

AEROJET ROCKETDYNE HOLDINGS, INC.

FORM 8-K (Current report filing)

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Address	222 N. SEPULVEDA BLVD. SUITE 500 EL SEGUNDO, CA 90245
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event Reported): August 3, 2017

Aerojet Rocketdyne Holdings, Inc.
(Exact Name of Registrant as Specified in Charter)

Delaware
(State or Other Jurisdiction of Incorporation)

1-01520
(Commission File Number)

34-0244000
(I.R.S. Employer Identification Number)

222 N. Sepulveda Blvd., Suite 500, El Segundo, California 90245
(Address of Principal Executive Offices) (Zip Code)

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

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2). Emerging growth company

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

Item 2.02. Results of Operations and Financial Condition.

Attached hereto as Exhibit 99.1 is the text of the registrant’s press release issued on August 3, 2017 in which Aerojet Rocketdyne Holdings, Inc. (the “Company”) reported financial results for the second quarter ended June 30, 2017.

As discussed in Exhibit 99.1, the press release contains forward-looking statements within the meaning of the federal securities laws. These statements are present expectations, and are subject to the limitations listed therein and in the Company’s other SEC reports, including that actual events or results may differ materially from those in the forward-looking statements.

The foregoing information (including Exhibit 99.1) is being furnished under “Item 2.02. Results of Operations and Financial Condition” and “Item 7.01. Regulation FD Disclosure.” Such information (including Exhibit 99.1) shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

The filing of this Report and the furnishing of this information pursuant to Items 2.02 and 7.01 (including Exhibit 99.1) do not mean that such information is material or that disclosure of such information is required.

Item 7.01. Regulation FD Disclosure.

See “Item 2.02. Results of Operations and Financial Condition” above.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
99.1	Aerojet Rocketdyne Holdings, Inc.’s press release dated August 3, 2017

SIGNATURE

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

Aerojet Rocketdyne Holdings, Inc.

Date: August 3, 2017

By: /s/ Paul R. Lundstrom
Paul R. Lundstrom
Vice President and Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
99.1	Aerojet Rocketdyne Holdings, Inc.'s press release dated August 3, 2017

Aerojet Rocketdyne Holdings, Inc. Reports Second Quarter 2017 Results

EL SEGUNDO, Calif., Aug. 03, 2017 (GLOBE NEWSWIRE) -- Aerojet Rocketdyne Holdings, Inc. (NYSE:AJRD) today reported results for the second quarter ended June 30, 2017.

Financial Overview

Second quarter of fiscal 2017 compared with second quarter of fiscal 2016

- Net sales for the second quarter of fiscal 2017 totaled \$459.6 million compared with \$408.4 million for the second quarter of fiscal 2016.
- Net income for the second quarter of fiscal 2017 was \$24.3 million, or \$0.32 diluted income per share, compared with \$5.9 million, or \$0.09 diluted income per share, for the second quarter of fiscal 2016.
- Adjusted EBITDAP (Non-GAAP measure*) for the second quarter of fiscal 2017 was \$70.0 million, or 15.2% of net sales, compared with \$47.5 million, or 11.6% of net sales, for the second quarter of fiscal 2016.
- Segment performance before environmental remediation provision adjustments, retirement benefits, net, and unusual items (Non-GAAP measure*) was \$60.2 million for the second quarter of fiscal 2017, compared with \$40.8 million for the second quarter of fiscal 2016.
- Cash provided by operating activities in the second quarter of fiscal 2017 totaled \$40.8 million compared with \$35.8 million in the second quarter of fiscal 2016.
- Total funded backlog as of June 30, 2017 was \$2.1 billion compared with \$2.3 billion as of December 31, 2016.
- Total contract backlog as of June 30, 2017 was \$4.3 billion compared with \$4.5 billion as of December 31, 2016.

