

**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, 2025

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-41565

**Leonardo DRS, Inc.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

13-2632319  
(I.R.S. Employer  
Identification No.)

2345 Crystal Drive  
Suite 1000  
Arlington, Virginia 22202  
(703) 416-8000

(Address of principal executive offices, including zip code, and registrant's telephone number, including area code)

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

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of April 30, 2025, there were 266,049,205 shares of the registrant's common stock, par value of \$0.01 per share, outstanding.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

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

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

- Disruptions or deteriorations in our relationship with the relevant agencies of the U.S. government, as well as any failure to pass routine audits or otherwise comply with governmental requirements including those related to security clearance or procurement rules, including the False Claims Act;
- Significant delays or reductions in appropriations for our programs and changes in U.S. government priorities and spending levels more broadly;
- Any failure to comply with the proxy agreement with the U.S. Department of Defense (the “DoD”);
- Failure to properly contain a global pandemic in a timely manner could materially affect how we and our business partners operate;
- The effect of inflation on our supply chain and/or our labor costs;
- Our mix of fixed-price, cost-plus and time-and-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 we need it;

- Our ability to respond to the rapid technological changes in the markets in which we compete;
- The effect of global and regional economic downturns and rising interest rates;
- Our ability to meet the requirements of being a public company;
- Our ability to maintain an effective system of internal control over financial reporting;
- Our inability to appropriately manage our inventory;
- Our inability to fully realize the value of our total estimated contract value or bookings;
- Our ability to compete efficiently, including due to U.S. government organizational conflict of interest rules which may limit new contract opportunities or require us to wind down existing contracts;
- Our relationships with other industry participants, including any contractual disputes or the inability of our key suppliers to timely deliver our components, parts or services;
- Preferences for set-asides for minority-owned, small and small disadvantaged businesses could impact our ability to be a prime contractor;
- Any failure to meet our contractual obligations including due to potential impacts to our business from supply chain risks, such as longer lead times and shortages of electronics and other components;
- Any security breach, including any cyber-attack, cyber intrusion, insider threat, or other significant disruption of our IT networks and related systems, as well as any act of terrorism or other threat to our physical security and personnel;
- Our ability to fully exploit or obtain patents or other intellectual property protections necessary to secure our proprietary technology, including our ability to avoid infringing upon the intellectual property of third parties or prevent third parties from infringing upon our own intellectual property;
- The conduct of our employees, agents, affiliates, subcontractors, suppliers, business partners or joint ventures in which we participate which may impact our reputation and ability to do business;
- 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 DoD's budget;

- 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 or other significant disruptions;
- 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 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, 2024, 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)

<i>(Dollars in millions, except per share amounts)</i>	Three Months Ended March 31,	
	2025	2024
Revenues	799	688
Cost of revenues	(618)	(535)
<b>Gross profit</b>	<b>181</b>	<b>153</b>
General and administrative expenses	(117)	(101)
Amortization of intangibles	(5)	(5)
Other operating expenses, net	—	(4)
<b>Operating earnings</b>	<b>59</b>	<b>43</b>
Interest expense	(1)	(5)
Other, net	—	(1)
<b>Earnings before taxes</b>	<b>58</b>	<b>37</b>
Income tax provision	8	8
<b>Net earnings</b>	<b>\$ 50</b>	<b>\$ 29</b>
<b>Net earnings per share from common stock:</b>		
Basic earnings per share	\$ 0.19	\$ 0.11
Diluted earnings per share	\$ 0.19	\$ 0.11

See accompanying Notes to Consolidated Financial Statements.

LEONARDO DRS, INC.

Consolidated Statements of Comprehensive Income (Unaudited)

*(Dollars in millions)*

	Three Months Ended March 31,	
	2025	2024
<b>Net earnings</b>	\$ 50	\$ 29
<b>Other comprehensive income (loss), net of income taxes</b>	—	—
<b>Total comprehensive income</b>	\$ 50	\$ 29

See accompanying Notes to Consolidated Financial Statements.

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

<i>(Dollars in millions, except per share amounts)</i>	(Unaudited)	
	March 31, 2025	December 31, 2024
<b>ASSETS</b>		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 380	\$ 598
Accounts receivable, net	254	253
Contract assets	982	872
Inventories	385	358
Prepaid expenses	28	27
Other current assets	41	55
<b>Total current assets</b>	<b>2,070</b>	<b>2,163</b>
<i>Noncurrent assets:</i>		
Property, plant and equipment, net	455	440
Intangible assets, net	126	132
Goodwill	1,238	1,238
Deferred tax assets	119	120
Other noncurrent assets	88	91
<b>Total noncurrent assets</b>	<b>2,026</b>	<b>2,021</b>
<b>Total assets</b>	<b>\$ 4,096</b>	<b>\$ 4,184</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<i>Current liabilities:</i>		
Short-term borrowings and current portion of long-term debt	\$ 27	\$ 25
Accounts payable	299	426
Contract liabilities	467	399
Other current liabilities	234	266
<b>Total current liabilities</b>	<b>1,027</b>	<b>1,116</b>
<i>Noncurrent liabilities:</i>		
Long-term debt	335	340
Pension and other postretirement benefit plan liabilities	29	34
Deferred tax liabilities	7	7
Other noncurrent liabilities	127	130
<b>Total noncurrent liabilities</b>	<b>498</b>	<b>511</b>
Commitments and contingencies (Note 12)		
<i>Shareholders' equity:</i>		
Preferred stock, \$0.01 par value: 10,000,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value: 350,000,000 shares authorized; 265,853,439 and 265,064,755 issued and outstanding as of March 31, 2025 and December 31, 2024, respectively	3	3
Additional paid-in capital	5,158	5,194
Accumulated deficit	(2,543)	(2,593)
Accumulated other comprehensive loss	(47)	(47)
<b>Total shareholders' equity</b>	<b>2,571</b>	<b>2,557</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 4,096</b>	<b>\$ 4,184</b>

See accompanying Notes to Consolidated Financial Statements.

LEONARDO DRS, INC.

