 78% of our total revenues as an end-user for the three months ended March 31, 2026 and 2025, respectively. Our U.S. government revenues are highly concentrated with the U.S. Department of War, also known as the U.S. Department of Defense (the “DoW”). Specific international and commercial market opportunities exist within these segments and comprise approximately 21% and 22% of our total revenues for the three months ended March 31, 2026 and 2025, respectively. Our two reportable segments reflect the way performance is assessed and resources are allocated by our Chief Executive Officer, who is our chief operating decision maker (“CODM”).

B. Basis of Presentation

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

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions include those relating to the recognition of contract revenues and estimated costs to complete contracts in process, recoverability of reported amounts of goodwill and intangible assets, valuation of acquired intangibles, accounting for business combinations, valuation of pensions and other postretirement benefits, the valuation of deferred tax assets and liabilities and the valuation of unrecognized tax benefits. Actual results could differ from these estimates.

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

These unaudited Consolidated Financial Statements should be read in conjunction with our audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2025.

C. New Accounting Pronouncements

Disaggregation of Income Statement Expenses

In November 2024, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*, which requires disclosure of specified information about certain costs and expenses. The new standard is effective for fiscal years beginning after December 15, 2026 and interim periods within fiscal years beginning after December 15, 2027, on a prospective basis. We are currently evaluating the impact of adopting this new pronouncement.

Targeted Improvements to the Accounting for Internal-Use Software

In September 2025, the FASB issued ASU 2025-06, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software*, which removes references to project stages, requiring companies to capitalize internal-use software costs when management commits to funding the software project and it is probable the project will be completed. The new standard is effective for fiscal years beginning after December 15, 2027 and interim periods within those fiscal years, and may be applied on a prospective, modified transition, or retrospective transition basis. We are currently evaluating the impact of adopting this new pronouncement.

Accounting for Government Grants Received by Business Entities

In December 2025, the FASB issued ASU 2025-10, *Government Grants (Topic 832)—Accounting for Government Grants Received by Business Entities*, which establishes the accounting for government grants received by business entities. The new standard is effective for fiscal years beginning after December 15, 2028 and interim periods within those fiscal years, and may be applied on a modified prospective, modified retrospective, or retrospective transition basis. We are currently evaluating the impact of adopting this new pronouncement.

Note 2. Revenue from Contracts with Customers

Contract Estimates

Revenues for the majority of our contracts are measured using the over time, percentage of completion cost-to-cost method of accounting to calculate percentage of completion. We believe this is an appropriate measure of progress toward satisfaction of performance obligations as this measure most accurately depicts the progress of our work and transfer of control to our customers. Due to the long-term nature of many of our contracts, developing the estimated transaction price and total cost at completion often requires judgment. The estimated transaction price may include variable consideration such as performance incentives, requests for equitable adjustment (“REAs”) and claims. Variable consideration is included in the estimated transaction price only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Factors that must be considered in estimating the cost of the work to be completed include the nature and complexity of the work to be performed, subcontractor performance and the risk and impact of delayed performance.

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

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

	Three Months Ended March 31,	
(Dollars in millions, except per share amounts)	**2026**	**2025**
Revenue and operating earnings	$ 4	$ (9)
Total % of revenue	—%	1%
Net earnings	$ 3	$ (7)
Impact on diluted earnings per share	$ 0.01	$ (0.03)

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

Contract Assets and Liabilities

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

(Dollars in millions)	**March 31, 2026**	**December 31, 2025**
Contract assets	$ 975	$ 931
Contract liabilities	640	585

Revenue recognized in the three months ended March 31, 2026 and 2025, that was included in the contract liability balance at the beginning of each period was $209 million and $161 million, respectively.

Value of Remaining Performance Obligations

As of March 31, 2026, the total value of our remaining performance obligations was $8,382 million. We expect to recognize approximately 32% of our March 31, 2026 remaining performance obligations as revenue over the next nine months, with the remainder to be recognized thereafter. Approximately 45% of our remaining performance obligations relates to long-term contracts on electric power and propulsion programs with the U.S. Navy, which are expected to be recognized as revenue over a span of up to 11 years.

Disaggregation of Revenue

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

	Three Months Ended March 31,	
(Dollars in millions)	2026	2025
Revenue by Geographical Region		
United States	$ 471	$ 446
International	81	62
Intersegment sales	7	3
Total	$ 559	$ 511
Revenue by Customer Relationship		
Prime contractor	$ 261	$ 224
Subcontractor	291	284
Intersegment sales	7	3
Total	$ 559	$ 511
Revenue by Contract Type		
Fixed-price	$ 491	$ 437
Flexibly priced[(1)]	61	71
Intersegment sales	7	3
Total	$ 559	$ 511

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

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

	Three Months Ended March 31,	
(Dollars in millions)	2026	2025
Revenue by Geographical Region		
United States	$ 277	$ 294
International	17	(3)
Intersegment sales	1	—
Total	$ 295	$ 291
Revenue by Customer Relationship		
Prime contractor	$ 62	$ 46
Subcontractor	232	245
Intersegment sales	1	—
Total	$ 295	$ 291
Revenue by Contract Type		
Fixed-price	$ 242	$ 254
Flexibly priced[(1)]	52	37
Intersegment sales	1	—
Total	$ 295	$ 291

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

Note 3. Accounts Receivable

Accounts receivable consist of the following:

(Dollars in millions)	March 31, 2026	December 31, 2025
Accounts receivable	$ 326	$ 335
Less allowance for credit losses	(2)	(1)
Accounts receivable, net	$ 324	$ 334

As of March 31, 2026 and December 31, 2025, the Company has $54 million and $53 million of noncurrent accounts receivable, respectively, that is included in other noncurrent assets in our Consolidated Balance Sheets.

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

Note 4. Sale of Receivables

The Company is party to factoring facilities with various financial institutions (the "purchasers") with an aggregate capacity of $175 million and $225 million as of March 31, 2026 and December 31, 2025, respectively.