First half of fiscal 2017 compared with first half of fiscal 2016

- Net sales for the first half of fiscal 2017 totaled \$864.9 million compared with \$765.3 million for the first half of fiscal 2016.
- Net income for the first half of fiscal 2017 was \$30.2 million, or \$0.41 diluted income per share, compared with \$11.0 million, or \$0.17 diluted income per share, for the first half of fiscal 2016.
- Adjusted EBITDAP (Non-GAAP measure*) for the first half of fiscal 2017 was \$111.8 million, or 12.9% of net sales, compared with \$92.6 million, or 12.1% of net sales, for the first half of fiscal 2016.
- Segment performance (Non-GAAP measure*) before environmental remediation provision adjustments, retirement benefits, net, and unusual items was \$99.7 million for the first half of fiscal 2017, compared with \$77.6 million for the first half of fiscal 2016.
- Cash provided by operating activities in the first half of fiscal 2017 totaled \$37.7 million, compared with \$4.1 million in the first half of fiscal 2016.

* The Company provides Non-GAAP measures as a supplement to financial results based on accounting principles generally accepted in the United States ("GAAP"). A reconciliation of the Non-GAAP measures to the most directly comparable GAAP measures is included at the end of the release.

"I'm thrilled with our performance through the first half of 2017," said Eileen Drake, CEO and president of Aerojet Rocketdyne Holdings, Inc. "Second quarter organic sales growth was strong year over year at 10%, and that, coupled with strong contract performance, drove solid earnings growth." Net sales of \$459.6 million were up 13% in the quarter compared with the comparable 2016 period, including 10 points of organic growth and 3 points from the Coleman Aerospace acquisition. Favorable contract performance from cost reductions, labor efficiencies, and lower program risks drove \$10.3 million of favorable contract estimates in the current quarter.

"Adjusted EBITDAP was up 47% year over year with margins up 3.6 points, and cash flow was solid," said Drake. Adjusted EBITDAP of \$70.0 million was up \$22.5 million compared with the second quarter of 2016, with margins of 15.2%. Free cash flow (Non-GAAP measure) of \$31.6 million was 105% of net income for the first half of 2017.

"We achieved several important production and development milestones in the second quarter, including the delivery of our 400th booster motor and Divert and Attitude Control System ('DACS') used in the Terminal High Altitude Area Defense ('THAAD') interceptor program, the successful mission-critical role our Exoatmospheric Kill Vehicle DACS played in the latest intercept flight test of the Missile Defense Agency's Ground-based Midcourse Defense program, and the testing of a second flight engine controller unit for its RS-25 engine that will be used on National Aeronautics and Space Administration's Space Launch System ('SLS')," said Drake. The THAAD and RS-25 programs represented 11% and 15% of net sales, respectively, in the second quarter of 2017.

"Aerojet Rocketdyne was also selected by Boeing to be the main propulsion provider of the Defense Advanced Research Projects Agency's new experimental spaceplane, the XS-1," said Drake. "These program accomplishments, along with our second quarter sales, profit and cash flow improvements demonstrate our focus on long-term value creation for both our customer and investor stakeholders."

Operations Review

Aerospace and Defense Segment

	Three months ended June 30,			Six months ended June 30,		
	2017	2016	Change	2017	2016	Change
	(In millions, except percentage amounts)					
Net sales	\$ 458.0	\$ 406.8	\$ 51.2	\$ 861.7	\$ 762.1	\$ 99.6
Segment performance	56.2	34.6	21.6	90.9	64.5	26.4
Segment margin	12.3 %	8.5 %		10.5 %	8.5 %	

Segment margin before environmental remediation provision adjustments, retirement benefits, net, and unusual items (Non-GAAP measure)

13.0% 9.8% 11.4% 10.0%

Components of segment performance:

Aerospace and Defense	\$ 59.4	\$ 39.9	\$ 19.5	\$ 98.1	\$ 75.9	\$ 22.2
Environmental remediation provision adjustments	(0.5)	0.2	(0.7)	(1.1)	(0.4)	(0.7)
Retirement benefits, net	(4.0)	(5.6)	1.6	(8.0)	(11.2)	3.2
Unusual items	1.3	0.1	1.2	1.9	0.2	1.7
Aerospace and Defense total	\$ 56.2	\$ 34.6	\$ 21.6	\$ 90.9	\$ 64.5	\$ 26.4

The increase in net sales in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 was primarily due to an increase of \$72.9 million in space programs primarily driven by (i) the RS-25 program development and integration effort in support of the SLS development program; (ii) increased deliveries on the RL10 program; and (iii) the Coleman Aerospace acquisition partially offset by a decrease of \$23.8 million in defense programs primarily driven by the timing of deliveries on the THAAD program and Standard Missile programs.

