

2017 Orbital ATK  
**Annual Report**

*40 Innovations in 40 Years*



*The Partner You Can Count On™*



# About Orbital ATK

Orbital ATK is a global provider of space, defense and aviation systems that enable our customers to protect, connect, inform and inspire hundreds of millions of people around the world every day. Our three operating groups serve commercial, military and civil government markets both as a prime contractor and as a merchant supplier. Occupying a unique position in the aerospace and defense industry, the company is large enough to execute major programs but is also agile and responsive in quickly developing new technologies to serve our customers' evolving needs. Headquartered in Dulles, Virginia, Orbital ATK employs approximately 14,000 people across the U.S. and in several international locations.

## Operating Groups and Product Lines

### Flight Systems Group

- Small- and medium-class space launch vehicles for civil, military and commercial satellites
- Medium- and large-class solid rocket propulsion systems for strategic missile and space launch applications
- Interceptor boosters and target vehicles for missile defense applications
- Composite structures for commercial and military aircraft, jet engines and launch vehicles

### Defense Systems Group

- Next-generation strike weapon systems
- Propulsion, warheads, fuzes and controls for tactical missiles
- Special-mission aircraft and missile-warning products
- Precision weapons technologies and medium-caliber gun systems
- Medium- and large-caliber ammunition
- Small-caliber ammunition for government and commercial applications

### Space Systems Group

- Commercial satellites used for global communications, broadcasting and Earth imaging
- Small- and medium-sized spacecraft that perform scientific research, environmental monitoring and national security missions
- Commercial cargo delivery and satellite servicing vehicles for the International Space Station and other in-space logistics applications
- Spacecraft components and subsystems
- Specialized engineering and operations services

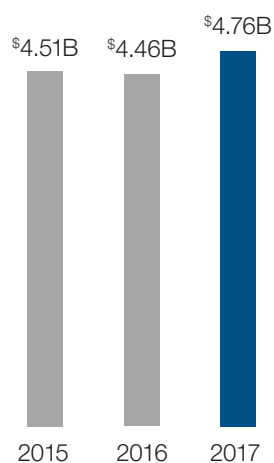
# Financial Highlights

(\$ millions, except per share data)

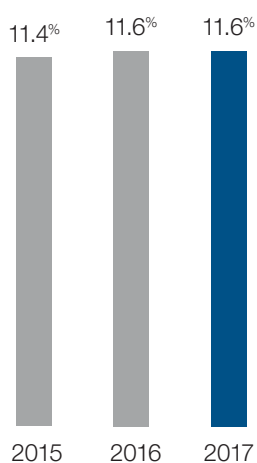
	2017 Adj.**	2017	2016	2015
<b>Operating Results*</b>				
Adjusted Revenues	\$ 4,764	\$ 4,764	\$ 4,455	\$ 4,509
Adjusted Income from Operations	552	552	516	516
Adjusted Net Income	366	325	325	288
Adjusted Diluted Earnings per Share	\$ 6.32	\$ 5.61	\$ 5.56	\$ 5.10

	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
<b>Balance Sheet Summary</b>			
Cash and Cash Equivalents	\$ 346	\$ 200	\$ 104
Net Working Capital	1,082	893	875
Total Assets	5,666	5,418	5,324
Long-Term Debt	1,361	1,398	1,436
Stockholders' Equity	\$ 2,045	\$ 1,817	\$ 1,686

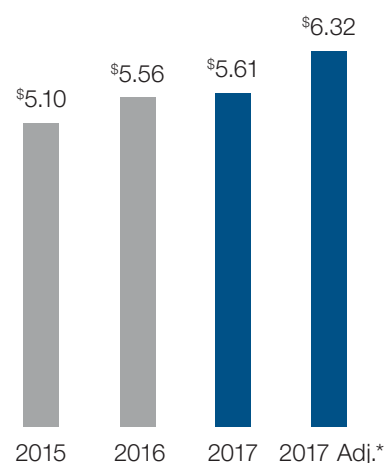
## Adjusted Revenues



## Adjusted Operating Margin



## Adjusted Earnings Per Share\*\*



\* Non-GAAP financial measures. See back inside cover for reconciliation to GAAP results.

\*\* Excludes 2017 Tax Act net income impact of \$41.2 million and EPS impact of \$0.71.





David W. Thompson, President and Chief Executive Officer (left) and Gen. Ronald R. Fogleman (Ret.), Chairman of the Board (right).

## Letter to Our Stockholders

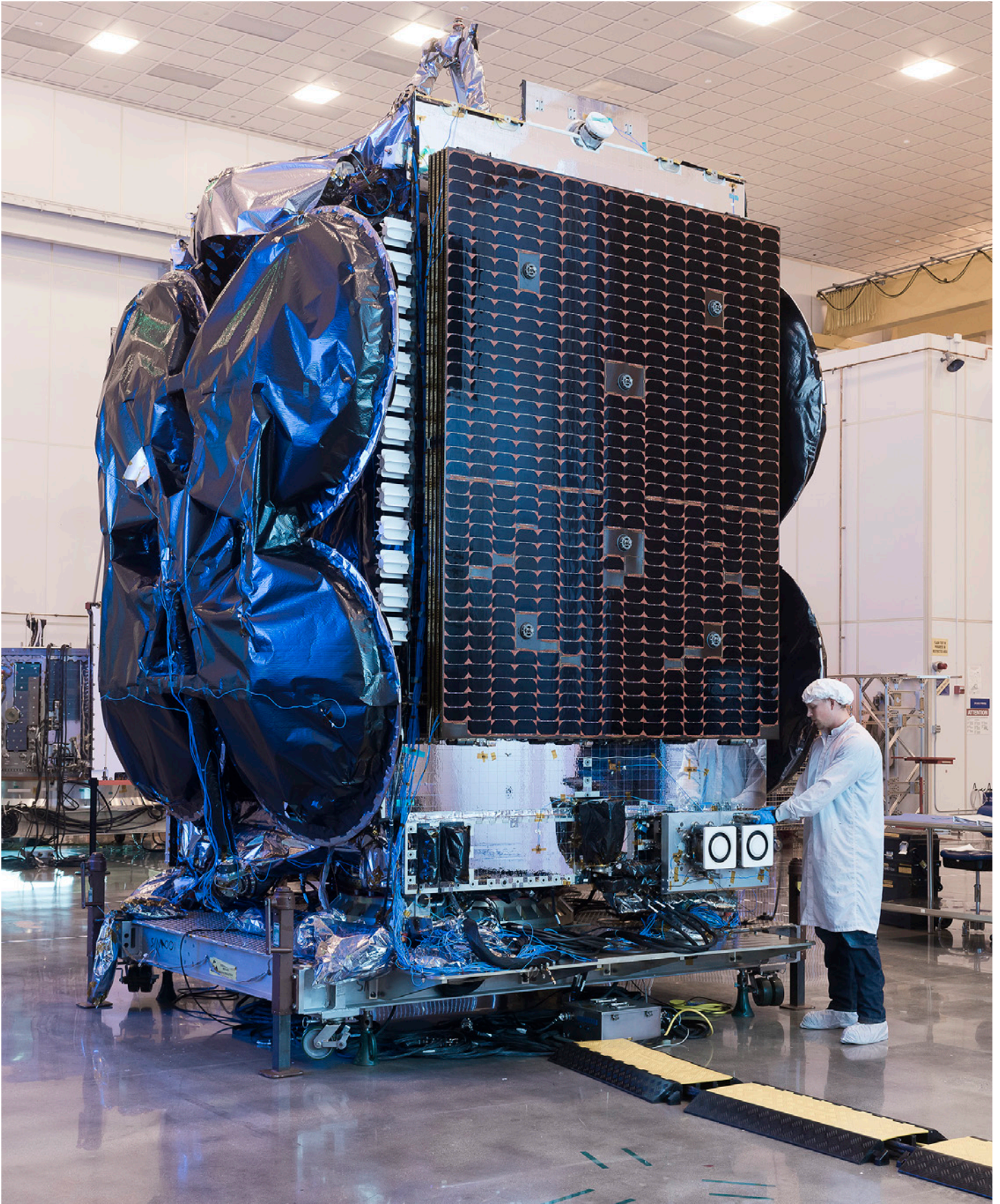
By all measures, 2017 was an excellent year for Orbital ATK and a very rewarding period for our investors. The company generated record financial results, booked robust new business totals, and achieved outstanding operational performance. We also substantially increased shareholder value, with more than a 50% total return to our shareholders last year. Finally, last fall we entered into a definitive agreement under which Orbital ATK will combine with Northrop Grumman to create America's third largest aerospace and defense enterprise.

### Financial Results

Revenues of \$4.76 billion increased 7% in 2017 compared to prior-year levels, and adjusted earnings per share of \$6.32 (excluding the effects of last year's tax law changes) were 14% above 2016 results. Free cash flow before a discretionary pension contribution was \$390 million, with over \$95 million returned to shareholders in dividends and stock repurchases. Looking back over the last three years since the Orbital ATK merger, the company's multi-year financial performance exceeded our targets for 15% compound annual earnings growth and \$1 billion cumulative cash

**The company generated record financial results, booked robust new business totals, and achieved outstanding operational performance in 2017. We also substantially increased shareholder value, with more than a 50% total return to our shareholders last year.**





The company delivered Al Yah 3, our first medium-class GEOStar-3 commercial communications satellite in 2017, which was launched in early 2018.





In 2017 the company conducted 12 space, strategic and target launches including this interceptor launch for the U.S. Missile Defense Agency.



In 2017 we produced 1.3 billion rounds of small-, medium- and large-caliber ammunition.

flow generation that were established in early 2015. This strong performance, together with the compelling premium offered by Northrop Grumman in its pending acquisition, resulted in a 125% total return to shareholders over the past three years.

### **New Business Bookings**

New orders and option exercises in 2017 exceeded \$7.5 billion for the third consecutive year, boosting the company's total backlog to an all-time high of \$16.0 billion. This strong backlog, up over 35% compared to its value three years ago, is a testament to the strategic advantages that have accrued from our merger: sustained fast-cycle technological innovation, expanded market opportunities due to greater engineering and manufacturing capacity, improved affordability from vertical integration and other cost efficiencies, and consistent operational execution.

**New orders and option exercises in 2017 exceeded \$7.5 billion for the third consecutive year, boosting the company's total backlog to an all-time high of \$16.0 billion.**



We are confident that Orbital ATK's people will make even more far-reaching contributions to national defense, scientific discovery and economic growth in the decades to come.

## Operational Achievements

Last year was a very productive one across dozens of development and production programs spanning all of Orbital ATK's operating groups. Our Flight Systems Group conducted 12 space and strategic rocket launches, supported 17 other launches with propulsion and structural systems, produced more than 70 medium- and large-class propulsion systems, and built and delivered 650 ship-sets of commercial and military aerospace structures. The company's Defense Systems Group manufactured over 1.3 billion rounds of small-caliber ammunition, produced about seven million medium- and large-caliber rounds, built 17,000 tactical rocket motors and warheads, and produced more than 12,000 precision weapons and advanced tactical missiles. And our Space Systems Group constructed and deployed 42 satellites, produced over 1,400 spacecraft and missile components, and conducted 21 research rocket and scientific balloon flights.

## Conclusion

Since the company's acquisition by Northrop Grumman is anticipated to be completed in the next several months, this is expected to be Orbital ATK's final annual report to our shareholders. To commemorate the many important innovations conceived, developed and produced by the company — and enabled by the steadfast support of our investors — over the last four decades, the following pages highlight several dozen new technologies, first-of-a-kind products, breakthrough process improvements, and novel business models pioneered by Orbital ATK and our predecessor units since the late 1970's.

As we have expressed in each of our previous letters to shareholders since the 2015 merger, we are most grateful again this year for the confidence of our investors, customers and employees in the company. As we become an important part of a larger enterprise, we are confident that Orbital ATK's people will make even more far-reaching contributions to national defense, scientific discovery and economic growth in the decades to come.



Gen. Ronald R. Fogleman (Ret.)  
Chairman of the Board



David W. Thompson  
President and Chief Executive Officer

March 21, 2018



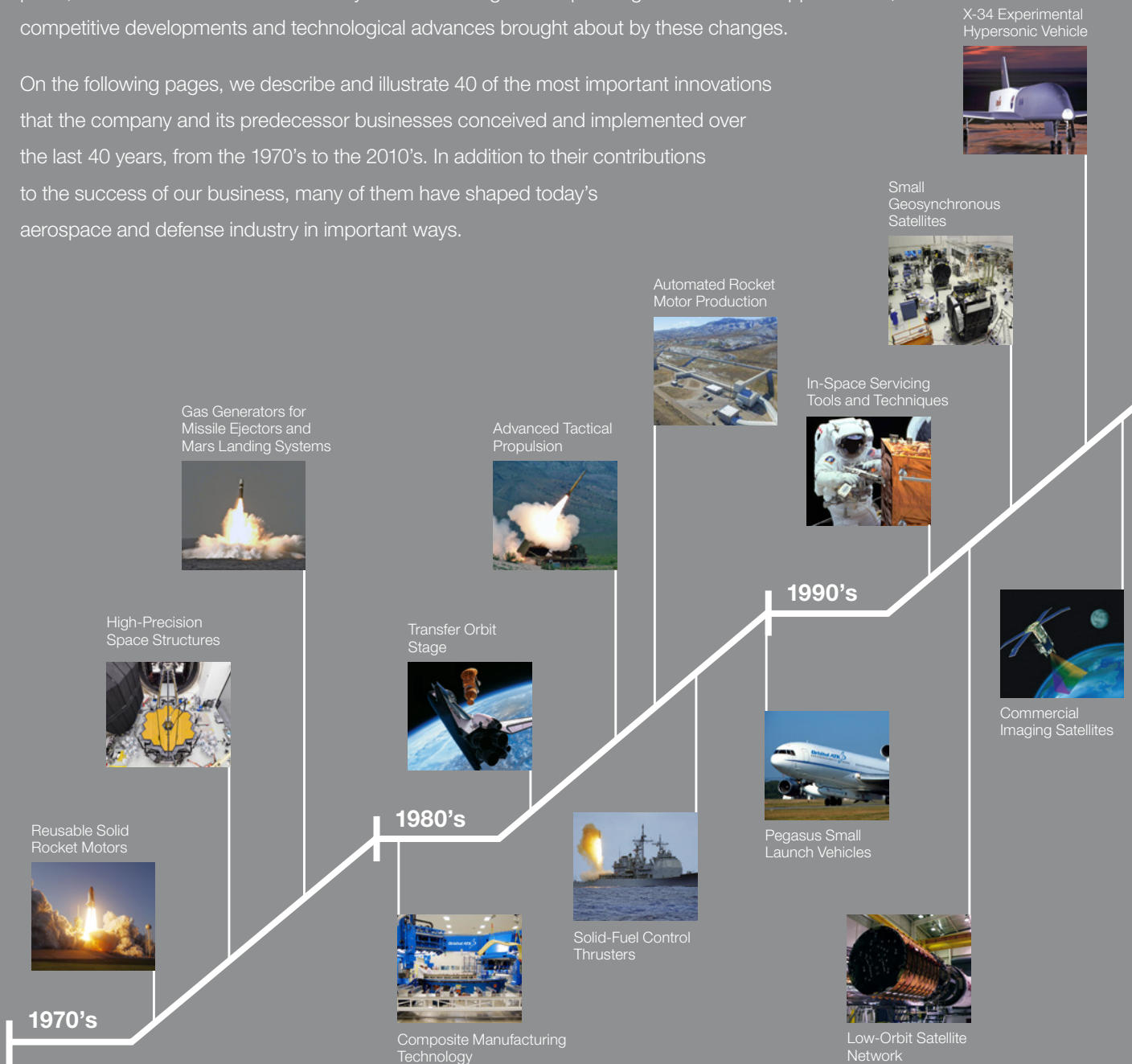
Our Antares rocket and Cygnus spacecraft successfully carried out two Space Station cargo missions for NASA last year (top photos). The company also conducted demonstrations of advanced weapon systems and ammunition technologies throughout 2017 (bottom photo).

# 40 Innovations In 40 Years

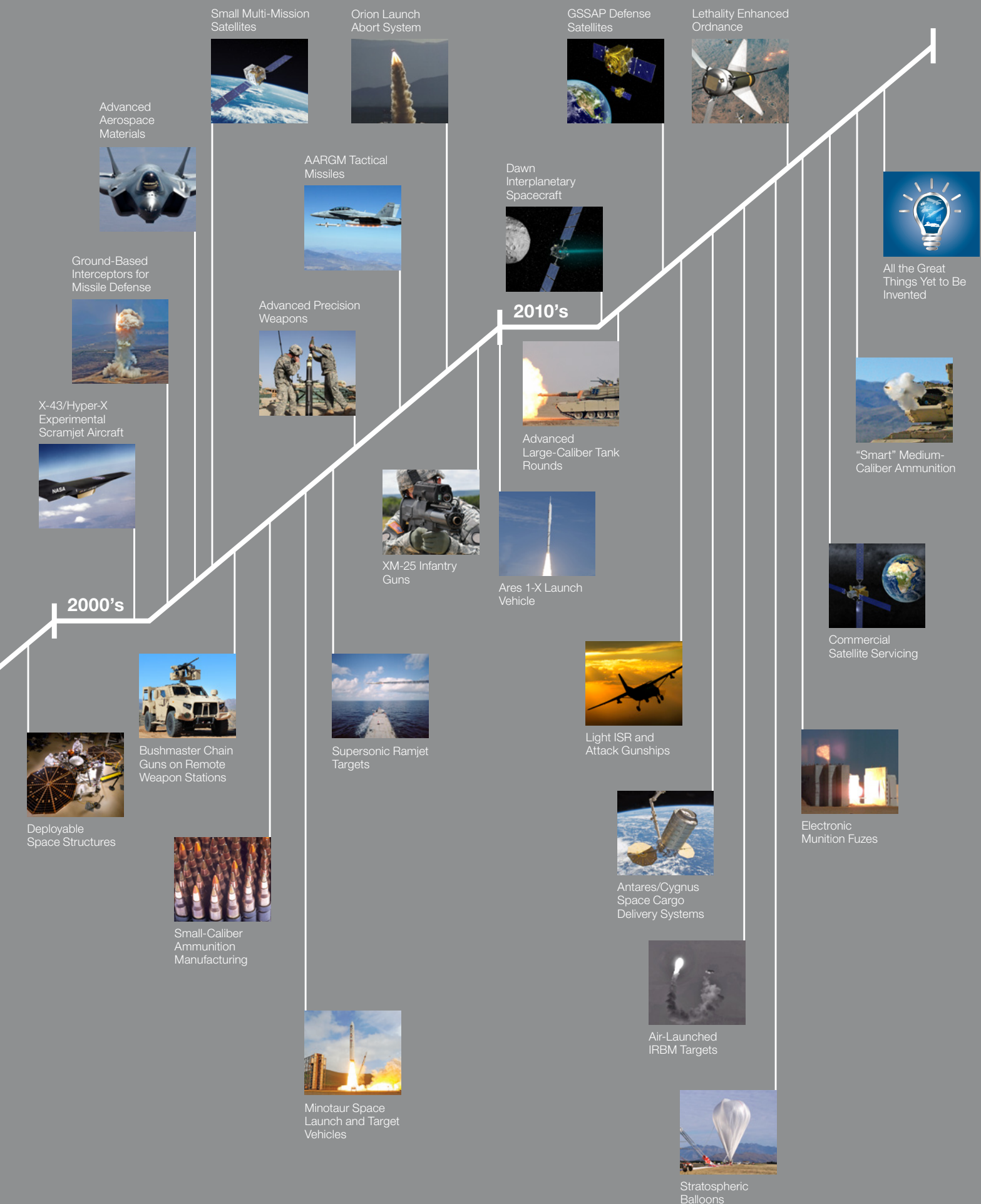
Innovation always has been the most distinguishing characteristic of Orbital ATK. Whether it took the form of inventing new technologies, creating first-to-market products, devising manufacturing process breakthroughs or introducing novel business models, innovations of many types have provided the foundation for the company's growth and prosperity throughout our history.

During the past four decades, much has changed in our business environment — from the end of the Cold War and the spread of non-state terrorism... to the rise of global competition and expanded international demand for wireless communications and air transportation... and from post-Apollo to post-Space Shuttle civil space programs... to the widespread commercial uses of satellites and other space systems. As all of this took place, Orbital ATK has been remarkably creative and agile in responding to new market opportunities, competitive developments and technological advances brought about by these changes.

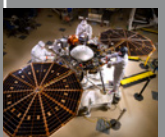
On the following pages, we describe and illustrate 40 of the most important innovations that the company and its predecessor businesses conceived and implemented over the last 40 years, from the 1970's to the 2010's. In addition to their contributions to the success of our business, many of them have shaped today's aerospace and defense industry in important ways.







2000's



Deployable Space Structures



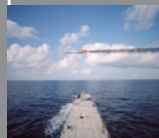
Bushmaster Chain Guns on Remote Weapon Stations



Small-Caliber Ammunition Manufacturing



Minotaur Space Launch and Target Vehicles



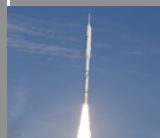
Supersonic Ramjet Targets



XM-25 Infantry Guns



Advanced Large-Caliber Tank Rounds



Ares 1-X Launch Vehicle



Light ISR and Attack Gunships



Antares/Cygnus Space Cargo Delivery Systems



Air-Launched IRBM Targets



Stratospheric Balloons

2010's

X-43/Hyper-X Experimental Scramjet Aircraft



Ground-Based Interceptors for Missile Defense



Advanced Aerospace Materials



Advanced Precision Weapons



AARGM Tactical Missiles



Small Multi-Mission Satellites



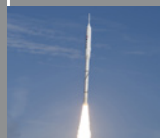
Orion Launch Abort System



Dawn Interplanetary Spacecraft



Advanced Large-Caliber Tank Rounds



Ares 1-X Launch Vehicle



Light ISR and Attack Gunships



Antares/Cygnus Space Cargo Delivery Systems



Air-Launched IRBM Targets



Stratospheric Balloons



All the Great Things Yet to Be Invented



"Smart" Medium-Caliber Ammunition



Commercial Satellite Servicing

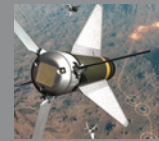


Electronic Munition Fuzes

GSSAP Defense Satellites

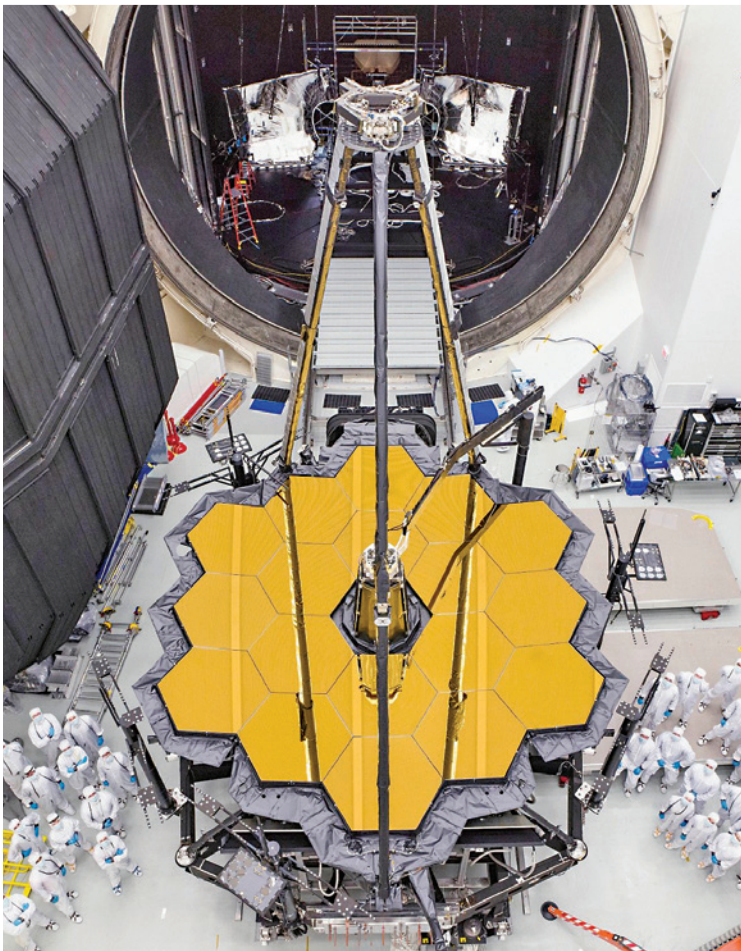


Lethality Enhanced Ordnance



## Reusable Solid Rocket Motors (RSRM)

An Orbital ATK-predecessor company, Thiokol Chemical Company (acquired by ATK in 2001), developed the world's first reusable space propulsion systems for NASA's Space Shuttle program in the late 1970's. The most powerful solid rockets ever flown, two large-diameter RSRMs provided 80% of the lift-off thrust for each of the Shuttle's 135 launches from 1981 to 2011. After boosting the Shuttle to altitudes of nearly 30 miles and speeds of about Mach 5, the RSRMs separated and returned by parachutes to the ocean approximately 125 miles downrange. Following their recovery and refurbishment, elements of the four-segment boosters were reused up to 12 times on subsequent Shuttle flights. Updated versions of RSRMs are now being produced at our Promontory, Utah facilities for NASA's new heavy-lift rocket, the Space Launch System (SLS), which is planned to carry astronauts on deep-space missions in the 2020's and beyond.



## High-Precision Space Structures

As our solid rocket propulsion technology transitioned from metallic to composite structures for motor cases, ATK's deep materials and process knowledge led the company to develop a series of high-precision spacecraft structures in the early 1980's. Our Magna, Utah facility was constructed by Hercules Aerospace Company to support this product area, which led to successful programs such as optical benches for NASA's Hubble Space Telescope. New capabilities were added when California-based COI and PSI joined ATK in the mid-2000's. In recent years, Orbital ATK's technology has enabled new scientific missions in this business area, including building the entire backplane and instrument bench for NASA's James Webb Space Telescope (JWST). For JWST, we invented new ways to design and construct space structures that were more dynamically stable than anything done before, while also developing original methods to measure the extremely small variations in mechanical properties of these structures.



## Gas Generators for Missile Ejectors and Mars Landing Systems

In the 1970's and 1980's, the company adapted solid rocket motor technology to create highly reliable and rugged solid-fuel gas generators, used to eject Poseidon, Trident and Peacekeeper missiles from their launch tubes. These applications involved development of stable propellants and hermetic seals along with other components able to withstand long-term exposure to harsh operating environments. We then extended this unique technology to very small gas generators for missile thrust vector control. In the 1990's and 2000's, similar technology was also employed as airbag inflators in Mars rover landing systems. And in recent years, new applications have been developed for these high-energy systems in missile defense interceptors and other areas.



## Composite Manufacturing Technology

With extensive experience in solid rocket motors and advanced materials, including manufacturing the first filament-wound rocket motor cases in the late 1950's, ATK introduced carbon composite materials to new aerospace applications in the early 1980's. This started with the company's invention of the modern automated fiber placement process in 1982. Since then, we have pioneered a series of leading-edge innovations, such as automated stiffener forming, out-of-autoclave curing, high-speed non-destructive inspection and other advanced industrial processes, to improve reliability and performance and to reduce costs and cycle times. Achieving these gains by using company-designed robotics to replace laborious hand-layup methods has resulted in widespread use of composite structures in space launch vehicles as well as in modern commercial aircraft, such as the Airbus A350 and Boeing B787 wide-body transports.



## Transfer Orbit Stage (TOS)

In one of the earliest large-scale commercial space projects to be carried out in a public/private partnership, Orbital Sciences Corporation's first product, the Transfer Orbit Stage, was more of a business-model innovation than a technical one. As a start-up enterprise in the early 1980's, Orbital conceived and developed TOS with private capital, supported by technical assistance and early production orders from NASA. TOS was an orbit transfer rocket used to propel attached spacecraft to high-energy trajectories after deployment into low-altitude "parking orbits" by the Space Shuttle and Titan launchers. Although its market demand and production run were limited by the Shuttle accident in 1986, TOS provided the engineering and financial foundation for other long-lived products, such as the Pegasus launch vehicle and many early company-built satellites. And it represented the industry's initial "proof of concept" of how new commercial space systems could be funded by major Wall Street financial offerings.



## Advanced Tactical Propulsion

As industry leaders in tactical propulsion since the 1960's, the company's Elkton, Maryland and Rocket Center/Allegany Ballistics Laboratory (ABL), West Virginia operations have pioneered new technologies to provide increased mission flexibility, extended range and speed, and improved safety across a wide spectrum of tactical missile systems. For example, Orbital ATK recently completed the industry's first qualification of solid rocket motors that meet the military's insensitive munition standards, using a novel composite motor case and end-closure design as well as a modified propellant formulation. The company also recently developed multi-pulse solid rocket motors, creating extended flight profiles for very long-distance and high-speed applications. In addition, Orbital ATK designed and built a hypersonic air-breathing engine, capable of Mach 5 speeds using a combustion chamber fabricated with additive manufacturing technology. Recent ground testing of this engine in long-duration hot-fires demonstrated excellent reliability and engine durability.