During the three months ended March 31, 2026 and 2025, the Company incurred immaterial purchase discount fees which are presented in general and administrative expenses on the Consolidated Statements of Earnings.

The table below summarizes the activity under the factoring facilities:

	Three Months Ended March 31,	
(Dollars in millions)	2026	2025
Beginning balance	$ 70	$ 130
Sales of receivables	—	25
Cash returned to purchasers	(68)	(126)
Outstanding balance sold to purchasers	2	29
Cash collected, not remitted to purchasers[1]	(1)	(3)
Remaining sold receivables	$ 1	$ 26

(1) Represents cash collected on behalf of purchasers and not yet remitted. This balance is included within short-term borrowings and current portion of long-term debt in the Consolidated Balance Sheets.

Note 5. Inventories

Inventories consists of the following:

(Dollars in millions)	March 31, 2026	December 31, 2025
Raw materials	$ 99	$ 112
Work in progress	260	225
Finished goods	12	15
Total inventories	$ 371	$ 352

Note 6. Property, Plant and Equipment

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

(Dollars in millions)	March 31, 2026	December 31, 2025
Land, buildings and improvements	$ 457	$ 389
Plant and machinery	217	212
Equipment and other	431	487
Total property, plant and equipment, at cost	1,105	1,088
Less accumulated depreciation	(593)	(576)
Total property, plant and equipment, net	$ 512	$ 512

Depreciation expense related to property, plant and equipment was $19 million and $18 million for the three months ended March 31, 2026 and 2025, respectively.

Note 7. Other Liabilities

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

(Dollars in millions)	March 31, 2026	December 31, 2025
Salaries, wages and accrued bonuses	$ 64	$ 85
Fringe benefits	72	60
Provision for contract losses	32	35
Operating lease liabilities	29	28
Taxes payable	18	10
Warranty reserves	26	24
Other	26	27
Total other current liabilities	$ 267	$ 269
Operating lease liabilities	$ 91	$ 95
Unrecognized tax benefits	50	50
Warranty reserves	8	9
Other	11	12
Total other noncurrent liabilities	$ 160	$ 166

Note 8. Intangible Assets

Intangible assets consists of the following:

	March 31, 2026			December 31, 2025		
(Dollars in millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired intangible assets	$ 1,087	$ (989)	$ 98	$ 1,087	$ (984)	$ 103
Patents and licenses	18	(10)	8	18	(9)	9
Total intangible assets	$ 1,105	$ (999)	$ 106	$ 1,105	$ (993)	$ 112

Amortization expense related to acquired intangible assets was $5 million for the three months ended March 31, 2026 and 2025.

Note 9. Income Taxes

Our effective tax rate was 19.5% and 13.8% for the three months ended March 31, 2026 and 2025, respectively. For the three months ended March 31, 2026, the effective tax rate was lower than the statutory rate primarily due to the benefit of estimated benefits from tax credits. For the three months ended March 31, 2025, the effective tax rate was lower than the statutory rate primarily due to recognition of discrete tax benefits associated with the vesting of stock-based compensation.

Note 10. Debt

The Company's debt consists of the following:

(Dollars in millions)	March 31, 2026	December 31, 2025
2022 Term Loan A	$ —	$ 191
Finance lease and other	150	152
Short-term borrowings related to factoring facilities (Note 4)	1	5
Total debt principal	151	348
Less unamortized debt issuance costs and discounts	—	(1)
Total debt, net	151	347
Less short-term borrowings and current portion of long-term debt	(11)	(26)
Total long-term debt	$ 140	$ 321

Term Loan

In November 2022, the Company entered into a senior unsecured credit agreement with Bank of America in the amount of $500 million (the "2022 Credit Agreement") with a maturity of November 29, 2027. The 2022 Credit Agreement provided for a term loan (the "2022 Term Loan A") of $225 million. The fair value of the 2022 Term Loan A was approximately $190 million at December 31, 2025. The fair value of the Company's outstanding debt obligations is calculated using Level 2 inputs, based on interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements.

In January 2026, the Company repaid the remaining outstanding balance of the 2022 Term Loan A in the amount of $191 million and terminated the 2022 Credit Agreement. There was no prepayment penalty or other fee associated with prepaying the principal balance.

Credit Facilities

The 2022 Credit Agreement provided for a revolving credit facility available for the working capital needs of the Company (the "2022 Revolving Credit Facility"). As of December 31, 2025, the 2022 Revolving Credit Facility had a limit of $275 million. There was no outstanding balance on the 2022 Revolving Credit Facility as of December 31, 2025. As noted above, the 2022 Credit Agreement was terminated in January 2026.

In January 2026, the Company entered into a senior unsecured credit agreement with JPMorgan Chase Bank N.A. and the other lenders party thereto (the "2026 Credit Agreement"). The 2026 Credit Agreement provides for a revolving credit facility available for the working capital requirements of the Company (the "2026 Revolving Credit Facility"). The 2026 Revolving Credit Facility has a limit of $500 million and expires in January 2031. There was no outstanding balance on the 2026 Revolving Credit Facility as of March 31, 2026. Loans under the 2026 Revolving Credit Facility bear interest at a variable rate generally based on the Secured Overnight Financing Rate ("SOFR"), plus a spread ranging from 1.25% to 1.63% depending on the leverage ratio, as defined in the 2026 Credit Agreement, or an alternative variable rate based on the higher of the prime rate, as defined in the 2026 Credit Agreement, the federal funds rate, or a rate generally based on the SOFR, in each case subject to an additional basis point spread as defined in the 2026 Credit Agreement. The Company also pays a commitment fee ranging between 0.15% and 0.30% depending on the Company's leverage ratio applied to the unused balance of the 2026 Revolving Credit Facility. The 2026 Credit Agreement allows for up to $75 million of the 2026 Revolving Credit Facility to be used to issue letters of credit in support of Company contracts. As of March 31, 2026, the Company had outstanding letters of credit against the 2026 Revolving Credit Facility of $8 million.