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in millions)	Three Months Ended March 31,	
	2025	2024
<b>Operating activities</b>		
Net earnings	\$ 50	\$ 29
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	23	22
Deferred income taxes	1	—
Share-based compensation expense	8	1
Changes in assets and liabilities:		
Accounts receivable	(1)	(43)
Contract assets	(110)	(98)
Inventories	(27)	(13)
Prepaid expenses	(1)	(2)
Other current assets	14	(5)
Other noncurrent assets	6	5
Defined benefit obligations	(5)	(1)
Accounts payable	(126)	(178)
Contract liabilities	68	26
Other current liabilities	(32)	(2)
Other noncurrent liabilities	(6)	(6)
Net cash used in operating activities	(138)	(265)
<b>Investing activities</b>		
Capital expenditures	(32)	(10)
Net cash used in investing activities	(32)	(10)
<b>Financing activities</b>		
Net increase (decrease) in third party borrowings (maturities of 90 days or less)	2	(26)
Repayment of third party debt	(3)	(38)
Borrowings of third party debt	—	35
Proceeds from stock issuance	—	2
Repurchases of common stock	(3)	—
Payments of employee taxes withheld from share-based awards	(17)	(2)
Dividends paid	(7)	—
Dividends paid to related party	(17)	—
Other	(3)	(3)
Net cash used in financing activities	(48)	(32)
Effect of exchange rate changes on cash and cash equivalents	—	—
Net decrease in cash and cash equivalents	(218)	(307)
Cash and cash equivalents at beginning of year	598	467
Cash and cash equivalents at end of period	\$ 380	\$ 160

See accompanying Notes to Consolidated Financial Statements.

LEONARDO DRS, INC.

Consolidated Statements of Shareholders' Equity (Unaudited)

(Dollars in millions)

	Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total
<b>Balance as of December 31, 2023</b>	\$ 3	\$ 5,175	\$ (47)	\$ (2,806)	\$ 2,325
Total comprehensive income	—	—	—	29	29
Share-based compensation activity	—	1	—	—	1
<b>Balance as of March 31, 2024</b>	<u>\$ 3</u>	<u>\$ 5,176</u>	<u>\$ (47)</u>	<u>\$ (2,777)</u>	<u>\$ 2,355</u>
<b>Balance as of December 31, 2024</b>	\$ 3	\$ 5,194	\$ (47)	\$ (2,593)	\$ 2,557
Total comprehensive income	—	—	—	50	50
Share-based compensation activity	—	(9)	—	—	(9)
Cash dividends of \$0.09 per share	—	(24)	—	—	(24)
Repurchases of common stock	—	(3)	—	—	(3)
<b>Balance as of March 31, 2025</b>	<u>\$ 3</u>	<u>\$ 5,158</u>	<u>\$ (47)</u>	<u>\$ (2,543)</u>	<u>\$ 2,571</u>

See accompanying Notes to Consolidated Financial Statements.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

**Note 1. Summary of Significant Accounting Policies****A. Organization**

Leonardo DRS, Inc., together with its wholly owned subsidiaries (hereinafter, “DRS,” “the Company,” “us,” “our,” or “we”) is a supplier of defense electronics products, systems and military support services. The Company’s largest shareholder is Leonardo S.p.A, 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 DoD is our largest customer and accounts for approximately 78% and 81% of our total revenues as an end-user for the three months ended March 31, 2025 and 2024, respectively. Specific international and commercial market opportunities exist within these segments and comprise approximately 22% and 19% of our total revenues for the three months ended March 31, 2025 and 2024, 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.

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

These unaudited Consolidated Financial Statements should be read in conjunction with our audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2024.

**C. New Accounting Pronouncements***Improvements to Income Tax Disclosures*

In December 2023, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which requires additional disclosures regarding rate reconciliation, income taxes paid, and other income tax disclosures. The new standard is effective for fiscal years beginning after December 15,

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2024, on a prospective basis. Retrospective application is permitted. We are currently evaluating the impact of adopting this new pronouncement and plan to adopt these amendments using the prospective approach for annual disclosures in fiscal year 2025.

#### *Disaggregation of Income Statement Expenses*

In November 2024, the FASB issued 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.

## **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,	
	2025	2024
<i>(Dollars in millions, except per share amounts)</i>		
Revenue and operating earnings	\$ (9)	\$ (9)
Total % of revenue	1 %	1 %
Net earnings	\$ (7)	\$ (7)
Impact on diluted earnings per share	\$ (0.03)	\$ (0.03)

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

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**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:

<i>(Dollars in millions)</i>	March 31, 2025	December 31, 2024
Contract assets	\$ 982	\$ 872
Contract liabilities	467	399

Revenue recognized in the three months ended March 31, 2025 and 2024, that was included in the contract liability balance at the beginning of each period was \$161 million and \$140 million, respectively.

**Value of Remaining Performance Obligations**

The value of remaining performance obligations, which we also refer to as total backlog, includes the following components:

- **Funded** - Funded backlog represents the revenue value of orders for products and services under existing contracts for which funding is appropriated or otherwise authorized less revenue previously recognized on these contracts.
- **Unfunded** - Unfunded backlog represents the revenue value of firm orders for products and services under existing contracts for which funding has not yet been appropriated less funding previously recognized on these contracts.

As of March 31, 2025, our total backlog was \$8,612 million. We expect to recognize approximately 27% of our March 31, 2025 backlog as revenue over the next nine months, with the remainder to be recognized thereafter. Approximately 50% of our total backlog relates to long-term contracts on electric power and propulsion programs with the U.S. Navy, which are expected to be recognized as revenue over a span of up to 15 years.

**Disaggregation of Revenue**

ASC: ASC revenue is primarily derived from U.S. government development and production contracts and is generally recognized using the over time, percentage of completion cost-to-cost method of accounting. We disaggregate ASC revenue by geographical region, customer relationship and contract

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

type. We believe these categories best depict how the nature, amount, timing and uncertainty of ASC revenue and cash flows are affected by economic factors.