## Automated Rocket Motor Production

In the mid-1980's, Hercules Aerospace (which merged in 1995 with Honeywell's defense business, creating the core of ATK) invested over \$250 million to build the Bacchus West plant, the world's most advanced facility for manufacturing solid rocket motors. Consisting of over two dozen buildings, connected by robotically-operated vehicles and located on over 1,500 acres of land, Bacchus West features automated process control from receipt of propellant ingredients to final motor finishing. It currently produces about 75 medium- and large-diameter rocket motors per year, for critical defense programs such as the U.S. Navy's submarine-launched Trident II ballistic missile as well as space launch and missile defense systems. The automated propellant mixing, casting and curing equipment at Bacchus West includes state-of-the-art 25-ton/1,800 gallon mixers and 60-foot-deep cast/cure facilities, which have the capacity to manufacture up to 15 million pounds of rocket propellant per year with a few dozen people remotely controlling the operations.



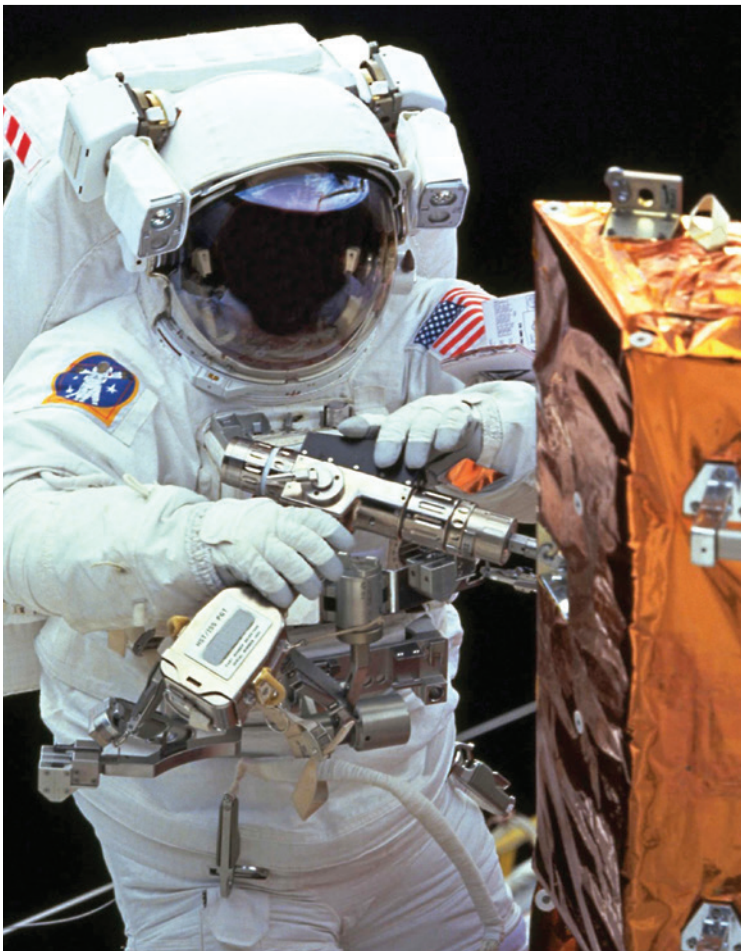
## Solid-Fuel Control Thrusters

In the 1980's, the company's Elkton, Maryland division pioneered the use of solid rocket propulsion technology to provide storable divert and attitude control system (DACS) thrusters for first-generation missile interceptor kill vehicles. Configuring a set of high-temperature proportional valves around small rocket motor cases, we developed and produced solid-fuel DACS thrusters for the Missile Defense Agency's LEAP prototype kill vehicles. As missile defense programs accelerated in the 1990's, we deployed similar systems on the U.S. Navy's Standard Missile 3 interceptor, which continues to be a first line of defense for medium-range missile threats. Today, our solid-fuel thrusters not only provide the impulse for exoatmospheric maneuvering of missile defense hit-to-kill vehicles but also are used in NASA's astronaut safety escape system on the Orion capsule.



## Pegasus Small Launch Vehicles

More than 25 years before the Orbital ATK merger, two of our principal predecessors, Orbital and Hercules Aerospace, first joined forces to design, build and operate one of the company's signature innovations, the Pegasus air-launched space booster. Conceived by Virginia-headquartered Orbital in 1987 and developed in a joint venture with Utah-based Hercules during 1988-1990, Pegasus was the first all-new space launch vehicle to be developed commercially, and the only aircraft-launched rocket capable of placing satellites in orbit. Since its first flight in 1990, Pegasus vehicles have boosted over 100 government and commercial satellites into space using both B-52 and L-1011 carrier aircraft and operating from six launch sites around the world. Pegasus and its various derivatives have accounted for over 200 vehicle sales during the last 30 years. Based on this trailblazing work, our Pegasus team received the National Medal of Technology in 1991, the highest honor conferred by the United States for technological achievement.



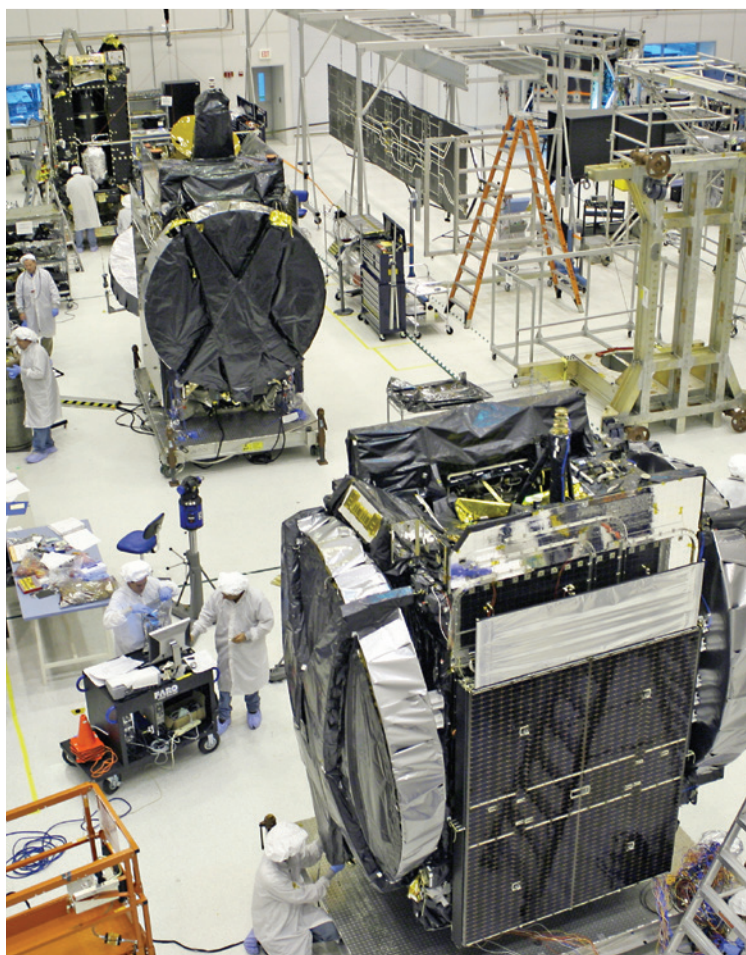
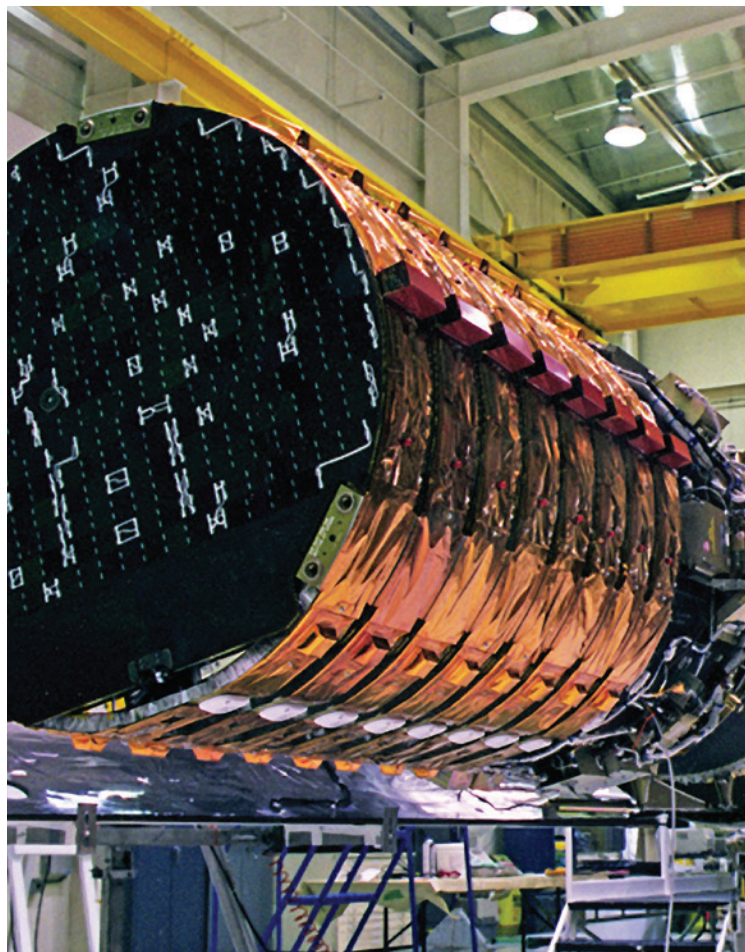
## In-Space Servicing Tools and Techniques

From the early 1990's to the late 2000's, NASA's Hubble Space Telescope (HST) required five servicing missions to correct its blurred imaging system and to repair and upgrade its scientific instruments and electronics. To carry out these in-orbit servicing missions, Shuttle-based astronauts on extravehicular activity (EVA) "space walks" used advanced space-rated hand-tools and servicing techniques developed for NASA by Swales Aerospace (acquired by ATK in 2007) and Fairchild Space's Technical Services Division (acquired by Orbital in 1994), both based in Greenbelt, Maryland. Our EVA tools included electronic card extraction/insertion devices, metal cutting tools, and the power-driven pistol grip tool (PGT), all designed to work in conditions described by astronauts as "brain surgery in the dark... using oven mitts!" The PGT was designed to quickly and precisely remove hundreds of bolts on the HST and is still in use today at the International Space Station.



## ORBCOMM Low-Orbit Satellite Network

Once Pegasus became operational as a low-cost, dedicated small-class launcher in the mid-1990's, Orbital created a trailblazing global data communications network using a constellation of nearly three dozen low-altitude satellites in its ORBCOMM program. With state-of-the-art micro-satellites weighing less than 100 pounds (built on a production line and launched in batches of eight on Pegasus rockets) and an international network of ground stations on five continents, the ORBCOMM system allowed short digital messages to be sent and received — from anywhere, to anywhere — by small, low-power user devices on trucks, rail cars, industrial equipment and other machines. This made ORBCOMM the first truly ubiquitous worldwide data system, implementing the original “Internet of Things” fully 20 years before that term came into popular use.



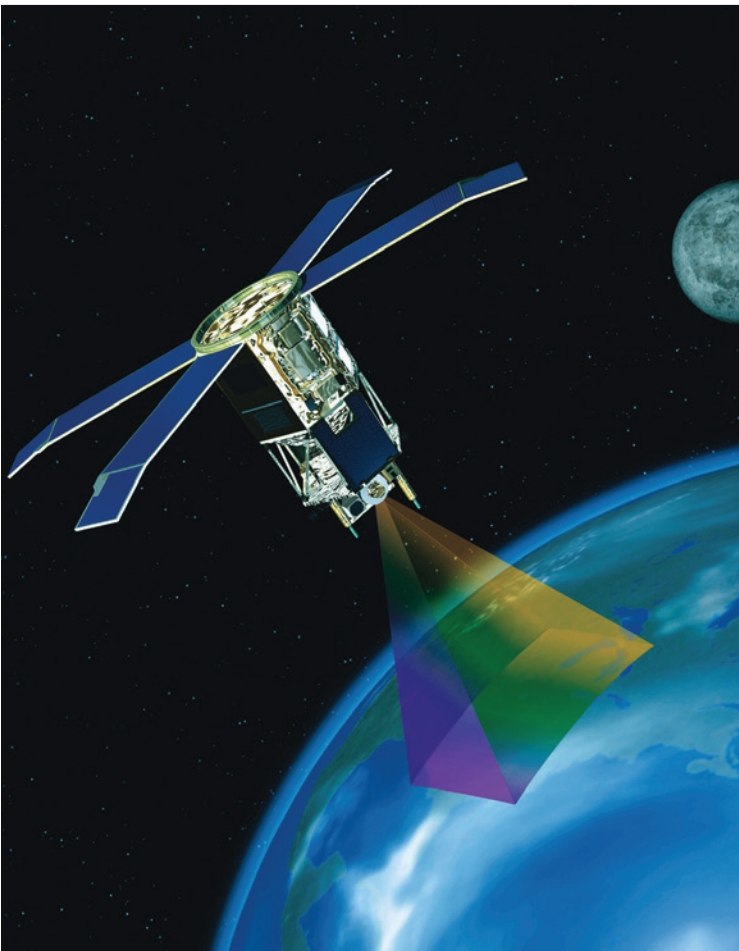
## Small Geosynchronous Satellites

In the mid-1990's, Orbital identified an overlooked market need for relatively small, highly affordable geosynchronous communications satellites that would allow commercial operators to economically replace 1980's-vintage spacecraft that were nearing the end of their operational lives. This spawned the GEOSat family of satellites which combined technical and business model innovations. By the mid-2000's, GEOSats had captured about 50% of worldwide demand for small-class commercial satellites. Within another few years, derivatives of them would also be used as platforms for both scientific and national security missions, in the latter case helping the company achieve its first prime contractor position for an operational Air Force space system. In the 20 years since the company's first geosynchronous satellite delivery in 1997, Orbital ATK has built or now has under contract over 50 GEOSat spacecraft for more than 20 customers in the U.S. and around the world.



## X-34 Experimental Hypersonic Vehicle

In a partnership with NASA in the late 1990's, Orbital designed and constructed two experimental rocket-propelled hypersonic vehicles to be used in testing new materials and propulsion systems for future reusable launch vehicles. These X-34 rocket planes were lifted to launch altitudes by the company's L-1011 Pegasus carrier aircraft and were capable of reaching speeds of Mach 8 at high altitudes. After atmospheric reentry, the X-34's were to conduct autonomous runway landings and then to be readied for another mission in less than a day. Due to technical and cost problems, NASA was not able to provide the rocket engine that was to power the X-34's, so it was not possible to demonstrate high-speed flights. Nevertheless, the technologies and operational procedures invented for X-34 are being used today in several space launch and defense systems.



## ORBIMAGE Commercial Imaging Satellites

In the mid-1990's, Orbital designed, built and launched the world's first privately-owned Earth imaging satellites, operated by its ORBIMAGE subsidiary. These included sub-meter resolution optical imaging and multi-/hyper-spectral sensing systems as well as GPS-based atmospheric scanning satellites. Beyond its technical advances, ORBIMAGE also pioneered several business-model innovations, including a successful campaign to relax U.S. government regulatory constraints on commercial imaging satellites, electronic distribution of near-real time information products based on value-added imaging processing software, and international partnerships to downlink and sell imagery to regional customers in Europe, Asia and South America.



## Deployable Space Structures

An Orbital ATK-predecessor company, PSI/Able Engineering in Goleta, California, developed an extensive set of precision deployable space structures in the 1980's and 1990's. Examples included the magnetometer boom for the Galileo mission to Jupiter, the 200-foot deployable mast on the Shuttle's radar topography mission, and the solar array booms on the International Space Station. After the PSI/Able business was acquired by ATK in 2004, Orbital and ATK worked together on several commercial and scientific satellite programs that used advanced deployable systems. For instance, a Goleta-supplied extendable boom supporting an x-ray telescope was mated to a Dulles-produced spacecraft bus for Caltech's NuSTAR astrophysics satellite in the early 2010's. Goleta's experience with precision deployable structures enabled large lightweight solar arrays needed by modern communications satellites, with these arrays powering more than 50 of our GEOSat geosynchronous satellites. And our new Ultraflex solar arrays, initially flown on NASA's Phoenix Mars lander, now power enhanced versions of the company's Cygnus cargo spacecraft.



## X-43/Hyper-X Experimental Scramjet Aircraft

A decade after the first launches of Pegasus, ATK and Orbital teamed up again on NASA's X-43/Hyper-X hypersonic research program. In this case, ATK's Long Island, New York GASL subsidiary designed and integrated the X-43 experimental aircraft that used a hydrogen-fueled air-breathing scramjet engine to demonstrate sustained flight at Mach numbers of 7 to 10 and altitudes around 100,000 feet. In addition to major advances in propulsion technology, X-43 also required new thermal protection and flight control systems to be developed. And to boost the X-43 test vehicle to scramjet take-over speeds, Orbital provided a modified Pegasus rocket called Hyper-X that was air-launched from a B-52 aircraft. The X-43/Hyper-X program achieved the first in-flight testing of a scramjet engine and still holds the world record for the fastest speed reached by an air-breathing vehicle, cruising at nearly 7,000 miles per hour in its third flight in 2004.



## Ground-Based Interceptors for Missile Defense

One of Orbital's fastest product development initiatives took place between 2001 and 2004, when the company designed, tested, produced and delivered 12 Orbital ATK Boost Vehicles (OABVs) as part of the United States' first national missile defense system. Based on an extensively modified Pegasus rocket, OABV is the launch vehicle for the Missile Defense Agency's Ground-Based Interceptors, dozens of which are now deployed in silos in California and Alaska to defend the U.S. and our allies against long-range ICBM-class missile attacks. The company's Chandler, Arizona team engineered, built and flight tested the first two OABVs in 20 months from contract award, and delivered 10 more vehicles over the following year. Since then, Orbital ATK has produced, or is now building, nearly 100 additional interceptors and has achieved a 100% launch success record on all OABV test flights over the last 15 years.



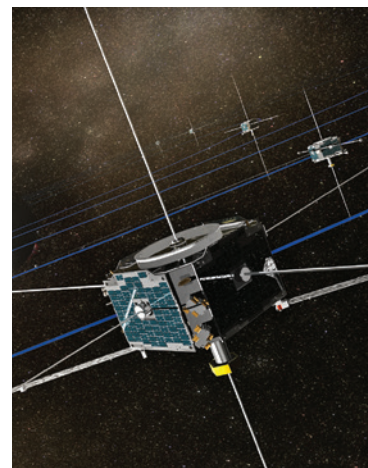
## Advanced Aerospace Materials

Another inventive combination of cross-company capabilities, stimulated by progress in composites materials and manufacturing automation, propelled our expansion into military aircraft, which was accelerated by ATK's acquisition of Dayton, Ohio-based Mission Research Corporation (MRC) in 2004. A joint Utah/Ohio team integrated advanced capabilities in RF modeling, derived from MRC's previous apertures and mission analysis work, with ATK's polymer chemistry and materials depth from the solid rocket propulsion business and highly engineered structures know-how, into a critical discriminating capability for advanced aircraft materials. This has proven to be an advantage of substantial customer interest and has generated an important new line of business for Orbital ATK on military programs such as the F-22 and F-35 fighter aircraft.



## Small Multi-Mission Satellites

In the late 1990's and early 2000's, three predecessor businesses — Orbital, Spectrum Astro and Swales Aerospace — independently conceived and developed small, versatile satellites to conduct government and commercial imaging missions. These included Orbital's small platforms used for NASA scientific programs such as the *SORCE* and *IBEX* heliophysics and *GALEX* and *NuSTAR* astronomy satellites; Spectrum's small, agile buses for NASA's *Swift* and *Fermi* astrophysics missions and for commercial and defense Earth imaging applications; and Swales' satellites for NASA's Earth Observing System and *THEMIS* programs as well as the Air Force's *ORS-1* and *Tacsat-3* small reconnaissance spacecraft. Altogether, these three lines of lightweight, multi-mission satellites, now integrated into a common family of modular spacecraft, have been used on more than 30 scientific, defense and commercial missions during the last 20 years.



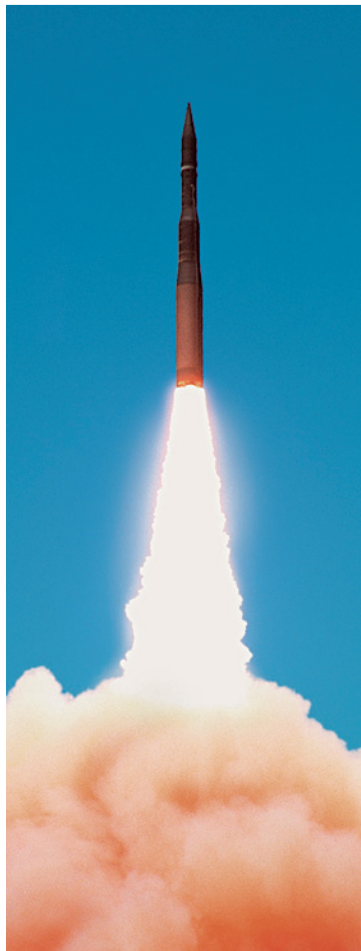
## Advanced Military Chain Guns

The company's Bushmaster series and similar medium-caliber cannons use a patented externally-powered chain-feed mechanism to facilitate reliable operations under demanding conditions. With an installed base of over 18,000 units on U.S. and allied military vehicles, our chain guns offer a robust response to the challenges of operating in unpredictable wartime environments, where extreme temperature variations and exposure to salt and sea spray, mud and sand are common. The Apache helicopter represents a typical use of these military-grade guns, which fire 600 rounds per minute in a single-feed configuration. In the mid-2000's, ATK conceived of integrating a lightweight 30mm Bushmaster gun onto remote weapon stations, an innovation that provides the ability to affordably deliver precision lethality from a diverse set of air, land and sea platforms.



## Small-Caliber Ammunition Manufacturing

Orbital ATK has operated the U.S. Army's main small-caliber ammunition production facility, located in Lake City, Missouri, since 2000. While manufacturing about 25 billion small-caliber rounds in the past 17 years, our team has consistently improved safety, reliability and productivity through key innovations in robotics and machine controls, including automated case and bullet forming, energetic powder filling and on-line inspection capabilities. These innovations have boosted our output to 1,200 rounds per minute on a single line, increasing workforce productivity more than 50% over the last 10 years and raising the plant's sustainable capacity to more than 1.6 billion rounds a year. In addition, robotics have been employed to replace manual ammunition packaging and marking operations, removing ergonomic hazards, improving repeatability and reducing costs.



## Minotaur Space Launch and Target Vehicles

For many years, the company's Chandler, Arizona launch vehicles business, acquired by Orbital in the late 1980's, has been the industry leader in developing and building low-cost missile defense target vehicles that combine decommissioned strategic and tactical rocket motors with advanced-technology modular avionics and control systems. In the early 2000's, Orbital ATK applied this propulsion-repurposing/subsystem-commonality approach to create the Minotaur family of small space launch vehicles and long-range target rockets, which has since achieved a 100% flight success record on more than 25 launches of six vehicle configurations from four sites. More recently, the company added medium- and intermediate-range targets, launched from ground sites as well as cargo aircraft, to its inventory, boosting its past and current target production experience to over 250 vehicles since the 1980's.



## Supersonic Ramjet Targets

In the 1990's, Russia developed a formidable anti-ship missile propelled by a combined rocket/ramjet to attack naval targets at supersonic speeds while skimming the sea surface. To develop a suitable defense system, the U.S. Navy needed a target vehicle capable of simulating not only the current performance of that threat but expected improved versions of it as well. To address this need, the company proposed our Mach 3 Coyote vehicle, a variable-flow ducted-rocket target, the first to be developed in the U.S. A demanding requirement for this target was the ability to perform extreme maneuvers (such as lateral turns at 12 times the acceleration of gravity at supersonic speeds) in order to mimic what an advanced threat might eventually do. This was made possible by one of Coyote's key innovations, a novel set of air inlets that allow high maneuvering angles while maintaining ramjet air flow. Since its adoption by the Navy in 2005, the company has sold over 150 Coyote targets and has performed more than 60 operational flights with 100% mission success.



## Advanced Precision Weapons

By the late 1990's, the U.S. Army's conventional artillery had been largely relegated to the sidelines in many operational deployments due to concerns of collateral damage. Conventional artillery, which is better suited for area effects, has an accuracy of approximately 300 meters over long ranges. Building on a multi-decade heritage from Honeywell in hardened electronics and projectile aerodynamics, ATK's Plymouth, Minnesota division developed the Precision Guidance Kit (PGK), an ingenious device that transforms conventional artillery projectiles into precision weapons that can hit within 10 meters of point targets at a fraction of the cost of competing solutions. Among PGK's key innovations are the ability to continuously course-correct an artillery shell with only one moving part, the generation of electrical power through an integral alternator rather than a battery, and the ability to disarm itself if outside the desired target zone, minimizing the risk of collateral damage... all this functionality from a device subjected to 30,000 g's of gun acceleration.

## AARGM Tactical Missiles

Air-to-ground missiles that home in on radars were first developed in the 1960's to suppress enemy air defense systems and allow strike aircraft to access hostile airspace. One early model, the High Speed Anti-Radiation Missile (HARM), was first fielded in the mid-1980's as the primary U.S. air defense suppression missile. However, enemy forces soon developed tactics to counter HARM, including intermittently shutting down their radars, resulting in errant missile impacts and collateral damage. In the late 2000's ATK's Northridge, California team developed a game-changing upgrade to HARM, called the Advanced Anti-Radiation Guided Missile (AARGM), for a fraction of the cost of a completely new missile. AARGM retains the HARM rocket motor and warhead but combines them with a new seeker and control section. It also includes a digital anti-radiation homing sensor to identify modern air defense systems, a GPS/INS system to allow point-to-point missions and to avoid missile impacts in designated exclusion zones, and a millimeter-wave terminal guidance radar to counter shutdown tactics and provide net-centric connectivity.



## Orion Launch Abort System (LAS)

In the mid-2000's, Orbital and ATK teamed to develop an advanced astronaut safety system that, unlike previous versions used on Mercury and Apollo capsules, was capable of flying a booster-escaping spacecraft along a complex trajectory, much like a state-of-art aircraft ejection seat. Our launch abort system uses a novel reverse-flow rocket motor to propel NASA's Orion crew module, protecting astronauts throughout the pre-launch and ascent flight of the SLS heavy-lift booster. The LAS is capable of accelerating the Orion capsule from zero to 500 mph in about 2 seconds. In addition, to steer Orion away from an errant launch vehicle, the LAS uses an array of eight solid-fuel radial divert thrusters that are precisely controlled to guide it along a safe abort trajectory.



## XM-25 Infantry Guns

Developed over the past decade, the XM-25 weapon and its companion ammunition is the industry's first precision soldier-carried counter-defilade weapon. Its key innovation is a programmable air-burst turns-count fuze, which is coupled with an integrated laser range-finder and uses a "smart" mini-magnetometer in the 25mm round. This combination allows the gun to effectively "shoot around corners" by detonating the round at very precise locations while also limiting collateral damage. XM-25 was deployed with U.S. troops in Afghanistan in the early 2000's, with very effective results. Recently, the U.S. Army has found new applications for the XM-25, including successful demonstrations against small UAV's, providing soldiers a man-portable capability against an important and fast-evolving threat.

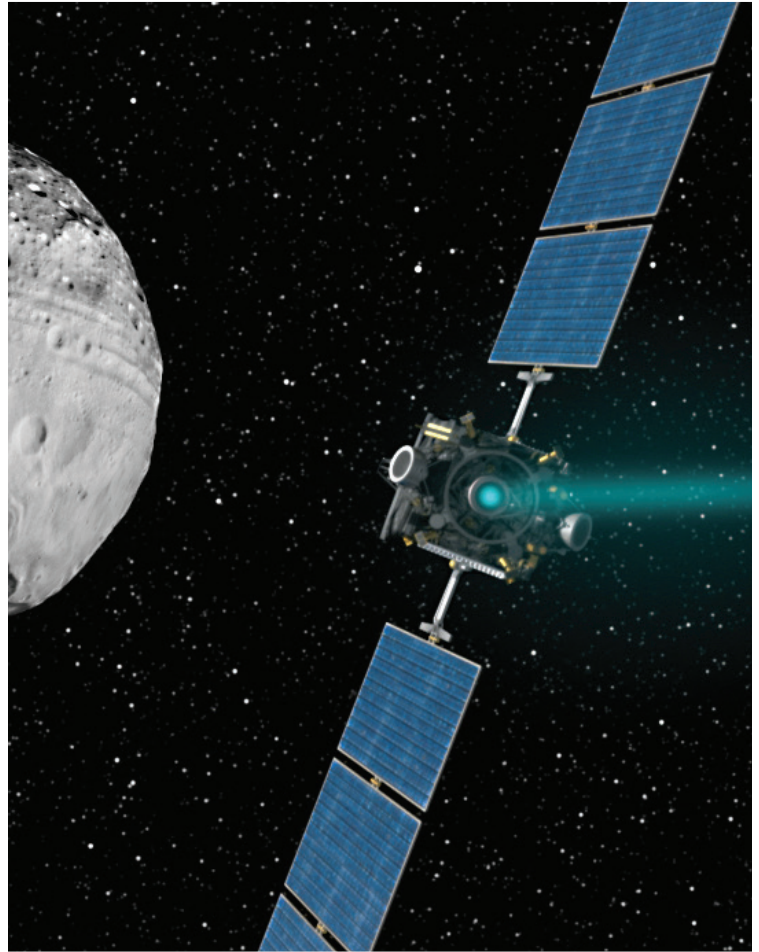


## Ares 1X Launch Vehicle

In the mid-2000's, ATK collaborated with NASA to conceive and design the Ares family of heavy-lift space launch vehicles that became the basis of the space agency's Constellation Program. Along with the Orion crew modules, the Ares rockets were designed to return U.S. astronauts to the Moon. As first-stage prime contractor, the company built and launched the prototype Ares 1X rocket in 2009 to demonstrate the key propulsion technology and ground processing techniques to be used by operational Ares rockets. The Ares 1X flight achieved all its objectives, including a demonstration that showed solid-motor vibrations were well within acceptable ranges. With subsequent changes in NASA's goals and budgets in the early 2010's, the Ares vehicle architecture was modified and it was renamed the Space Launch System (SLS), which now will carry astronauts on deep-space voyages in the next decade.