Segment margin before environmental remediation provision adjustments, retirement benefits, net and unusual items increased in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 primarily due to the following (i) favorable contract performance with increased sales volume on the RS-68 program as a result of lower program costs and labor efficiencies (ii) favorable contract performance on the THAAD program as a result of management reserve retirements due to reduced program risks and cost reductions.

The increase in net sales in the first half of fiscal 2017 compared with the first half of fiscal 2016 was primarily due to an increase of \$131.3 million in space programs primarily driven by (i) the RS-25 program development and integration effort in support of the SLS development program; (ii) increased deliveries on the Atlas V program; and (iii) the Coleman Aerospace acquisition partially offset by a decrease of \$31.9 million in defense programs primarily driven by the timing of deliveries on the THAAD and Patriot Advanced Capability-3 programs.

Segment margin before environmental remediation provision adjustments, retirement benefits, net and unusual items increased in the first half of fiscal 2017 compared with the first half of fiscal 2016 primarily due to the following (i) favorable contract performance on the RL10 program as a result of lower program costs and management reserve reductions due to ongoing program efficiencies and (ii) favorable contract performance on the THAAD program as a result of management reserve retirements due to reduced program risks and cost reductions partially offset by losses in the current period on the electric propulsion contracts as the Company continues to work toward resolving design challenges.

Backlog

A summary of the Company's backlog is as follows:

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

Total backlog includes both funded backlog (unfilled orders for which funding is authorized, appropriated and contractually obligated by the customer) and unfunded backlog (firm orders for which funding has not been appropriated). Indefinite delivery and quantity contracts and unexercised options are not reported in total backlog. Backlog is subject to funding delays or program restructurings/cancellations which are beyond the Company's control. Of the Company's June 30, 2017 total contract backlog, approximately 46%, or \$2.0 billion, is expected to be filled within one year as compared with 38%, or \$1.7 billion, at December 31, 2016. Backlog has declined from December 31, 2016 primarily due to the timing of large multi-year awards. This decline was anticipated and may continue as the Company recognizes sales under contracts with large multi-year awards, such as the \$1.2 billion award for RS-25 engine restart received in November 2015 and continuing through November 2024. The nature and timing of large multi-year awards can create variability in the Company's funded and total contract backlog.

Real Estate Segment

	Three months ended June 30,			Six months ended June 30,		
	2017	2016	Change	2017	2016	Change
	(In millions)					
Net sales	\$ 1.6	\$ 1.6	\$ —	\$ 3.2	\$ 3.2	\$ —
Segment performance	0.8	0.9	(0.1)	1.6	1.7	(0.1)

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

Additional Information

Costs included in income before income taxes for the periods presented are as follows:

Three months ended June 30,		Six months ended June 30,	
2017	2016	2017	2016

(In millions)

Rocketdyne Business acquisition costs not allocable to the Company's U.S. government contracts:

Amortization of the Rocketdyne Business intangible assets	\$ 2.9	\$ 3.0	\$ 5.9	\$ 6.0
Depreciation associated with the fair value adjustments to tangible assets	1.1	1.4	2.1	3.2
Cost of sales associated with the step-up in the fair value of the Rocketdyne Business inventory	—	—	0.1	0.1
Total Rocketdyne Business acquisition costs	4.0	4.4	8.1	9.3
Other costs:				
Retirement benefits, net (1)	9.0	10.3	18.0	20.6
Environmental remediation provision	0.9	0.2	1.7	0.5
Interest expense	7.8	10.4	15.2	21.5
Loss on debt	—	0.1	—	0.4
Stock-based compensation expense	3.4	3.1	10.2	5.4

(1) Retirement benefits are net of cash funding to the Company's tax-qualified defined benefit pension plan which are recoverable costs under the Company's U.S. government contracts. The Company's recoverable tax-qualified pension costs in the second quarter and first half of fiscal 2017 totaled \$9.3 million and \$18.6 million, respectively. The Company's recoverable tax-qualified pension costs in the second quarter and first half of fiscal 2016 totaled \$6.9 million and \$13.8 million, respectively.