(Dollars in millions)	Three Months Ended March 31,	
	2025	2024
<b>Revenue by Geographical Region</b>		
United States	\$ 446	\$ 337
International	62	90
Intersegment Sales	3	6
<b>Total</b>	<b>\$ 511</b>	<b>\$ 433</b>
<b>Revenue by Customer Relationship</b>		
Prime contractor	\$ 224	\$ 163
Subcontractor	284	264
Intersegment Sales	3	6
<b>Total</b>	<b>\$ 511</b>	<b>\$ 433</b>
<b>Revenue by Contract Type</b>		
Firm-Fixed Price	\$ 437	\$ 350
Flexibly Priced <sup>(1)</sup>	71	77
Intersegment Sales	3	6
<b>Total</b>	<b>\$ 511</b>	<b>\$ 433</b>

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

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

(Dollars in millions)	Three Months Ended March 31,	
	2025	2024
<b>Revenue by Geographical Region</b>		
United States	\$ 294	\$ 257
International	(3)	4
Intersegment Sales	—	—
<b>Total</b>	<b>\$ 291</b>	<b>\$ 261</b>
<b>Revenue by Customer Relationship</b>		
Prime contractor	\$ 46	\$ 65
Subcontractor	245	196
Intersegment Sales	—	—
<b>Total</b>	<b>\$ 291</b>	<b>\$ 261</b>
<b>Revenue by Contract Type</b>		
Firm-Fixed Price	\$ 254	\$ 218
Flexibly Priced <sup>(1)</sup>	37	43
Intersegment Sales	—	—
<b>Total</b>	<b>\$ 291</b>	<b>\$ 261</b>

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

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Note 3. Accounts Receivable**

Accounts receivable consist of the following:

<i>(Dollars in millions)</i>	March 31, 2025	December 31, 2024
Accounts receivable	\$ 255	\$ 254
Less allowance for credit losses	(1)	(1)
<b>Accounts receivable, net</b>	<b>\$ 254</b>	<b>\$ 253</b>

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

**Note 4. Sale of Receivables**

The Company is party to factoring facilities with various financial institutions (the “purchasers”) with an aggregate capacity of \$225 million as of March 31, 2025 and December 31, 2024.

During the three months ended March 31, 2025 and 2024, the Company incurred immaterial purchase discount fees which are presented in general and administrative expenses on the Consolidated Statements of Earnings.

The table below summarizes the activity under the factoring facilities:

<i>(Dollars in millions)</i>	Three Months Ended March 31,	
	2025	2024
Beginning balance	\$ 130	\$ 192
Sales of receivables	25	15
Cash returned to purchasers	(126)	(136)
<b>Outstanding balance sold to purchasers</b>	<b>29</b>	<b>71</b>
Cash collected, not remitted to purchasers <sup>(1)</sup>	(3)	(9)
<b>Remaining sold receivables</b>	<b>\$ 26</b>	<b>\$ 62</b>

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

**Note 5. Inventories**

Inventories consists of the following:

<i>(Dollars in millions)</i>	March 31, 2025	December 31, 2024
Raw materials	\$ 96	\$ 86
Work in progress	281	264
Finished goods	8	8
<b>Total inventories</b>	<b>\$ 385</b>	<b>\$ 358</b>

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Note 6. Property, Plant and Equipment**

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

<i>(Dollars in millions)</i>	March 31, 2025	December 31, 2024
Land, buildings and improvements	\$ 383	\$ 380
Plant and machinery	204	203
Equipment and other	409	382
Total property, plant and equipment, at cost	996	965
Less accumulated depreciation	(541)	(525)
<b>Total property, plant and equipment, net</b>	<b>\$ 455</b>	<b>\$ 440</b>

Depreciation expense related to property, plant and equipment was \$18 million and \$17 million for the three months ended March 31, 2025 and 2024, respectively.

**Note 7. Other Liabilities**

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

<i>(Dollars in millions)</i>	March 31, 2025	December 31, 2024
Salaries, wages and accrued bonuses	\$ 55	\$ 75
Fringe benefits	68	63
Provision for contract losses	39	43
Operating lease liabilities	27	27
Taxes payable	10	24
Warranty reserves	18	19
Other	17	15
<b>Total other current liabilities</b>	<b>\$ 234</b>	<b>\$ 266</b>
Operating lease liabilities	\$ 63	\$ 66
Unrecognized tax benefits	46	46
Warranty reserves	10	10
Other	8	8
<b>Total other noncurrent liabilities</b>	<b>\$ 127</b>	<b>\$ 130</b>

**Note 8. Intangible Assets**

Intangible assets consists of the following:

<i>(Dollars in millions)</i>	March 31, 2025			December 31, 2024		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired intangible assets	\$ 1,087	\$ (967)	\$ 120	\$ 1,087	\$ (962)	\$ 125
Patents and licenses	14	(8)	6	14	(7)	7
<b>Total intangible assets</b>	<b>\$ 1,101</b>	<b>\$ (975)</b>	<b>\$ 126</b>	<b>\$ 1,101</b>	<b>\$ (969)</b>	<b>\$ 132</b>

Amortization expense related to intangible assets was \$5 million for the three months ended March 31, 2025 and 2024.

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Note 9. Income Taxes**

Our effective tax rate was 13.8% and 21.6% for the three months ended March 31, 2025 and 2024, respectively. For the three months ended March 31, 2025, the effective tax rate was lower than the statutory rate primarily due to the recognition of discrete tax benefits associated with vesting of share-based compensation.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2025 and December 31, 2024 are as follows:

<i>(Dollars in millions)</i>	March 31, 2025	December 31, 2024
Gross deferred tax assets	\$ 296	\$ 297
Less valuation allowance	25	25
Deferred tax assets	271	272
Deferred tax liabilities	159	159
<b>Net deferred tax asset</b>	<b>\$ 112</b>	<b>\$ 113</b>

**Note 10. Debt**

The Company's debt consists of the following:

<i>(Dollars in millions)</i>	March 31, 2025	December 31, 2024
2022 Term Loan A	\$ 200	\$ 203
Outstanding revolver	—	—
Finance lease and other	158	159
Short-term borrowings	5	4
<b>Total debt principal</b>	<b>363</b>	<b>366</b>
Less unamortized debt issuance costs and discounts	(1)	(1)
<b>Total debt, net</b>	<b>362</b>	<b>365</b>
Less short-term borrowings and current portion of long-term debt	(27)	(25)
<b>Total long-term debt</b>	<b>\$ 335</b>	<b>\$ 340</b>

**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 provides for a term loan (the "2022 Term Loan A") of \$225 million bearing interest at a variable rate generally based on the Secured Overnight Financing Rate ("SOFR"), plus a spread ranging from 1.48% to 2.10% depending on the leverage ratio, as defined in the 2022 Credit Agreement, or an alternative variable rate based on the higher of the Bank of America prime rate, the federal funds rate, or a rate generally based on the SOFR, in each case subject to an additional basis point spread as defined in the 2022 Credit Agreement. Interest is payable quarterly in arrears. The outstanding balance of the 2022 Term Loan A at March 31, 2025 was \$200 million. The fair value of the 2022 Term Loan A at March 31, 2025 was approximately \$196 million; however, the Company has the ability to prepay the outstanding principal balance without penalty. The fair value of the Company's outstanding debt obligations is calculated using Level 2 inputs, based on interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements.