In addition to the letters of credit issued under the 2026 Revolving Credit Facility, the Company maintains uncommitted working capital credit facilities with certain financial institutions in the aggregate of $105 million at March 31, 2026 and December 31, 2025 (the "Financial Institution Credit Facilities"). The sole purpose of the Financial Institution Credit Facilities is to support standby letter of credit issuances on contracts with customers. The Company had letters of credit outstanding of approximately $49 million and $54 million as of March 31, 2026 and December 31, 2025, respectively, which reduces the available capacity of the Financial Institution Credit Facilities by an equal amount.

Maturities

Maturities of debt as of March 31, 2026 are as follows:

(Dollars in millions) **Year Ending December 31,**		**Total**
Remainder of 2026	$	11
2027		9
2028		9
2029		9
2030		9
Thereafter		104
Total principal payments	$	151

Note 11. Earnings Per Share ("EPS"), Stock Repurchases and Dividends

EPS

	Three Months Ended March 31,			
(In millions, except per share amounts)	**2026**		**2025**	
Net earnings	$	62	$	50
Basic weighted average number of shares outstanding		265.9		265.3
Impact of dilutive stock-based awards		2.8		3.5
Diluted weighted average number of shares outstanding		268.7		268.8
Basic earnings per share	$	0.23	$	0.19
Diluted earnings per share	$	0.23	$	0.19

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

Stock Repurchases

On February 20, 2025, the Company announced that its Board of Directors (the "Board") approved a stock repurchase program that allows the Company to purchase up to $75 million of its outstanding common stock through March 4, 2027, subject to market conditions. As of March 31, 2026, the Company has repurchased approximately $39 million under the program. The Company retires its common stock upon repurchase with the excess over par value allocated to additional paid-in capital.

Dividends

The Company declared and paid a quarterly dividend of $0.09 per share of its common stock during the three months ended March 31, 2026. Subsequent to quarter end, the Company's Board declared a cash dividend of $0.09 per share of common stock payable on June 2, 2026 to stockholders of record as of the close of business on May 19, 2026.

Note 12. Commitments and Contingencies

Commitments

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

Contingencies

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

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

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

Note 13. Related Party Transactions

The Company has related party sales and purchases with Leonardo S.p.A., our indirect majority stockholder, and its other affiliates that occur in the regular course of business. Related party sales are included in revenues and were $3 million and $4 million for the three months ended March 31, 2026 and 2025, respectively. Related party purchases are included in cost of revenues and were immaterial for the three months ended March 31, 2026 and 2025. The receivables with the indirect majority stockholder and its other affiliates of $6 million and $5 million, respectively, and payables of $4 million and $5 million, respectively, as of March 31, 2026 and December 31, 2025, are included in accounts receivable, net and accounts payable in our Consolidated Balance Sheets. In addition, there were related party balances in contract assets of $15 million and $16 million at March 31, 2026 and December 31, 2025, respectively.

The Company has an investment of $21 million in the preferred stock of a private company that is included in other noncurrent assets in our Consolidated Balance Sheets. The Company holds two board seats in the investee. Related party sales to this company were immaterial for the three months ended March 31, 2026. The Company had immaterial related party balances in accounts receivable with this company at March 31, 2026. The Company had $5 million and $6 million of related party balances in contract assets with this company at March 31, 2026 and December 31, 2025, respectively.

Note 14. Segment Information

Operating segments represent components of an enterprise for which separate financial information is available that is regularly reviewed by the CODM in determining how to allocate resources and assess performance. The Company’s operating and reportable segments consist of ASC and IMS. All other operations, which consists primarily of DRS corporate headquarters and certain non-operating subsidiaries of the Company, are grouped in Corporate & Eliminations.

The CODM primarily uses operating earnings to manage the Company and allocate resources. Operating earnings is used to facilitate a comparison of the ordinary, ongoing and customary course of our operations on a consistent basis from period to period and provide an additional understanding of factors and trends affecting our business segments.

Certain information related to our segments for the periods ended March 31, 2026 and 2025 is presented in the following tables. Consistent accounting policies have been applied by all segments within the Company, within all reporting periods. Intersegment sales are generally transferred at cost to the buying segment, and the sourcing segment does not recognize a profit. Such intercompany operating earnings is eliminated in consolidation, so that the Company’s total revenues and operating earnings reflect only those transactions with external customers.

Revenues, expenses, and operating earnings by segment and the reconciliation to earnings before taxes for the periods ended March 31, 2026 and 2025 consists of the following:

(Dollars in millions)	Three Months Ended March 31, 2026	2025
Revenues		
ASC	$ 559	$ 511
IMS	295	291
Corporate & Eliminations	(8)	(3)
Total revenues	$ 846	$ 799
Cost of revenues		
ASC	$ 420	$ 392
IMS	222	229
Corporate & Eliminations	(8)	(3)
Total cost of revenues	$ 634	$ 618
General and administrative		
ASC	$ 70	$ 66
IMS	29	23
Corporate & Eliminations	—	—
Total general and administrative	$ 99	$ 89
Company-funded independent research and development		
ASC	$ 24	$ 23
IMS	7	5
Corporate & Eliminations	—	—
Total company-funded independent research and development	$ 31	$ 28
Amortization of acquired intangible assets		
ASC	$ 5	$ 5
IMS	—	—
Corporate & Eliminations	—	—
Total amortization of acquired intangible assets	$ 5	$ 5
Operating earnings		
ASC	$ 40	$ 25
IMS	37	34
Corporate & Eliminations	—	—
Total operating earnings	$ 77	$ 59
Interest expense, net	—	(1)
Earnings before taxes	$ 77	$ 58

Total intersegment revenues by segment for the periods ended March 31, 2026 and 2025 consists of the following:

(Dollars in millions)	Three Months Ended March 31, 2026	2025
ASC	$ 7	$ 3
IMS	1	—
Total intersegment revenues	$ 8	$ 3

Depreciation by segment for the periods ended March 31, 2026 and 2025 consists of the following:

(Dollars in millions)	Three Months Ended March 31, 2026	Three Months Ended March 31, 2025
ASC	$ 13	$ 12
IMS	6	6
Total depreciation	$ 19	$ 18

Total assets by segment as of March 31, 2026 and December 31, 2025, consists of the following:

(Dollars in millions)	March 31, 2026	December 31, 2025
ASC	$ 2,520	$ 2,451
IMS	1,252	1,300
Corporate & Eliminations	439	735
Total assets	$ 4,211	$ 4,486

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

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

This discussion and other parts of this Quarterly Report include forward-looking statements such as those relating to our plans, objectives, expectations and beliefs, which involve risks, uncertainties and assumptions. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties discussed under "Special Note Regarding Forward-Looking Statements and Information" in this Quarterly Report and under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2025. Actual results may differ materially from those contained in any forward-looking statements.

Business Overview and Considerations

General

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

Our overall strategy is to be a balanced and diversified company, less vulnerable to any one budgetary platform or service decision with a specific focus on establishing strong technical and market positions in areas of priority for the DoW. The U.S. government, primarily with the DoW, is our largest customer and, for the three months ended March 31, 2026, accounted for approximately 79% of our business as an end-user, with revenues principally derived directly or indirectly from contracts with the U.S. Navy and U.S. Army, which represented 39% and 35%, respectively, of our total revenues for such period, which is consistent with historic trends.

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

Advanced Sensing and Computing

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

Our sensing capabilities span numerous applications, including missions requiring advanced detection, precision targeting and surveillance sensing, long range electro-optic/infrared ("EO/IR"), signals intelligence ("SIGINT") and other intelligence systems, electronic warfare ("EW"), ground vehicle sensing, next generation active electronically scanned array tactical radars, dismounted soldier sensing and space sensing. Across our offerings, we are focused on advancing sensor range and enhancing the precision, clarity, definition, spectral depth and effectiveness of our sensors to deliver actionable information in time-sensitive mission scenarios in combination with artificial intelligence ("AI"), enabled by our advanced edge processing solutions. We also seek to leverage the knowledge and expertise built through our decades of experience to optimize size, weight, power and cost for our customers' specific mission requirements and to support integration onto a wide range of tactical platforms, including mobile and power-constrained systems.

Our sensing capabilities are complemented by our rugged, trusted and cyber resilient network edge computing products that support data processing, fusion, and dissemination at the tactical edge. Our network computing offerings are utilized across a broad range of mission applications including platform computing on ground and shipboard (both surface ship and submarine) for advanced battle management, combat systems, radar, command and control, tactical networks, tactical computing and communications. These products help support the DoW’s need for greater situational understanding and faster decision-making at the tactical edge by leveraging AI and AI-optimized open architecture software, SAGEcore™, to rapidly share, synthesize and transmit data securely between command centers and forward-positioned defense assets and personnel, while supporting reduced latency, operational continuity, and interoperability through modular, open-system architectures.

Within ASC, we are increasingly combining sensing, computing, and software to support applications such as counter-unmanned aircraft systems (“C-UAS”), electronic warfare, and networked sensing, where performance depends on the ability to detect, process, and act on data in real time. These integrated capabilities are designed to support evolving operational concepts that emphasize distributed operations, resilient communications, and decision advantage at the tactical edge.

Integrated Mission Systems

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

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

We believe DRS is well positioned to meet the needs of an increasingly electrified and power-intensive fleet through high-efficiency, power-dense permanent magnet motors, energy storage systems, and associated rugged and compact power conversion, electrical actuation, and advanced thermal management technologies. These capabilities support higher onboard power demands, improved efficiency, and enhanced platform performance across next-generation naval systems.

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

DRS is also an integrator of complex systems in ground vehicles for short-range air defense, C-UAS, and vehicle survivability and protection. Our short-range air defense systems integrate advanced active electronically scanned array radars, EW equipment, reconnaissance and surveillance systems, mission command capabilities, modular combat vehicle turrets, and stabilized sensor suites, as well as kinetic and directed energy countermeasures to protect against evolving threats. Our force protection systems, including solutions for C-UAS, help protect personnel and defense assets from enemy combatants.

Focus on Customer and Execution

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

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

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

We continue to align our investment strategy with the evolving priorities of the DoW, with a particular focus on increasing internal research and development to accelerate innovation in advanced sensing, networked systems, force protection and naval power & propulsion. In parallel, we are selectively investing in capacity, engineering resources and supply chain readiness to enhance our ability to deliver critical capabilities at the speed required by our service members.

Global Events and Business Impacts

Global Conflicts

The U.S. and its allies continue to face a global security environment marked by heightened tensions and instability, including threats from state and non-state actors—particularly major powers—as well as terrorist organizations, and diverse regional security challenges and political instability. Demand for defense products, services, and solutions worldwide is driven by these complex and evolving security conditions, considered in the broader context of political and socioeconomic circumstances and priorities. These events, including periods of global unrest, can affect our operations and financial performance and influence demand for our products and services.

The ongoing conflict in Ukraine, continued instability in parts of Latin America, and increasing risks across the Middle East and the Western Pacific have heightened global tensions and underscored evolving security requirements in Europe, the Middle East, Indo-Pacific, Latin America and within the U.S. In particular, the conflict involving Iran and associated regional escalation, including heightened maritime security risks and disruptions affecting commercial shipping and energy markets, has further amplified geopolitical uncertainty and the need for enhanced deterrence, integrated air and missile defense, cyber resilience, intelligence, surveillance, and reconnaissance, EW and secure communications. These developments have resulted in and may continue to result in, increased demand for defense products and services.