Debt Activity

The Company's debt principal activity since December 31, 2016 was as follows:

	December 31, 2016	Cash Payments	Non-cash Equity Conversion	June 30, 2017
(In millions)				
Term loan	\$ 390.0	\$ (10.0)	\$ —	\$ 380.0
2.25% Convertible Senior Notes	300.0	—	—	300.0
4 ¹ / 16 % Convertible Subordinated Debentures	35.6	—	(35.6)	—
Total Debt and Borrowing Activity	\$ 725.6	\$ (10.0)	\$ (35.6)	\$ 680.0

Forward-Looking Statements

This release may contain certain "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such statements in this release and in subsequent discussions with the Company's management are based on management's current expectations and are subject to risks, uncertainty and changes in circumstances, which cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements. All statements contained herein and in subsequent discussions with the Company's management that are not clearly historical in nature are forward-looking and the words "anticipate," "believe," "expect," "estimate," "plan," and similar expressions are generally intended to identify forward-looking statements. A variety of factors could cause actual results or outcomes to differ materially from those expected and expressed in the Company's forward-looking statements. Some important risk factors that could cause actual results or outcomes to differ from those expressed in the forward-looking statements include, but are not limited to, the following:

- future reductions or changes in U.S. government spending;
- cancellation or material modification of one or more significant contracts;
- negative audit findings of the Company's business by the U.S. government;
- the estimates or judgments the Company makes, or the assumptions the Company relies on, in preparing consolidated financial statements could prove to be inaccurate;
- cost overruns on the Company's contracts that require the Company to absorb excess costs;
- failure of the Company's subcontractors or suppliers to perform their contractual obligations;
- failure to secure contracts;
- failure to comply with regulations applicable to contracts with the U.S. government;
- failure to comply with applicable laws, including laws relating to export controls and anti-corruption or bribery laws;
- the Company's Competitive Improvement Program may not be successful in aligning the Company's operations to current market conditions or in achieving the anticipated costs savings and other benefits within the expected timeframes;
- the Company's international sales are subject to applicable laws relating to export controls, the violation of which could adversely affect its operations;

- costs and time commitment related to potential and/or actual acquisition activities may exceed expectations;
- the Company's inability to adapt to rapid technological changes;
- failure of the Company's information technology infrastructure including a successful cyber-attack, accident, unsuccessful outsourcing of certain information technology and cyber security functions, or security breach that could result in disruptions to the Company's operations;
- product failures, schedule delays or other problems with existing or new products and systems;
- the release, explosion, or unplanned ignition of dangerous materials used in the Company's businesses;
- loss of key qualified suppliers of technologies, components, and materials;
- the funded status of the Company's defined benefit pension plan and the Company's obligation to make cash contributions in excess of the amount that the Company can recover in its current period overhead rates;
- effects of changes in discount rates and actuarial estimates, actual returns on plan assets, and government regulations on defined benefit pension plans;
- the possibility that environmental and other government regulations that impact the Company become more stringent or subject the Company to material liability in excess of its established reserves;
- environmental claims related to the Company's current and former businesses and operations including the inability to protect or enforce previously executed environmental agreements;
- reductions in the amount recoverable from environmental claims;
- the results of significant litigation;
- significant risk exposures and potential liabilities that are inadequately covered by indemnity or insurance;
- inability to protect the Company's patents and proprietary rights;
- business disruptions to the extent not covered by insurance;
- the substantial amount of debt which places significant demands on the Company's cash resources and could limit the Company's ability to borrow additional funds or expand its operations;
- the Company's ability to comply with the financial and other covenants contained in the Company's debt agreements;
- risks inherent to the real estate market;
- changes in economic and other conditions in the Sacramento, California metropolitan area real estate market or changes in interest rates affecting real estate values in that market;
- additional costs related to past or future divestitures;
- the loss of key employees and shortage of available skilled employees to achieve anticipated growth;
- a strike or other work stoppage or the Company's inability to renew collective bargaining agreements on favorable terms;
- fluctuations in sales levels causing the Company's quarterly operating results and cash flows to fluctuate;
- restatement of previously issued consolidated financial statements may lead to additional risks and uncertainties;
- failure to maintain effective internal controls in accordance with the Sarbanes-Oxley Act; and
- those risks detailed in the Company's reports filed with the SEC.

About Aerojet Rocketdyne Holdings, Inc.