**Credit Facilities**

The 2022 Credit Agreement provides for a revolving credit facility available for the working capital needs of the Company (the "2022 Revolving Credit Facility"). As of March 31, 2025 and December 31,

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2024, the 2022 Revolving Credit Facility had a limit of \$275 million. Loans under the 2022 Revolving Credit Facility bear interest at a variable rate generally based on the SOFR, plus a spread ranging from 1.48% to 2.10% depending on the leverage ratio, as defined in the 2022 Credit Agreement, or an alternative variable rate based on the higher of the Bank of America prime rate, the federal funds rate, or a rate generally based on the SOFR, in each case subject to an additional basis point spread as defined in the 2022 Credit Agreement. The Company also pays a commitment fee ranging between 0.20% and 0.35% depending on the Company's leverage ratio applied to the unused balance of the 2022 Revolving Credit Facility. There was no outstanding balance on the 2022 Revolving Credit Facility as of March 31, 2025 and December 31, 2024.

The Company also maintains uncommitted working capital credit facilities with certain financial institutions in the aggregate of \$130 million at March 31, 2025 and December 31, 2024 (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 \$34 million and \$36 million as of March 31, 2025 and December 31, 2024, respectively, which reduces the available capacity of the Financial Institution Credit Facilities by an equal amount.

**Short-term Borrowings**

As of March 31, 2025 and December 31, 2024, the Company recognized \$5 million and \$4 million, respectively, related to our factoring facilities as short-term borrowings and current portion of long-term debt in the Consolidated Balance Sheets, which approximates its fair value. Refer to *Note 4: Sale of Receivables* for more information.

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

<i>(In millions, except per share amounts)</i>	Three Months Ended March 31,	
	2025	2024
Net earnings	\$ 50	\$ 29
Basic weighted average number of shares outstanding	265.3	262.7
Impact of dilutive share-based awards	3.5	3.7
Diluted weighted average number of shares outstanding	268.8	266.4
Earnings per share attributable to common shareholders - basic	\$ 0.19	\$ 0.11
Earnings per share attributable to common shareholders - diluted	\$ 0.19	\$ 0.11

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

**Share Repurchases**

On February 20, 2025, the Company announced that its Board of Directors (the "Board") approved a share 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, 2025, the Company has repurchased approximately \$3 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 \$.09 per share of its common stock during the three months ended March 31, 2025. Subsequent to quarter end, the Company's Board of Directors

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

declared a cash dividend of \$.09 per share of common stock payable on June 5, 2025 to shareholders of record as of the close of business on May 22, 2025.

**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.

**Product Warranties**

Product warranty costs generally are accrued in proportion to product revenue realized in conjunction with our over time revenue recognition policy. Product warranty expense is recognized based on the term of the product warranty, generally one year to three years, and the related estimated costs, considering historical claims expense. Accrued warranty costs are reduced as these costs are incurred and as the warranty period expires, and otherwise may be modified as specific product performance issues are identified and resolved. The following is a summary of changes in the product warranty balances during the three months ended March 31, 2025:

*(Dollars in millions)*

<b>Balance at December 31, 2024</b>	<b>\$</b>	<b>29</b>
Additional provision		4
Reversal and utilization		(5)
<b>Balance at March 31, 2025</b>	<b>\$</b>	<b>28</b>

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Note 13. Related Party Transactions**

The Company has related party sales and purchases with the indirect majority stockholder and its other affiliates that occur in the regular course of business. Related party sales are included in revenues and were \$4 million and \$8 million for the three months ended March 31, 2025 and 2024, respectively. Related party purchases are included in cost of revenues and were immaterial for the three months ended March 31, 2025 and 2024. The receivables with the indirect majority stockholder and its other affiliates of \$10 million and \$19 million, respectively, and payables of \$3 million and \$4 million, respectively, as of March 31, 2025 and December 31, 2024, are included in accounts receivable, net and accounts payable in our Consolidated Balance Sheets. In addition, there was a related party balance in contract assets of \$12 million at December 31, 2024.

**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. Our Chief Executive Officer is our CODM and he uses a variety of measures to assess the performance of the Company as a whole, depending on the nature of the activity. The Company's operating and reportable segments consist of ASC and IMS. All other operations, which consists primarily of DRS corporate headquarters and certain non-operating subsidiaries of the Company, are grouped in Corporate & Eliminations.

Effective for the fourth quarter of 2024, 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. Prior year information was revised to reflect operating earnings as the segment profit measure.

Certain information related to our segments for the periods ended March 31, 2025 and 2024 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 income 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, 2025 and 2024 consists of the following:

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Dollars in millions)	Three Months Ended March 31,	
	2025	2024
<b>Revenues</b>		
ASC	\$ 511	\$ 433
IMS	291	261
Corporate & Eliminations	(3)	(6)
<b>Total revenues</b>	<b>\$ 799</b>	<b>\$ 688</b>
<b>Cost of revenues</b>		
ASC	\$ 392	\$ 329
IMS	229	212
Corporate & Eliminations	(3)	(6)
<b>Total cost of revenues</b>	<b>\$ 618</b>	<b>\$ 535</b>
<b>General and administrative</b>		
ASC	\$ 66	\$ 60
IMS	23	20
Corporate & Eliminations	—	1
<b>Total general and administrative</b>	<b>\$ 89</b>	<b>\$ 81</b>
<b>Company-funded research and development</b>		
ASC	\$ 23	\$ 16
IMS	5	4
Corporate & Eliminations	—	—
<b>Total company-funded research and development</b>	<b>\$ 28</b>	<b>\$ 20</b>
<b>Amortization of intangibles</b>		
ASC	\$ 5	\$ 5
IMS	—	—
Corporate & Eliminations	—	—
<b>Total amortization of intangibles</b>	<b>\$ 5</b>	<b>\$ 5</b>
<b>Other segment items</b>		
ASC	\$ —	\$ 4
IMS	—	—
Corporate & Eliminations	—	—
<b>Total other segment items<sup>(1)</sup></b>	<b>\$ —</b>	<b>\$ 4</b>
<b>Operating earnings</b>		
ASC	\$ 25	\$ 19
IMS	34	25
Corporate & Eliminations	—	(1)
<b>Total operating earnings</b>	<b>\$ 59</b>	<b>\$ 43</b>
Interest expense	(1)	(5)
Other, net	—	(1)
<b>Earnings before taxes</b>	<b>\$ 58</b>	<b>\$ 37</b>

(1) Includes ASC restructuring costs for the three months ended March 31, 2024.