We believe the current global security environment continues to underscore the need for strong deterrence and robust defense capabilities. We are actively evaluating both opportunities and risks associated with these conditions.

Business Environment

Revenues derived directly, as a prime contractor, or indirectly, as a subcontractor, from contracts with the U.S. government represented 79% and 78% of our total revenues for the three months ended March 31, 2026 and 2025, respectively. Our U.S. government sales are highly concentrated within our DoW customers, which made up the overwhelming majority of our U.S. government revenue for the periods presented and are principally derived directly or indirectly from contracts with the U.S. Navy and U.S. Army, which represented 39% and 35%, respectively, of our total revenues for the three months ended March 31, 2026. Therefore, our revenue is highly correlated to changes in U.S. government spending levels, especially within the DoW. The DoW budget is the largest defense budget in the world.

Given the reliance on the U.S. government, funding for our programs are subject to a variety of factors that can affect our business, including: the President's budget requests and procurement priorities and policies; the annual congressional budget authorization and appropriations process; and other U.S. government domestic and international priorities. U.S. government spending levels, particularly defense spending and the timing of funding, can affect our financial performance over the short and long term.

Fiscal year ("FY") 2026 defense funding has been enacted through a combination of authorizations and full-year appropriations. The President's FY2026 budget request (June 2025) proposed $848 billion in base (discretionary) funding and $113 billion in reconciliation (mandatory) funding. The One Big Beautiful Bill Act, signed July 4, 2025, provided more than $150 billion in mandatory national defense funding (including the $113 billion reconciliation amount) available through September 30, 2029. The FY2026 National Defense Authorization Act ("NDAA") was signed on December 18, 2025, authorizing approximately $901 billion for defense. Following a continuing resolution signed November 12, 2025 (through January 30, 2026), Congress completed full-year FY2026 appropriations via the Consolidated Appropriations Act, 2026 (signed February 3, 2026), which included the Department of Defense Appropriations Act and provided approximately $839 billion for the DoW. Together, these actions established the FY2026 budget baseline and related multi-year mandatory resources supporting national defense priorities.

For FY2027, the Administration released topline details of the President's budget request on April 3, 2026, proposing a significantly higher level of national defense resources, including approximately $1.15 trillion in base (discretionary) funding for the national defense function and an additional $350 billion in proposed reconciliation (mandatory) funding, subject to congressional action. The FY2027 budget will proceed through the standard congressional authorization and appropriations process (including development and consideration of the FY2027 NDAA and annual appropriations measures), alongside any separate reconciliation legislation if pursued. The timing and outcome of FY2027 enactment will depend on congressional negotiations, including potential continuing resolutions if annual appropriations are not completed by the start of the fiscal year on October 1, 2026.

Operating Performance Assessment and Reporting

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

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

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

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

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

Components of Operations

Revenue

For the three months ended March 31, 2026, 87% of our revenue was derived from fixed-price contracts. This was consistent with the three months ended March 31, 2025, which realized revenue from fixed-price contracts of 86%.

Under flexibly priced contracts, we are reimbursed for allowable or otherwise defined total costs (defined as cost of revenues plus allowable general and administrative expenses) incurred, plus a fee. The contracts may also include incentives for various performance criteria, including quality, timeliness, cost-effectiveness or other factors. For the three months ended March 31, 2026 and 2025, flexibly priced contracts represented 13% and 14% of our total revenues, respectively.

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

Cost of Revenues

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

General and Administrative Expenses

General and administrative (“G&A”) expenses include G&A expenses not included within cost of revenues such as salaries, wages and fringe benefits, facility costs and other costs related to these indirect functions. Additionally, G&A expenses include company-funded independent research and development (“IR&D”) costs as well as expenditures related to bid and proposal (“B&P”) efforts.

Results of Operations

The following discussion of operating results is intended to help the reader understand the results of operations and financial condition of the Company for the three months ended March 31, 2026 as compared to the three months ended March 31, 2025. Given the nature of our business, we believe revenue and operating earnings are most relevant to an understanding of our performance at an enterprise and segment level. Our operating cycle is longer term in nature and involves various types of production contracts and varying delivery schedules. Accordingly, operating results in a particular period may not be indicative of future operating results.

	Three Months Ended March 31,		Change	
(Dollars in millions, except per share amounts)	2026	2025	$	%
Total revenues	$ 846	$ 799	$ 47	5.9 %
Total cost of revenues	(634)	(618)	(16)	2.6 %
Gross profit	$ 212	$ 181	$ 31	17.1 %
Gross margin	25.1 %	22.7 %	240 bps	
General and administrative expenses	(130)	(117)	(13)	11.1 %
Amortization of acquired intangible assets	(5)	(5)	—	— %
Operating earnings	$ 77	$ 59	$ 18	30.5 %
Interest expense, net	—	(1)	1	(100.0)%
Earnings before taxes	$ 77	$ 58	$ 19	32.8 %
Income tax provision	(15)	(8)	(7)	87.5 %
Net earnings	$ 62	$ 50	$ 12	24.0 %
Basic EPS	$ 0.23	$ 0.19	$ 0.04	21.1 %
Diluted EPS	$ 0.23	$ 0.19	$ 0.04	21.1 %
Backlog	$ 8,382	$ 8,372	$ 10	0.1 %
Bookings	$ 885	$ 991	$ (106)	(10.7)%

Revenue

Our revenue generation of $846 million for the three months ended March 31, 2026 represents an increase of $47 million, or 5.9%, as compared to the three months ended March 31, 2025. The revenue increase is primarily attributed to continued demand across each of our operating segments. This is highlighted by our efforts within advanced sensing, electric power and propulsion and force protection activities.

Cost of Revenues

Cost of revenues increased by $16 million, or 2.6%, to $634 million for the three months ended March 31, 2026 as compared to $618 million for the three months ended March 31, 2025. The cost of revenues increase was due to the increased revenue contribution realized during the period. This increase was offset in part by improved program performance and favorable program mix across both of our operating segments.