Aerojet Rocketdyne Holdings, Inc., headquartered in El Segundo, California, is an innovative technology-based manufacturer of aerospace and defense products and systems, with a real estate segment that includes activities related to the entitlement, sale, and leasing of the company's excess real estate assets. More information can be obtained by visiting the company's website at www.aeroproducts.com.

Aerojet Rocketdyne Holdings, Inc.

Unaudited Condensed Consolidated Statement of Operations

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(In millions, except per share amounts)			
Net sales	\$ 459.6	\$ 408.4	\$ 864.9	\$ 765.3
Operating costs and expenses:				
Cost of sales (exclusive of items shown separately below)	383.9	356.5	736.6	666.2
Selling, general and administrative	14.7	13.6	33.2	25.2
Depreciation and amortization	19.1	15.4	35.4	30.5
Other (income) expense, net	(1.3)	1.0	0.4	1.7
Total operating costs and expenses	416.4	386.5	805.6	723.6
Operating income	43.2	21.9	59.3	41.7
Non-operating (income) expense:				
Loss on debt	—	0.1	—	0.4
Interest income	(0.8)	(0.1)	(1.3)	(0.3)
Interest expense	7.8	10.4	15.2	21.5
Total non-operating expense, net	7.0	10.4	13.9	21.6
Income before income taxes	36.2	11.5	45.4	20.1
Income tax provision	11.9	5.6	15.2	9.1
Net income	\$ 24.3	\$ 5.9	\$ 30.2	\$ 11.0
Earnings Per Share of Common Stock Basic and Diluted				

Net income per share	\$ 0.32	\$ 0.09	\$ 0.41	\$ 0.17
Weighted average shares of common stock outstanding, basic	73.2	63.1	72.6	63.1
Weighted average shares of common stock outstanding, diluted	73.2	63.2	72.7	63.2

Aerojet Rocketdyne Holdings, Inc.
Unaudited Operating Segment Information

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
(In millions)				
Net Sales:				
Aerospace and Defense	\$ 458.0	\$ 406.8	\$ 861.7	\$ 762.1
Real Estate	1.6	1.6	3.2	3.2
Total Net Sales	\$ 459.6	\$ 408.4	\$ 864.9	\$ 765.3
Segment Performance:				
Aerospace and Defense	\$ 59.4	\$ 39.9	\$ 98.1	\$ 75.9
Environmental remediation provision adjustments	(0.5)	0.2	(1.1)	(0.4)
Retirement benefits, net (1)	(4.0)	(5.6)	(8.0)	(11.2)
Unusual items	1.3	0.1	1.9	0.2
Aerospace and Defense Total	56.2	34.6	90.9	64.5
Real Estate	0.8	0.9	1.6	1.7
Total Segment Performance	\$ 57.0	\$ 35.5	\$ 92.5	\$ 66.2
Reconciliation of segment performance to income before income taxes:				
Segment performance	\$ 57.0	\$ 35.5	\$ 92.5	\$ 66.2
Interest expense	(7.8)	(10.4)	(15.2)	(21.5)
Interest income	0.8	0.1	1.3	0.3
Stock-based compensation expense	(3.4)	(3.1)	(10.2)	(5.4)
Corporate retirement benefits	(5.0)	(4.7)	(10.0)	(9.4)
Corporate and other expense, net	(5.4)	(5.8)	(12.0)	(9.7)
Unusual items	—	(0.1)	(1.0)	(0.4)
Income before income taxes	\$ 36.2	\$ 11.5	\$ 45.4	\$ 20.1

(1) Retirement benefits are net of cash funding to the Company's tax-qualified defined benefit pension plan which are recoverable costs under the Company's U.S. government contracts. The Company's recoverable tax-qualified pension costs in the second quarter and first half of fiscal 2017 totaled \$9.3 million and \$18.6 million, respectively. The Company's recoverable tax-qualified pension costs in the second quarter and first half of fiscal 2016 totaled \$6.9 million and \$13.8 million, respectively.