## Dawn Interplanetary Spacecraft

The Dawn interplanetary spacecraft was designed by Orbital's Dulles, Virginia engineering team, in collaboration with NASA's Jet Propulsion Laboratory (JPL). It is based on attitude control, command and data management, and other subsystems from the company's science spacecraft, with power and structure elements from our geosynchronous platforms, making it a uniquely capable deep-space explorer. Launched in 2007, Dawn used an advanced ion propulsion system to thrust across the solar system and to orbit and explore two bodies in the main asteroid belt, Vesta and Ceres. Dawn is the first planetary science mission to be executed with ion propulsion, and indeed would have been impossible to conduct without that technology. Dawn is also the first spacecraft to orbit two solar system bodies beyond Earth, as well as the first mission to visit a dwarf planet. More than 10 years and over three billion miles after its launch, Dawn continues to operate today in a low-altitude orbit above Ceres. In 2016, the JPL/Orbital ATK Dawn team was honored as the recipients of the Collier Trophy, which remains on permanent display at the Smithsonian National Air & Space Museum in Washington, D.C.



## Advanced Large-Caliber Tank Rounds

As armored threats improved their defensive capabilities in recent years, ATK helped the U.S. Army stay one step ahead of adversaries with an advanced tank round that provides a combination of multi-purpose effects, including the ability to defeat the most advanced enemy armor. This functionality is achieved through use of a real-time data link from the tank directly to the round, giving it versatility across a broad spectrum of missions with U.S. Abrams and NATO Leopard main battle tanks. Included in our broad line of 120mm tank ammunition, the company's multi-purpose rounds also mitigate the logistic loads on our warfighters by reducing the number of specialty rounds that need to be shipped and stored.



## GSSAP Defense Satellites

Long considered a safe haven for communications, missile warning and other defense satellites, geosynchronous orbit is fast becoming a congested — and potentially contested — space regime. Since close observations of this high-altitude arc are difficult from either Earth's surface or low-altitude orbit, Orbital ATK began an initiative in the mid-2000's to develop special technologies and operational techniques to allow small geosynchronous satellites to patrol this sensitive area. In the early 2010's, Orbital ATK was selected by the U.S. Air Force to produce its Geosynchronous Space Situational Awareness Program (GSSAP) satellites. A fleet of GSSAP spacecraft is now deployed in high-altitude orbits as "neighborhood watch" platforms, providing the U.S. with an unprecedented ability to monitor space activity in this critical orbit regime. These spacecraft have the capability to perform rendezvous and proximity operations near a satellite of interest for anomaly resolution and enhanced surveillance while maintaining strict flight safety.

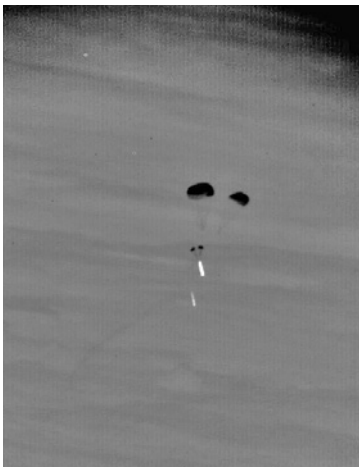


## Light ISR and Attack Gunships

As the U.S. and our allies faced escalating irregular combat situations in the Middle East, our military needed rapidly-available and affordably-priced special mission aircraft to complement high-performance strike platforms. In response, ATK pioneered the integration of conventional munitions and ISR capabilities onto several types of "off the shelf" light aircraft, providing highly-affordable weapon systems for allied air forces. Beginning with modifications to the Cessna Caravan, the company integrated Hellfire missiles with an existing ISR platform, deploying the first aircraft to Iraq less than a year after go-ahead in 2013. With more modified Caravans added since then, these aircraft have executed over 3,000 strike missions against insurgent forces in the last four years. Future small gunships, to be used by other regional allies, will include a pallet combining our medium-caliber gun and fire control system that can be installed or removed from the aircraft on short notice.

## Antares/Cygnus Space Cargo Delivery Systems

Following the second Space Shuttle accident in 2003, NASA needed an alternative means of delivering food, water, instruments and other supplies to the International Space Station. In response, Orbital conceived and developed the Cygnus autonomous spacecraft, along with its Antares medium-class launch vehicle and a new spaceport at Wallops Island, Virginia. To speed development and lower costs, the company assembled an international team of industrial suppliers, and also entered into a public/private partnership with NASA to share R&D costs and assure human-rating safety. The versatility of Cygnus was demonstrated by its ability to quickly adapt to another launcher after an unfortunate Antares failure in 2014, while the ingenuity and determination of the Antares team was illustrated in its fast re-engining which allowed our launch vehicle to return to flight status within a short time. Evolutionary improvements in the capacity of both Antares and Cygnus, along with steady cost reductions, have allowed the company to reduce the unit price of cargo delivery to NASA by almost 50% over the last five years.



## Air-Launched IRBM Targets

In the mid-2010's, Orbital ATK introduced intermediate-range ballistic targets that are air-launched from C-17 military cargo aircraft using a sophisticated multi-stage parachute extraction and deployment system. By allowing for launches at a wide range of locations and azimuths over open ocean areas, these targets provide great flexibility and high fidelity in missile defense system testing. Based on technology originally developed for the company's Pegasus space booster and missile interceptor rockets, air-launched IRBM targets have been used in testing of medium- and long-range missile defense systems. Modified ground-launched versions of the IRBM targets are also used in ICBM-class testing.



## Stratospheric Balloons

Over the last several years, the company has worked with NASA to perfect super-pressure stratospheric balloons, capable of carrying multi-ton payloads to altitudes of 120,000 feet on scientific missions lasting for many weeks. Early versions of these giant balloons, which span over 400 feet in diameter when they fully expand at high altitudes, have circumnavigated the globe after launches from New Zealand. Future operational missions for the stratospheric platforms are planned for deployments in the Northern and Southern polar regions.



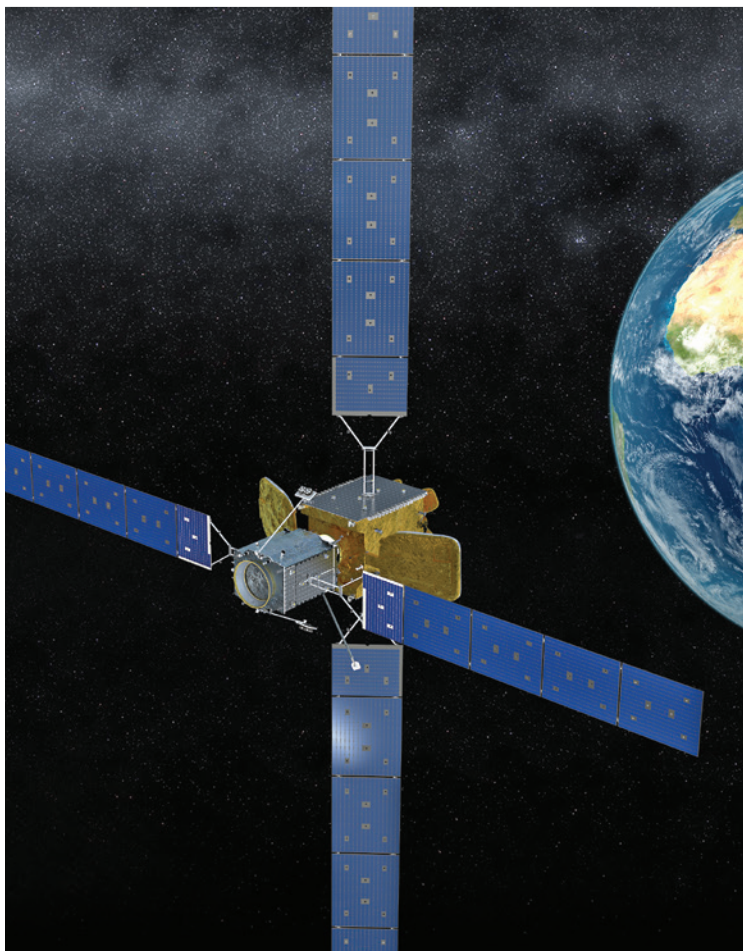
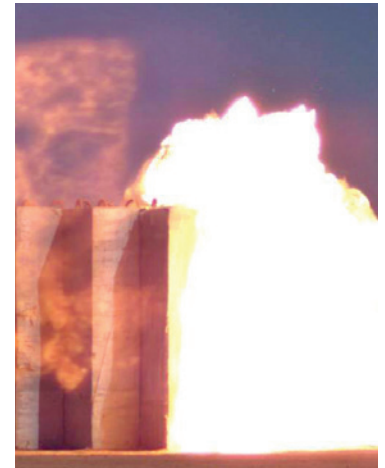
## Lethality Enhanced Ordnance (LEO)

Orbital ATK's leading position in warhead design and production is enabled by a unique capability to accurately model explosion dynamics, and to precisely and repeatedly place fragments in an explosive matrix. The company's LEO technology, jointly developed by our Plymouth, Minnesota and ABL, West Virginia teams in the late 2000's, can be tailored to provide precise effects for a range of munitions systems including small precision weapons, mortars and artillery, and air-delivered weapons. LEO technology generates weapon effects comparable to or better than legacy sub-munition cluster weapons while reducing collateral damage, eliminating unexploded ordnance and offering greater performance per unit mass and volume than conventional warheads. One example of this, currently in development at Orbital ATK, is the "Hatchet" small glide bomb, a 12-inch long, 6-pound precision air-dropped munition that can be deployed from piloted aircraft or UAVs.



## Electronic Munition Fuzes

Fuzes are a vital safety and performance element of exploding ordnance systems. However, the reliability of conventional mechanical and electro-mechanical fuzes degrades, especially when employed in harsh environments. In the last five years, Orbital ATK has developed and is now producing next-generation all-electronic fuzes that provide enhanced performance and greater reliability through the use of advanced solid state electronics. One example is the company's Hard Target Void Sensing Fuze (HTVSF) that is used with 2,000 and 5,000 pound bombs. The HTVSF is a cockpit-programmable, survivability-hardened, intelligent fuze that provides the capability to destroy reinforced and deeply-buried targets with a reduced number of weapons by accurately assessing where the warhead is in a multi-story target facility and detonating at the desired level.



## Commercial Satellite Servicing

The 2015 Orbital-ATK merger accelerated a pioneering initiative for in-space commercial satellite servicing, which had been pursued for several years before the combination by ATK's Maryland-based satellite division. Based in part on know-how developed by both companies' earlier experience with astronaut EVA tools and techniques, this program ramped up in early 2016 by leveraging Orbital's GEOStar satellite platform and ATK's prior work on autonomous rendezvous and docking technology to create the first commercial satellite servicing system, called Mission Extension Vehicles (MEV). By early 2018, Orbital ATK was producing the first two MEVs for Intelsat, a large satellite operator, and was designing even more advanced servicing systems for future uses.



## “Smart” Medium-Caliber Ammunition

Today, Orbital ATK is combining its expertise in proximity fuzing, internal power generation, projectile aerodynamics and real-time guidance to develop a family of “smart” ammunition products. To do this, the company is leveraging both its industry-standard Bushmaster chain guns and its recently developed XM-25 infantry gun, which pioneered programmable air-burst technology. This latter weapon shoots a 25mm round at precise distances using an innovative design that counts its rotations and equates these very accurately to distance traveled. We are now qualifying similar designs for 30mm and 40mm medium-caliber ammunition, capable of covering distances of two to three kilometers in conjunction with our powerful chain guns. In addition, the company has developed a self-powered proximity fuze that uses a miniature radar to detect targets and command a precise air-burst. Work is also underway to guide these rounds, providing in-flight steering through ground radar-controlled RF links.



## All the Great Things Yet to Be Invented...

From new large-class space launch vehicles and breakthrough approaches to propellant manufacturing, to hypersonic propulsion systems and rocket-boosted artillery rounds, to commercial lunar-orbit platforms and comet sample return spacecraft... many new technologies, products and business approaches are now being explored throughout the company. With the industry’s most creative and dedicated workforce, a storehouse of over 1,000 patents, some of the world’s most advanced R&D and manufacturing facilities, and a spirit of unbounded intrepidity, our last 40 years are only the prologue to the many great innovations soon to be conceived by the Orbital ATK team!

## Board of Directors

### **Gen. Ronald R. Fogleman, U.S. Air Force (Retired) (I)**

- Chairman of Orbital ATK's Board of Directors
- Former Chief of Staff, U.S. Air Force
- Former Commander, U.S. Transportation Command

### **Gen. Kevin P. Chilton, U.S. Air Force (Retired) (I)**

- Former Commander of U.S. Strategic Command
- Former Commander of U.S. Air Force Space Command
- Former NASA Astronaut

### **Ms. Roxanne J. Decyk (I)**

- Former EVP of Global Government Affairs, Royal Dutch Shell PLC
- Former VP of Corporate Strategy, Royal Dutch Shell PLC

### **Dr. Lennard A. Fisk (I)**

- University Professor of Space Sciences, University of Michigan
- Former Associate Administrator, NASA

### **Lt. Gen. Ronald T. Kadish, U.S. Air Force (Retired) (I)**

- Former EVP, Booz Allen Hamilton, Inc.
- Former Director, U.S. Missile Defense Agency
- Former Commander, U.S. Air Force Electronics Systems Center

### **Mr. Tig H. Krekel (I)**

- Chairman and Founding Partner, Hudson Group LLC
- Former President and CEO, AlliedSignal (now Honeywell) Aerospace Equipment Systems
- Former President and CEO, Hughes Space & Communications
- Former President, Boeing Satellite Systems

### **Mr. Douglas L. Maine (I)**

- Senior Advisor, Brown Brothers Harriman & Co.
- Former CFO, International Business Machines Corporation
- Former CFO, MCI

### **Mr. Roman Martinez IV (I)**

- Private Investor
- Former Managing Director, Lehman Brothers

### **Ms. Janice I. Obuchowski (I)**

- President, Freedom Technologies, Inc.
- Former U.S. Ambassador, World Administrative Radio Conference
- Former Administrator, National Telecommunications and Information Agency

### **Dr. James G. Roche, U.S. Navy (Retired) (I)**

- Former Secretary of the U.S. Air Force
- Former Corporate VP and President, Electronic Sensors and Systems Sector, Northrop Grumman Corporation

### **Dr. Harrison H. Schmitt (I)**

- Aerospace Business Consultant
- Former U.S. Senator, New Mexico
- Former Apollo Astronaut, NASA

### **Mr. David W. Thompson**

- President and CEO, Orbital ATK
- Orbital Co-Founder

### **Mr. Scott L. Webster (I)**

- Former Chairman and CEO, MBDA Inc. (U.S.)
- Orbital Co-Founder and EVP

*(I) - Independent Director*

## Executive Officers and Senior Management

### **David W. Thompson**

President and Chief Executive Officer

### **Blake E. Larson**

Chief Operating Officer

### **Garrett E. Pierce**

Chief Financial Officer

### **Scott L. Lehr**

President, Flight Systems Group

### **Michael A. Kahn**

President, Defense Systems Group

### **Frank L. Culbertson**

President, Space Systems Group

### **Antonio L. Elias**

Executive Vice President and Chief Technical Officer

### **Thomas E. McCabe**

Executive Vice President and General Counsel

### **Christine A. Wolf**

Senior Vice President, Human Resources

### **Edward M. Fortunato**

Senior Vice President, Government Relations



**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the year ended December 31, 2017

OR

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

Commission file number 1-10582



**ORBITAL ATK, INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**41-1672694**  
(I.R.S. Employer  
Identification No.)

**45101 Warp Drive**  
**Dulles, Virginia**  
(Address of principal executive  
offices)

**20166**  
(Zip Code)

Registrant's telephone number, including area code: **(703) 406-5000**

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$.01	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer       Accelerated Filer       Non-Accelerated Filer       Smaller Reporting Company       Emerging Growth Company   
(Do not check if a smaller reporting company)

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

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

At June 30, 2017, the aggregate market value of the registrant's voting common stock held by non-affiliates was approximately \$5.611 billion (based upon the closing price of the common stock on the New York Stock Exchange on June 30, 2017).

At February 15, 2018, there were 57,798,076 shares of the registrant's voting common stock outstanding.

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\* **Note: Part III of the Company's Form 10-K has been omitted from this Annual Report. The Company's Form 10-K, including the full text of Part III, is available from the SEC's website at [www.sec.gov](http://www.sec.gov) or the Company's website at [www.orbitalatk.com](http://www.orbitalatk.com).**



## PART I

### EXPLANATORY NOTE REGARDING THIS ANNUAL REPORT

In March 2015, we changed our fiscal year from the period beginning on April 1 and ending on March 31 to the period beginning on January 1 and ending on December 31. We refer in this report to the nine-month period beginning on April 1, 2015 and ending on December 31, 2015 as the "2015 transition period." All fiscal years after December 31, 2015 are for the calendar year ended December 31. We sometimes refer in this report to the period beginning January 1, 2017 and ending on December 31, 2017 as "calendar 2017" or "2017" and the period beginning on January 1, 2016 and ending on December 31, 2016 as "calendar 2016" or "2016." We refer in this report to the period beginning on April 1, 2014 and ending on March 31, 2015 as "fiscal 2015" and the period beginning on April 1, 2013 and ending on March 31, 2014 as "fiscal 2014."

### ITEM 1. BUSINESS

Orbital ATK, Inc. (the "Company," "we," "us" or "our") is an aerospace and defense systems company and supplier of related products to the U.S. Government, allied nations, prime contractors and other customers. Our main products include launch vehicles and related propulsion systems; satellites and associated components and services; composite aerospace structures; tactical missiles, subsystems and defense electronics; and precision weapons, armament systems and ammunition. We are headquartered in Dulles, Virginia and have operating locations throughout the United States. We were incorporated in Delaware in 1990.

On September 17, 2017, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Northrop Grumman Corporation ("Northrop Grumman") and Neptune Merger, Inc., a wholly owned subsidiary of Northrop Grumman ("Sub"), pursuant to which Northrop Grumman will acquire the Company for a purchase price of \$134.50 per share in cash (the "Merger").

Closing of the Merger is expected to occur during the first half of 2018, subject to customary closing conditions and obtaining required regulatory approvals. At the effective time of the Merger, each outstanding share of the Company's common stock, other than shares owned by the Company, Northrop Grumman or Sub (which will be canceled) and appraisal shares, will be converted into the right to receive \$134.50 in cash, without interest and less any applicable withholding taxes.

On February 9, 2015, we completed the spin-off and distribution (the "Distribution") of our former Sporting Group to our stockholders as a new public company called Vista Outdoor Inc. ("Vista Outdoor"). Immediately following the Distribution of our former Sporting Group, we combined with Orbital Sciences Corporation ("Orbital") through the merger of a company subsidiary with Orbital (the "Orbital-ATK Merger").

We conduct business in three segments: Flight Systems Group, Defense Systems Group and Space Systems Group, which are described in greater detail below. These Groups are further comprised of smaller operating units that we refer to as "divisions."

Flight Systems Group is well-positioned in its markets, as follows:

- leading provider of small- and medium-class space launch vehicles for civil, military and commercial missions,
- major supplier of interceptor boosters and target vehicles for missile defense applications,
- premier producer of solid rocket propulsion systems and specialty energetic products, and
- manufacturer of composite structures for commercial and military aircraft and launch vehicles.

Defense Systems Group is also well-positioned in its markets, as follows:

- leader in propulsion and controls for air-, sea- and land-based tactical missiles and missile defense interceptors, as well as fuzing and warheads for tactical missiles and munitions,
- supplier of advanced defense electronics for next-generation strike weapon systems, missile-warning and aircraft survivability systems and special-mission aircraft,

- leading producer of medium- and large-caliber ammunition, medium-caliber gun systems and precision munitions guidance kits, and
- leading U.S. producer of small-caliber ammunition.

Space Systems Group is also well-positioned in its markets, as follows:

- leading provider of small- and medium-class commercial satellites used for global communications and high-resolution earth imaging,
- leading provider of small- and medium-class spacecraft that perform scientific research and national security missions for government customers,
- provider of commercial cargo delivery to the International Space Station ("ISS") and developer of advanced space systems, and
- premier provider of spacecraft components and subsystems and specialized technical services.

Sales; income from continuing operations, before interest, income taxes and noncontrolling interest; and other financial data for each segment for the year ended December 31, 2017, the year ended December 31, 2016 and the nine months ended December 31, 2015, respectively, are set forth in Note 18, *Operating Segment Information*, to the consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of this report.

### **Flight Systems Group**

Flight Systems Group develops launch vehicles that are used as small- and medium-class space launch vehicles to place satellites into earth orbit and escape trajectories, interceptor and target vehicles for missile defense systems and suborbital launch vehicles that place payloads into a variety of high-altitude trajectories. The Group also develops and produces medium- and large-class rocket propulsion systems for human and cargo launch vehicles, strategic missiles, missile defense interceptors and target vehicles. Additionally, the Group operates in the military and commercial aircraft and launch structures markets.

The following is a description of the divisions within Flight Systems Group:

#### ***Launch Vehicles Division***

The Launch Vehicles division includes both small- and medium-class rockets for government, civil and commercial payloads. Our innovative Pegasus® rocket is launched from our "Stargazer" L-1011 carrier aircraft and has proven to be the small space-launch workhorse for U.S. Government and commercial customers. Our Taurus launch vehicle combines our Pegasus upper-stage motors with a commercially-provided first stage propulsion system for increased performance. Our Minotaur I, IV and V rockets combine decommissioned Minuteman and Peacekeeper rocket motors with our proven upper stage motors, avionics and fairings to provide increased lifting capacity for government-sponsored payloads.

The division's Antares rocket is a two-stage vehicle (with optional third stage) that provides low-earth orbit launch capability for payloads weighing up to 7,000 kg. The Antares rocket has been used in the execution of our Commercial Resupply Services ("CRS") contract with the National Aeronautics and Space Administration ("NASA") to deliver cargo to the ISS. The Antares design has been upgraded with RD-181 first stage engines to provide greater payload performance and increased reliability, and the reconfigured Antares rocket successfully flew in 2016 and 2017, with two launches scheduled in 2018, both in connection with the CRS-1 contract. Additional missions through 2024 under the CRS-1 contract and the follow-on CRS-2 contract are planned.

The division also is an industry-leading provider of suborbital launch vehicles for the nation's missile defense systems for the U.S. Missile Defense Agency, the U.S. Air Force, Army and Navy, and allied nations. Additionally, the division is the sole provider of interceptor boosters for the U.S. Missile Defense Agency's Ground-based Midcourse Defense ("GMD") system designed to intercept and destroy long-range enemy missiles. We are also a primary supplier of highly-reliable target vehicles that serve as "threat simulators" to provide high-fidelity facsimiles of enemy missile threats in the testing and verification of missile defense systems.



### ***Propulsion Systems Division***

The Propulsion Systems division is the development and production center for solid rocket motors for NASA's current and planned human spaceflight programs, including the Space Launch System ("SLS") heavy lift vehicle and the launch abort system motor for the Orion® crew capsule that is designed to safely pull the crew capsule away from the launch vehicle in the event of an emergency during launch.

The division also produces medium-class solid rocket motors for the U.S. Navy's Trident II Fleet Ballistic Missile program and conducts solid rocket propulsion sustainment activities for the U.S. Air Force's Minuteman III Intercontinental Ballistic Missile. These two programs provide the backbone of the United States' strategic deterrence program. Additional solid rocket motors being produced by the division include Graphite Epoxy Motors for the Delta IV, Atlas and Vulcan, Orion motors for our Pegasus and Minotaur launch vehicles and U.S. Missile Defense Agency targets, and CASTOR® motors for our Antares rocket and Taurus rocket. The division supplies Orion motors for all three stages of the GMD system, as well as other Orbital ATK launch vehicles and is in the process of developing the Next Generation Launcher for the U.S. Government. In addition, the division produces advanced flares and decoys that provide illumination for search and rescue missions and countermeasures against missile attacks.

### ***Aerospace Structures Division***

The Aerospace Structures division is a provider of advanced composite aircraft structures for military and commercial aircraft manufacturers, using highly automated composite fabrication techniques, including automated fiber placement and stiffener forming processes. The division provides a wide variety of composite parts for the F-35 Lightning II Joint Strike Fighter, a fifth-generation fighter aircraft for the U.S. military and its allies. It also provides composite radomes and apertures for a number of military aircraft and provides wing stiffeners for the A400M military transport aircraft. The division provides very large fiber-placed and hand lay-up structures for the Antares, Atlas and Delta launch vehicles, and filament-wound composite cases for solid rocket motors and composite overwrapped pressure vessels.

The division has a commercial aerospace composites center of excellence facility in Clearfield, Utah to support its commercial aerospace customers, including Airbus, Rolls Royce and Boeing. The division is under contract to produce the majority of the composite fuselage stringers and frames for the Airbus A350 XWB wide-body passenger jetliner. Additional major commercial programs include a contract with Rolls Royce to produce the aft fan case for the Trent XWB engine, which is used to power the Airbus A350 aircraft, and a contract to produce composite frames for the Boeing 787-9 and 787-10 commercial aircraft.

## **Defense Systems Group**

Defense Systems Group develops and produces small-, medium- and large-caliber ammunition, precision weapons and munitions, high-performance gun systems, and propellant and energetic materials. It operates the Lake City Army Ammunition Plant in Independence, Missouri and a Naval Sea Systems Command facility in Rocket Center, West Virginia. Defense Systems Group is also a leader in tactical solid rocket motor development and production for a variety of air-, sea- and land-based missile systems. The Group serves a variety of domestic and international customers in the defense and security markets in a prime contractor, partner or supplier role. Defense Systems Group also provides propulsion control systems that support U.S. Missile Defense Agency and NASA programs, airborne missile warning systems, advanced fuzes and defense electronics. The Group produces the U.S. Navy's Advanced Anti-Radiation Guided Missile ("AARGM") and has developed advanced air-breathing propulsion systems and special-mission aircraft for defense applications.

The following is a description of the divisions within Defense Systems Group:

### ***Missile Products Division***

The Missile Products division provides customers with high-performance tactical solid rocket motor propulsion for a variety of surface- and air-launched missile systems including Hellfire, Maverick, Advanced Medium-Range Air-to-Air Missile and Sidewinder. The division also produces warheads, fuzing and sensors for various artillery, mortar, grenade and air-dropped weapons, including the Hard Target Void Sensing Fuze. The division produces metal components for various medium-caliber ammunition and 120mm tank ammunition, and also produces specialty composite and ceramic structures used on military platforms. The division provides customers with the third-stage

propulsion on the Standard Missile defense interceptor. Additional capabilities include the STAR™ family of satellite orbit insertion motors, high performance rocket boosters and advanced air-breathing propulsion for platforms designed for Mach 3+ flight. It also continues to operate our New River Energetics facility located on the Radford Army Ammunition Plant in Radford, Virginia, which provides load, assembly and pack of medium caliber munitions; and propellants and powders for the canister and commercial markets, individual re-loaders and ammunition manufacturers.

### ***Armament Systems Division***

The Armament Systems division is home to our precision weapons and medium- and large-caliber ammunition programs, including advanced precision munition programs. The division is under contract to develop the U.S. Army's new multi-purpose tank round and currently produces the Precision Guidance Kit for 155mm artillery. The division also produces the family of medium-caliber Bushmaster® chain guns and is a global systems designer and producer of medium-caliber ammunition for integrated gun systems. These gun systems are used on a variety of ground combat vehicles, helicopters and naval vessels, including the Bradley Fighting Vehicle, the Light Armored Vehicle, coastal patrol craft and Apache helicopters. New products include a link-fed variant of the Apache gun system for ground and naval applications. Armament Systems also leads Defense Systems Group's international co-production efforts and provides munitions support to allied nations.

### ***Defense Electronics Division***

The Defense Electronics division provides customers with advanced capabilities for offensive and defensive electronic warfare and specializes in weaponized airborne intelligence, surveillance and reconnaissance platforms and advanced anti-radiation homing missile systems, special-mission aircraft, missile warning systems and mission support equipment. Key programs include the AARGM missile used by the U.S. Navy and North Atlantic Treaty Organization militaries, and the AAR-47 missile warning system used by U.S. and allied fixed- and rotor-wing aircraft to defeat incoming missile threats. The division also provides special-mission aircraft that integrate sensors, fire control software, gun systems and air-to-ground weapons capability for use in counterinsurgency, border/coastal surveillance and security missions.