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Total intersegment revenues by segment for the periods ended March 31, 2025 and 2024 consists of the following:

<i>(Dollars in millions)</i>	Three Months Ended March 31,	
	2025	2024
ASC	\$ 3	\$ 6
IMS	—	—
<b>Total intersegment revenues</b>	<b>\$ 3</b>	<b>\$ 6</b>

Depreciation by segment for the periods ended March 31, 2025 and 2024 consists of the following:

<i>(Dollars in millions)</i>	Three Months Ended March 31,	
	2025	2024
ASC	\$ 12	\$ 12
IMS	6	5
<b>Total depreciation</b>	<b>\$ 18</b>	<b>\$ 17</b>

Total assets by segment as of March 31, 2025 and December 31, 2024, consists of the following:

<i>(Dollars in millions)</i>	March 31, 2025	December 31, 2024
ASC	\$ 2,389	\$ 2,249
IMS	1,248	1,225
Corporate & Eliminations	459	710
<b>Total assets</b>	<b>\$ 4,096</b>	<b>\$ 4,184</b>

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

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

*This discussion and other parts of this Quarterly Report include forward-looking statements such as those relating to our plans, objectives, expectations and beliefs, which involve risks, uncertainties and assumptions. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties discussed under "Special Note Regarding Forward-Looking Statements and Information" in this Quarterly Report and under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2024. Actual results may differ materially from those contained in any forward-looking statements.*

### **Business Overview and Considerations**

#### **General**

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

Our overall strategy is to be a balanced and diversified company, less vulnerable to any one budgetary platform or service decision with a specific focus on establishing strong technical and market positions in areas of priority for the DoD. The DoD is our largest customer and, for the three months ended March 31, 2025, accounted for approximately 78% 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 38% and 32%, respectively, of our total revenues for such period, which is consistent with historic trends.

We continue to monitor and evaluate the potential impact of current trade conflicts and in particular, tariffs. Although the actual impact of these tariffs on our business, financial condition and results of operations are subject to a number of factors that are not yet known or are subject to change, we will continue to monitor developments and assess potential implications as trade policies evolve.

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

#### *Advanced Sensing and Computing*

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

Our sensing capabilities span numerous applications, including missions requiring advanced passive and active detection, precision targeting and surveillance sensing, long range electro-optic/infrared ("EO/IR"), signals intelligence ("SIGINT") and other intelligence systems, electronic warfare ("EW"), ground vehicle sensing, next generation active electronically scanned array tactical radars, dismounted soldier sensing and space sensing. Across our offerings, we are focused on advancing sensor distance and enhancing the precision, clarity, definition, spectral depth and effectiveness of our sensors. We also seek

to leverage the knowledge and expertise built through our decades of experience to optimize size, weight, power and cost for our customers' specific mission requirements.

Our sensing capabilities are complemented by our rugged, trusted and cyber resilient network computing products. Our network computing offerings are utilized across a broad range of mission applications including platform computing on ground and shipboard (both surface ship and submarine) for advanced battle management, combat systems, radar, command and control ("C2"), tactical networks, tactical computing and communications. These products help support the DoD's need for greater situational understanding at the tactical edge by rapidly transmitting data securely between command centers and forward-positioned defense assets and personnel.

#### *Integrated Mission Systems*

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

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

We believe DRS is well positioned to meet the needs of an increasingly electrified fleet with our high-efficiency, power dense permanent magnet motors, energy storage systems and associated efficient, rugged and compact power conversion, electrical actuation systems, and advanced cooling technologies.

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

DRS is also an integrator of complex systems in ground vehicles for short-range air defense, counter-unmanned aerial systems ("C-UAS"), and vehicle survivability and protection. Our short-range air defense systems integrate EW equipment, reconnaissance and surveillance systems, modular combat vehicle turrets, and stabilized sensor suites, as well as kinetic and directed energy countermeasures to protect against evolving threats. Our force protection systems, including solutions for C-UAS and active protection systems on army vehicles, help protect personnel and defense assets from enemy combatants.

#### ***Focus on Customer and Execution***

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

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

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

### ***Global Events and Business Impacts***

#### ***Global Conflicts***

In February 2022, Russia invaded and began occupying parts of Ukraine. Since that time, western powers, including the U.S., have pledged support with humanitarian and military aid. Some of that military aid pledged by the U.S. will result in increased efforts to replace equipment and consumables. We have received orders from the U.S. and allies to both provide equipment in support of this effort, and to replace equipment pledged.

The ongoing conflicts in Israel and the broader Middle East region have the potential to evolve quickly creating uncertainty, along with the potential for disruptions to our Israeli operations in the region, including, but not limited to, workforce calls for duty, transportation and other logistical impacts and reduced customer confidence. To date, the conflict has not had a material impact to our operations. The U.S. and other western powers have directed military and funding support to Israel. DRS has direct exposure to Israel principally through its RADA operations with approximately 5% of our workforce as of March 31, 2025 residing in Israel.

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

Revenues derived directly, as a prime contractor, or indirectly, as a subcontractor, from contracts with the U.S. government represented 78% and 81% of our total revenues for the three months ended March 31, 2025 and 2024, respectively. Our U.S. government sales are highly concentrated within our DoD customers, which made up the overwhelming majority of our U.S. government revenue for the three months ended March 31, 2025, and are principally derived directly or indirectly from contracts with the U.S. Navy and U.S. Army, which represented 38% and 32%, respectively, of our total revenues for the three months ended March 31, 2025. Therefore, our revenue is highly correlated to changes in U.S. government spending levels, especially within the DoD.

The DoD budget is the largest defense budget in the world.

In March 2024, the U.S. President's fiscal year ("FY") 2025 budget request was released and included \$850 billion in base funding for national defense programs, which is largely flat over prior year levels. Following that, the FY 2025 National Defense Authorization Act ("NDAA") was passed by Congress in late 2024 and signed into law by the U.S. President in December 2024. The NDAA authorizes \$850 billion in defense spending, including increases in procurement, research, development, testing and engineering.