Gross Profit

Gross profit increased by $31 million, or 17.1%, to $212 million for the three months ended March 31, 2026 as compared to the same period in the prior year, resulting from the revenue and cost of revenues trends noted above. The gross profit increase, favorable mix and overall program performance drove an expansion of 240 basis points in our gross margin for the three months ended March 31, 2026.

General and Administrative Expenses

G&A expenses increased by $13 million, or 11.1%, for the three months ended March 31, 2026 as compared to the three months ended March 31, 2025, primarily due to increased IR&D expenditures and costs related to bid and proposal efforts for new contractual pursuits.

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets was consistent for the three months ended March 31, 2026 as compared to the three months ended March 31, 2025.

Operating Earnings

Operating earnings increased by $18 million to $77 million for the three months ended March 31, 2026 as compared to the same period in the prior year. The increase was driven by the gross profit impacts offset in part by the G&A expense increases noted above.

Interest Expense, Net

Net interest expense decreased by $1 million to zero for the three months ended March 31, 2026 as compared to the same period in the prior year. The reduction in net interest expense is attributed to increased interest income as a result of higher cash balances and reduced interest expense with the repayment and termination of the 2022 Term Loan A in January 2026.

Earnings Before Taxes

Earnings before taxes increased by $19 million to $77 million for the three months ended March 31, 2026, as compared to the same period in the prior year. This was primarily due to the increase in operating earnings and decreased net interest expense as noted above.

Income Tax Provision

Income tax provision increased by $7 million for the three months ended March 31, 2026, as compared to the same period in the prior year. This was primarily attributable to an increase in earnings before taxes as noted above. Additionally our effective tax rate increased as compared to the prior year due to the timing of certain stock-based discrete tax benefits which did not anniversary. Our effective tax rate was 19.5% for the three months ended March 31, 2026, compared to 13.8% for the three months ended March 31, 2025.

Net Earnings

Net earnings increased by $12 million to $62 million for the three months ended March 31, 2026, as compared to the same period in the prior year. This was driven by an increase in earnings before taxes coupled with the changes in our effective tax rate as noted above.

Backlog

Total backlog includes the following components:

(1) Funded - Funded backlog represents the revenue value of orders for products and services under existing contracts for which funding is appropriated or otherwise authorized less revenue previously recognized on these contracts.

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

The following table summarizes the value of our backlog, incorporating both funded and unfunded components:

(Dollars in millions)	March 31, 2026	March 31, 2025
Funded	$ 4,686	$ 4,354
Unfunded	3,696	4,018
Total backlog	$ 8,382	$ 8,372

Backlog increased by $10 million to $8,382 million as of March 31, 2026, from $8,372 million as of March 31, 2025. The backlog increase was driven primarily by the receipt of new awards within our IMS segment.

Bookings

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

Bookings for the three months ended March 31, 2026 decreased to $885 million as compared to $991 million for the three months ended March 31, 2025. The decrease in new orders was driven within our ASC segment and offset in part by IMS bookings expansion. See *"—Review of Operating Segments"* below for more detail.

Factors Impacting Our Performance

U.S. Government Spending and Federal Budget Uncertainty

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

There is also uncertainty around the timing, extent, nature and effect of Congressional and other U.S. government actions to address budgetary constraints, caps on certain discretionary budgets, and the ability of Congress to determine how to allocate the available budget authority and pass appropriations bills to fund U.S. government departments and agencies. Additionally, budget deficits and the growing U.S. national debt may increase pressure on the U.S. government to reduce federal spending across all federal agencies, with uncertainty about the size and timing of those reductions. Furthermore, delays in the completion of future U.S. government budgets could in the future delay procurement of the federal government services we provide. A reduction in the amount of, or reductions, delays, or cancellations of funding for, services that we are contracted to provide to the U.S. government as a result of any of these impacts or related initiatives, legislation or otherwise could have a material adverse effect on our business and results of operations. See Part I, Item 1A, *“Risk Factors—Risks Related to Our Business—Significant delays or reductions in appropriations for our programs and changes in U.S. government priorities and spending levels more broadly may negatively impact our business and could have a material adverse impact on our business, financial condition and results of operations”* and Part II, Item 7, *“Management’s Discussion and Analysis of Financial Condition and Results of Operations—Business Overview and Considerations—Business Environment”* in our Annual Report on Form 10-K for the year ended December 31, 2025, and Part I, Item 2, *“Management’s Discussion and Analysis of Financial Condition and Results of Operations—Business Overview and Considerations—Business Environment”* in this Quarterly Report for further details on U.S. government spending’s impact on our business.

Operational Performance on Contracts

The Company recognizes revenue for each separately identifiable performance obligation in a contract representing an obligation to transfer a distinct good or service to a customer. In most cases, goods and services provided under the Company’s contracts are accounted for as single performance obligations due to the complex and integrated nature of our products and services. These contracts generally require significant integration of a group of goods and/or services to deliver a combined output. In some contracts, the Company provides multiple distinct goods or services to a customer. In those cases, the Company accounts for the distinct contract deliverables as separate performance obligations and allocates the transaction price to each performance obligation based on its relative standalone selling price, which is generally estimated using cost plus a reasonable margin. While the Company provides warranties on certain contracts, we typically do not provide for services beyond standard assurances and therefore do not consider warranties to be separate performance obligations.

Typically, we enter into three types of contracts: fixed-price contracts, cost-plus contracts and time-and-materials (“T&M”) contracts. The majority of our total revenues are derived from fixed-price contracts; refer to the revenue disaggregation disclosures in *Note 2: Revenue from Contracts with Customers* to the Consolidated Financial Statements.