### ***Small Caliber Systems Division***

The Small Caliber Systems division via operating the Lake City Army Ammunition Plant is the largest producer of small-caliber ammunition in the U.S., covering 5.56, 7.62 and .50 caliber rounds. The division also provides non-NATO ammunition to the U.S. Army for use by allied forces. The division also provides commercial ammunition to Vista Outdoor. Since 2000, the Company has operated and modernized the Lake City Army Ammunition Plant.

## **Space Systems Group**

Space Systems Group offers a broad portfolio of products for commercial, military, scientific and international customers. The Group develops and produces small- and medium- class satellites that are used to enable global and regional communications and broadcasting, conduct space-related scientific research and perform activities related to national security. In addition, the Space Systems Group develops and produces human-rated space systems for earth orbit and deep-space exploration, including delivering cargo to the ISS. This Group is also a provider of spacecraft components and subsystems as well as specialized engineering and operations services to U.S. Government agencies.

The following is a description of the divisions within Space Systems Group:

### ***Satellite Systems Division***

The Satellite Systems division designs and produces small- and medium- class satellites used for various activities including: national security space programs, geosynchronous ("GEO") satellites used for global and regional communications/broadcasting, commercial imaging and remote sensing satellites. The division also conducts space-related scientific research, including astrophysics, earth science/remote sensing and heliophysics, interplanetary and other deep-space exploration missions, including the demonstration of new space technologies. In addition, the division designs and manufacturers satellite buses tailored to accommodate a variety of payloads and hosted payloads for various orbits or interplanetary missions.



### ***Advanced Programs Division***

The Advanced Programs division consists of two main business areas: human space systems and space robotics and logistics. In the human space systems business area, the division provides human-rated space systems for low-earth orbit and deep-space exploration, including cargo missions to the ISS under the CRS-1 and CRS-2 programs using the Cygnus spacecraft. The division is also working in partnership with NASA on various programs, including the Deep Space Gateway, Power Propulsion Element, as well as NextSTEP-2 which focuses on the development of deep space habitat prototypes. In the space robotics and logistics business area, the division is working to develop and build Mission Extension Vehicles to provide in-orbit GEO satellite life extension. Additional areas of focus include space robotics capabilities development to support areas such as in-orbit satellite assembly and repair.

### ***Space Components Division***

The Space Components division is a major supplier of satellite mechanical components and structural assemblies for a wide variety of commercial, civil and defense spacecraft. As a leader in the industry, we believe that products manufactured by the division have flown aboard virtually every U.S. satellite built in the last 20 years. The division has strong market positions in spacecraft composite primary and secondary structures, satellite fuel and oxidizer tanks, precision payload structures, solar power arrays, deployable structures and thermal control systems.

### ***Technical Services Division***

The Technical Services division provides a full spectrum of cost-effective engineering, manufacturing and program management services to NASA and other civil government and military space agencies. The division also manages high-profile NASA science programs, including its scientific sounding rocket and high altitude balloon activities.

### **Customers**

Our sales have come primarily from contracts with agencies of the U.S. Government and its prime contractors and subcontractors, and from major domestic and international commercial satellite operators, international customers including foreign military sales contracted through the U.S. Government and aircraft manufacturers. As the various U.S. Government customers, including the U.S. Navy, U.S. Army, NASA and the U.S. Air Force, make independent purchasing decisions, we do not generally regard the U.S. Government as one customer. Instead, we view each agency as a separate customer.

Sales by customer, as a percentage of total sales, were as follows:

	Percentage of Sales		
	Year Ended	Year Ended	Nine Months Ended
	December 31, 2017	December 31, 2016	December 31, 2015
<i>Sales to:</i>			
U.S. Army .....	15%	17%	15%
U.S. Navy .....	11	12	11
U.S. Air Force.....	4	4	4
NASA .....	22	27	23
Other U.S. Government customers .....	21	16	17
Total U.S. Government customers .....	73	76	70
Commercial and foreign customers.....	27	24	30
Total .....	100%	100%	100%

Sales to the U.S. Government and its prime contractors were as follows (*in millions*):

	U.S. Government Sales	Percentage of Sales
Year ended December 31, 2017	\$ 3,489	73%
Year ended December 31, 2016	\$ 3,368	76%
Nine months ended December 31, 2015	\$ 2,359	70%

The Company's CRS contracts with NASA, which are reported within its Flight Systems Group and Space Systems Group, comprised 9%, 13% and 10% of total sales in the years ended December 31, 2017 and 2016 and in the 2015 transition period, respectively. No other single contract accounted for more than 10% of the Company's sales in the years ended December 31, 2017 and 2016 or in the 2015 transition period.

Other than the U.S. Government customers listed above, no single customer accounted for more than 10% of our sales in the year ended December 31, 2017, the year ended December 31, 2016 or in the 2015 transition period.

International sales were as follows (*in millions*):

	International Sales	Percentage of Sales
Year ended December 31, 2017	\$ 878	18%
Year ended December 31, 2016	\$ 778	17%
Nine months ended December 31, 2015	\$ 766	23%

Sales to foreign governments and other international customers may require approval by the U.S. Department of Defense ("DoD") and the U.S. Department of State or the U.S. Department of Commerce. Our products are sold to U.S. allies directly, as well as through the U.S. Government. During the year ended December 31, 2017, approximately 20% of these sales were in Flight Systems Group, 66% were in Defense Systems Group, and 14% were in Space Systems Group. No sales to an individual country outside the United States accounted for more than 5% of our sales in the year ended December 31, 2017.

## Backlog

Firm backlog is the estimated value of contracts for which orders have been recorded, but for which revenue has not yet been recognized. The total amount of firm backlog was approximately \$10.2 billion at December 31, 2017 and \$9.3 billion at December 31, 2016. Approximately \$3.4 billion of firm backlog was not yet funded at December 31, 2017. We expect that approximately 43% of the December 31, 2017 firm backlog will be recognized as revenue in calendar year 2018.



Total backlog, which includes firm backlog plus the value of unexercised options, was approximately \$16.0 billion at December 31, 2017 and \$14.4 billion at December 31, 2016.

### Seasonality

Our business is not seasonal.

### Competition

We compete against other U.S. and foreign prime contractors and subcontractors, many of which have substantially more resources to deploy than we do in the pursuit of government and industry contracts. Our ability to compete successfully in this environment depends on a number of factors, including the creativity and effectiveness of research and development programs, our ability to offer better program performance than our competitors and/or at a lower cost, our readiness with respect to facilities, equipment and personnel to undertake the programs for which we compete, and our past performance and demonstrated capabilities.

Additional information on the risks related to competition can be found in Item 1A, "Risk Factors" of this report.

We generally face competition from a number of competitors in each business area, although no single competitor competes along all of our segments. Our principal competitors in each of our segments are as follows:

*Flight Systems Group:* Aerojet-Rocketdyne Holdings, Inc.; Arianespace SA; Coleman Aerospace, a division of Aerojet-Rocketdyne Holdings, Inc.; GKN Aerospace Company; Lockheed Martin Corporation; Space Exploration Technologies Corporation; Spirit Aerosystems Company; United Launch Alliance (a joint venture between Lockheed Martin Corporation and The Boeing Company); and Vought Aircraft, a division of Triumph Aerostructures.

*Defense Systems Group:* Aerojet-Rocketdyne Holdings, Inc.; BAE Systems; Chemring Group; General Dynamics Corporation; Lockheed Martin Corporation; Nammo AS; Nexter SA; Winchester Ammunition Division of Olin Corporation; Raytheon Company; Rheinmetall AG; and various other international competitors.

*Space Systems Group:* Airbus Defense and Space; Ball Aerospace and Technologies Corp.; Lockheed Martin Corporation; Maxar Technologies; Millenium Space Systems; Sierra Nevada Corporation; Space Exploration Technologies Corporation; Thales Alenia Space; and The Boeing Company.

### Research and Development

We conduct extensive research and development ("R&D") activities. Company-funded R&D is primarily for the improvement of current products and for development of next-generation technology. Customer-funded R&D is comprised primarily of activities we conduct under contracts with the U.S. Government and its prime contractors. R&D expenditures were as follows (*in millions*):

	<u>Company-funded</u>	<u>Customer-funded</u>
Year ended December 31, 2017	\$ 115	\$ 536
Year ended December 31, 2016	\$ 116	\$ 429
Nine months ended December 31, 2015	\$ 83	\$ 376

### Raw Materials and Components

We use a broad range of raw materials in manufacturing our products, including aluminum, steel, copper, lead, ammonium perchlorate, graphite fiber, epoxy resins, zinc and adhesives. We monitor the sources from which we purchase raw materials in an attempt to ensure there are adequate supplies to support our operations. We monitor the price of materials, particularly commodity metals like copper, which have fluctuated dramatically over the past several years.

We also use sub-assemblies and instruments in our products and obtain parts and equipment that are used in the production of our products or in the provision of our services from domestic and foreign suppliers and the U.S. Government. Generally, we have not experienced material difficulty in obtaining product components or necessary parts and equipment, and we believe that alternatives to our existing sources of supply are available in most cases.

We procure materials and components from a variety of sources. In the case of our U.S. Government contracts, we are often required to purchase from sources approved by the DoD. When our suppliers choose to eliminate certain materials or components we require from their product offering, we attempt to qualify other suppliers or replacement materials to ensure there are no disruptions to our operations.

We rely upon sole-source suppliers for many of our satellite and launch vehicle components, including our liquid-propellant rocket engines and cores. The inability of our current suppliers to provide us with key components could result in significant contract delays, cost increases and loss of revenues due to the time, resources and effort that would be required to develop or adapt other engines or components for use in our products.

Additional information on the risks related to raw materials and components can be found in Item 1A, "Risk Factors" of this report.

### **Intellectual Property**

Although we manufacture various products covered by patents, we do not believe that any single existing patent, license or group of patents is material to our success. We believe that unpatented research, development and engineering skills also make an important contribution to our business. The U.S. Government typically receives royalty-free licenses to inventions made under U.S. Government contracts. Consistent with our policy to protect proprietary information from unauthorized disclosure, we ordinarily require employees to sign confidentiality agreements as a condition of employment.

As many of our products are complex and involve patented and other proprietary technologies, we face a risk of claims alleging that we have infringed upon third-party intellectual property rights. Such claims could result in costly and time-consuming litigation, the invalidation of our intellectual property rights and/or increased licensing costs.

### **Regulatory Matters**

#### ***U.S. Governmental Contracts***

We are subject to the procurement policies and procedures set forth in the Federal Acquisition Regulation ("FAR"). The FAR governs all aspects of government contracting, including competition and acquisition planning; contracting methods and contract types; contractor qualifications; and acquisition procedures. Every U.S. Government contract contains a list of FAR provisions that must be complied with in order for the contract to be awarded. The FAR provides for regular audits and reviews of contract procurement, performance and administration. Failure to comply with the provisions of the FAR could result in contract termination.

The U.S. Government may terminate its contracts with its suppliers, either for convenience or in the event of a default as a result of our failure to perform under the applicable contract. If a cost-plus contract is terminated for convenience, we are entitled to reimbursement of our approved costs and payment of a total fee proportionate to the percentage of the work completed under the contract. If a fixed-price contract is terminated for convenience, we are entitled to payment for items delivered to and accepted by the U.S. Government, and fair compensation for work performed plus the costs of settling and paying claims by terminated subcontractors, other settlement expenses and a reasonable profit on the costs incurred or committed. If a contract termination is for default, we are paid an amount agreed upon for completed and partially completed products and services accepted by the U.S. Government, and may be liable to the U.S. Government for repayment of any advance payments and progress payments related to the terminated portions of the contract, as well as excess costs incurred by the U.S. Government in procuring undelivered items from another source.

Additional information on the risks related to government contracts can be found in Item 1A, "Risk Factors" of this report.

#### ***Laws Relating to Import-Export***

We also must comply with U.S. and foreign laws governing the export of munitions and other controlled products and commodities. These include regulations relating to import-export control, exchange controls, the Foreign Corrupt Practices Act and the anti-boycott provisions of the U.S. Export Administration Act.



## **U.S. Government Contract Security Restrictions**

Certain programs with the U.S. Government are prohibited by the customer from being publicly discussed. The consolidated financial statements and financial information in this Annual Report on Form 10-K reflect the operating results of our entire company, including restricted programs, under accounting principles generally accepted in the United States of America (GAAP).

## **Environmental**

Our operations are subject to a number of federal, state and local environmental laws and regulations, as well as applicable foreign laws and regulations that govern the discharge, treatment, storage, remediation and disposal of certain materials and wastes, and restoration of damages to the environment. Compliance with these laws and regulations is a responsibility we take seriously. We believe that forward-looking, proper and cost-effective management of air, land and water resources is vital to the long-term success of our business. Our environmental policy identifies key objectives for implementing this commitment throughout our operations. Additional information on the risks related to environmental matters can be found in Item 1A, "Risk Factors" of this report.

## **Employees**

At December 31, 2017, we had approximately 13,900 employees. We have union-represented employees at five locations, comprising less than 20% of our total workforce. One location has two separate bargaining units, each with its own collective bargaining agreement ("CBA"). The Company's current CBAs expire in 2018, 2019, 2021, and 2022.

## **Executive Officers**

The following table sets forth certain information with respect to our executive officers at December 31, 2017:

<b>Name</b>	<b>Age</b>	<b>Title</b>
David W. Thompson .....	63	President and Chief Executive Officer
Blake E. Larson.....	58	Chief Operating Officer
Garrett E. Pierce .....	73	Chief Financial Officer
Antonio L. Elias .....	68	Executive Vice President and Chief Technical Officer
Frank L. Culbertson, Jr. ....	68	Executive Vice President and President, Space Systems Group
Michael A. Kahn .....	58	Executive Vice President and President, Defense Systems Group
Scott L. Lehr .....	57	Executive Vice President and President, Flight Systems Group
Thomas E. McCabe.....	63	Senior Vice President, General Counsel and Secretary
Christine A. Wolf .....	57	Senior Vice President, Human Resources

Each of the above individuals serves at the pleasure of the Board of Directors. No family relationship exists among any of the executive officers or among any of them and our directors. There are no outstanding loans from our company to any of these individuals. Information regarding the employment history (in each case with our Company unless otherwise indicated) of each of the executive officers is set forth below.

*David W. Thompson* has served in his present position since the Orbital-ATK Merger on February 9, 2015. Mr. Thompson has also been a director of our Company since the Orbital-ATK Merger. He co-founded Orbital and served as Chairman of the Board and Chief Executive Officer of Orbital from 1982 until the Orbital-ATK Merger. From 1982 until October 1999, he also served as President of Orbital, a role he resumed in mid-2011. Prior to founding Orbital, Mr. Thompson was employed by Hughes Electronics Corporation as special assistant to the President of its Missile Systems Group and by NASA at the Marshall Space Flight Center as a project manager and engineer, and also worked on the Space Shuttle's autopilot design at the Charles Stark Draper Laboratory. Mr. Thompson is an Honorary Fellow of the American Institute of Aeronautics and Astronautics, a Fellow of the American Astronautical Society and the Royal Aeronautical Society, and is a member of the U.S. National Academy

of Engineering. He also serves as a member of the Board of Trustees of the California Institute of Technology and the Carnegie Institution for Science.

*Blake E. Larson* has served in his present position since the Orbital-ATK Merger on February 9, 2015. From April 2010 until February 9, 2015, he served as our Senior Vice President and President, Aerospace Group. From 2009 to March 2010, he was Senior Vice President and President, Space Systems. From 2008 to 2009, he was Executive Vice President, Space Systems, and also General Manager, Spacecraft Systems from August 2008 to January 2009. From 2006 to 2008, he was Executive Vice President of Mission Systems Group. Prior to that, Mr. Larson held a variety of key leadership positions in operations of several businesses within our aerospace and defense portfolio.

*Garrett E. Pierce* has served in his present position since the Orbital-ATK Merger on February 9, 2015. He was Vice Chairman and Chief Financial Officer of Orbital from 2002 until the Orbital-ATK Merger, and was Executive Vice President and Chief Financial Officer of Orbital from 2000 to 2002. From 1996 until 2000, he was Executive Vice President and Chief Financial Officer of Sensormatic Electronics Corp., a supplier of electronic security systems, where he was also named Chief Administrative Officer in July 1998. Prior to joining Sensormatic, Mr. Pierce was the Executive Vice President and Chief Financial Officer of California Microwave, Inc., a supplier of microwave, radio frequency, and satellite systems and products for communications and wireless networks. From 1980 to 1993, Mr. Pierce was employed by Materials Research Corporation, a provider of thin film equipment and high purity materials to the semiconductor, telecommunications and media storage industries, where he progressed from Chief Financial Officer to President and Chief Executive Officer. Materials Research Corporation was acquired by Sony Corporation in 1989. From 1972 to 1980, Mr. Pierce held various management positions with The Signal Companies. Mr. Pierce is a Director of Kulicke and Soffa Industries, Inc.

*Antonio L. Elias* has served in his present position since the Orbital-ATK Merger on February 9, 2015. He was Executive Vice President and Chief Technical Officer of Orbital from September 2012 until the Orbital-ATK Merger. From October 2001 to September 2012, he served as Orbital's Executive Vice President and General Manager, Advanced Programs Group, and was Orbital's Senior Vice President and General Manager, Advanced Programs Group from 1997 to 2001. From 1996 until 1997, Dr. Elias served as Senior Vice President and Chief Technical Officer of Orbital. From 1993 through 1995, he was Orbital's Senior Vice President for Advanced Projects, and was Orbital's Senior Vice President, Space Systems Division from 1990 to 1993. He was Vice President, Engineering of Orbital from 1989 to 1990 and was Orbital's Chief Engineer from 1986 to 1989. From 1980 to 1986, Dr. Elias was an Assistant Professor of Aeronautics and Astronautics at Massachusetts Institute of Technology. He was elected to the National Academy of Engineering in 2001.

*Frank L. Culbertson, Jr.* has served in his present position since the Orbital-ATK Merger on February 9, 2015. He was Orbital's Executive Vice President and General Manager, Advanced Programs Group from September 2012 until the Orbital-ATK Merger. From 2008 to 2012, he served as a Senior Vice President in Orbital's Advanced Program Group, where he headed human space systems efforts. Prior to joining Orbital, Mr. Culbertson was a Senior Vice President at Science Applications International Corporation from 2002 to 2008. Before entering the private sector, Mr. Culbertson served as a NASA astronaut for 18 years, flying three Space Shuttle missions, and began his career as a pilot in the U.S. Navy.

*Michael A. Kahn* has served in his present position since the Orbital-ATK Merger on February 9, 2015. From April 2012 until February 9, 2015, he served as our Senior Vice President and President, Defense Group. From August 2010 through March 2012, he was Senior Vice President and President, Missile Products Group. From 2009 to August 2010, he was Executive Vice President, Aerospace Systems. From 2008 to 2009, he was Vice President and General Manager, Launch Systems, and from 2001 to 2008, he was Vice President, Space Launch Systems. From 1997 to 2001, he was Vice President, Operations, and played a key role in the integration of Thiokol and ATK. From 1989 to 1997, he held a number of senior leadership positions across a variety of programs and operations of our company. Prior to that he was with Rockwell International, Rocketdyne Division, and held a number of positions across engineering, quality and reliability assurance, launch site operations and rocket engine testing.



*Scott L. Lehr* has held his present position since July 1, 2015. From April 2015 through June 2015, he was Senior Vice President, Flight Systems Group. From April 2009 through March 2015, he served as Vice President and General Manager of Defense and Commercial Systems in the Aerospace Group. From 2007 to 2009, he was Vice President, Operations, and from 2004 to 2007, he was Vice President, Air Force Programs within the Launch Systems Group. Prior to that, he held a number of senior leadership positions in engineering and program management as part of our propulsion business. He joined the company in 1984 and has more than 30 years of experience in the aerospace industry.

*Thomas E. McCabe* has served in his present position since the Orbital-ATK Merger on February 9, 2015. He was Senior Vice President, General Counsel and Corporate Secretary of Orbital from January 2014 until the Orbital-ATK Merger. Before joining Orbital, he served from 2010 to 2014 as Senior Vice President, General Counsel and Secretary of Alion Science and Technology Corporation, a provider of advanced engineering and technology solutions. From 2008 to 2010, he served as Executive Vice President and General Counsel, and President of the Federal business of Braintech, Inc., which provided automated vision systems for industrial and military robots. Earlier in his career, he was Vice President and Deputy General Counsel of XM Satellite Radio from 2005 through its merger with Sirius Satellite Radio in 2008. He also served as President, CEO and a director of software provider MicroBanx Systems from 2001 to 2005, and President, CEO and a director of its parent company, COBIS Corporation, from 2004 to 2005. From 1992 to 2000, he was a senior executive at GRC International, Inc., a provider of advanced software and technology solutions, serving as Senior Vice President, General Counsel, Secretary and Director of Corporate Development through its sale to AT&T in 2000. He was an attorney in private practice from 1982 to 1991. He began his career as judicial clerk for Judge Charles R. Richey at the United States District Court for the District of Columbia from 1981 to 1982.

*Christine A. Wolf* has held her present position since joining the company in March 2011. She has more than 30 years of experience in the Human Resources field. Prior to joining the company, she was the Senior Vice President and Chief Human Resources Officer for Fannie Mae from 2008 to March 2011. Prior to that, she was the Chief Human Resources Officer for E\*Trade from 2004 to 2008.

#### **Available Information**

Our reports filed with the Securities and Exchange Commission ("SEC") can be found on our Internet site at [www.orbitalatk.com](http://www.orbitalatk.com) under the "Investors" heading free of charge. These include our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. We make these reports available as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC.

You can also obtain these reports from the SEC's Public Reference Room, which is located at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room is available by phone (1-800-SEC-0330) or on the Internet ([www.sec.gov](http://www.sec.gov)). This site contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

The content on any website referred to in this Form 10-K is not incorporated by reference into this Form 10-K unless expressly noted.

## ITEM 1A. RISK FACTORS

We are subject to a number of risks, including those related to the proposed Northrop Grumman acquisition, to those related to being a U.S. Government contractor and those related to domestic and international commercial sales. The material risks we are subject to are discussed below.

***Failure to complete the Merger could negatively impact the price of our common stock, as well as our future business and financial results.***

On September 17, 2017, we entered into an Agreement and Plan of Merger with Northrop Grumman and Neptune Merger, Inc., a wholly owned subsidiary of Northrop Grumman, pursuant to which Northrop Grumman will acquire us.

The Merger Agreement contains a number of conditions that must be satisfied or waived prior to the completion of the Merger. We cannot assure you that all of the conditions to the Merger will be so satisfied or waived on a timely basis. If the conditions to the Merger are not satisfied or waived on a timely basis, we may be unable to complete the Merger as quickly as expected or at all.

If the Merger is not completed, our ongoing business may be adversely affected as follows: (i) we may experience negative reactions from the financial markets, including negative impacts on the market price of our common stock; (ii) some of management's attention will have been directed to the Merger instead of being directed to our own operations and the pursuit of other opportunities that could have been beneficial to us; (iii) the manner in which customers, suppliers and other third parties perceive us may be negatively impacted, which in turn could affect our ability to compete for business; (iv) we may experience negative reactions from employees; (v) we will have expended time and resources that could otherwise have been spent on our business; and (vi) we may be required, in certain circumstances, to pay a termination fee of \$275 million, as provided in the Merger Agreement. In addition, any significant delay in consummating the Merger could have a material adverse effect on our operating results and adversely affect our relationships with customers and suppliers and would likely lead to a significant diversion of management and employee attention.

Additionally, in approving the Merger Agreement, the Board of Directors considered a number of factors and potential benefits, including the fact that the Merger consideration to be received by holders of our common stock represented a 22.2% premium to the closing price of our common stock on September 15, 2017. If the Merger is not completed, neither the Company nor the holders of our common stock will realize this benefit of the Merger. Moreover, we would also have nevertheless incurred substantial transaction-related fees and costs and the loss of management time and resources.

***Expenses related to the pending Merger are significant and will adversely affect our operating results.***

We have incurred and expect to continue to incur significant expenses in connection with the pending Merger, including legal and investment banking fees. We expect these costs to have an adverse effect on our operating results. If the Merger is not consummated, we may under certain circumstances be required to pay to Northrop Grumman a termination fee of \$275 million. Our financial position and results of operations would be adversely affected if we were required to pay the termination fee to Northrop Grumman.

***We are subject to business uncertainties and contractual restrictions while the Merger is pending, which could adversely affect our business.***

The Merger Agreement requires us to act in the ordinary course of business and restricts us, without the consent of Northrop Grumman, from taking certain specified actions until the pending Merger occurs or the Merger Agreement terminates. These restrictions may prevent us from pursuing otherwise attractive business opportunities and making other changes to our business before completion of the Merger or, if the Merger is not completed, termination of the Merger Agreement.

***Uncertainties associated with the Merger may cause a loss of management and other key employees and disrupt our business relationships, which could adversely affect our business.***

Uncertainty about the effect of the Merger on our employees, customers and suppliers may have an adverse effect on our business. These uncertainties may impair our ability to attract, retain and motivate key personnel until the Merger is completed and for a period of time thereafter. Employee retention may be particularly challenging during the pendency of the Merger. If key employees depart and as we face additional uncertainties relating to the Merger, our business relationships may be subject to disruption as customers, suppliers and other third parties attempt to negotiate changes



in existing business relationships or consider entering into business relationships with parties other than the Company. If key employees depart or if our existing business relationships suffer, our results of operations may be adversely affected. The adverse effects of such disruptions could be further exacerbated by any delay in the completion of the Merger.

***Our business could be adversely impacted by reductions or changes in U.S. Government military or NASA spending.***

We depend on contracts with the U.S. Government and its prime contractors for a substantial portion of our sales. In addition, a significant portion of such sales come from a small number of contracts. Our CRS contracts with NASA, which are reported within Flight Systems Group and Space Systems Group, comprised 9%, 13% and 10% of our sales in calendar year 2017, calendar year 2016 and the 2015 transition period, respectively. Our small-caliber ammunition contract with the U.S. Army, which is reported within Defense Systems Group, comprised 5%, 6%, and 6% of our sales in calendar 2017, calendar 2016 and the 2015 transition period, respectively. The loss or significant reduction of a material U.S. Government program in which we participate could have a material adverse effect on our operating results, financial condition or cash flows.

U.S. Government contracts are dependent on the continuing availability of Congressional appropriations. Congress usually appropriates funds for a given program on a fiscal year basis even though contract performance may take more than one year. As a result, at the outset of a major program, the contract is usually incrementally funded, and additional monies are normally committed to the contract by the procuring agency only as Congress makes appropriations for future fiscal years. In addition, most U.S. Government contracts are subject to modification if funding is changed. Key programs in which we participate must compete with other programs for consideration during the federal budgeting and appropriation process, and support and funding for any U.S. Government program may be influenced by general economic conditions, political considerations and other factors. A decline in U.S. Government support and funding for programs in which we participate could result in contract terminations, delays in contract awards, the failure to exercise contract options, the cancellation of planned procurements and fewer new business opportunities, any of which could have a material adverse effect on our operating results, financial condition or cash flows.

***We are subject to intense competition for U.S. Government contracts and programs and therefore may not be able to compete successfully.***

We encounter competition for many contracts and programs, including in particular, U.S. Government contracts. Some of our competitors have substantially greater financial, technical, marketing, manufacturing, distribution and other resources. Our ability to compete for these contracts depends to a large extent upon:

- the creativity and effectiveness of our research and development programs,
- our ability to offer better program performance and/or at a lower cost than our competitors,
- the readiness of our facilities, equipment and personnel to undertake the programs for which we compete, and
- our past performance and demonstrated capabilities.

In some instances, the U.S. Government directs a program to a single supplier. In these cases, there may be other suppliers who have the capability to compete for the programs involved, but they can only enter or reenter the market if the U.S. Government chooses to open the particular program to competition and, as such, these types of programs are subject to risk of the U.S. Government providing new awards to other suppliers. Our sole-source contracts accounted for 47% of our U.S. Government sales in the year ended December 31, 2017.

***We may not be able to react to increases in our costs due to the nature of our U.S. Government contracts.***

Our U.S. Government contracts can be categorized as either "cost-plus" or "fixed-price."

***Cost-Plus Contracts.*** Cost-plus contracts are cost-plus-fixed-fee, cost-plus-incentive-fee or cost-plus-award-fee contracts. Cost-plus-fixed-fee contracts allow us to recover approved costs plus a fixed fee. Cost-plus-incentive-fee contracts and cost-plus-award-fee contracts allow us to recover approved costs plus a fee that can fluctuate based on actual results as compared to contractual targets for factors such as cost, quality, schedule and performance. The award or incentive fees that are typically associated with these programs are subject to uncertainty and may be earned over extended periods. In these cases, the associated financial risks for cost-plus contracts are primarily in lower profit rates or program cancellation if cost, schedule or technical performance issues arise.