In March 2025, Congress passed a full-year Continuing Resolution ("CR") to fund the government through the end of FY 2025. The CR authorizes slightly higher spending than FY 2024 levels for defense and allows significant flexibility in how the DoD funds its priorities. This full-year CR prevented a U.S. government shutdown in FY 2025. However, the extended CR and its flexibility has the potential to impact program funding and as a consequence, results of operations including, but not limited to, program cancellations, schedule delays, production halts and other disruptions. Additionally, the current U.S. administration has discussed various changes to defense spending levels ranging from across-the-board percentage cuts, to a change in spending allocations in favor of new priorities, and potential increases in the top-line spending profile. It remains unclear whether and to what extent the DoD's budget may change and, if it does, to what extent our business, financial condition and results of operations may be affected.

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

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

## **Components of Operations**

### ***Revenue***

Revenue consists primarily of product related revenue, which represented 94% of our total revenues for the three months ended March 31, 2025. Our remaining revenue was generated from service related contracts. Additionally, 86% of our revenue was derived from firm-fixed price contracts for the three months ended March 31, 2025. This was consistent with the prior year comparable period which realized product related revenue of 91% and revenue from firm-fixed price contracts of 83% for the three months ended March 31, 2024.

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, 2025 and 2024, flexibly priced contracts represented 14% and 17% 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 general and administrative expenses not included within cost of revenues such as salaries, wages and fringe benefits, facility costs and other costs related to these indirect functions. Additionally, general and administrative expenses include internal research and development costs as well as expenditures related to bid and proposal efforts.

### **Results of Operations**

The following discussion of operating results is intended to help the reader understand the results of operations and financial condition of the Company for the three months ended March 31, 2025 as compared to the three months ended March 31, 2024. 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.

<i>(Dollars in millions, except per share amounts)</i>	Three Months Ended March 31,		Change	
	2025	2024	\$	%
Total revenues	\$ 799	\$ 688	\$ 111	16.1 %
Total cost of revenues	(618)	(535)	(83)	15.5 %
Gross profit	\$ 181	\$ 153	\$ 28	18.3 %
Gross margin	22.7 %	22.2 %	50 bps	
General and administrative expenses	(117)	(101)	(16)	15.8 %
Amortization of intangibles	(5)	(5)	—	— %
Other operating expenses, net	—	(4)	4	(100.0)%
Operating earnings	\$ 59	\$ 43	\$ 16	37.2 %
Interest expense	(1)	(5)	4	(80.0)%
Other, net	—	(1)	1	(100.0)%
Earnings before taxes	\$ 58	\$ 37	\$ 21	56.8 %
Income tax provision	8	8	—	— %
Net earnings	\$ 50	\$ 29	\$ 21	72.4 %
Basic EPS	\$ 0.19	\$ 0.11	\$ 0.08	72.7 %
Diluted EPS	\$ 0.19	\$ 0.11	\$ 0.08	72.7 %
Backlog	\$ 8,612	\$ 7,845	\$ 767	9.8 %
Bookings	\$ 991	\$ 815	\$ 176	21.6 %

### Revenue

Our revenue generation of \$799 million for the three months ended March 31, 2025 represents an increase of \$111 million, or 16.1%, as compared to the three months ended March 31, 2024. The revenue increase is primarily attributed to our continued backlog growth across each of our operating segments. This is highlighted by our efforts within network computing, electric power and propulsion and force protection activities.

### Cost of Revenues

Cost of revenues increased by \$83 million, or 15.5%, to \$618 million for the three months ended March 31, 2025 as compared to \$535 million for the three months ended March 31, 2024. The cost of revenues increase was primarily due to the increased revenue contribution realized during the period and efficient execution on Columbia Class programs. This was offset in part by the escalating cost of germanium for our infrared products.

### Gross Profit

Gross profit increased by \$28 million, or 18.3%, to \$181 million for the three months ended March 31, 2025 as compared to \$153 million for the three months ended March 31, 2024, resulting from the revenue and cost of revenues trends noted above.

### General and Administrative Expenses

G&A expenses increased by \$16 million, or 15.8%, for the three months ended March 31, 2025 as compared to the three months ended March 31, 2024, primarily due to increased internal research and development expenditures and costs related to bid and proposal efforts for new contractual pursuits.

### Amortization of Intangibles

Amortization of intangibles was consistent for the three months ended March 31, 2025 as compared to the three months ended March 31, 2024.

**Other Operating Expenses, Net**

Other operating expenses were zero for the three months ended March 31, 2025 compared to \$4 million for the three months ended March 31, 2024. The expense in the prior year is attributed to restructuring efforts that were implemented in our ASC segment.

**Operating Earnings**

Operating earnings increased by \$16 million to \$59 million for the three months ended March 31, 2025. The increase was driven by the gross profit impacts noted above.

**Interest Expense**

Net interest expense decreased by \$4 million to \$1 million for the three months ended March 31, 2025, as compared to \$5 million for the three months ended March 31, 2024. The reduction in net interest expense is attributed to increased interest income as a result of higher cash balances and reduced borrowings on our credit facilities during the current year period.

**Other, Net**

Other, net remained relatively consistent for the three months ended March 31, 2025 and 2024.

**Earnings Before Taxes**

Earnings before taxes increased by \$21 million to \$58 million for the three months ended March 31, 2025 from \$37 million for the three months ended March 31, 2024. This was primarily due to the increases in operating earnings and decreased interest expense as noted above.

**Income Tax Provision**

Income tax provision was consistent for the three months ended March 31, 2025 as compared to the three months ended March 31, 2024. This was attributed to an increase in earnings before taxes noted above, offset by the recognition of a discrete tax benefit associated with employee stock vesting that occurred during the three months ended March 31, 2025. Our effective tax rate was 13.8% for the three months ended March 31, 2025, compared to 21.6% for the three months ended March 31, 2024.

**Net Earnings**

Net earnings increased by \$21 million to \$50 million for the three months ended March 31, 2025, when compared to the three months ended March 31, 2024. This was driven by an increase in earnings before taxes coupled with the reduction 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 as of March 31, 2025, incorporating both funded and unfunded components:

<i>(Dollars in millions)</i>	<b>March 31, 2025</b>	
Funded	\$	4,354
Unfunded		4,258
<b>Total backlog</b>	<b>\$</b>	<b>8,612</b>

Backlog increased by \$767 million to \$8,612 million as of March 31, 2025, from \$7,845 million as of March 31, 2024. The backlog increase was driven primarily by the receipt of new awards within our ASC segment across various domains including dismounted soldier, naval, and airborne sensor programs. Additionally, backlog increased within our network computing programs driven by domestic and international demand.