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

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

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

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

Revenues for the majority of our contracts are measured using the over time, percentage of completion cost-to-cost method of accounting to calculate percentage of completion. We believe this is an appropriate measure of progress toward satisfaction of performance obligations as this measure most accurately depicts the progress of our work and transfer of control to our customers. Due to the long-term nature of many of our contracts, developing the estimated transaction price and total cost at completion often requires judgment. The estimated transaction price may include variable consideration such as performance incentives, requests for equitable adjustment (“REAs”) and claims. Variable consideration is included in the estimated transaction price only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Factors that must be considered in estimating the cost of the work to be completed include the nature and complexity of the work to be performed, subcontractor performance and the risk and impact of delayed performance.

After establishing the estimated total cost at completion, we follow a standard Estimate at Completion ("EAC") process in which we review the progress and performance on our ongoing contracts. The following represents the net impact that changes in our estimates, particularly those regarding our fixed-price programs, have had on our revenues for the periods presented:

	Three Months Ended March 31,	
(Dollars in millions)	**2026**	**2025**
Revenue	$ 4	$ (9)
Total % of revenue	— %	1 %

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

Regulations

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

International Sales

International revenue, including foreign military sales, foreign military financing, and direct commercial sales, accounted for approximately 12% and 7% of our revenue for the three months ended March 31, 2026 and 2025, respectively. The increase in international sales is due in part to the global demand for our tactical radars used in counter drone and short-range air defense applications.

We remain subject to the spending levels, pace and priorities of the U.S. government as well as international governments and commercial customers, and to general economic conditions that could adversely affect us, our customers and our suppliers.

Additionally, some international sales may expose us to foreign exchange fluctuations and changing dynamics of foreign competitiveness based on variations in the value of the U.S. dollar relative to other currencies. The impact of those fluctuations is reflected throughout our Consolidated Financial Statements, but in the aggregate, did not have a material impact on our results of operations for the three months ended March 31, 2026.

Acquisitions

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

Review of Operating Segments

The following is a discussion of operating results for each of our operating segments. We have elected to use revenue, operating earnings, operating margin, and bookings to provide detailed information on our segment performance. Additional information regarding our segments can be found in *Note 14: Segment Information* to the Consolidated Financial Statements.

	Three Months Ended March 31,		Change	
(Dollars in millions)	2026	2025	$	%
Revenues:				
ASC	$ 559	$ 511	$ 48	9.4 %
IMS	295	291	4	1.4 %
Corporate & Eliminations	(8)	(3)	(5)	166.7 %
Total revenues	$ 846	$ 799	$ 47	5.9 %
Operating earnings:				
ASC	$ 40	$ 25	$ 15	60.0 %
IMS	37	34	3	8.8 %
Total operating earnings	$ 77	$ 59	$ 18	30.5 %
Operating margin:				
ASC	7.2 %	4.9%		
IMS	12.5 %	11.7%		
Bookings:				
ASC	$ 429	$ 669	$ (240)	(35.9)%
IMS	456	322	134	41.6 %
Total bookings	$ 885	$ 991	$ (106)	(10.7)%

ASC

Revenue

The ASC segment reported revenue of $559 million for the three months ended March 31, 2026, an increase of 9.4%, or $48 million, from the three months ended March 31, 2025. The revenue increase is attributed to our advanced sensing and tactical radars used in force protection and counter drone applications.

Operating Earnings and Operating Margin

For the three months ended March 31, 2026, operating earnings increased by $15 million, or 60.0%, to $40 million for the three months ended March 31, 2026, from $25 million for the three months ended March 31, 2025. The increase was driven by increased revenue contribution, favorable program mix and better program execution. The net of these impacts drove operating margin to 7.2% for the three months ended March 31, 2026, compared to the 4.9% realized during the three months ended March 31, 2025.

Bookings

For the three months ended March 31, 2026, bookings decreased $240 million, or 35.9%, from the three months ended March 31, 2025 to $429 million. The decrease in new awards is largely attributed to a large multi-year award received in the prior year for next generation ground vehicle sensing. This reduction was offset in part by demand for our tactical radar sensor programs coupled with additional awards received for pilot training efforts.

IMS

Revenue

IMS segment revenue increased by $4 million, or 1.4%, to $295 million for the three months ended March 31, 2026, from $291 million for the three months ended March 31, 2025, which is attributed to increased revenue generated from our naval power programs, partially offset by a reduction in force protection generated revenues.

Operating Earnings and Operating Margin

For the three months ended March 31, 2026, operating earnings increased by $3 million, or 8.8%, to $37 million for the three months ended March 31, 2026, from $34 million for the three months ended March 31, 2025. The increase for the period is attributed to operational leverage created by continued program improvement on our Columbia Class submarine program, resulting in a net operating margin increase to 12.5%, compared to the 11.7% realized during the three months ended March 31, 2025.

Bookings

For the three months ended March 31, 2026, bookings increased by $134 million, or 41.6%, from the three months ended March 31, 2025 to $456 million. The increase for the three months ended March 31, 2026 is largely attributed to funding received for our naval power and propulsion efforts as well as increased demand for our force protection efforts.

Liquidity and Capital Resources

We endeavor to ensure the most efficient conversion of operating earnings into cash for deployment in our business and to maximize stockholder value through cash deployment activities. In addition to our cash position, we use various financial measures to assist in capital deployment decision-making, including cash provided by (used in) operating activities. We believe that the combination of our existing cash, access to credit facilities as described in *Note 10: Debt* to the Consolidated Financial Statements, and future cash that we expect to generate from our operations will be sufficient to meet our short and long-term liquidity needs. There can be no assurance, however, that our business will continue to generate cash flow at current levels or that anticipated operational improvements will be achieved. We may also pursue acquisitions or other strategic priorities that will require additional liquidity beyond the liquidity we generate through our operations. Our cash balance as of March 31, 2026, was $328 million compared to $647 million as of December 31, 2025.