*Fixed-Price Contracts.* Fixed-price contracts are firm-fixed-price, fixed-price-incentive or fixed-price-level-of-effort contracts. Under firm-fixed-price contracts, we agree to perform certain work for a fixed price and absorb any cost overruns. Fixed-price-incentive contracts are fixed-price contracts under which the final contract price may be adjusted based on total final costs compared to total target cost, and may be affected by schedule and performance. Fixed-price-level-of-effort contracts allow for a fixed price per labor hour, subject to a contract cap. All fixed-price contracts present the inherent risk of unreimbursed cost overruns. If the initial estimates used to calculate the contract price and the cost to perform the work prove to be incorrect, there could be a material adverse effect on operating results, financial condition or cash flows. The Lake City Army Ammunition Plant ammunition contract is a fixed-price contract and is expected to result in a net loss over the term of the contract. In addition, some contracts have specific provisions relating to cost, schedule and performance. If we fail to meet the terms specified in those contracts, the cost to perform the work could increase or our price could be reduced, which would adversely affect our financial condition. The U.S. Government also regulates the accounting methods under which costs are allocated to U.S. Government contracts.

The following table identifies the amount contributed to our U.S. Government business by contract type in the year ended December 31, 2017:

Cost-plus contracts .....	36%
Fixed-price contracts.....	64%
Total .....	<u>100%</u>

***We use estimates in accounting for our programs. Changes in estimates have affected our financial results and could affect them in the future.***

Contract accounting requires judgment relative to assessing risks, estimating contract revenues, including the impact of scope change negotiations, estimating program costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenues and cost at completion is complex and subject to many variables. Assumptions are made regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials. Similarly, many assumptions are made regarding the future impact of such things as the business base, efficiency initiatives, cost reduction efforts, contract changes and claim recovery. Incentives or penalties related to performance on contracts are considered in estimating revenue and profit rates, and are recorded when there is sufficient information to assess anticipated performance. Estimates of award and incentive fees are also used in estimating revenue and profit rates based on actual and anticipated awards.

Because of the significance of the judgments and estimation processes described above, it is possible that materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. For example, we have concluded that the Company's costs will exceed expected revenues under its long-term contract with the U.S. Army to manufacture and supply small-caliber ammunition at the Lake City Army Ammunition Plant, resulting in a material net loss over the contract's term. Changes in underlying assumptions, circumstances or estimates may adversely affect future period financial performance. Additional information on our accounting policies for revenue recognition can be found in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the section titled "Critical Accounting Policies" of this report.

***Our U.S. Government contracts are subject to termination at any time, with or without cause.***

Our direct and indirect contracts with the U.S. Government or its prime contractors may be terminated or suspended at any time, with or without cause, for the convenience of the U.S. Government or in the event of a default by the contractor. If a cost-plus contract is terminated, the contractor is entitled to reimbursement of its approved costs. If the contractor would have incurred a loss had the entire contract been performed, then no profit is allowed by the U.S. Government.

If the termination is for convenience, the contractor is also entitled to receive payment of a total fee proportionate to the percentage of the work completed under the contract. If a fixed-price contract is terminated, the contractor is entitled to receive payment for items delivered to and accepted by the U.S. Government. If the termination is for convenience, the contractor is also entitled to receive fair compensation for work performed plus the costs of settling and paying claims by terminated subcontractors, other settlement expenses and a reasonable profit on the costs incurred or committed. While the contractor is entitled to these claims under either type of contract, there can be no assurance that these amounts will be recovered.

If a contract termination is for default:

- the contractor is paid an amount agreed upon for completed and partially completed products and services accepted by the U.S. Government,
- the U.S. Government is not liable for the contractor's costs for unaccepted items, and is entitled to repayment of any advance payments and progress payments related to the terminated portions of the contract, and
- the contractor may be liable for excess costs incurred by the U.S. Government in procuring undelivered items from another source.

One of our major programs is as the provider of solid rocket motors for NASA's SLS program. In the event NASA were to cancel the SLS program, we believe that we will be reimbursed for certain amounts previously incurred by us, as well as amounts to be incurred by us, as part of that termination, (e.g., severance, environmental liabilities and termination administration). There can be no assurance, however, that we would be successful in collecting reimbursement of any termination liability costs.

Our contracts with NASA to deliver cargo to the ISS are a significant part of our business within Flight Systems Group and Space Systems Group. NASA could cancel these contracts for any reason, including as a result of reductions in appropriations or our failure to achieve milestones due to technical issues or delays similar to those that occurred when we experienced an Antares launch failure in 2014. A cancellation of our NASA contracts could have a material adverse effect on our operating results, financial condition and cash flows.

Our small-caliber ammunition operations for the U.S. military and U.S. allies are conducted at the Lake City Army Ammunition Plant in Independence, Missouri. The Lake City Army Ammunition Plant is the U.S. Army's principal small-caliber ammunition production facility and is the primary supplier of the U.S. military's small-caliber ammunition needs. We took over operation of this facility in 2000 and are responsible for the operation and management. In September 2012, we were awarded new contracts for the continued production of ammunition and continued operation and maintenance of the Lake City Army Ammunition Plant. The production contract has an initial term of seven years. The contract also had the possibility of an award term extension of an additional three years, but the Company provided written notice of rejection of the extension to the U.S. Army in 2017, which we believe will result in materially lower sales for the Company should we not win the re-compete.

***Other risks associated with U.S. Government contracts may expose us to adverse consequences.***

Like all U.S. Government contractors, we are subject to possible losses on contracts due to risks associated with uncertain cost factors related to:

- scarce technological skills and components,
- the frequent need to bid on programs in advance of design completion, which may result in unforeseen technological difficulties and/or cost overruns,
- the substantial time and effort required for design and development,
- design complexity,
- rapid obsolescence, and
- the potential need for design improvement.

Such factors can increase the costs associated with a program and delay performance, reducing our profitability and adversely impacting our customer relationships.

***We manufacture and provide commercial aircraft components which could subject us to exposure unique to the commercial aircraft industry.***

Airbus and Boeing have the contractual right to cancel their contracts with us for convenience, which could include the termination of one or more aircraft models or programs for which we supply products. Although Airbus and Boeing would be required to reimburse us in certain situations for expenses, there can be no assurance these payments would adequately cover our expenses or lost profits resulting from the termination. Furthermore, if Airbus or Boeing experiences a decrease in requirements for the products which we supply to it, a major disruption in its business, such as a strike, work stoppage or slowdown, fails to perform on its contractual obligations under its agreements with us or



we cannot meet the expected production rate increases, our business, results of operations, financial position and cash flows could be materially adversely affected.

***We are subject to procurement and other related laws and regulations, and non-compliance may expose us to adverse consequences.***

We are subject to extensive and complex U.S. Government procurement laws and regulations, along with ongoing U.S. Government audits and reviews of contract procurement, performance and administration. As a result, U.S. Government agencies, including the Defense Contract Audit Agency, various agency Inspectors General and the U.S. Department of Justice ("DoJ"), routinely audit and investigate government contractors. In particular, these agencies often investigate our launch vehicle failures and other material occurrences relating to our products, including an ongoing DoJ/NASA investigation of the 2009 OCO and 2011 Glory failures involving the Taurus XL launch vehicle. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards, including procurement integrity laws and the False Claims Act.

Charging practices relating to labor, research and development, and other costs that may be charged directly or indirectly to U.S. Government contracts are often scrutinized to determine that such costs are allowable under U.S. Government contracts and furthermore that such costs are reasonable. Any costs determined to be unallowable or unreasonable may not be reimbursed, and such costs already reimbursed may be subject to repayment. If the amount of such costs were significant, our results of operations, financial condition and cash flow could be materially adversely affected. We expect to recover a significant portion of our research and development expenses through billings under certain of our U.S. Government contracts in accordance with applicable regulations, but such billings could be reversed or rejected by the U.S. Government. Our inability to recover a significant portion of such expenses could materially adversely affect our operating results, financial condition or cash flows.

U.S. Government agencies also review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's purchasing, property, estimating, earned value, material management and accounting systems. Adverse findings relating to our systems could result in the U.S. Government customer withholding a percentage of payments and also could impact our ability to win new U.S. Government contracts or exercise contract options.

Responding to government audits, inquiries or investigations may involve significant expense and divert management attention. Also, if an audit or investigation were to uncover improper or illegal activities, we could be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. Government. In addition, we could suffer serious harm to our reputation if allegations of impropriety were to be made against us.

***Changes in demand for military and commercial ammunition could adversely affect our financial performance.***

We sell military ammunition to the DoD and commercial ammunition to Vista Outdoor under an ammunition supply agreement. Both the commercial and military markets for ammunition are subject to a number of risks and uncertainties that can cause demand to fluctuate unpredictably. Decreases in the demand for ammunition in either market could result in excess manufacturing capacity and increased overhead rates as a result, which could have a negative impact on our operating results. Further, since our Lake City Ammunition Contract with the U.S. Army is in a loss position, increases in demand by the DoD could adversely affect our financial performance, including profitability and cash flow. In addition, manufacturing costs for ammunition could rise as a result of a number of factors, including increases in commodity prices and other raw materials and increases in labor costs at the Lake City Army Ammunition Plant, which could also have an adverse effect on our operating results and further increase our net loss under that contract.

***We manufacture and sell products that create exposure to potential product liability, warranty liability or personal injury claims and litigation.***

Our products may expose us to potential product liability, warranty liability or personal injury claims relating to the use of those products. Our reputation may be adversely affected by such claims, whether or not successful, including potential negative publicity about our products.

***We are exposed to risks associated with expansion into new and adjacent commercial markets.***

Our long-term business growth strategy includes further expansion into new and adjacent markets. For example, we currently are investing in several new growth initiatives, including new cutting-edge satellite servicing technologies. Such efforts involve a number of risks, including increased capital expenditures, market uncertainties, market acceptance of new technologies, schedule delays, performance risk, extended payment terms, diversion of management attention, additional credit risk associated with new customers, and costs incurred in competing with companies with strong brand names and market positions. An unfavorable event or trend in any one or more of these factors could adversely affect our operating results, financial condition or cash flows.

***International sales are subject to greater risks that sometimes are associated with doing business in foreign countries.***

A portion of our business is derived from international markets. In the year ended December 31, 2017, approximately 18% of our sales were to foreign customers, compared to 17% in the year ended December 31, 2016. We also procure certain key components from non-U.S. vendors. Our international business may pose greater risks than our business in the United States due to changes in economic, legal and political environments, as well as foreign government priorities and budgets. International transactions frequently involve increased financial and legal risks arising from differing legal systems and customs in other countries. In addition, some international customers require contractors to agree to offset programs that may require in-country purchases or manufacturing or financial support arrangements as a condition to awarding contracts. The contracts may include penalties in the event a company fails to perform in accordance with the offset requirements. Furthermore, international business may create difficulties and risks with respect to the maintenance of an integrated supply chain network. An unfavorable event or trend in any one or more of these factors could adversely affect our operating results, financial condition or cash flows. Foreign sales subject us to numerous stringent U.S. and foreign laws and regulations, including Congressional review and approval of certain foreign arms sales, regulations relating to import-export control, exchange controls, the Foreign Corrupt Practices Act and certain other anti-corruption laws, and the anti-boycott provisions of the U.S. Export Administration Act. Failure to comply with these laws and regulations could result in material adverse consequences to us.

***Our products are subject to extensive regulation.***

We are required to comply with extensive regulation of our products, including those rules and regulations administered by the Bureau of Alcohol, Tobacco, Firearms and Explosives, the U.S. Department of Homeland Security, the U.S. Department of State and the U.S. Department of Commerce. These laws include, but are not limited to, the Foreign Corrupt Practices Act, International Traffic in Arms Regulations, and the Chemical Facility Anti-Terrorism Standards. Compliance with these laws is costly and time consuming. A violation of these laws could result in significant fines and penalties and could have a material adverse effect on our business.

***We are exposed to market risk from changes in foreign currency exchange rates which could negatively impact profitability.***

Sales and purchases in currencies other than the U.S. dollar expose us to fluctuations in foreign currencies relative to the U.S. dollar and may adversely affect our results of operations. Currency fluctuations may affect product demand and prices we pay for materials and, as a result, our operating margins may be negatively impacted. Fluctuations in exchange rates may give rise to translation gains or losses when financial statements of our non-U.S. businesses are translated into U.S. dollars. While we monitor our exchange rate exposures and seek to reduce the risk of volatility through hedging activities, such activities bear a financial cost and are not always available or successful in mitigating such volatility.

***We have restated our prior consolidated financial statements twice recently, which may lead to adverse determinations in legal proceedings, additional risks and uncertainties, including loss of investor confidence and negative impacts on our stock price.***

As a result of our recent restatements, we have become subject to a number of additional costs and risks, including unanticipated costs for accounting and legal fees in connection with or related to the restatements and the remediation of our ineffective disclosure controls and procedures and material weaknesses in internal control over financial reporting. We are also the subject of a non-public investigation by the SEC, securities class action litigation and shareholder demands and potentially other actions as a result of the restatements. We could be subject to additional shareholder, governmental, or other actions in connection with the restatements and related matters. Any current or

future legal proceedings will, regardless of the outcome, continue to consume a significant amount of management's time and attention and may result in additional legal, accounting, insurance and other costs. While we cannot estimate our potential exposure in these proceedings at this time, we expect to expend significant amounts defending the litigation and responding to the SEC investigation. If we do not prevail in any such proceedings, we could be required to pay substantial damages or settlement costs. In addition, the restatements and related matters could impair our reputation or could cause our counterparties to lose confidence in us. Any of these occurrences could have a material adverse effect on our business, results of operations, financial condition and stock price.

***We have a substantial amount of debt, and the cost of servicing that debt could adversely affect our business and hinder our ability to make payments on our debt.***

At December 31, 2017, we had total debt of \$1,410 million. In addition, we had \$240 million of outstanding but undrawn letters of credit and, taking into account these letters of credit, an additional \$760 million of availability under our revolving credit facility. Additional information on our debt can be found in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the section titled "Liquidity and Capital Resources" of this report.

We have demands on our cash resources in addition to interest and principal payments on our debt including, among others, operating expenses. These significant demands on our cash resources could:

- make it more difficult for us to satisfy obligations,
- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing the amount of cash flow available for working capital, capital expenditures, acquisitions, share repurchases, dividends and other general corporate purposes,
- limit our flexibility in planning for, or reacting to, changes in the defense and aerospace industries,
- place us at a competitive disadvantage compared to competitors that have lower debt service obligations and significantly greater operating and financing flexibility,
- limit, along with the financial and other restrictive covenants applicable to our indebtedness, among other things, our ability to borrow additional funds,
- increase our vulnerability to general adverse economic and industry conditions, and
- result in a default event upon a failure to comply with financial covenants contained in our senior credit facilities which, if not cured or waived, could have a material adverse effect on our business, financial condition or results of operations.

Our ability to pay interest on and repay our long-term debt and to satisfy our other liabilities will depend upon future operating performance and our ability to refinance our debt as it becomes due. Our future operating performance and ability to refinance will be affected by prevailing economic conditions at that time and financial, business and other factors, many of which are beyond our control.

If we are unable to service our indebtedness and fund operating costs, we will be forced to adopt alternative strategies that may include:

- reducing or delaying expenditures for capital equipment and/or share repurchases,
- seeking additional debt financing or equity capital,
- foregoing attractive acquisition opportunities,
- selling assets, or
- restructuring or refinancing debt.

There can be no assurance that any such strategies could be implemented on satisfactory terms, if at all.

***The level of returns on pension and postretirement plan assets, changes in interest rates and other factors could affect our earnings and cash flows.***

Our earnings may be impacted by the amount of expense or income recorded for employee benefit plans, primarily pension plans and other postretirement plans. U.S. GAAP requires us to calculate income or expense for the plans



using actuarial valuations. These valuations are based on assumptions made relating to financial market and other economic conditions. Changes in key economic indicators can result in changes in these assumptions. The key year-end assumptions used to estimate pension and postretirement benefit expense or income for the following year are the discount rate, the expected long-term rate of return on plan assets, the rate of increase in future compensation levels, mortality rates and the health care cost trend rate. We are required to remeasure our plan assets and benefit obligations annually, which may result in a significant change to equity through other comprehensive income (loss). Our pension and other postretirement benefit income or expense can also be affected by legislation or other regulatory actions. Additional information on how our financial statements can be affected by pension plan accounting policies can be found in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the section titled "Critical Accounting Policies" of this report.

***Our business could be negatively impacted by security threats, including cyber security and other industrial, insider and physical security threats, and other disruptions.***

As a U.S. defense contractor, we face cyber security threats, threats to the physical security of our facilities and employees, and terrorist acts, as well as the potential for business disruptions associated with information technology failures, natural disasters or public health crises. We also face the risk of economic espionage, which involves the targeting or acquisition of sensitive financial, trade, proprietary or technological information.

We routinely experience cyber security threats, threats to our information technology infrastructure and attempts to gain access to sensitive information, as do our customers, suppliers, subcontractors and joint venture partners. We may experience similar security threats at customer sites that we operate and manage.

Prior cyber attacks directed at us have not had a material impact on our financial results, and we believe that our threat detection and mitigation processes and procedures are generally adequate. The threats we face vary from attacks common to most industries to more advanced and persistent threats from highly-organized adversaries who target us because we protect national security information. If we are unable to protect sensitive information, our customers or governmental authorities could question the adequacy of our threat mitigation and detection processes and procedures and, as a result, our present and future business could be negatively impacted.

Although we work cooperatively with our customers, suppliers, subcontractors and joint venture partners to minimize the impact of cyber threats, other security threats or business disruptions, we must rely on the safeguards put in place by these entities, which may in turn affect the security of our own information and that of other parties. The entities we work with have varying levels of cyber security expertise and safeguards and their relationships with government contractors, such as us, may increase the likelihood that they are targeted by the same cyber threats we face.

The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. Occurrence of any of these events could adversely affect our internal operations, the services we provide to customers, loss of competitive advantages derived from our research and development efforts or other intellectual property, the obsolescence of our products and services, our financial results, our reputation and our stock price.

***Disruptions in the supply of key raw materials or components and difficulties in the supplier qualification process, as well as increases in prices of raw materials, could adversely impact us.***

Key raw materials used in our operations include aluminum, steel, steel alloys, copper, zinc, lead, graphite fiber, prepreg, hydroxy terminated polybutadiene, epoxy resins and adhesives, ethylene propylene diene monomer rubbers, diethylether, x-ray film, plasticizers and nitrate esters, impregnated ablative materials, various natural and synthetic rubber compounds, polybutadiene, acrylonitrile and ammonium perchlorate. We also purchase chemicals; electronic, electro-mechanical and mechanical components; subassemblies; and subsystems that are integrated with the manufactured parts for final assembly into finished products and systems.

We monitor sources of supply to attempt to assure that adequate raw materials and other supplies needed in manufacturing processes are available. As a U.S. Government contractor, we are frequently limited to procuring materials and components from sources of supply approved by the DoD. In addition, as changes occur in business conditions, the DoD budget and Congressional allocations, suppliers of specialty chemicals and materials sometimes consider dropping low volume items from their product lines, which may require, as it has in the past, qualification of new suppliers for raw materials on key programs. The supply of ammonium perchlorate, a principal raw material used in our operations, is limited to a single source that supplies the entire domestic solid propellant industry. This single source, however, maintains two separate manufacturing lines a reasonable distance apart, which mitigates the likelihood of a fire, explosion or other problem impacting all production.

We also rely on sole-source suppliers for a number of key components, including the rocket motors and engines we use on our launch vehicles. If we are unable to obtain such components in the future, due to a supplier's financial difficulties or a supplier's failure to perform as expected, we could have difficulty procuring such components in a timely or cost effective manner. Although other suppliers of the same materials may exist, the addition of a new supplier may require us to qualify the new source for use. The qualification process may impact our profitability or ability to meet contract deliveries. A disruption in the procurement of key components could result in substantial cost increases, significant delays in the execution of certain contracts or our inability to complete certain contracts, any of which could result in a materially adverse impact on our financial results.

For example, as a result of the failure of our Antares launch vehicle in October 2014 and prior engine test failures, we ceased using the AJ-26 rocket engine in our Antares product line and transitioned to a sole-sourced replacement engine, the RD-181. The time, expense and effort associated with our recovery plan resulted in additional costs and delays.

Certain suppliers of materials used in the manufacturing of rocket motors have discontinued the production of some materials. These materials include certain insulation and resin materials for rocket motor cases and aerospace-grade rayon for nozzles. We have qualified new replacement materials for some programs. For other programs, we or our customers have procured sufficient inventory to cover current program requirements and are in the process of qualifying new replacement materials to be qualified in time to meet future production needs. Our profitability may be affected if unforeseen difficulties in developing and qualifying replacement materials occur.

We are also impacted by increases in the prices of raw materials used in production on commercial and fixed-price business. We have seen a significant fluctuation in the prices of commodity metals, including copper, lead, steel and zinc. The fluctuating costs of natural gas and electricity also have an impact on the cost of operating our factories.

Prolonged disruptions in the supply of any of our key raw materials or components, difficulty completing qualification of new sources of supply, implementing use of replacement materials, components or new sources of supply, or a continuing increase in the prices of raw materials, energy or components could have a material adverse effect on our operating results, financial condition or cash flows.

***Failure of our subcontractors to perform their contractual obligations could materially and adversely impact our prime contract performance and ability to obtain future business.***

We rely on subcontracts with other companies to perform a portion of the services we provide our customers on many of our contracts. There is a risk that we may have disputes with our subcontractors, including disputes regarding the quality and timeliness of work performed by the subcontractor, customer concerns about the subcontract, our failure to extend existing task orders or issue new task orders under a subcontract or our hiring of personnel of a subcontractor. A failure by one or more of our subcontractors to satisfactorily provide on a timely basis the agreed-upon supplies or perform the agreed-upon services may materially and adversely impact our ability to perform our obligations as the prime contractor. Subcontractor performance deficiencies could result in a customer limiting payments or terminating a contract for default. A default termination could expose us to liability and have a material adverse effect on the ability to compete for future contracts and orders.

***Failure to successfully negotiate or renew collective bargaining agreements, or strikes, slow-downs or other labor-related disruptions, could adversely affect our operations and could result in increased costs that impair our financial performance.***

A significant number of our employees are covered by collective bargaining agreements, which expire on various dates. Strikes, slow-downs or other labor-related disruptions could occur if we are unable to either negotiate or renew these agreements on satisfactory terms, which could adversely impact our operating results. The terms and conditions of new or renegotiated agreements could also increase our costs or otherwise affect our ability to fully implement future operational changes to enhance our efficiency. In certain instances, we may not be able to pass increased costs from new or renegotiated agreements on to our customers due to the fixed-price nature of many of our contracts, including our small-caliber ammunition contract with the U.S. Army that is performed at the Lake City Army Ammunition Plant.

***Our future success and growth will depend significantly on our ability to develop new technologies and products that achieve market acceptance within acceptable margins while maintaining a qualified workforce to meet the needs of our customers.***

Virtually all of the products produced and sold by us are highly engineered and require sophisticated manufacturing and system integration techniques and capabilities. Our commercial and government businesses both operate in global markets that are characterized by rapidly changing technologies, industry standards, market trends and customer demands. The product and program needs of our government and commercial customers change and evolve regularly. Accordingly, our future performance depends on our ability to identify emerging technological trends, develop and manufacture competitive products, enhance our products by adding innovative features that differentiate our products from those of our competitors, and bring those products to market quickly at cost-effective prices.

Our ability to develop new products based on technological innovation can affect our competitive position and requires the investment of significant resources. These development efforts divert resources from other potential investments in our businesses, and they may not lead to the development of new technologies or products on a timely basis or meets the needs of our customers as fully as other competitive offerings. In addition, the markets for our products may not develop or grow as we anticipate. The failure of our technologies or products to gain market acceptance due to more attractive offerings by our competitors could significantly reduce our revenues and adversely affect our competitive standing and prospects.

In addition, because of the highly specialized nature of our business, we must be able to hire and retain the skilled and appropriately qualified personnel necessary to perform the services required by our customers. Our operating results, financial condition or cash flows may be adversely affected if we are unable to develop new products that meet customers' changing needs or successfully attract and retain qualified personnel.

***There can be no assurance that our products will be successfully developed or manufactured or that they will perform as intended.***

Most of the products we develop and manufacture are technologically advanced and sometimes include novel systems that must function under highly demanding operating conditions. From time to time, we experience product failures, cost overruns in developing and manufacturing our products, delays in delivery and other operational problems. We have experienced product and service failures, schedule delays and other problems in connection with certain of our launch vehicles, including the Antares launch vehicle, satellites, advanced space systems and other products. We may have similar occurrences in the future.

Some of our satellite and launch services contracts impose monetary penalties on us for delays and for performance failures, which penalties could be significant. In addition to any costs resulting from product warranties or required remedial action, product failures or significant delays may result in increased costs or loss of revenues due to the postponement or cancellation of subsequently scheduled operations or product deliveries and may have a material adverse effect on our operating results, financial condition or cash flows. Negative publicity from a product failure could damage our reputation and impair our ability to win new contracts.

***Due to the volatile and flammable nature of our products, fires or explosions may disrupt our business.***

Many of our products involve the manufacture and/or handling of a variety of explosive and flammable materials. From time to time, these activities have resulted in incidents, such as an explosion at the Lake City Army Ammunition Plant in 2017, that have caused workplace injuries and fatalities, the temporary shut down or other disruption of our manufacturing process, production delays, and related expense, fines and liability to third parties. We have safety and loss prevention programs which require detailed pre-construction reviews of process changes and new operations, along with routine safety audits of operations involving explosive materials, to mitigate such incidents, as well as insurance coverage for such incidents. We may experience similar or more serious incidents in the future which could result in production delays or otherwise have a material adverse effect on our operating results, financial condition or cash flows.

***We are subject to environmental laws and regulations that govern both past practices and current compliance which may expose us to adverse consequences.***

Our operations and ownership or use of real property are subject to a number of federal, state and local environmental laws and regulations, as well as applicable foreign laws and regulations, including those for discharge of hazardous materials, remediation of contaminated sites and restoration of damage to the environment. At certain sites that we own or operate or formerly owned or operated, there is known or potential contamination that we are required to investigate, remediate or provide resource restoration. We could incur substantial costs, including remediation costs,



resource restoration costs, fines and penalties, or third party property damage or personal injury claims, as a result of liabilities associated with past practices or violations of environmental laws or non-compliance with environmental permits.

We expect that a portion of our environmental compliance and remediation costs will be recoverable under U.S. Government contracts. Some of the remediation costs that are not recoverable from the U.S. Government that are associated with facilities purchased in a business acquisition may be covered by indemnification agreements.

Although we have environmental management programs in place to mitigate risks, and environmental laws and regulations have not had a material adverse effect on our operating results, financial condition or cash flows in the past, it is difficult to predict whether they will have a material impact in the future.

***Capital market volatility could adversely impact our earnings because of our capital structure.***

We are exposed to the risk of fluctuation in interest rates. If interest rates increase, we may incur increased interest expense on variable interest-rate debt or short-term borrowings, which could have an adverse impact on our operating results and cash flows.

***Our profitability could be impacted by unanticipated changes in our tax provisions or exposure to additional income tax liabilities.***

Our business operates in many locations under government jurisdictions that impose income taxes. Changes in domestic or foreign income tax laws and regulations, or their interpretation, could result in higher or lower income tax rates assessed or changes in the taxability of certain revenues or the deductibility of certain expenses, thereby affecting income tax expense and profitability. In addition, audits by income tax authorities could result in unanticipated increases in income tax expense.

In connection with the Tax Cuts and Jobs Act (the "Tax Act") signed into law on December 22, 2017, the U.S. Treasury is expected to issue rules, regulations and guidance in connection with the Tax Act which may alter interpretations of its provisions and change our preliminary analysis and conclusions. Any Treasury rules, regulations and guidance may materially impact the company's operating results, including our provision for income taxes, the amount of our net deferred tax assets and our estimated effective tax rate. We cannot currently predict the overall impact of the Tax Act on our business and results of operations. There could be unforeseen adverse tax consequences that arise as a result of the Tax Act. In addition, further changes in the tax laws of foreign jurisdictions could arise. These contemplated changes could increase tax uncertainty and may adversely affect our provision for income taxes.

***We are involved in a number of legal proceedings. We cannot predict the outcome of litigation and other contingencies with certainty.***

We are subject to lawsuits, investigations and disputes (some involving substantial amounts) that arise out of the conduct of our business including matters relating to commercial transactions, government contracts, product liability, prior acquisitions and divestitures, employment, employee benefits plans, intellectual property, import and export matters, and environmental, health and safety matters. As noted in Part I, Item 3, "Legal Proceedings" of this Form 10-K, we are also subject to various claims related to the restatements. Resolution of these matters can be prolonged and costly, and our business may be adversely affected by the ultimate outcome of these matters that cannot be predicted with certainty. Moreover, our potential liabilities are subject to change over time due to new developments, changes in settlement strategy or the impact of evidentiary issues, and we may become subject to or be required to pay damage awards or settlements that could have a material adverse effect on our operating results, financial condition or cash flows.

***If the Distribution does not qualify as a tax-free spin-off under Section 355 of the Internal Revenue Code (the "Code"), including as a result of subsequent acquisitions of our stock or Vista Outdoor, then we or our stockholders immediately prior to the Distribution may be required to pay substantial U.S. federal income taxes and we may be obligated to indemnify Vista Outdoor for such taxes imposed on Vista Outdoor.***

The Distribution and the Orbital-ATK Merger are intended to qualify as tax-free to us, our stockholders, Vista Outdoor and Orbital for U.S. federal income tax purposes. However, there can be no assurance that the IRS or the courts will agree with the conclusion of the parties and their counsel regarding the tax treatment of the Distribution and Orbital-ATK Merger. If the Distribution or certain related transactions were taxable, our stockholders would recognize income on their receipt of Vista Outdoor stock in the Distribution, and we would be considered to have made a taxable sale of certain of our assets to Vista Outdoor.