### **Bookings**

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

Bookings for the three months ended March 31, 2025 increased to \$991 million as compared to \$815 million for the three months ended March 31, 2024. The increase in new orders was driven by both segments. 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. government spending as well as areas of spending growth could impact our business and results of operations. In particular, our results can be affected by shifts in strategies and priorities on homeland security, intelligence, defense-related programs, infrastructure and urbanization and continued increased spending on technology and innovation, including cybersecurity with respect to our and third parties’ information networks and related systems, artificial intelligence, connected communities and physical infrastructure (for example, the potential impacts for the Russia / Ukraine conflict and the Israel-Hamas war). Cost-cutting and efficiency initiatives, current and future budget restrictions, spending cuts and other efforts to reduce government spending and shifts in overall priorities could cause our government customers to reduce or delay funding or invest appropriated funds on a less consistent basis or not at all, and demand for our solutions or services could diminish. Furthermore, any disruption in the functioning of government agencies, including as a result of government closures and shutdowns, could have a negative impact on our operations and cause us to lose revenue or incur additional costs due to, among other things, our inability to maintain access and schedules for government testing or deploy our staff to customer locations or facilities as a result of such disruptions.

There is also uncertainty around the timing, extent, nature and effect of Congressional and other U.S. government actions to address budgetary constraints, caps on the discretionary budget for defense and non-defense departments and agencies, and the ability of Congress to determine how to allocate the available budget authority and pass appropriations bills to fund both U.S. government departments and agencies that are, and those that are not, subject to the caps. Additionally, budget deficits and the growing U.S. national debt, may increase pressure on the U.S. government to reduce federal spending across all federal agencies, with uncertainty about the size and timing of those reductions. Furthermore, delays in the completion of future U.S. government budgets could in the future delay procurement of the federal government services we provide. A reduction in the amount of, or reductions, delays, or cancellations of funding for, services that we are contracted to provide to the U.S. government as a result

of any of these impacts or related initiatives, legislation or otherwise could have a material adverse effect on our business and results of operations. See Part I, Item 1A, “*Risk Factors—Risks Related to Our Business—Significant delays or reductions in appropriations for our programs and changes in U.S. government priorities and spending levels more broadly may negatively impact our business and could have a material adverse impact on our business, financial condition and results of operations*” and Part II, Item 7, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Business Overview and Considerations—Business Environment*” in our Annual Report on Form 10-K for the year ended December 31, 2024, 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 three months ended March 31, 2025 and 2024:

<i>(Dollars in millions)</i>	Three Months Ended March 31,			
	2025		2024	
Revenue	\$	(9)	\$	(9)
Total % of revenue		1 %		1 %

Additionally, the timing of our cash flows is impacted by the timing of achievement of billable milestones on contracts. Historically, this has resulted and could continue to result in fluctuations in working capital levels and quarterly 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 could affect our operating results. Negative publicity and increased scrutiny of government contractors in general, including us, relating to government expenditures for contractor services and incidents involving the mishandling of sensitive or classified information as well as the increasingly complex requirements of the DoD and the U.S. intelligence community, including those related to cybersecurity, could impact our ability to perform in the markets we serve.

### **International Sales**

International revenue, including foreign military sales, foreign military financing, and direct commercial sales, accounted for approximately 7% and 14% of our revenue for the three months ended March 31, 2025 and 2024, respectively. The decrease in international revenues is primarily attributed to the timing of certain dismounted soldier sensing program sales to Eastern European countries realized in the first quarter of the prior year. Despite the reduction of international sales for the quarter, given the trend of international defense investment and the continuing conflicts in both Ukraine and Israel, we anticipate that international sales will be relatively consistent as a percentage of sales that we realized in the full year 2024. However, 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, 2025.

## 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.

(Dollars in millions)	Three Months Ended March 31,		Change	
	2025	2024	\$	%
<b>Revenues:</b>				
ASC	\$ 511	\$ 433	\$ 78	18.0 %
IMS	291	261	30	11.5 %
Corporate & Eliminations	(3)	(6)	3	(50.0)%
Total revenues	\$ 799	\$ 688	\$ 111	16.1 %
<b>Operating earnings:</b>				
ASC	\$ 25	\$ 19	\$ 6	31.6 %
IMS	34	25	9	36.0 %
Corporate & Eliminations	—	(1)	1	(100.0)%
Total operating earnings	\$ 59	\$ 43	\$ 16	37.2 %
<b>Operating margin:</b>				
ASC	4.9 %	4.4 %		
IMS	11.7 %	9.6 %		
<b>Bookings:</b>				
ASC	\$ 669	\$ 587	\$ 82	14.0 %
IMS	322	228	94	41.2 %
Total bookings	\$ 991	\$ 815	\$ 176	21.6 %

## ASC

### Revenue

The ASC segment reported revenue of \$511 million for the three months ended March 31, 2025, an increase of 18.0%, or \$78 million, from the three months ended March 31, 2024. The revenue increase is attributed to both our advanced sensing and force protection programs. Within our advanced sensing portfolio, revenue growth is highlighted by increased revenue within our tactical computing programs and continued expansion of our C-UAS tactical radars.

### Operating Earnings and Operating Margin

For the three months ended March 31, 2025, operating earnings increased by \$6 million, or 31.6%, to \$25 million for the three months ended March 31, 2025 from \$19 million for the three months ended March 31, 2024. The increase was driven by increased revenue contribution and a reduction in restructuring expenditures, offset by the increased cost of germanium on our infrared programs, and increased G&A and internal research and development expenditures. The net of these impacts drove

operating margin to 4.9% for the three months ended March 31, 2025 compared to the 4.4% realized during the three month periods March 31, 2024.

#### *Bookings*

For the three months ended March 31, 2025, bookings increased \$82 million, or 14.0%, from the three months ended March 31, 2024 to \$669 million. The increase in new awards is largely attributed to bookings received for ground vehicle and tactical radar programs. This was partially offset by a reduction in new awards received for naval computing programs.

#### **IMS**

##### *Revenue*

IMS segment revenue increased by \$30 million, or 11.5%, to \$291 million for the three months ended March 31, 2025 from \$261 million for the three months ended March 31, 2024, which is attributed to increased revenue generated from our naval power programs for both submarine and surface ships. On the land side, short-range air defense programs contributed to the year over year increase.