The Company evaluates its operating segments based on several factors, of which the primary financial measure is segment performance. Segment performance represents net sales less applicable costs, expenses and unusual items relating to the segment operations. Segment performance excludes corporate income and expenses, unusual items not related to the segment operations, interest expense, interest income, and income taxes. The Company believes that segment performance provides information useful to investors in understanding its underlying operational performance. Specifically, the Company believes the exclusion of the items listed above permits an evaluation and a comparison of results for ongoing business operations. It is on this basis that management internally assesses the financial performance of its segments.

Aerojet Rocketdyne Holdings, Inc.
Unaudited Condensed Consolidated Balance Sheet

June 30, 2017 **December 31, 2016**

(In millions)

ASSETS

Current Assets		
Cash and cash equivalents	\$ 413.6	\$ 410.3
Accounts receivable	235.7	136.4
Inventories	164.4	185.1
Recoverable from the U.S. government and other third parties for environmental remediation costs	25.6	25.2
Receivable from Northrop Grumman Corporation (“Northrop”)	6.0	6.0
Other current assets, net	72.8	91.7
Total Current Assets	<u>918.1</u>	<u>854.7</u>
Noncurrent Assets		
Property, plant and equipment, net	352.7	366.0
Real estate held for entitlement and leasing	93.4	91.8
Recoverable from the U.S. government and other third parties for environmental remediation costs	229.3	239.8
Receivable from Northrop	61.5	62.0
Deferred income taxes	264.8	292.5
Goodwill	159.9	158.1
Intangible assets	91.8	94.4
Other noncurrent assets, net	115.7	90.2
Total Noncurrent Assets	<u>1,369.1</u>	<u>1,394.8</u>
Total Assets	<u>\$2,287.2</u>	<u>\$ 2,249.5</u>
LIABILITIES, REDEEMABLE COMMON STOCK, AND STOCKHOLDERS’ EQUITY		
Current Liabilities		
Current portion of long-term debt	\$ 19.9	\$ 55.6
Accounts payable	109.6	96.2
Reserves for environmental remediation costs	34.9	37.1
Postretirement medical and life insurance benefits	5.2	5.2
Advance payments on contracts	172.8	221.8
Other current liabilities	197.3	167.8
Total Current Liabilities	<u>539.7</u>	<u>583.7</u>
Noncurrent Liabilities		
Long-term debt	601.8	608.0
Reserves for environmental remediation costs	304.0	312.6
Pension benefits	533.1	548.2
Postretirement medical and life insurance benefits	36.1	37.4
Other noncurrent liabilities	147.8	124.0
Total Noncurrent Liabilities	<u>1,622.8</u>	<u>1,630.2</u>
Total Liabilities	<u>2,162.5</u>	<u>2,213.9</u>
Commitments and contingencies		
Redeemable common stock	—	1.1
Stockholders’ Equity		
Preference stock	—	—
Common stock	7.3	6.9
Other capital	497.4	456.9
Treasury stock at cost	(64.5)	(64.5)
Accumulated deficit	(31.6)	(61.8)
Accumulated other comprehensive loss, net of income taxes	(283.9)	(303.0)
Total Stockholders’ Equity	<u>124.7</u>	<u>34.5</u>
Total Liabilities, Redeemable Common Stock and Stockholders’ Equity	<u>\$2,287.2</u>	<u>\$ 2,249.5</u>