The Distribution will be taxable to us pursuant to Section 355(e) of the Code if there is a 50% or more change in ownership of either us or Vista Outdoor, directly or indirectly, as part of a plan or series of related transactions that include the Distribution. Because our stockholders collectively owned more than 50% of our common stock following the Orbital-ATK Merger, the Orbital-ATK Merger alone will not cause the Distribution to be taxable to us under Section 355(e). However, Section 355(e) could apply if other acquisitions of our stock before or after the Orbital-ATK Merger, or of Vista Outdoor after the Orbital-ATK Merger, are considered to be part of a plan or series of related transactions that include the Distribution. If Section 355(e) were to apply, we would be considered to have made a taxable sale of certain assets to Vista Outdoor and could recognize a substantial taxable gain.

Under the tax matters agreement between us and Vista Outdoor (the "Tax Matters Agreement"), in certain circumstances, and subject to certain limitations, Vista Outdoor is required to indemnify us against taxes on the Distribution that arise as a result of actions or failures to act by Vista Outdoor, or as a result of Section 355(e) applying due to acquisitions of Vista Outdoor stock after the Distribution. In other cases, however, we might recognize taxable gain on the Distribution without being entitled to an indemnification payment under the Tax Matters Agreement. If such tax is imposed on Vista Outdoor, then we generally will be required to indemnify Vista Outdoor for that tax.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

There are no unresolved staff comments at the date of this report.

## **ITEM 2. PROPERTIES**

*Facilities.* At December 31, 2017, we occupied research, development, manufacturing, assembly, test, warehouse and office facilities having a total floor space of approximately 17.5 million square feet. These facilities are either owned or leased, or are occupied under facilities-use contracts with the U.S. Government.

At December 31, 2017, our operating segments had significant operations at the following locations<sup>(1)</sup>:

Flight Systems Group	Brigham City/Promontory, UT; Clearfield, UT; Magna, UT; Chandler, AZ; Dulles, VA; Iuka, MS; Dayton, OH; Vandenberg Air Force Base, CA; Wallops Island, VA; Huntsville, AL
Defense Systems Group	Mesa, AZ; Northridge, CA; Elkton, MD; Elk River, MN; Plymouth, MN; Independence, MO; Fort Worth, TX; Radford, VA; Rocket Center, WV
Space Systems Group	Dulles, VA; Beltsville, MD; Gilbert, AZ; Greenbelt, MD; Commerce, CA; Goleta, CA; San Diego, CA; Wallops Island, VA; Palestine, TX; Pasadena, CA
Corporate	Dulles, VA; Plymouth, MN; Minnetonka, MN

<sup>(1)</sup> We occupy a number of small facilities in countries around the world which are not included above.

*Land.* We also use land that we own or lease for assembly, test and evaluation in Brigham City, Corrine and Magna, UT, which is used by Flight Systems Group; and in Elk River, MN, and Socorro, NM, which is used by Defense Systems Group.

Our personnel operate in certain other facilities that are not owned or operated by us, including: Kennedy Space Center, Cape Canaveral, FL and Picatinny Arsenal, Picatinny, NJ. The square footage of these facilities is not included in the table below.

Our properties are well maintained and in good operating condition and are sufficient to meet our near-term operating requirements.

The following table summarizes the floor space, in thousands of square feet, occupied by each operating segment as of December 31, 2017:

	Owned	Leased	Government Owned <sup>(1)</sup>	Total
Flight Systems Group .....	5,237	3,609	536	9,382
Defense Systems Group .....	655	1,175	4,766	6,596
Space Systems Group .....	270	1,141	23	1,434
Corporate .....	—	46	—	46
Total .....	6,162	5,971	5,325	17,458
Percentage of total .....	35%	34%	31%	100%

<sup>(1)</sup> These facilities are occupied under facilities contracts that generally require us to pay for all utilities, services and maintenance costs.

### ITEM 3. LEGAL PROCEEDINGS

From time to time, we are subject to various legal proceedings, including lawsuits, which arise out of, and are incidental to, the conduct of our business. We do not consider any of such proceedings that are currently pending, individually or in the aggregate, to be material to our business or likely to result in a material adverse effect on our future operating results, financial condition or cash flows, notwithstanding that the unfavorable resolution of any matter may have a material effect on our net earnings in any particular quarter.

On April 29, 2016, US Space LLC filed a complaint against the Company and its subsidiary, ATK Space Systems Inc. in New York Supreme Court, alleging breach of contract and various other claims, and seeking unspecified damages, all related to ViviSat LLC, a former joint venture between the parties. The Company believes US Space's claims are without merit. On May 27, 2016, the Company filed a countersuit in Loudoun County Circuit Court in the Commonwealth of Virginia (*ATK Space Systems, Inc. and Orbital ATK, Inc. v. U.S. Space LLC, Case No. CL-101847*) asserting claims for declaratory and injunctive relief against US Space LLC relating to ViviSat. The Company's Virginia complaint alleged a failure of US Space to perform contractual obligations relating to obtaining financing for ViviSat, triggering certain rights of the Company that led to the dissolution of the venture. On November 11, 2016, the New York Supreme Court dismissed US Space's New York case in its entirety. On January 6, 2017, US Space filed counterclaims against the Company, similar to its previous claims in its now-dismissed New York lawsuit. US Space's initial counterclaims in the Virginia case sought damages of at least \$125 million, but increased its damages demand to \$385 million in the fourth quarter of 2017. A jury trial is currently ongoing. While the Company continues to believe that US Space's counterclaims are without merit, the amount of the damages sought, if ever awarded, could be material to our cash flows and results of operations.

*Securities Class Action.* Seven purported class actions challenging the Merger were filed in the United States District Court for the Eastern District of Virginia, captioned *Lickteig v. Orbital ATK, Inc., et al.*, filed October 11, 2017 (the "Lickteig Action"), *Ayzin v. Orbital ATK, Inc., et al.*, filed October 13, 2017 (the "Ayzin Action"), *Sedon v. Orbital ATK, Inc., et al.*, filed October 16, 2017 (the "Sedon Action"), *Berg v. Orbital ATK, Inc., et al.*, filed October 16, 2017 (the "Berg Action"), *Simnowitz v. Orbital ATK, Inc., et al.*, filed October 18, 2017 (the "Simnowitz Action"), *Cramer v. Orbital ATK, Inc., et al.*, filed October 25, 2017 (the "Cramer Action"), and *Donato v. Orbital ATK, Inc., et al.*, filed on November 7, 2017 (the "Donato Action" and collectively with the Lickteig Action, Ayzin Action, Sedon Action, Berg Action, Simnowitz Action and Cramer Action, the "Actions"). The Actions alleged certain violations of the Securities and Exchange Act of 1934 (the "Exchange Act"), as amended, and sought, among other things, damages, attorneys' fees and injunctive relief to prevent the Merger from closing. While the Company believed that the Actions lacked merit and that the disclosures set forth in the proxy statement complied fully with applicable law, in order to moot plaintiffs' unmeritorious disclosure claims, avoid nuisance and possible expense and provide additional information to our stockholders, the Company determined to voluntarily supplement the proxy statement, as set forth in the Company's Schedule 14A filed with the SEC on November 20, 2017. On November 20, 2017, the Ayzin Action, Sedon Action, Berg Action, Cramer Action and Donato Action were each voluntarily dismissed with prejudice as to the plaintiffs. On December 8, 2017, the Simnowitz Action was voluntarily dismissed with prejudice as to the plaintiff and on January 12, 2018, the Lickteig Action was voluntarily dismissed with prejudice as to the plaintiff. While each of the Actions have been voluntarily dismissed with prejudice as to the plaintiffs, additional plaintiffs may file lawsuits against the Company and/or its directors and officers in connection with the Merger.



On August 12, 2016, a putative class action complaint, naming the Company, our Chief Executive Officer and our Chief Financial Officer as defendants, was filed in the United States District Court for the Eastern District of Virginia (*Steven Knurr, et al. v. Orbital ATK, Inc., No. 16-cv-01031 (TSE-MSN)*). The class action complaint asserts claims on behalf of purchasers of Orbital ATK securities for violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 thereunder, arising out of allegedly false and misleading statements and the failure to disclose that: (i) the Company lacked effective control over financial reporting; and (ii) as a result, the Company failed to record an anticipated loss on its long-term contract with the U.S. Army to manufacture and supply small-caliber ammunition at the U.S. Army's Lake City Army Ammunition Plant. On April 24, 2017 and October 10, 2017, the plaintiffs filed amended complaints naming additional defendants and asserting claims for violations of additional sections of the Exchange Act and alleged false and misleading statements in the Company's Form S-4 filed with the SEC relating to the Orbital-ATK Merger. The complaint seeks an award of damages, an award of reasonable costs and expenses at trial, including counsel and expert fees, and an award of such other relief as deemed appropriate by the Court.

*SEC Investigation.* The SEC is conducting a non-public investigation relating to our historical accounting practices as a result of the prior restatement of the Company's unaudited condensed consolidated financial statements for the quarterly periods ended July 5, 2015 and October 4, 2015 as described in the Company's Amendment to the Transition Report on Form 10-K for the nine-month transition period ending December 31, 2015 filed with the SEC on March 15, 2016. The Company has also voluntarily self-reported to the SEC regarding matters pertaining to the Restatement described in the Company's Amendment to the Transition Report on Form 10-K for the nine-month transition period ending December 31, 2015 filed on February 24, 2017. The Company is cooperating fully with the SEC in connection with these matters.

*Other U.S. Government Investigations.* We are also subject to U.S. Government investigations from which civil, criminal or administrative proceedings could result. Such proceedings could involve claims by the U.S. Government for fines, penalties, compensatory and treble damages, restitution and/or forfeitures. Under government regulations, a company, or one or more of its operating divisions or subdivisions, can also be suspended or debarred from government contracts, or lose its export privileges, based on the results of investigations. We believe, based upon all available information, that the outcome of any such pending government investigations will not have a material adverse effect on our operating results, financial condition or cash flows.

*Environmental Liabilities.* Our operations and ownership or use of real property are subject to a number of federal, state and local laws and regulations, including those for discharge of hazardous materials, remediation of contaminated sites and restoration of damage to the environment. Due in part to their complexity and pervasiveness, such laws and regulations have resulted in our being involved with a number of related legal proceedings, claims and remediation obligations. We routinely assess, based on in-depth studies, expert analyses and legal reviews, our contingencies, obligations and commitments for remediation of contaminated sites and past practices, including assessments of ranges and probabilities of recoveries from other responsible parties. Our policy is to accrue and charge to expense in the current period any identified exposures related to environmental liabilities based on estimates of investigation, cleanup, monitoring and resource restoration costs to be incurred.

We have been identified as a potentially responsible party ("PRP"), along with other parties, in several regulatory agency actions associated with hazardous waste sites. As a PRP, we may be required to pay a share of the costs of the investigation and clean-up of these sites. While uncertainties exist with respect to the amounts and timing of the ultimate environmental liabilities, based on currently available information, we have concluded that these matters, individually or in the aggregate, will not have a material adverse effect on our operating results, financial condition or cash flows.

We could incur substantial costs, including cleanup costs, resource restoration, fines and penalties or third-party property damage or personal injury claims, as a result of violations or liabilities under environmental laws or non-compliance with environmental permits. While environmental laws and regulations have not had a material adverse effect on our operating results, financial condition or cash flows in the past, and we have environmental management programs in place to mitigate these risks, it is difficult to predict whether they will have a material impact in the future.

The description of certain environmental matters contained in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Contingencies" is incorporated herein by reference.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed and traded on the New York Stock Exchange under the symbol "OA." The following table presents the high and low sales prices of the common stock for the periods indicated:

<u>Period</u>	<u>High</u>		<u>Low</u>	
Year ended December 31, 2017				
Quarter ended December 31, 2017	\$	134.57	\$	131.50
Quarter ended October 1, 2017	\$	133.16	\$	99.79
Quarter ended July 2, 2017	\$	104.32	\$	95.31
Quarter ended April 2, 2017	\$	102.11	\$	86.82
Year ended December 31, 2016				
Quarter ended December 31, 2016	\$	89.39	\$	71.52
Quarter ended October 2, 2016	\$	89.43	\$	67.04
Quarter ended July 3, 2016	\$	90.98	\$	82.11
Quarter ended April 3, 2016	\$	94.92	\$	74.31

The number of holders of record of our common stock at February 16, 2018 was 4,596.

During the year ended December 31, 2017, the Company paid four quarterly dividends of \$0.32 per share, totaling approximately \$74 million. In January 2018, our Board of Directors approved a quarterly dividend to be paid in the first quarter of 2018 of \$0.32 per share, totaling approximately \$18 million. During the year ended December 31, 2016, the Company paid four quarterly dividends of \$0.30 per share, totaling approximately \$70 million. Under the terms of the Merger Agreement, we are permitted to, and intend to, continue paying a \$0.32 per share quarterly cash dividend until the closing of the transaction. However, we are not permitted to increase the per share dividend amount under the terms of the Merger Agreement.

We cannot be certain that we will continue to declare dividends in the future and, as such, the amount and timing of any future dividends are not determinable. Our dividend policy is reviewed by our Board of Directors in light of relevant factors, including our earnings, liquidity position, financial condition, capital requirements and credit ratings, as well as the extent to which the payment of cash dividends may be restricted by covenants contained in our instruments, including our 5.25% Senior Notes due 2021, 5.50% Senior Notes due 2023 and Senior Credit Facility (as described under "Liquidity and Capital Resources" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report).

The discussion of limitations upon the payment of dividends as a result of the indentures governing our debt instruments as discussed in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Long-term Debt and Credit Facilities" is incorporated herein by reference.



## Equity Compensation Plan Information

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under each of our existing equity compensation plans at December 31, 2017:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:			
1990 Equity Incentive Plan <sup>(1)</sup>			
Deferred Compensation <sup>(2)</sup>	13,269		
Non-Employee Director Restricted Stock Plan <sup>(1)</sup>			
Deferred Compensation <sup>(2)</sup>	6,924		
2005 Stock Incentive Plan <sup>(1)</sup>			
Stock Options	116,405	\$ 57.86	
Performance Awards <sup>(4)</sup>	151,656		
Deferred Compensation <sup>(2)</sup>	55,309		
2015 Stock Incentive Plan <sup>(3)</sup>			2,084,273
Stock Options	129,464	\$ 85.79	
Performance Awards <sup>(4)</sup>	265,974		
Deferred Compensation <sup>(2)</sup>	17,774		
2016 Employee Stock Purchase Plan <sup>(5)</sup>			1,781,318
Total	756,775	\$ 72.56	3,865,591

<sup>(1)</sup>No additional awards may be granted under this plan.

<sup>(2)</sup>Shares reserved for payment of deferred stock units in accordance with the terms of the plan.

<sup>(3)</sup>Under the 2015 Stock Incentive Plan, a total of 3,750,000 shares were authorized for awards. However, the plan includes a fungible share counting provision, under which "full-value awards" (i.e., awards other than stock options and stock appreciation rights) are counted against the reserve of shares available for issuance under the plan as 2.5 shares for every one share actually issued in connection with the award. No more than 5% of the shares available for awards under the plan may be granted to our non-employee directors in the aggregate.

<sup>(4)</sup>Shares reserved for issuance in connection with outstanding performance awards. The amount shown assumes the maximum payout of the performance shares based on achievement of the highest level of performance. The actual number of shares to be issued depends on the performance levels achieved for the respective performance periods.

<sup>(5)</sup>Under the 2016 Employee Stock Purchase Plan ("ESPP"), a total of 2,000,000 shares were authorized for issuance. In connection with the Merger, the ESPP was suspended as of October 1, 2017.

## ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program <sup>(2)</sup>	Amount Available for Future Share Repurchases Under the Plans or Programs (in millions)
October 2 - October 29 .....	319	\$ 133.21	—	
October 30 - November 26 .....	196	\$ 132.93	—	
November 27 - December 31 .....	—	\$ —	—	
Quarter ended December 31, 2017 .....	<u>515</u>	<u>\$ 133.10</u>	<u>—</u>	<u>\$ 227</u>

<sup>(1)</sup> Represents shares withheld to pay taxes upon vesting of shares of restricted stock and restricted stock units or payment of performance shares that were granted under our incentive compensation plans.

<sup>(2)</sup> During 2015, the Board of Directors approved a stock repurchase program that authorized the repurchase of up to the lesser of \$250 million or 3.25 million shares through December 31, 2016, which was subsequently increased during 2016 to the lesser of \$300 million or 4.0 million shares through March 2017. In February 2017, the Board of Directors further increased the amount authorized for repurchase to \$450 million, removed the share quantity limitation and extended the repurchase period through March 31, 2018. We repurchased 230,918 shares for \$23 million during the year ended December 31, 2017. In connection with the Merger, the Company halted its share repurchase program.

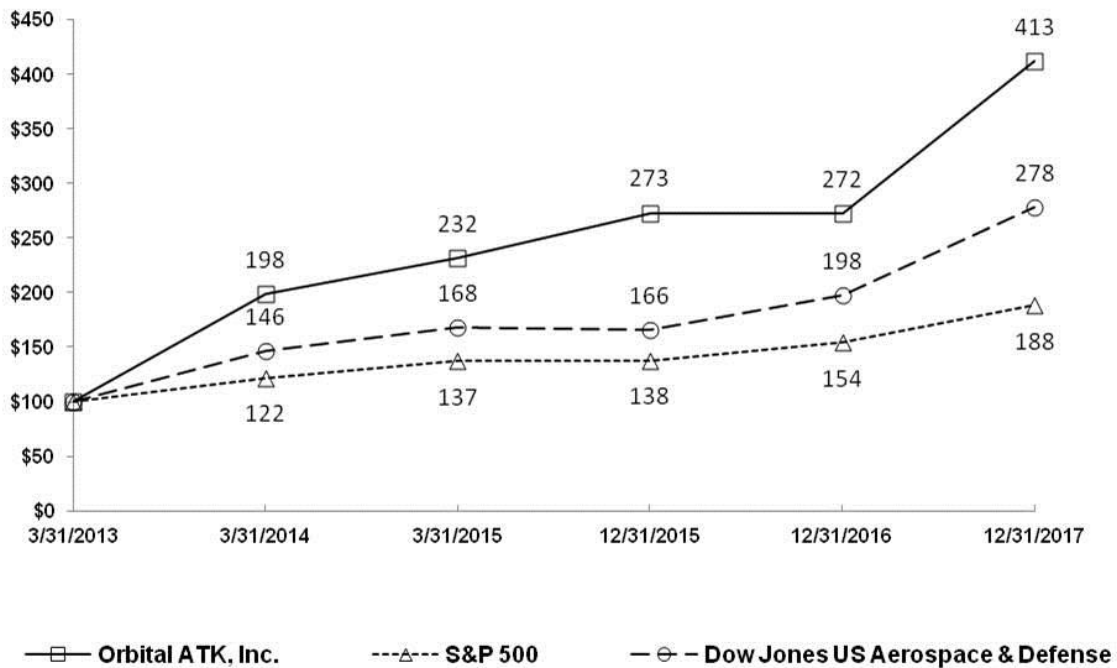
## STOCKHOLDER RETURN PERFORMANCE GRAPH

The graph below compares the cumulative total stockholder return on the Company's common stock during the period from March 31, 2013 through December 31, 2017, with the Standard & Poor's Composite 500 Index, (a broad equity market index) and the Dow Jones U.S. Aerospace and Defense Index (a published industry index) for the same period.

The comparison assumes that on April 1, 2013, \$100 was invested in the Company's common stock (at the closing price on the previous trading day) and in each of the indexes. The comparison assumes that all cash dividends were reinvested and takes into account the value of the Vista Outdoor shares distributed to stockholders in the Distribution as if it occurred prior to March 31, 2013. The graph indicates the dollar value of each hypothetical \$100 investment at March 31, 2014 and 2015, and at December 31, 2015, 2016 and 2017.

### COMPARISON OF 57 MONTH CUMULATIVE TOTAL RETURN

Among Orbital ATK, Inc., the S&P 500 Index  
and the Dow Jones US Aerospace & Defense Index





## ITEM 6. SELECTED FINANCIAL DATA

Results for the periods after fiscal 2014 are not comparable to fiscal 2014 due to the Orbital-ATK Merger and Distribution, as described in Note 4, *Mergers and Divestiture*, to the accompanying consolidated financial statements in Part II, Item 8.

	Year Ended December 31,		Nine Months Ended	Year Ended March 31,	
	2017	2016	December 31, 2015	2015	2014
(in millions, except per share data)	(1)		(2)	(3)	(4)
<b>Results of Operations:</b>					
Sales	\$ 4,764	\$ 4,455	\$ 3,391	\$ 3,113	\$ 2,891
Gross profit	1,065	985	674	701	290
Income (loss) from continuing operations, before interest, income taxes and noncontrolling interest	529	472	333	223	(59)
Income (loss) from continuing operations of Orbital ATK, Inc.	310	293	185	70	(64)
Income from discontinued operations	—	—	1	125	181
Net income attributable to Orbital ATK, Inc.	\$ 310	\$ 293	\$ 186	\$ 195	\$ 117
Earnings per common share attributable to Orbital ATK, Inc.:					
Basic:					
Income (loss) from continuing operations	\$ 5.39	\$ 5.05	\$ 3.12	\$ 1.96	\$ (2.03)
Income from discontinued operations	\$ —	\$ —	\$ 0.02	\$ 3.53	\$ 5.73
Diluted:					
Income (loss) from continuing operations	\$ 5.34	\$ 5.01	\$ 3.09	\$ 1.93	\$ (1.97)
Income from discontinued operations	\$ —	\$ —	\$ 0.02	\$ 3.46	\$ 5.55
Cash dividends per common share	\$ 1.28	\$ 1.20	\$ 0.78	\$ 1.28	\$ 1.10
<b>Consolidated Balance Sheet Data:</b>					
Total assets	\$ 5,666	\$ 5,418	\$ 5,324	\$ 5,478	\$ 5,925
Long-term debt (including current portion)	\$ 1,401	\$ 1,438	\$ 1,476	\$ 1,572	\$ 2,069

- (1) Calendar 2017 results included \$10 million of acquisition transaction expenses related to the pending acquisition by Northrop Grumman.
- (2) The nine month period ended December 31, 2015 results include a \$50 million gain on settlement of a dispute with a supplier pertaining to the Antares rocket used in the CRS-1 contract.
- (3) Fiscal 2015 results include \$35 million of transaction fees for advisory, legal and accounting services in connection with the Distribution and the Orbital-ATK Merger and a \$25 million litigation charge pertaining to a Raytheon lawsuit settlement.
- (4) Fiscal 2014 results include a \$342 million forward loss contract reserve recorded in the second quarter related to our long-term contract (the "Lake City Contract") with the U.S. Army to manufacture and supply small-caliber ammunition at the U.S. Army's Lake City Army Ammunition Plant.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*(amounts in millions except share and per share data or unless otherwise indicated)*

### **Forward-Looking Information is Subject to Risk and Uncertainty**

Some of the statements made and information contained in this report, excluding historical information, are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements give our current expectations or forecasts of future events. Words such as "may," "will," "expected," "intend," "estimate," "anticipate," "believe," "project" or "continue," and similar expressions are used to identify forward-looking statements. From time to time, we also may provide oral or written forward-looking statements in other materials released to the public. Any or all forward-looking statements in this report and in any public statements we make could be materially different. They can be affected by assumptions used or by known or unknown risks or uncertainties. Consequently, no forward-looking statements can be guaranteed. Actual results may vary materially. You are cautioned not to place undue reliance on any forward-looking statements. You should also understand that it is not possible to predict or identify all such factors and you should not consider the following list to be a complete statement of all potential risks and uncertainties. Any change in the following factors may impact the achievement of results:

- the risk that the pending acquisition by Northrop Grumman may not be completed in a timely manner or at all, which may adversely affect our business and the price of our common stock,
- the failure to satisfy any of the conditions to the consummation of the pending acquisition on a timely basis, including the receipt of certain governmental and regulatory approvals,
- the occurrence of any circumstance that could give rise to the termination of the Merger Agreement,
- reductions or changes in programs administered by the National Aeronautics and Space Administration ("NASA") or in U.S. Government military spending, timing of payments and budgetary policies, including impacts of sequestration under the Budget Control Act of 2011, and sourcing strategies,
- intense competition for U.S. Government contracts and programs,
- increases in costs, which we may not be able to react to due to the nature of our U.S. Government contracts,
- changes in cost and revenue estimates and/or timing of programs,
- the potential termination of U.S. Government contracts and the potential inability to recover termination costs,
- other risks associated with U.S. Government contracts that might expose us to adverse consequences,
- laws, rules and regulations applicable to us, including procurement and import-export control,
- reduction or change in demand and manufacturing costs for ammunition,
- the manufacture and sale of products that create exposure to potential product liability, warranty liability or personal injury claims and litigation,
- risks associated with expansion into new and adjacent markets,
- greater risk associated with international business, including foreign currency exchange rates and fluctuations in those rates,
- federal and state regulation of defense products and ammunition,
- costs of servicing our debt, including cash requirements and interest rate fluctuations,
- actual pension and other postretirement plan asset returns and assumptions regarding future returns, discount rates, service costs, mortality rates and health care cost trend rates,
- security threats, including cybersecurity and other industrial and physical security threats, and other disruptions,

- supply, availability and costs of raw materials and components, including commodity price fluctuations,
- performance of our subcontractors,
- development of key technologies and retention of a qualified workforce,
- the performance of our products,
- fires or explosions at any of our facilities,
- government investigations and audits,
- environmental laws that govern current and past practices and rules and regulations, noncompliance with which may expose us to adverse consequences,
- impacts of financial market disruptions or volatility to our customers and vendors,
- unanticipated changes in the tax provision or exposure to additional tax liabilities, including as a result of the recent tax law legislation, the Tax Cuts and Jobs Act (the "Tax Act") signed into law in December 2017 and
- the costs and ultimate outcome of litigation matters, government investigations and other legal proceedings, including those related to the restatement of our previously issued financial results.

This list of factors is not exhaustive, and new factors may emerge or changes to the foregoing factors may occur that would impact our business. Additional information regarding these and other factors is contained in Part I, Item 1A, "Risk Factors," of this report and may also be contained in our filings with the Securities and Exchange Commission on Forms 10-Q and 8-K. All such risk factors are difficult to predict, contain material uncertainties that may affect actual results and may be beyond our control.

## **Executive Summary**

We are an aerospace and defense products company and supplier of products to the U.S. Government, allied nations, prime contractors and other customers. Our main products include launch vehicles and related propulsion systems, satellites and associated components and services, composite aerospace structures, tactical missiles, subsystems and defense electronics and precision weapons, armament systems and ammunition. We are headquartered in Dulles, Virginia and have operating locations throughout the United States.

On September 17, 2017, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Northrop Grumman Corporation ("Northrop Grumman") and Neptune Merger, Inc., a wholly owned subsidiary of Northrop Grumman ("Sub"), pursuant to which Northrop Grumman will acquire the Company for a purchase price of \$134.50 per share in cash (the "Merger").

Closing of the Merger is expected to occur during the first half of 2018, subject to customary closing conditions and obtaining required regulatory approvals. The stockholders of the Company voted in favor of approving the Merger Agreement at a special meeting held on November 29, 2017. In February 2018, the European Commission informed the parties that it would not oppose the Merger and declared it compatible with the European Union internal market under the applicable regulation. This is one of two required regulatory approvals.

The other required regulatory approval is the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act (the "HSR Act"). On December 6, 2017, the Company received a request for additional information (the "second request") from the Federal Trade Commission ("FTC"). The effect of the second request is to extend the waiting period imposed by the HSR Act until 30 days after both the Company and Northrop Grumman have substantially complied with the request, unless that period is extended voluntarily by the parties or terminated sooner by the FTC.

At the effective time of the Merger, each outstanding share of the Company's common stock, other than shares owned by the Company, Northrop Grumman or Sub (which will be canceled) and appraisal shares, will be converted into the right to receive \$134.50 in cash, without interest and less any applicable withholding taxes.

On February 9, 2015, we completed the spin-off and distribution (the "Distribution") of our former Sporting Group to our stockholders as a new public company called Vista Outdoor Inc. ("Vista Outdoor"). As a result, the Sporting Group is reported as discontinued operations. Immediately following the distribution of our former Sporting Group, we combined with Orbital through the merger of a company subsidiary with Orbital.