##### *Operating Earnings and Operating Margin*

For the three months ended March 31, 2025, operating earnings increased by \$9 million, or 36.0%, to \$34 million for the three months ended March 31, 2025 from \$25 million for the three months ended March 31, 2024. The increase for the period is attributed to operational leverage created by the increased revenue output as well as continued program improvement on our Columbia Class submarine program, offset in part by the program delays on our foreign surveillance program, resulting in a net operating margin increase to 11.7% compared to the 9.6% realized during the three months ended March 31, 2024.

#### *Bookings*

For the three months ended March 31, 2025, bookings increased by \$94 million, or 41.2%, from the three months ended March 31, 2024 to \$322 million. The increase for the three months ended is largely attributed to funding received for the next tranche of the Columbia Class program along with the awards of additional short-range air defense program vehicles. The increased awards were offset in part by a reduction in fire system support programs.

#### **Liquidity and Capital Resources**

We endeavor to ensure the most efficient conversion of operating income into cash for deployment in our business and to maximize stockholder value through cash deployment activities. In addition to our cash position, we use various financial measures to assist in capital deployment decision-making, including cash provided by (used in) operating activities. 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, 2025, was \$380 million compared to \$598 million as of December 31, 2024.

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

<i>(Dollars in millions)</i>	Three Months Ended March 31,	
	2025	2024
Net cash used in operating activities	\$ (138)	\$ (265)
Net cash used in investing activities	(32)	(10)
Net cash used in financing activities	(48)	(32)
Effect of exchange rate changes on cash and cash equivalents	—	—
Net decrease in cash and cash equivalents	\$ (218)	\$ (307)

### ***Operating Activities***

Cash usage related to operating activities decreased by \$127 million to \$138 million for the three months ended March 31, 2025, from \$265 million for the three months ended March 31, 2024. This was primarily due to lower cash used to fund working capital for the three months ended March 31, 2025 when compared to the three months ended March 31, 2024. The decrease in cash used to fund working capital for the period was driven by customer advances received on our electric propulsion programs within our IMS segment and on tactical radars within our ASC segment. Additionally, we saw less cash outflow from our accounts payable.

### ***Investing Activities***

Net cash used in investing activities increased by \$22 million for the three months ended March 31, 2025 when compared to the three months ended March 31, 2024, primarily due to higher capital expenditures attributed to our naval expansion project in South Carolina.

### ***Financing Activities***

Net cash used in financing activities for the three months ended March 31, 2025 was \$48 million compared to \$32 million for the three months ended March 31, 2024. The change was primarily due to cash outlays related to dividends paid in the current period, higher payments of employee taxes withheld from share-based awards, and share buy backs under the share repurchase program announced in the current period. Offsetting this was the net change in third party borrowings (maturities of 90 days or less) in the current period when compared to the same period in the prior year.

### **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, 2024.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### ***Equity Risk***

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

#### ***Interest Rate Risk***

We are exposed to interest rate risk on variable-rate borrowings under our 2022 Term Loan A, which had an outstanding balance of \$200 million, and our 2022 Revolving Credit Facility, which had no amounts outstanding, as of March 31, 2025. A 0.5% increase or decrease in our weighted average interest rate on our variable debt outstanding as of March 31, 2025 would result in an increase or decrease in our annual interest expense of approximately \$1 million. The carrying value of the Company's

borrowings under the 2022 Credit Agreement approximate their fair values at March 31, 2025. See *Note 10: Debt* to the Consolidated Financial Statements for additional information.

### ***Foreign Currency Risk***

In certain circumstances, we may be exposed to foreign currency risk. However, as the overwhelming majority of our revenue is derived from U.S. sources directly as a prime contractor or indirectly as a subcontractor for the U.S. government as end-customer, we have limited foreign currency exposure. Currently, our exposure is primarily with the Canadian dollar and limited to receivables owed of \$26 million as of March 31, 2025. A 10% fluctuation in exchange rates would not have a material impact on our financial statements. We do not enter into or issue derivative instruments for trading purposes.

### ***Inflation Risk***

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

## **ITEM 4. CONTROLS AND PROCEDURES**

### ***Evaluation of Disclosure Controls and Procedures***

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the quarterly period ended March 31, 2025, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and principal financial officer has concluded that during the period covered by this report, our disclosure controls and procedures were effective.

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

### ***Changes in Internal Control Over Financial Reporting***

There was no change in our internal control over financial reporting that occurred during the quarterly period ended March 31, 2025 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 1, Item 1.

### ITEM 1A. RISK FACTORS

As of the date of this Quarterly Report, there have been no material changes to the risk factors discussed under "*Risk Factors*" in Part 1, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2024.

### 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, 2025:

Period <i>(Dollars in millions, except per share amounts)</i>	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 <sup>(1)</sup>	Approximate Dollar Value of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
January 1, 2025 - January 31, 2025	—	\$ —	—	\$ 75
February 1, 2025 - February 28, 2025	—	—	—	75
March 1, 2025 - March 31, 2025	88,050	\$ 32.46	88,050	\$ 72
Total	88,050		88,050	

(1) On February 20, 2025, the Company announced that its Board approved a share 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.

Share 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

(c) Furnish the information required by Item 408(a) of Regulation S-K (17 CFR 229.408(a)).

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

During the three months ended March 31, 2025, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted, modified or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement" as such terms are defined under Item 408 of Regulation S-K.

## ITEM 6. EXHIBITS

<b>Exhibit Number</b>	<b>Exhibit Description</b>
31.1*	<a href="#"><u>Certification by principal executive officer pursuant to Rule 13A-14(a) or 15D-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
31.2*	<a href="#"><u>Certification by principal financial officer pursuant to Rule 13A-14(a) or 15D-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
32.1*	<a href="#"><u>Certification by principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
32.2*	<a href="#"><u>Certification by principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
101.INS	XBRL Instance Document – the instance document does not appear on the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Filed herewith.



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

I, William J. Lynn III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2025 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 1, 2025

/s/ William J. Lynn III

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William J. Lynn III  
Chief Executive Officer  
(Principal Executive Officer)

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

I, Michael D. Dippold, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2025 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 1, 2025

/s/ Michael D. Dippold

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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, 2025, 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 1, 2025

/s/ William J. Lynn III

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William J. Lynn III  
Chief Executive Officer  
(Principal Executive Officer)

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

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

In connection with the Quarterly Report of Leonardo DRS, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2025, 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 1, 2025

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

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