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

	Three Months Ended March 31,	
(Dollars in millions)	2026	2025
Net cash used in operating activities	$ (66)	$ (138)
Net cash used in investing activities	(29)	(32)
Net cash used in financing activities	(224)	(48)
Effect of exchange rate changes on cash and cash equivalents	—	—
Net decrease in cash and cash equivalents	$ (319)	$ (218)

Operating Activities

Cash usage related to operating activities decreased by $72 million to $66 million for the three months ended March 31, 2026, from $138 million for the three months ended March 31, 2025. This was primarily due to lower cash used to fund working capital for the three months ended March 31, 2026 when compared to the three months ended March 31, 2025.

Investing Activities

Net cash used in investing activities decreased by $3 million for the three months ended March 31, 2026 when compared to the three months ended March 31, 2025, primarily due to lower capital expenditures.

Financing Activities

Net cash used in financing activities for the three months ended March 31, 2026 was $224 million, compared to $48 million for the three months ended March 31, 2025. The change was primarily due to the repayment and termination of the 2022 Term Loan A in January 2026, partially offset by payments of employee taxes withheld from stock-based awards in the prior period.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2025.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Equity Risk

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

Interest Rate Risk

We are exposed to interest rate risk on variable rate borrowings under our 2026 Revolving Credit Facility, which had no amounts outstanding, as of March 31, 2026. See *Note 10: Debt* to the Consolidated Financial Statements for additional information.

Foreign Currency Risk

In certain circumstances, we may be exposed to foreign currency risk. However, as the overwhelming majority of our revenue is derived from U.S. sources directly as a prime contractor or indirectly as a subcontractor for the U.S. government as end-customer, we have limited foreign currency exposure. A 10% fluctuation in exchange rates would not have a material impact on our financial statements. We do not enter into or issue derivative instruments for trading purposes.

Inflation Risk

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the quarterly period ended March 31, 2026, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of March 31, 2026.

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

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarterly period ended March 31, 2026 covered by this Quarterly Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information relating to legal proceedings, see *Note 12: Commitments and Contingencies* to the Consolidated Financial Statements in Part I, Item 1.

ITEM 1A. RISK FACTORS

As of the date of this Quarterly Report, there have been no material changes to the risk factors discussed under *"Risk Factors"* in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2025.

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

The following table summarizes our repurchases of common stock during the three months ended March 31, 2026:

Period *(Dollars in millions, except per share amounts)*	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs[(1)]	Approximate Dollar Value of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs[(1)]
January 1, 2026 - January 31, 2026	4,923	$ 34.17	4,923	$ 40
February 1, 2026 - February 28, 2026	—	—	—	40
March 1, 2026 - March 31, 2026	86,315	$ 45.49	86,315	$ 36
Total	91,238		91,238	

(1) On February 20, 2025, the Company announced that its Board approved a stock repurchase program that allows the Company to purchase up to $75 million of its outstanding common stock through March 4, 2027, subject to market conditions. All repurchased shares are expected to be retired.

Stock repurchases are at the discretion of our Board and will depend upon our financial condition, results of operations, capital requirements, alternative uses of capital and other factors that our Board may consider at its discretion.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Securities Trading Plans of Directors and Executive Officers

The following table includes the material terms (other than with respect to the price) of each Rule 10b5-1 Plan adopted or terminated by our executive officers and directors during the quarter ended March 31, 2026[(1)]:

Name and title	Date of adoption of 10b5-1 Plan[(2)]	Scheduled expiration date of 10b5-1 Plan[(3)]	Aggregate number of shares of common stock to be purchased or sold[(4)(5)]
Jason Rinsky, Executive Vice President, Chief Tax and Treasury Officer	3/4/2026	9/30/2026	Up to 11,594 shares
Michael Dippold, Executive Vice President, Chief Financial Officer	3/9/2026	12/31/2026	Up to 42,952 shares
John Baylouny, President and Chief Executive Officer	3/19/2026	12/31/2026	Up to 36,471 shares
Mark Dorfman, Executive Vice President, General Counsel & Secretary	3/6/2026	3/1/2027	Up to 27,680 shares

(1) Each trading arrangement listed is a "Rule 10b5-1 Trading Arrangement" and is intended to satisfy the affirmative defense of Rule 10b5-1(c), as amended.
(2) Transactions under each Rule 10b5-1 Plan commence no earlier than 90 days after adoption, or such later date as required by Rule 10b5-1.
(3) Each Rule 10b5-1 Plan may expire on such earlier date as all transactions are completed.
(4) Each Rule 10b5-1 Plan provides for shares to be sold on multiple predetermined dates.
(5) The actual number of shares under each Rule 10b5-1 Plan may be different than the aggregate number of shares listed based on tax withholdings and performance and vesting conditions of performance-based stock units and restricted stock units (as applicable).

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
10.1	Credit Agreement, dated as of January 28, 2026, by and among Leonardo DRS, Inc., certain subsidiaries of Leonardo DRS, Inc. referred to therein, each of the lenders identified therein and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 28, 2026)
31.1*	Certification by principal executive officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification by principal financial officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification by principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification by principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document – the instance document does not appear on the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

SIGNATURES

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

Date: May 5, 2026

LEONARDO DRS, INC.

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

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

I, John Baylouny, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2026 of Leonardo DRS, Inc.;

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

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

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

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

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

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

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: May 5, 2026

/s/ John Baylouny

John Baylouny
President and Chief Executive Officer
(Principal Executive Officer)

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

I, Michael D. Dippold, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2026 of Leonardo DRS, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designated such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2026

/s/ Michael D. Dippold

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

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

In connection with the Quarterly Report of Leonardo DRS, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2026, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, as the Chief Executive Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report, which this statement accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2026

/s/ John Baylouny

John Baylouny
President and Chief Executive Officer
(Principal Executive Officer)

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

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

In connection with the Quarterly Report of Leonardo DRS, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2026, as filed with the Securities and Exchange Commission (the “Report”), the undersigned, as the Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report, which this statement accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2026

/s/ Michael D. Dippold

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

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