We conduct business in three segments:

- Flight Systems Group develops launch vehicles that are used as small- and medium-class space launch vehicles to place satellites into earth orbit and escape trajectories, interceptor and target vehicles for missile defense systems and suborbital launch vehicles that place payloads into a variety of high-altitude trajectories. The group also develops and produces medium- and large-class rocket propulsion systems for human and cargo launch vehicles, strategic missiles, missile defense interceptors and target vehicles. Additionally, Flight Systems Group operates in the military and commercial aircraft and launch structures markets.
- Defense Systems Group develops and produces small-, medium- and large-caliber military ammunition, propulsion systems for tactical missiles and missile defense applications, strike weapons, precision weapons and munitions, high-performance gun systems, aircraft survivability systems, fuzes and warheads, energetic materials and special mission aircraft.
- Space Systems Group develops and produces small- and medium-class satellites that are used to enable global and regional communications and broadcasting, conduct space-related scientific research and perform activities related to national security. In addition, Space Systems Group develops and produces human-rated space systems for earth orbit and deep space exploration, including cargo delivery to the International Space Station. This group is also a provider of spacecraft components and subsystems as well as specialized engineering and operations services to U.S. government agencies.

Below is a table that represents each segment's earnings and respective operating margins that contribute to the overall performance of the Company:

	Year Ended December 31, 2017		
	Flight Systems Group	Defense Systems Group	Space Systems Group
Sales <sup>(1)</sup>	\$ 1,681	\$ 1,968	\$ 1,284
Income From Operations Before Interest, Income Taxes and Noncontrolling Interest <sup>(1)</sup>	\$ 211	\$ 193	\$ 142
Operating Margin	13%	10%	11%

<sup>(1)</sup> Sales and total income from operations before interest, income taxes and noncontrolling interest listed above does not include the corporate segment intercompany elimination of sales of (\$169) million and intercompany profit elimination and certain costs including unallowables retained in the corporate segment of (\$17) million.

Operating margins differ among the Company's three operating segments due to several factors, including, but not limited to, the mix of contract types, competitive positioning and pricing, complexity of our deliverables and the impact of program execution. The operating margin in our Defense Systems Group is lower than the operating margins of the Space Systems Group and Flight Systems Group primarily due to the Company's small-caliber ammunition contract with the U.S. Army which operates in a forward loss position. As a result, this contract has no margin, which, given the size of the contract, lowers the overall Defense Systems Group's margin.

### ***Fiscal Year***

In March 2015, we changed our fiscal year from the period beginning on April 1 and ending on March 31 to the period beginning on January 1 and ending on December 31. We refer in this report to the nine-month period beginning on April 1, 2015 and ending on December 31, 2015 as the "2015 transition period." All fiscal years after December 31, 2015 are for the calendar twelve months ended December 31. We refer in this report to the period beginning on January 1, 2017 and ending on December 31, 2017 as "calendar 2017" or "2017" and the period beginning on January 1, 2016 and ending on December 31, 2016 as "calendar 2016" or "2016."

## **Outlook**

*U.S. Government Business* — Our business with the U.S. Government comprised approximately 73% of our sales in 2017. U.S. Government contracts are dependent on the continuing availability of Congressional appropriations. Congress usually appropriates funds for a given program on a government fiscal year ("GFY") basis even though contract performance may take more than one year. As a result, at the outset of a major program, the contract is usually incrementally funded, and additional monies are normally committed to the contract by the procuring agency only as Congress makes appropriations for future GFYs. In addition, most U.S. Government contracts are subject to modification if funding is changed. Any failure by Congress to appropriate additional funds to any program in which we participate, or any contract modification as a result of funding changes, could materially delay or terminate the program. This could have a material adverse effect on our operating results, financial condition or cash flows.

The government budget structure has been constrained by the 2011 Budget Control Act, which provided for a reduction of the U.S. Department of Defense ("DoD") topline budget by approximately \$490 billion over 10 years starting in GFY 2012, and subsequent amendments that continue to limit DoD spending. Over the past few years, including during the current fiscal year, the U.S. Government frequently has been operating under continuing resolutions rather than approved budgets. During such periods when regular appropriation bills have not yet been passed, we could experience delays in orders due to reduced funding; however, our key programs have continued to be supported and funded.

The recent agreement in Congress and President Trump's Administration on a two-year budget package is expected to lift caps on defense spending for GFY 2018 and 2019 and provide a significant increase in defense spending during that period, which could present opportunities for the Company. NASA budgets in the near term may include material cuts to proposed earth science programs but we expect support for existing programs and that NASA's commitment to the International Space Station and related CRS programs will continue. We also expect funding for the Space Launch System and Orion Programs to be maintained.

*Commercial and International Business* — Our commercial businesses, consisting primarily of communication satellite and aircraft structure sales, as well as ammunition sales to Vista Outdoor, were mixed in 2017, with ammunition sales and commercial satellites continuing a downward trend and aircraft structures sales up. Industry-wide, new orders for geosynchronous satellites continued to be soft in 2017, a trend that is expected to persist in the near term. This weakness, however, continues to be offset to a large extent by demand in the NASA and DoD satellite markets. We continue to emphasize international business as a key element of growth in our Defense Systems segment, as defense spending by U.S. allies continues to present opportunities for us.

The U.S. aerospace and defense industry has experienced significant changes over recent years. Our management believes that the key to our continued success is to focus on providing innovative, reliable and affordable space, defense and aviation systems. We continue to position ourselves where management believes there will be strong defense and civil government funding and commercial interest, including an emphasis on international defense business and other potential growth areas.

## **Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In preparing the consolidated financial statements, we make estimates and judgments that affect the reported amounts of assets, liabilities, sales, expenses, and related disclosure of contingent assets and liabilities. We re-evaluate our estimates on an on-going basis. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following are our critical accounting policies that affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

## Revenue Recognition

A substantial portion of our sales come from contracts with agencies of the U.S. Government and its prime contractors and subcontractors. As the various U.S. Government customers, including the U.S. Navy, U.S. Army, NASA and the U.S. Air Force make independent purchasing decisions, we do not generally regard the U.S. Government as one customer. Instead, we view each agency as a separate customer.

*Long-term Contracts* — The majority of our sales are from long-term contracts, which are accounted for using the percentage-of-completion method. Accounting for contracts under the percentage-of-completion method requires judgment relative to assessing risks and estimating contract revenues and costs. Profits expected to be realized on contracts are based on management's estimates of total contract value and costs at completion. Changes in estimates of contract sales, costs or profits are recognized using the cumulative catch-up method of accounting. The cumulative effect of a change in estimate is recognized in the period a change in estimate occurs. The effect of the changes on future periods of contract performance is recognized as if the revised estimate had been used since contract inception or, in the case of contracts acquired in business combinations, from the date of acquisition. In the period in which it is determined that a loss will be incurred on a contract, the entire amount of the estimated loss, based on gross profit along with general and administrative costs, is charged to cost of sales.

Changes in contract estimates occur for a variety of reasons, including changes in contract scope, unforeseen changes in contract cost estimates due to unanticipated cost growth or risks affecting contract costs and/or the resolution of contract risks at lower costs than anticipated, as well as changes in contract overhead costs over the performance period. Changes in estimates could have a material effect on the Company's consolidated financial position or results of operations.

Generally, favorable changes in contract estimates recognized using the cumulative catch-up method of accounting represent margin improvement on programs where either estimated cost at completion was lower than previously estimated or a change in contract scope on a program caused a higher profit rate. Conversely, the unfavorable changes in contract estimates represent margin declines on programs where either estimated cost at completion was higher than previously estimated or a change in contract scope on a program caused a lower profit rate.

The favorable and unfavorable changes in contract estimates recognized using the cumulative catch-up method of accounting are as follows (*in millions*):

	Year Ended		Nine Months Ended
	December 31, 2017	December 31, 2016	December 31, 2015
Gross favorable adjustments	\$ 250	\$ 247	\$ 136
Gross unfavorable adjustments	(145)	(166)	(98)
Net adjustments	\$ 105	\$ 81	\$ 38

For the year ended December 31, 2017, the Company recognized favorable cumulative catch-up adjustments due to higher profit expectations on programs in the Aerospace Structures division, the Propulsion Systems division and the Launch Vehicles division, within our Flight Systems Group; the Space Components division, the Satellite Systems division and the Advanced Programs division, within our Space Systems Group; and the Armament Systems division and the Missile Products division, within our Defense Systems Group, due to better performance resulting from risk retirement and lower cost than had previously been estimated. The Company recognized unfavorable cumulative catch-up adjustments in the Aerospace Structures division and the Propulsion Systems division, within our Flight Systems Group; the Satellite Systems division, within our Space Systems Group; and the Armament Systems division within our Defense Systems Group, primarily due to higher costs than had previously been estimated.

For the year ended December 31, 2016, the Company recognized favorable cumulative catch-up adjustments due to higher profit expectations on programs in the Launch Vehicles division, within our Flight Systems Group, and the Advanced Programs division, within our Space Systems Group, due to better performance resulting from risk retirement and lower costs than had previously been estimated. The Company recognized unfavorable cumulative catch-up adjustments primarily due to (i) in the Aerospace Structures division, within our Flight Systems Group, an increase in estimated costs at completion, (ii) in the Satellite Systems division, within our Space Systems Group, higher costs than had previously been estimated, and (iii) in the Defense Electronics division, within our Defense Systems Group, a reduction in a program's estimated revenue.



For the nine months ended December 31, 2015, the Company recognized favorable cumulative catch-up adjustments due to higher profit expectations on programs in the Aerospace Structures and Propulsion Systems divisions, within our Flight Systems Group, and the Armament Systems and Missile Products divisions, within our Defense Systems Group, due to better performance resulting from risk retirement and lower costs than had previously been estimated. The Company recognized unfavorable cumulative catch-up adjustments in the Aerospace Structures division, within our Flight Systems Group, and the Armament Systems, Missile Products and Defense Electronics divisions, within our Defense Systems Group, due to higher costs than had previously been estimated.

Contracts may contain provisions to earn incentive and award fees if specified targets are achieved as well as penalty provisions related to performance. Incentive and award fees and penalties that can be reasonably estimated and are probable are recorded over the performance period of the contract. Incentive and award fees that cannot be reasonably estimated are recorded when awarded.

*Other* — Sales not recognized under the long-term contract method are recognized when persuasive evidence of an arrangement exists, the product has been delivered and legal title and all risks of ownership have been transferred, written contract and sales terms are complete, customer acceptance has occurred and payment is reasonably assured. Sales are reduced for allowances and price discounts.

### **Employee Benefit Plans**

*Defined Benefit Pension Plans.* Our noncontributory defined benefit pension plans include the following legacy Alliant Techsystems Inc. plans: "Alliant Techsystems Inc. Pension and Retirement Plan" and "Thiokol Propulsion Pension Plan" (the "ATK Plans") and the legacy Orbital plans: "Fairchild Bargained Plan" and "Fairchild Space and Defense Plan" (the "Orbital Plans"). The Orbital Plans were merged into the Alliant Techsystems Inc. Pension and Retirement Plan on December 31, 2015 and the combined plan's name was changed to the Orbital ATK, Inc. Pension and Retirement Plan. The Company's ongoing defined benefit pension plans are the "Orbital ATK, Inc. Pension and Retirement Plan" and the "Thiokol Propulsion Pension Plan" (the "Orbital ATK Plans").

*ATK Plans* — The ATK Plans are noncontributory defined benefit pension plans that cover substantially all legacy ATK employees hired prior to January 1, 2007. Eligible legacy ATK non-union employees hired on or after January 1, 2007 and certain union employees are not covered by a defined benefit plan but receive an employer contribution through a defined contribution plan. Prior to July 1, 2013 (January 1, 2014, January 1, 2015 and April 1, 2016 for certain union groups), the ATK Plans provided either pension benefits based on employee annual pay levels and years of credited service or stated amounts for each year of credited service. Effective July 1, 2013 and at later dates for certain collective bargaining agreements, pension benefits were frozen and a new cash balance formula applicable to pay and service was implemented. The cash balance formula provides each impacted employee with pay credits based on the sum of that employee's age plus years of pension service as of December 31 of each calendar year, plus 4% annual interest credits. The Orbital Plans were frozen in 1994 and no pension benefits are being accrued by those employees. The Company funds the Orbital ATK Plans in accordance with federal requirements calculated using appropriate actuarial methods. Depending on the plan they are covered by, employees generally vest after three or five years. Plan assets are held in a trust and are invested in a diversified portfolio of equity investments, fixed income investments, real estate, timber, energy investments, hedge funds, private equity and cash. For certain plan assets where the fair market value is not readily determinable, estimates of the fair value are determined using the best available information including the most recent audited financial statements.

We also sponsor nonqualified supplemental executive retirement plans which provide certain executives and highly compensated employees the opportunity to receive pension benefits in excess of those payable through tax-qualified pension plans. We implemented similar changes as those noted above to our nonqualified supplemental executive retirement plans for certain highly compensated employees.

We recorded pension expense for the Orbital ATK Plans of \$69 million for the year ended December 31, 2017, compared to \$64 million for the year ended December 31, 2016, an increase of \$5 million. The expense related to these Orbital ATK Plans is calculated based upon a number of actuarial assumptions, including the expected long-term rate of return on plan assets, the discount rate and the rate of compensation increase. The following table sets forth our assumptions used in determining pension expense:

	Projected 2018	Year Ended December 31, 2017	Year Ended December 31, 2016	Nine Months Ended December 31, 2015
Expected long-term rate of return on plan assets.....	7.00%	7.00%	7.25%	7.25%
Discount rate .....	3.65%	4.14%	4.40%	3.90%
Rate of compensation increase:.....				
Union.....	2.90%	3.11%	3.13%	3.66%
Salaried.....	3.51%	3.56%	3.60%	3.14%

In developing the expected long-term rate of return assumption, we consider input from our actuaries and other advisors, annualized returns of various major indices over a long-term time horizon and our own historical 5-year and 10-year compounded investment returns. The expected long-term rate of return of 7.00% used in the year ended December 31, 2017 for the Orbital ATK Plans was based on an asset allocation range of 20 - 45% in public equity investments, 35 - 50% in fixed income investments, 0 - 10% in real estate investments, 15 - 30% collectively in hedge fund and private investments and 0 - 6% in cash investments. The actual return in any fiscal year will likely differ from our assumption, but our estimate of its return is based on long-term projections and historical results. Therefore, any variance in a given year does not necessarily indicate that the assumption should be changed.

We calculate the equivalent weighted average discount rate as the singular interest rate that results in the same total present value from the stream of future cash flows as the projected benefit obligation ("PBO") at December 31, 2017. The weighted average discount rate was 3.65%, 4.14% and 4.40% at December 31, 2017, December 31, 2016 and December 31, 2015, respectively, for the qualified plans, and 3.33%, 3.63% and 3.85% for the nonqualified supplemental executive retirement plan. The yield curve used to determine the PBO at year end impacts the following year's pension expense, through the calculation of interest cost and service cost items.

Future actual pension expense could vary significantly depending on future investment performance, changes in future discount rates, legally required plan changes and various other factors related to the populations participating in the Orbital ATK Plans. If the assumptions of the discount rate, compensation increase and/or expected rate of return for 2018 were different, the impact on 2018 expense would be as follows: each 0.25% change in the discount rate would change 2018 pension expense by approximately \$6 million; each 0.25% change in the rate of compensation increase would change 2018 pension expense by an immaterial amount; and each 0.25% change in the expected rate of return on plan assets would change 2018 pension expense by approximately \$6 million.

We base our determination of pension expense or income on a market-related valuation of assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the market-related value of assets. Since the market-related value of assets recognizes gains or losses over a five-year period, the future value of assets will be impacted as previously deferred gains or losses are recorded.

Effective January 1, 2016, the Company changed the approach used to measure service and interest costs for pension and other postretirement benefits. Prior to January 1, 2016, the Company measured service and interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the plan obligations. The Company elected to measure service and interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows. The Company believes this approach provides a more precise measurement of service and interest costs by aligning the timing of the plans' forecasted cash flows to the corresponding spot rates on the yield curve. This change does not affect the measurement of plan obligations. The Company accounted for this change on a prospective basis as a change in accounting estimate, resulting in lower pension expense compared to the method used prior to January 1, 2016.

We made contributions to the qualified pension trust of \$115 million during the year ended December 31, 2017. We are not required to make any contributions to meet the legally required minimum for 2018. We distributed \$3 million under our supplemental executive retirement plans during the year ended December 31, 2017, and expect to make distributions directly to retirees of \$4 million in 2018. A substantial portion of our plan contributions are recoverable from the U.S. Government as allowable indirect contract costs at amounts generally equal to the pension plan contributions, although not necessarily in the same year the contribution is made. Our funded pension status was approximately 78% at December 31, 2017.

*Other Postretirement Benefits.* We also provide postretirement health care benefits and life insurance coverage to certain employees and retirees. During the year ending December 31, 2016, the Company amended its retiree health care plan to provide coverage through a private exchange effective January 1, 2017. The exchange offers the retiree a broad choice of health care plans from which to choose. The Company will contribute fixed payments to a Health Retirement Account (HRA), when applicable, for those retirees that previously had subsidized health care coverage through the Company. The Company's contributions to the HRAs are retirees' funds to be spent on qualified health care premiums and eligible out-of-pocket expenses. This plan amendment caused a remeasurement that increased the Company's funded status by \$39 million at December 31, 2016 and will reduce expenses recorded in future periods.

The following table sets forth our assumptions used to determine net periodic benefit cost for other postretirement benefit ("PRB") plans:

	Projected 2018	Year Ended December 31, 2017	Year Ended December 31, 2016	Nine Months Ended December 31, 2015
Expected long-term rate of return on Plan assets:				
Held solely in fixed income investments	4.00%	4.00%	4.00%	5.00% / 6.25%
Held in pension master trust and fixed income investments	6.00%	6.00%	6.00%	6.25%
Discount rate	3.36%	3.63%	3.98%	3.55%
Weighted-average initial health care cost trend rate	N/A	N/A	6.10%	6.10%

Health care cost trend rates are set specifically for each benefit plan and design. Health care cost trend rates used to determine the net periodic benefit cost for employees during the year ended December 31, 2017, and health care cost ultimate trend rates used to determine future expense calculations, do not apply since we contribute fixed payments to the retiree HRA.

In developing the expected long-term rate of return assumption for other PRB plans, we consider input from actuaries, historical returns and annualized returns of various major indices over long periods. At December 31, 2017, approximately 52% of the assets were held in a 401(h) account held within the pension master trust and are invested in the same manner as the pension assets. The expected long-term rates of returns are based on the weighted average asset allocation between the assets held within the 401(h) and those held in fixed income investments.

We made other PRB plan contributions of \$3 million in the year ended December 31, 2017 and expect to make contributions of approximately \$4 million in 2018. A substantial portion of our PRB plan contributions are recoverable from the U.S. Government as allowable indirect costs at amounts generally equal to the plan contributions, although not necessarily in the same year the contribution is made.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") reduced our accumulated projected benefit obligation ("APBO") measured at December 31, 2005. One of our other PRB plans is actuarially equivalent to Medicare, but we do not believe that the subsidies it will receive under the Act will be significant. Because we believe that participation levels in our other PRB plans will decline, the impact to our results of operations in any period has not been and is not expected to be significant.

### **Income Taxes**

Provisions for federal, state and foreign income taxes are calculated based on reported pre-tax earnings and current tax law. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. Significant judgment is required in determining income tax provisions and evaluating tax positions. We periodically assess our liabilities and contingencies for all periods that are currently open to examination or have not been effectively settled based on the most current available information. Where it is not more likely than not that our tax position will be sustained, we record the entire resulting tax liability and when it is more likely than not of being sustained, we record our best estimate of the resulting tax liability. Any applicable interest and penalties related to these positions are also recorded in the consolidated financial statements. To the extent our assessment of the tax outcome of these matters changes, such change in estimate will impact the income tax provision in the period of the change. It is our policy to record any interest and penalties related to income taxes as part of the income tax

expense for financial reporting purposes. Deferred tax assets related to carryforwards are reduced by a valuation allowance when it is not more likely than not that the amount will be realized before expiration of the carryforward period. As part of this analysis, we take into account the amount and character to determine if the carryforwards will be realized. Significant estimates are required for this analysis. Changes in the amounts of valuation allowance are recorded in the tax provision in the period when the change occurs. For information on the effect of the Tax Act, see Note 14, *Income Taxes*, to the consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of this report.

### **Accounting for Goodwill**

We test goodwill for impairment on the first day of the fourth quarter and upon the occurrence of events or changes in circumstances that indicate that the asset might be impaired. We determined that the reporting units for our goodwill impairment review are our operating segments, or components of an operating segment, that constitute a business for which discrete financial information is available, and for which segment management regularly reviews the operating results. We aggregate certain components or reporting units based upon an evaluation of the facts and circumstances, including the nature of products and services and the extent of shared assets and resources. As a result, we have seven reporting units.

The goodwill impairment test is performed using a two-step process. In the first step, we determine the estimated fair value of each reporting unit and compare it to the carrying value of the reporting unit, including goodwill. If the carrying amount of a reporting unit is higher than its estimated fair value, an indication of impairment exists and the second step must be performed in order to determine the amount of the impairment. In the second step, we must determine the implied fair value of the reporting unit's goodwill which is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The implied fair value is compared to the carrying amount and if the carrying amount of the reporting unit's goodwill exceeds the implied fair value of its goodwill, an impairment loss must be recognized for the excess.

The estimated fair value of each reporting unit was determined using both an income and market approach. The value estimated using a discounted cash flow model was generally weighted equally against the estimated value derived from a market approach that considers the guideline company and transaction methods if recent transactions were available for one of our seven reporting units. These market approach methods estimate the price reasonably expected to be realized from the sale of the company based on comparable companies and recent transactional data. The estimated fair value for each reporting unit substantially exceeded its respective carrying value.

In developing a discounted cash flow analysis, our assumptions about future revenues and expenses, capital expenditures and changes in working capital are based on our three-year plan, as approved by our Board of Directors, and assumes a terminal growth rate thereafter. A separate discount rate is determined for each reporting unit and these cash flows are then discounted to determine the fair value of the reporting unit.

Projecting discounted future cash flows requires us to make significant estimates regarding future revenues and expenses, projected capital expenditures, changes in working capital and the appropriate discount rate. The projections also take into account several factors including current and estimated economic trends and outlook, costs of raw materials, consideration of our market capitalization in comparison to the estimated fair values of our reporting units and other factors which are beyond our control. If the current economic conditions were to deteriorate, or if we were to lose a significant contract or business, causing a reduction in estimated discounted cash flows, it is possible that the estimated fair value of certain reporting units could fall below their carrying value resulting in the necessity to conduct additional goodwill impairment tests in future periods. We continually monitor the reporting units for impairment indicators and update assumptions used in the most recent calculation of the estimated fair value of a reporting unit as appropriate.

### **Results of Operations**

*In March 2015, we changed our fiscal year from the period beginning on April 1 and ending on March 31 to the period beginning on January 1 and ending on December 31. We believe that a reader's understanding of our results of operations will be enhanced by review of a comparison between our audited results for the fiscal year ended December 31, 2016, referred to as calendar year 2016, and our unaudited results for the fiscal year ended December 31, 2015, referred to as calendar year 2015. Accordingly, we present our discussion and analysis under "Results of Operations" below based on comparisons of the results for such periods.*



The following information should be read in conjunction with our consolidated financial statements. The key performance indicators that management uses in managing the business are sales, income before interest and income taxes, and cash flows.

Group Sales and Cost of Sales include intergroup sales and profit. Corporate and Eliminations includes intergroup sales and profit eliminations and corporate expenses.

The information presented in the Results of Operations compares the audited results for the calendar year ended December 31, 2017 to the audited results for the calendar year ended December 31, 2016, and compares the audited results for the calendar year ended December 31, 2016 to the unaudited results for the calendar year ended December 31, 2015.

### **Calendar Year Ended December 31, 2017 Compared to Calendar Year Ended December 31, 2016**

#### **Sales**

	Year Ended December 31,		\$ Change	% Change
	2017	2016		
Flight Systems Group	\$ 1,681	\$ 1,496	\$ 185	12.4%
Defense Systems Group	1,968	1,823	145	8.0
Space Systems Group	1,284	1,238	46	3.7
Corporate and Eliminations	(169)	(102)	(67)	(65.7)
Total sales	\$ 4,764	\$ 4,455	\$ 309	6.9%

The fluctuation in sales was driven by the program-related changes within the operating segments as described below.

*Flight Systems Group.* The increase in sales was driven by higher sales of \$126 million in Aerospace Structures due to increased production on composite aircraft structures. The increase was also driven by higher sales in Launch Vehicles of \$57 million due to a new medium range ballistic target program and increased activity on small space launch programs.

*Defense Systems Group.* The increase in sales was due to an increase of \$75 million in Armament Systems driven by international sales, \$57 million in Defense Electronics due to higher strike weapons and light attack aircraft production, and \$37 million in Missile Products due to higher production level on tactical propulsion and missile defense. These increases were partially offset by a decrease of \$25 million in Small Caliber Systems primarily attributable to production delays resulting from an industrial accident that occurred in April 2017 at our Lake City Army Ammunition Plant.

*Space Systems Group.* The increase was due to higher sales of \$130 million in Satellite Systems driven by an increase of \$162 million on new and existing programs in defense satellites and \$38 million in higher product sales for scientific and environmental satellites, partially offset by a decrease of \$71 million in commercial satellites. The increase was also due to higher sales of \$12 million in Space Components as a result of increased activity on existing programs and \$3 million in Technical Services driven by activities on our U.S. Navy contracts. These increases were offset by a decrease of \$99 million in Advanced Programs driven by a decrease of \$169 million for Commercial Resupply Services ("CRS") activity partially offset by a \$70 million increase in Mission Extension Vehicles ("MEV") activity.

*Corporate and Eliminations.* The change in Corporate and Eliminations was primarily due to an increase in intercompany activity, which are eliminated in consolidation.

#### **Cost of Sales**

	Year Ended December 31,		\$ Change	% Change
	2017	2016		
Flight Systems Group	\$ 1,292	\$ 1,117	\$ 175	15.7%
Defense Systems Group	1,571	1,471	100	6.8
Space Systems Group	1,048	1,010	38	3.8
Corporate and Eliminations	(212)	(128)	(84)	(65.6)
Total cost of sales	\$ 3,699	\$ 3,470	\$ 229	6.6%

The fluctuation in cost of sales was driven by the program-related changes within the operating segments as described below.

*Flight Systems Group.* The increase was due to higher cost of sales of \$103 million in Aerospace Structures due to increased production on composite aircraft structures. The increase was also driven by higher cost of sales in Launch Vehicles of \$62 million due to a new medium range ballistic target program and activity related to additional missions on Antares, offset by reduced production on existing missile defense programs. Cost of sales also increased \$11 million in Propulsion Systems due to production timing on existing programs.

*Defense Systems Group.* The increase was due to higher cost of sales of \$54 million in Armament Systems due to increased international sales, \$42 million in Defense Electronics due to higher volume of strike weapons and light attack aircraft production and \$16 million in Missile Products due to increased tactical propulsion production and missile defense. These increases were partially offset by a decrease of \$14 million in Small Caliber Systems primarily attributable to production delays resulting from an industrial accident that occurred in the Lake City Army Ammunition Plant in April 2017.

*Space Systems Group.* The increase was due to higher cost of sales of \$91 million in Satellite Systems driven by increased activity in defense satellites and scientific and environmental satellites, partially offset by decreases in commercial satellites. In addition, Space Components increased \$13 million due to increased activity on existing programs. These increases were offset by a decrease of \$66 million in Advanced Programs due to decreased CRS activity, offset by increased MEV activity.

*Corporate and Eliminations.* The change in Corporate and Eliminations was primarily due to an increase in intercompany activity, which are eliminated in consolidation.

### **Operating Expenses**

	Year Ended December 31,				
	2017	As a % of Sales	2016	As a % of Sales	Change
Research and development	\$ 115	2.4%	\$ 116	2.6%	\$ (1)
Selling	115	2.4	107	2.4	8
General and administrative	306	6.4	290	6.5	16
Total	<u>\$ 536</u>	<u>11.2%</u>	<u>\$ 513</u>	<u>11.5%</u>	<u>\$ 23</u>

Operating expenses increased \$23 million primarily due to increased general and administrative costs to support our growth initiatives, mainly in our Defense Systems Group, and incremental costs for acquisition transaction expenses offset by lower expenses in the current year for legal and audit fees related to the restatement of our financial statements. Additionally, selling expenses increased due to higher bid and proposal expenses in Flight Systems Group and Defense Systems Group.

### **Net Interest Expense**

Net interest expense for the year ended December 31, 2017 was \$67 million, which was relatively flat compared to \$68 million during the year ended December 31, 2016.

### **Income Taxes (from Continuing Operations)**

	Year Ended December 31,				
	2017	Effective Rate	2016	Effective Rate	Change
Income taxes .....	\$ 152	33.0%	\$ 111	27.5%	\$ 41

The increase in the current year tax rate is due to tax expense increases as a result of the Tax Act and state taxes, decreased benefits from the Domestic Manufacturing Deduction ("DMD") and the research and development ("R&D") tax credit, partially offset by increased benefits from the true-up of prior year taxes and a decrease in valuation allowance.

Our provision for income taxes includes both federal and state income taxes. The effective tax rate for the year ended December 31, 2017 of 33.0% differs from the federal statutory rate of 35.0% due to the write-down of net deferred tax assets as a result of the Tax Act, the DMD, the R&D tax credit, true-up of prior year taxes, partially offset by the change in valuation allowance and state income taxes, which increased the rate.