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

Six months ended June
30,
2017 2016

	(In millions)	
Operating Activities		
Net income	\$ 30.2	\$ 11.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35.4	30.5
Amortization of debt discount and deferred financing costs	4.2	1.3
Stock-based compensation	10.2	5.4
Retirement benefits, net	15.4	16.9
Loss on debt	—	0.4
Loss on disposal of long-lived assets	0.3	0.7
Changes in assets and liabilities, net of effects from acquisition:		
Accounts receivable	(87.8)	(7.3)
Inventories	20.7	(8.7)
Other current assets, net	19.3	(22.3)
Real estate held for entitlement and leasing	(1.8)	(2.5)
Receivable from Northrop	0.5	0.9
Recoverable from the U.S. government and other third parties for environmental remediation costs	10.1	8.9
Other noncurrent assets	(30.2)	(2.3)
Accounts payable	12.6	23.2
Advance payments on contracts	(49.0)	(37.0)
Other current liabilities	19.6	(13.7)
Deferred income taxes	15.9	17.1
Reserves for environmental remediation costs	(10.8)	(10.6)
Other noncurrent liabilities and other	22.9	(7.8)
Net Cash Provided by Operating Activities	<u>37.7</u>	<u>4.1</u>
Investing Activities		
Purchase of Coleman	(15.0)	—
Capital expenditures	(6.1)	(19.5)
Net Cash Used in Investing Activities	<u>(21.1)</u>	<u>(19.5)</u>
Financing Activities		
Proceeds from issuance of debt	—	100.0
Debt issuance costs	—	(3.7)
Debt repayments	(10.0)	(105.7)
Repurchase of shares for withholding taxes and option costs under employee equity plans	(5.7)	(1.5)
Proceeds from shares issued under equity plans	2.4	1.5
Net Cash Used in Financing Activities	<u>(13.3)</u>	<u>(9.4)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3.3	(24.8)
Cash and Cash Equivalents at Beginning of Period	410.3	208.5
Cash and Cash Equivalents at End of Period	<u>\$ 413.6</u>	<u>\$ 183.7</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 11.4	\$ 20.7
Cash refund for income taxes	21.3	0.2
Cash paid for income taxes	0.5	27.7
Conversion of debt to common stock	35.6	—

Use of Non-GAAP Financial Measures

In addition to segment performance (discussed above), the Company provides the Non-GAAP financial measure of its operational performance called Adjusted EBITDAP. The Company uses this metric to measure its operating performance. The Company believes that to effectively compare core operating performance from period to period, the metric should exclude items relating to retirement benefits, significant non-cash expenses, the impacts of financing decisions on the earnings, and items incurred outside the ordinary, ongoing and customary course of its operations. Accordingly, the Company defines Adjusted EBITDAP as GAAP income before income taxes adjusted by interest expense, interest income, depreciation and amortization, retirement benefits, and unusual items which the Company does not believe are reflective of such ordinary, ongoing and customary activities. Adjusted EBITDAP does not represent, and should not be considered an alternative to, net income as determined in accordance with GAAP.

Three months ended June 30, Six months ended June 30,

	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	(In millions, except percentage amounts)			
Income before income taxes	\$ 36.2	\$ 11.5	\$ 45.4	\$ 20.1
Interest expense	7.8	10.4	15.2	21.5
Interest income	(0.8)	(0.1)	(1.3)	(0.3)
Depreciation and amortization	19.1	15.4	35.4	30.5
Retirement benefits, net (1)	9.0	10.3	18.0	20.6
Unusual items	(1.3)	—	(0.9)	0.2
Adjusted EBITDAP	<u>\$ 70.0</u>	<u>\$ 47.5</u>	<u>\$ 111.8</u>	<u>\$ 92.6</u>
Adjusted EBITDAP as a percentage of net sales	15.2%	11.6%	12.9%	12.1%

(1) Retirement benefits are net of cash funding to the Company's tax-qualified defined benefit pension plan which are recoverable costs under the Company's U.S. government contracts. The Company's recoverable tax-qualified pension costs in the second quarter and first half of fiscal 2017 totaled \$9.3 million and \$18.6 million, respectively. The Company's recoverable tax-qualified pension costs in the second quarter and first half of fiscal 2016 totaled \$6.9 million and \$13.8 million, respectively.

In addition to segment performance and Adjusted EBITDAP, the Company provides the Non-GAAP financial measures of free cash flow and net debt. The Company uses these financial measures, both in presenting its results to stakeholders and the investment community, and in its internal evaluation and management of the business. Management believes that these financial measures are useful because it presents the Company's business using the same tools that management uses to gauge progress in achieving its goals.

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	(In millions)			
Net Cash Provided by Operating Activities	\$ 40.8	\$ 35.8	\$ 37.7	\$ 4.1
Capital expenditures	(3.4)	(11.8)	(6.1)	(19.5)
Free cash flow(1)	<u>\$ 37.4</u>	<u>\$ 24.0</u>	<u>\$ 31.6</u>	<u>\$ (15.4)</u>

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

	<u>December 31,</u>	
	<u>June 30, 2017</u>	<u>2016</u>
	(In millions)	
Debt principal	\$ 680.0	\$ 725.6
Cash and cash equivalents	(413.6)	(410.3)
Net debt	<u>\$ 266.4</u>	<u>\$ 315.3</u>

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

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