The effective tax rate for December 31, 2016 of 27.5% differs from the federal statutory rate of 35.0% due to the DMD, the R&D tax credit, true-up of prior year taxes and the settlement of the examination by the IRS of the fiscal 2013 and 2014 tax returns, partially offset by the change in valuation allowance and state income taxes, which increased the tax rate.

**Calendar Year Ended December 31, 2016 Compared to Calendar Year Ended December 31, 2015 (Unaudited)**

**Sales**

	Year Ended December 31,		\$ Change	% Change
	2016	2015 (Unaudited)		
Flight Systems Group	\$ 1,496	\$ 1,470	\$ 26	1.8%
Defense Systems Group	1,823	1,820	3	0.2
Space Systems Group	1,238	1,165	73	6.3
Corporate and Eliminations	(102)	(92)	(10)	(10.9)
Total sales	<u>\$ 4,455</u>	<u>\$ 4,363</u>	<u>\$ 92</u>	<u>2.1%</u>

The fluctuation in sales was driven by the program-related changes within the operating segments as described below.

*Flight Systems Group.* The increase in sales was primarily due to the Antares return to flight, added missions, and inclusion of a full year of Orbital's results in the year ended December 31, 2016, whereas the year ended December 31, 2015 only included Orbital's results after February 9, 2015 (the date of the Orbital-ATK Merger). Additionally, growth in Aerospace Structures programs was partly offset by a decrease in tactical missile volume and a favorable contract close out adjustment in the year ended December 31, 2015 that did not reoccur in the year ended December 31, 2016.

*Defense Systems Group.* Sales were relatively flat for the year ended December 31, 2016 compared to the year ended December 31, 2015. Missile Product's contracts experienced an increase in activity, which was offset by a decline in non-standard ammunition sales during the year within Small Caliber Systems.

*Space Systems Group.* The increase in sales for the year ended December 31, 2016 was primarily due to including a full year of Orbital's results whereas the year ended December 31, 2015 only included Orbital's results after the date of the Orbital-ATK Merger. Additionally, the year ended December 31, 2015 included unfavorable profit adjustments related to Satellite Systems that did not reoccur in the year ended December 31, 2016.

*Corporate and Eliminations.* The change in Corporate and Eliminations was primarily due to an increase in intercompany activity, which are eliminated in consolidation.

**Cost of Sales**

	Year Ended December 31,		\$ Change	% Change
	2016	2015 (unaudited)		
Flight Systems Group	\$ 1,117	\$ 1,119	\$ (2)	(0.2)%
Defense Systems Group	1,471	1,460	11	0.8
Space Systems Group	1,010	969	41	4.2
Corporate and Eliminations	(128)	(83)	(45)	(54.2)
Total cost of sales	<u>\$ 3,470</u>	<u>\$ 3,465</u>	<u>\$ 5</u>	<u>0.1 %</u>

The fluctuation in cost of sales was driven by the program-related changes within the operating segments as described below.

*Flight Systems Group.* Cost of sales remained relatively flat.

*Defense Systems Group.* The slight increase for the year ended December 31, 2016 was primarily driven by higher costs associated with certain Armament Systems and Missile Products contracts.

*Space Systems Group.* The increase in cost of sales for the year ended December 31, 2016 was primarily due to including a full year of activity of the Orbital business.

*Corporate and Eliminations.* The change in Corporate and Eliminations was primarily due to an increase in intercompany activity, which are eliminated in consolidation.

### **Operating Expenses**

	Year Ended December 31,				Change
	2016	As a % of Sales	2015	As a % of Sales	
			(Unaudited)		
Research and development	\$ 116	2.6%	\$ 109	2.5%	\$ 7
Selling	107	2.4	109	2.5	(2)
General and administrative	290	6.5	359	8.2	(69)
Goodwill impairment	—	—	34	0.8	(34)
Total	<u>\$ 513</u>	<u>11.5%</u>	<u>\$ 611</u>	<u>14.0%</u>	<u>\$ (98)</u>

Operating expenses decreased \$98 million primarily due to transaction fees for advisory, legal and accounting services in connection with the Distribution and Orbital-ATK Merger during the year ended December 31, 2015 that did not reoccur in the year ended December 31, 2016. During the first quarter of calendar 2015, we recorded a goodwill impairment charge of \$34 million pertaining to Space Components in our Space Systems Group, in connection with our annual goodwill impairment test. Additional reductions in general and administrative costs in Propulsion Systems lowered general and administrative costs overall, as a percentage of revenue.

### **Net Interest Expense**

Net interest expense for the year ended December 31, 2016 was \$68 million, a decrease of \$13 million compared to \$81 million during the year ended December 31, 2015. The decrease was primarily due to accelerated amortization of deferred debt issuance costs related to refinancing our debt during the year ended December 31, 2015 that did not reoccur in the year ended December 31, 2016.

### **Income Taxes (from Continuing Operations)**

	Year Ended December 31,				Change
	2016	Effective Rate	2015	Effective Rate	
			(Unaudited)		
Income taxes .....	\$ 111	27.5%	\$ 83	36.4%	\$ 28

The decrease in the current year tax rate is due to increased benefits from the DMD and the R&D tax credit, the true-up of prior year taxes, the settlement of the examination by the IRS of the fiscal 2013 and 2014 tax returns and the absence of goodwill impairment and non-deductible transaction costs which increased the tax rate in the prior period, partially offset by an increase in valuation allowance.

Our provision for income taxes includes both federal and state income taxes. The effective tax rate for December 31, 2016 of 27.5% differs from the federal statutory rate of 35.0% due to the DMD, the R&D tax credit, true-up of prior year taxes and the settlement of the examination by the IRS of the fiscal 2013 and 2014 tax returns, partially offset by the change in valuation allowance and state income taxes, which increased the tax rate.

The effective tax rate for the year ended December 31, 2015 of 36.4% differs from the federal statutory rate of 35.0% due to the impact of goodwill impairment, non-deductible transaction costs, and state income taxes offset by the DMD, the R&D tax credit and true-up of prior year taxes.

### **Liquidity and Capital Resources**

We manage our business to maximize operating cash flows as the primary source of liquidity. In addition to cash on hand and cash generated by operations, sources of liquidity include a credit facility, long-term borrowings, and access to the public debt and equity markets. We use our cash to fund investments in our existing core businesses and for debt repayment, cash dividends, share repurchases and acquisition or other activities.



## Cash Flows Summary

Our cash flows from continuing operations for operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flows are summarized as follows:

	Year Ended December 31,		
	2017	2016	2015
			(unaudited)
Cash provided by operating activities of continuing operations	\$ 520	\$ 519	\$ 450
Cash (used in) provided by investing activities of continuing operations	(245)	(183)	280
Cash used in financing activities of continuing operations	(129)	(240)	(748)
Net cash flows provided by (used in) continuing operations .....	<u>\$ 146</u>	<u>\$ 96</u>	<u>\$ (18)</u>

### Operating Activities

Net cash provided by operating activities of continuing operations during the year ended December 31, 2017 was consistent with 2016. The positive drivers of the changes in cash flows were net earnings, deferred taxes and changes in other assets and liabilities (\$97 million). These changes were partially offset by an increase in the use of working capital (\$103 million).

Net cash provided by operating activities of continuing operations increased during the year ended December 31, 2016 resulting primarily from the net effect of a \$147 million improvement in income from continuing operations partially offset by positive non-cash net income adjustments in the prior year for goodwill impairment and loss on extinguishment of debt that did not occur in the year ended December 31, 2016 and changes in working capital and other assets and liabilities (\$4 million increase in the use of cash).

### Investing Activities

Cash used in investing activities of continuing operations was \$245 million during the year ended December 31, 2017 an increase of \$62 million from \$183 million for the year ended December 31, 2016. This increase was driven by higher capital expenditures during the year ended December 31, 2017 related to our self-constructed Mission Extension Vehicles, which will provide in-orbit satellite life extension services when completed. We expended \$101 million in the current year for these assets.

Investing activities of continuing operations used cash of \$183 million during the year ended December 31, 2016 compared to cash provided by investing activities of continuing operations of \$280 million during the year ended December 31, 2015. This decrease was driven by the receipt of cash acquired in the Orbital-ATK Merger of \$254 million and a cash dividend of \$214 million paid by Vista Outdoor to us, less cash distributed to Vista Outdoor of \$32 million in connection with the Distribution during the year ended December 31, 2015. The decrease was also driven by higher capital expenditures of \$31 million in the year ended December 31, 2016 offset by proceeds of \$4 million from the sale of land during the year ended December 31, 2016.

### Financing Activities

Net cash used in financing activities of continuing operations during the year ended December 31, 2017 decreased by \$111 million primarily due to lower share repurchases of \$102 million and higher proceeds from employee stock compensation plans of \$13 million. In connection with the Merger, the Company halted its share repurchase program.

Net cash used in financing activities of continuing operations during the year ended December 31, 2016 decreased \$508 million primarily due to higher debt payments, net of \$1,761 million related to our credit facility offset by proceeds of \$1,200 million from the issuance of long-term debt in the year ended December 31, 2015, partially offset by higher dividends paid and share repurchases during the year ended December 31, 2016 of \$13 million and \$45 million, respectively.

### Liquidity

In addition to our normal operating cash requirements, our principal future cash requirements will be to fund capital expenditures, repay debt, satisfy employee benefit obligations and pay dividends. As a result of the pending Merger, we halted our share repurchase program and do not expect to complete any strategic acquisitions. If the Merger

were not completed for any reason, we would expect to consider resuming our share repurchase program and exploring possible strategic acquisitions. Our short-term cash requirements for operations are expected to consist mainly of capital expenditures to maintain and expand production facilities and working capital requirements. Our debt service requirements over the next two years consist of principal payments due under the Term Loan A of the Senior Credit Facility, as discussed further below. Our other debt service requirements consist of interest expense on outstanding debt.

During the year ended December 31, 2017, we paid quarterly dividends of \$0.32 per share for all four quarters totaling approximately \$74 million. On January 31, 2018, the Board of Directors declared a quarterly cash dividend of \$0.32 per share. The payment and amount of any future dividends are at the discretion of the Board of Directors and will be based on a number of factors, including our earnings, liquidity position, financial condition, capital requirements, credit ratings and the availability and cost of obtaining new debt. Under the terms of the Merger Agreement, we are permitted to, and intend to, continue paying a \$0.32 per share quarterly cash dividend until the closing of the transaction. However, we are not permitted to increase the per share dividend amount under the terms of the Merger Agreement.

In September 2015, we issued \$400 million aggregate principal amount of 5.50% Senior Notes due 2023 and we refinanced our then-existing senior credit facility (the "Former Credit Facility") with a new senior credit facility (the "Senior Credit Facility"), extending debt maturities and increasing our revolving debt capacity, which increased our liquidity. Based on our current financial condition, management believes that our cash position, combined with anticipated generation of cash flows and the availability of funding, if needed, through our revolving credit facilities, as well as potential future sources of funding, including additional bank financing and debt markets, will be adequate to fund future growth as well as to service our currently anticipated long-term debt and pension obligations, make capital expenditures and payment of dividends over the next 12 months.

We do not expect that our access to liquidity sources will be materially impacted in the near future. There can be no assurance, however, that the cost or availability of future borrowings, if any, will not be materially impacted by capital market conditions.

### **Long-term Debt and Credit Facilities**

At December 31, 2017, we had actual total indebtedness of \$1,410 million, and a \$1,000 million revolving credit facility that provided for the potential of additional borrowings up to \$760 million reduced by outstanding letters of credit of \$240 million. There were no outstanding borrowings under the revolving credit facility at December 31, 2017.

Our indebtedness consisted of the following:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Senior Credit Facility:		
Term Loan A due 2020	\$ 710	\$ 750
Revolving Credit Facility due 2020	—	—
5.25% Senior Notes due 2021	300	300
5.50% Senior Notes due 2023	400	400
Carrying amount of long-term debt	<u>1,410</u>	<u>1,450</u>
Unamortized debt issuance costs:		
Senior Credit Facility	4	5
5.25% Senior Notes due 2021	1	2
5.50% Senior Notes due 2023	4	5
Unamortized debt issuance costs	<u>9</u>	<u>12</u>
Long-term debt less unamortized debt issuance costs	1,401	1,438
Less: Current portion of long-term debt	40	40
Long-term debt	<u>\$ 1,361</u>	<u>\$ 1,398</u>

See Note 10, *Long-term Debt*, to the consolidated financial statements in Part II, Item 8, "Financial Statements and Supplementary Data" for a detailed discussion of these borrowings.

## Covenants

Our Senior Credit Facility imposes restrictions on us, including limitations on our ability to incur additional debt, enter into capital leases, grant liens, pay dividends and make certain other payments, sell assets, or merge or consolidate with or into another entity. In addition, the Senior Credit Facility limits our ability to enter into sale-and-leaseback transactions. The Senior Credit Facility also requires that we meet and maintain the following financial ratios:

	Total Leverage Ratio <sup>(1)</sup>	Interest Coverage Ratio <sup>(2)</sup>
Requirement.....	4.00	3.00
Actual at December 31, 2017	1.86	11.92

(1) Not to exceed the required financial ratio.

(2) Not to be below the required financial ratio.

The Total Leverage Ratio is the sum of our total debt plus financial letters of credit, net of up to \$100 million of cash, divided by Covenant Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") (which includes adjustments for items such as non-recurring or extraordinary non-cash items, non-cash charges related to stock-based compensation, and intangible asset impairment charges, as well as inclusion of EBITDA of acquired companies on a pro forma basis) for the past four fiscal quarters.

The Interest Coverage Ratio is Covenant EBITDA divided by cash payments for interest expense.

Our debt agreements contain cross-default provisions so that non-compliance with the covenants within one debt agreement that would give rise to the right to accelerate repayment of any outstanding indebtedness could cause a default under other debt agreements as well. Our ability to comply with these covenants and to meet and maintain the requisite financial ratios may be affected by events beyond our control. Borrowings under the Senior Credit Facility are subject to compliance with these covenants. The indentures governing the 5.25% Notes and the 5.50% Notes impose restrictions on us, including limitations on our ability to incur additional debt, enter into capital leases, grant liens, pay dividends and make certain other payments, sell assets, or merge or consolidate with or into another entity.

At December 31, 2017, we were in compliance with the covenants in all of our debt agreements.

## Share Repurchases

During 2016, the Board of Directors authorized an increase to the amount for repurchase of the Company's common stock to the lesser of \$300 million or 4 million shares through March 31, 2017. On February 27, 2017, the Board of Directors further increased the amount authorized for repurchase to \$450 million, removed the share quantity limitation and extended the repurchase period through March 31, 2018. Under the authorized repurchase program, shares of our common stock may be purchased from time to time in the open market, subject to compliance with applicable laws and regulations and our debt covenants, depending upon market conditions and other factors. We repurchased 230,918 shares for \$23 million during the year ended December 31, 2017, 1,570,333 shares for \$124 million in the year ended December 31, 2016, and 1,008,445 shares for \$76 million in the 2015 transition period. In connection with the Merger, the Company halted its share repurchase program.

Authorized repurchases of our shares are also subject to market conditions, our compliance with our debt covenants and the limitations imposed by the Merger Agreement. Our 5.25% Senior Notes and 5.50% Senior Notes limit the aggregate sum of dividends, share repurchases and other designated restricted payments to an amount based on our net income, stock issuance proceeds and certain other items since April 1, 2001, less restricted payments made since that date. At December 31, 2017, the Senior Credit Facility allows us to make unlimited "restricted payments" (as defined in the Credit Agreement), which, among other items, allows payments for future share repurchases, as long as we maintain a certain amount of liquidity and maintain certain senior secured debt limits. When those requirements are not met, the limit is equal to \$250 million plus proceeds of any equity issuances plus 50% of net income since October 7, 2010. The Credit Agreement also prohibits dividend payments if loan defaults exist or the financial covenants contained in the agreement are not met, subject to certain limited exceptions.

## Contractual Obligations and Commercial Commitments

The following table summarizes our contractual obligations and commercial commitments at December 31, 2017:

	Total	1 Year	2 - 3 Years	4 - 5 Years	More than 5 Years
Contractual obligations - by payment period:					
Long-term debt	\$ 1,410	\$ 40	\$ 670	\$ 300	\$ 400
Interest on debt <sup>(1)</sup>	219	47	90	60	22
Operating leases	400	85	148	107	60
Environmental remediation costs, net	20	2	1	4	13
Purchase obligations <sup>(2)</sup>	75	40	34	1	—
Pension and other postretirement plan contributions	302	11	152	92	47
Total contractual obligations, net	<u>\$ 2,426</u>	<u>\$ 225</u>	<u>\$ 1,095</u>	<u>\$ 564</u>	<u>\$ 542</u>
Other commercial commitments - by expiration period:					
Letters of credit <sup>(3)</sup>	<u>\$ 240</u>	<u>\$ 74</u>	<u>\$ 116</u>	<u>\$ 40</u>	<u>\$ 10</u>

(1) Includes interest on variable rate debt calculated based on the minimum required rate for LIBOR based loans under the Credit Agreement as of December 31, 2017. Variable rate debt was 50% of our total debt at December 31, 2017.

(2) Purchase obligations are comprised primarily of open purchase order commitments to suppliers, primarily for materials, in which the commitment is binding and specifies all the significant terms including fixed or minimum quantities to be purchased.

(3) Approximately \$24 million of standby letters of credit in the "1 Year" category are expected to renew for additional periods until completion of the contractual obligation.

The total liability for unrecognized tax benefits at December 31, 2017 was \$137 million (see Note 14, *Income Taxes*) and it is reasonably possible that a \$30 million reduction of the unrecognized tax benefit will occur in the next 12 months. We are not able to provide a reasonably reliable estimate of the timing of future payments relating to the noncurrent unrecognized tax benefits and therefore this amount is not included in the table above.

Pension plan contributions are an estimate of our minimum funding requirements through 2027 to provide pension benefits for employees based on expected actuarial estimated service accruals through 2027 pursuant to the Employee Retirement Income Security Act, although we may make additional discretionary contributions. These estimates may change significantly depending on the actual rate of return on plan assets, discount rates, discretionary pension contributions and regulations. A substantial portion of our Plan contributions are recoverable from the U.S. Government as allowable indirect contract costs at amounts generally equal to the pension plan contributions, although not necessarily in the same year the contribution is made.

## Contingencies

**Litigation.** From time to time, we are subject to various legal proceedings, including lawsuits, which arise out of, and are incidental to, the conduct of our business. We do not consider any of such proceedings that are currently pending, individually or in the aggregate, notwithstanding that the unfavorable resolution of any matter may have a material effect on our net earnings in any particular quarter, to be material to our business or likely to result in a material adverse effect on our future operating results, financial condition or cash flows. See Item 3, "Legal Proceedings" and Note 16, *Contingencies*, to the consolidated financial statements in Item 8, "Financial Statements and Supplementary Data" of this report for additional information.

**Environmental Liabilities.** Our operations and ownership or use of real property are subject to a number of federal, state, and local environmental laws and regulations, as well as applicable foreign laws and regulations, including those for discharge of hazardous materials, remediation of contaminated sites and restoration of damage to the environment. At certain sites that we own or operate or formerly owned or operated, there is known or potential



contamination that we are required to investigate or remediate. We could incur substantial costs, including remediation costs, resource restoration costs, fines and penalties, or third party property damage or personal injury claims, as a result of liabilities associated with past practices or violations of environmental laws or non-compliance with environmental permits.

The liability for environmental remediation represents management's best estimate of the probable and reasonably estimable costs related to known remediation obligations. The receivable represents the amount that we expect to recover. We expect that a portion of the environmental compliance and remediation costs will be recoverable under U.S. Government contracts. Some of the remediation costs that are not recoverable from the U.S. Government that are associated with facilities purchased in a business acquisition may be covered by various indemnification agreements. There were no material insurance recoveries related to environmental remediation during any of the periods presented.

Factors that could significantly change the estimates on environmental liabilities include:

- the adoption, implementation and interpretation of new laws, regulations or cleanup standards,
- advances in technologies,
- outcomes of negotiations or litigation with regulatory authorities and other parties,
- additional information about the ultimate remedy selected at new and existing sites,
- adjustment of our share of the cost of such remedies,
- changes in the extent and type of site utilization,
- the discovery of new contamination,
- the number of parties found liable at each site and their ability to pay,
- more current estimates of liabilities for these contingencies, or
- liabilities associated with resource restoration as a result of contamination from past practices.

See Note 16, *Contingencies*, to the consolidated financial statements in Item 8, "Financial Statements and Supplementary Data" of this report for additional information.

### **New Accounting Pronouncements**

See Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements in Item 8, "Financial Statements and Supplementary Data" of this report for discussion of new accounting pronouncements.

### **Inflation**

In management's opinion, inflation has not had a significant impact upon the results of our operations. The selling prices under contracts, the majority of which are long term, generally include estimated costs to be incurred in future periods. These cost projections can generally be negotiated into new buys under fixed-price government contracts, while actual cost increases are recoverable on cost-type contracts.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risk exposure primarily relates to changes in interest rates, foreign currency exchange rates and certain commodity prices. To mitigate the risks from interest rate exposure, we occasionally enter into hedging transactions, mainly interest rate swaps, through derivative financial instruments that have been authorized pursuant to corporate policies. We also use derivatives to hedge foreign currency exchange rates and commodity price risks, but do not use derivative financial instruments for trading or other speculative purposes, and we are not a party to leveraged financial instruments. Additional information regarding financial instruments is contained in Note 1, *Summary of Significant Accounting Policies* and Note 3, *Derivative Financial Instruments*, to the consolidated financial statements.

Currently, our primary interest rate exposures relate to variable rate debt. We measure market risk related to changes in interest rates utilizing a sensitivity analysis. The sensitivity analysis measures the potential loss in fair values, cash flows and earnings based on a hypothetical change (increase and decrease) in interest rates. We use current market rates on our debt portfolio to perform the sensitivity analysis. The potential change in fair values is based on an assumed immediate change in the net present values of interest rate-sensitive exposures resulting from a 100 basis point change in interest rates. The potential change in cash flows and earnings is based on the change in the net interest income/expense over a one-year period due to the change in rates. Based on our analysis, a 100 basis point change in interest rates would not have a material impact on the fair values or our results of operations or cash flows at December 31, 2017.

We use derivatives to hedge our exposure to market risks from changes in foreign currency exchange rates. We transact business globally and are subject to risks associated with changing foreign currency exchange rates. Based on our analysis, a 10 percent unfavorable foreign exchange rate movement would not have a material impact on our financial positions, results of operations or cash flows at December 31, 2017.

With respect to our ammunition business, we have a strategic sourcing and price strategy to mitigate risk from commodity price fluctuation. We will continue to evaluate the need for future price changes in light of these trends, our competitive landscape and our financial results. If commodity costs increase, and if we are unable to offset these increases with ongoing manufacturing efficiencies and price increases, our future results from operations and cash flows could be materially impacted.

Significant increases in commodities prices can negatively impact operating results with respect to our firm fixed-price contract to supply the DoD's small-caliber ammunition needs and our sales within commercial ammunition. Accordingly, we have entered into futures contracts in order to reduce the impact of metal price fluctuations. The majority of the impact has been mitigated on the contract with the U.S. Army by the terms within that contract. We have entered into futures contracts and purchase orders for the current expected production requirements for both the small-caliber ammunition supply contract and the production of commercial ammunition, thereby mitigating near term market risk; however, if metal prices exceed pre-determined levels, Defense Systems Group's operating results could be adversely impacted.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Orbital ATK, Inc.

#### **Opinions on the Financial Statements and Internal Control over Financial Reporting**

We have audited the accompanying consolidated balance sheet of Orbital ATK, Inc. and subsidiaries (the "Company") as of December 31, 2017, the related consolidated statements of operations, comprehensive income, equity, and cash flows, for the year ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

#### **Basis for Opinions**

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audit of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

#### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable

assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

McLean, Virginia  
February 21, 2018

We have served as the Company's auditor since 2017.



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Orbital ATK, Inc.

In our opinion, the consolidated balance sheet as of December 31, 2016 and the related consolidated statements of operations, of comprehensive income, of equity, and of cash flows for the year ended December 31, 2016 and for the nine months ended December 31, 2015 present fairly, in all material respects, the financial position of Orbital ATK, Inc. and its subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year ended December 31, 2016 and for the nine months ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia  
April 28, 2017

**ORBITAL ATK, INC.**  
**CONSOLIDATED BALANCE SHEETS**

(Amounts in millions, except share data)	As of December 31,	
	2017	2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 346	\$ 200
Net receivables	1,893	1,741
Net inventories	221	215
Other current assets	82	79
Total current assets	2,542	2,235
Net property, plant and equipment	934	816
Goodwill	1,832	1,832
Net intangibles	61	98
Deferred income taxes	155	254
Other noncurrent assets	142	183
<b>Total assets</b>	\$ 5,666	\$ 5,418
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 40	\$ 40
Accounts payable	216	175
Contract-related liabilities	375	394
Contract loss reserve	152	197
Contract advances and allowances	330	233
Accrued compensation	137	120
Other current liabilities	210	183
Total current liabilities	1,460	1,342
Long-term debt	1,361	1,398
Pension and postemployment benefits	693	744
Other noncurrent liabilities	107	117
<b>Total liabilities</b>	3,621	3,601
Commitments and contingencies (Notes 13, 15 and 16)		
<b>Stockholders' Equity</b>		
Common stock—\$.01 par value: authorized—180,000,000 shares; issued and outstanding— 57,686,214 shares held at December 31, 2017 and 57,487,466 shares held at December 31, 2016	1	1
Additional paid-in-capital	2,175	2,175
Retained earnings	1,502	1,266
Accumulated other comprehensive loss	(780)	(764)
Common stock in treasury, at cost— 11,248,810 shares held at December 31, 2017 and 11,447,558 shares held at December 31, 2016	(864)	(872)
<b>Total Orbital ATK, Inc. stockholders' equity</b>	2,034	1,806
Noncontrolling interest	11	11
<b>Total equity</b>	2,045	1,817
<b>Total liabilities and equity</b>	\$ 5,666	\$ 5,418

See Notes to the Consolidated Financial Statements.

**ORBITAL ATK, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in millions, except per share data)	Year Ended December 31, 2017	Year Ended December 31, 2016	Nine Months Ended December 31, 2015
Sales	\$ 4,764	\$ 4,455	\$ 3,391
Cost of sales	3,699	3,470	2,717
Gross profit	<u>1,065</u>	<u>985</u>	<u>674</u>
Operating expenses:			
Research and development	115	116	83
Selling	115	107	88
General and administrative	306	290	220
Gain on settlement	—	—	50
Income from continuing operations, before interest, income taxes and noncontrolling interest	<u>529</u>	<u>472</u>	<u>333</u>
Interest expense, net	(67)	(68)	(61)
Income from continuing operations, before income taxes and noncontrolling interest	<u>462</u>	<u>404</u>	<u>272</u>
Income taxes	152	111	87
Income from continuing operations, before noncontrolling interest	<u>310</u>	<u>293</u>	<u>185</u>
Less net income attributable to noncontrolling interest	—	—	—
Income from continuing operations of Orbital ATK, Inc.	<u>310</u>	<u>293</u>	<u>185</u>
Discontinued operations:			
Income from discontinued operations, before income taxes	—	—	—
Income taxes	—	—	(1)
Income from discontinued operations	—	—	1
Net income attributable to Orbital ATK, Inc.	<u>\$ 310</u>	<u>\$ 293</u>	<u>\$ 186</u>
Basic earnings per common share from:			
Continuing operations	\$ 5.39	\$ 5.05	\$ 3.12
Discontinued operations	—	—	0.02
Net income attributable to Orbital ATK, Inc.	<u>\$ 5.39</u>	<u>\$ 5.05</u>	<u>\$ 3.14</u>
Weighted-average number of common shares outstanding	57	58	59
Diluted earnings per common share from:			
Continuing operations	\$ 5.34	\$ 5.01	\$ 3.09
Discontinued operations	—	—	0.02
Net income attributable to Orbital ATK, Inc.	<u>\$ 5.34</u>	<u>\$ 5.01</u>	<u>\$ 3.11</u>
Weighted-average number of diluted common shares outstanding	58	58	60
Cash dividends per common share	\$ 1.28	\$ 1.20	\$ 0.78

Note: earnings per share amounts may not recalculate due to rounding.

See Notes to the Consolidated Financial Statements.

ORBITAL ATK, INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts in millions)	Year Ended December 31, 2017	Year Ended December 31, 2016	Nine Months Ended December 31, 2015
<b>Net income</b>	<b>\$ 310</b>	<b>\$ 293</b>	<b>\$ 186</b>
Other comprehensive (loss) income			
Pension and other postretirement benefits:			
Prior service credits for pension and postretirement benefit plans recorded to net income, net of taxes of \$10, \$10 and \$8, respectively	(17)	(17)	(13)
Net actuarial loss for pension and postretirement benefit plans recorded to net income, net of taxes of \$(51), \$(48) and \$(44), respectively	82	79	70
Valuation adjustment for pension and postretirement benefit plans, net of taxes of \$28, \$30 and \$(3), respectively	(83)	(49)	5
Change in derivatives, net of taxes of \$(1), \$(4) and \$1, respectively	2	8	(1)
Other, net of taxes of \$0, \$(1) and \$0, respectively	—	1	1
Other comprehensive (loss) income, net of tax	<u>(16)</u>	<u>22</u>	<u>62</u>
<b>Comprehensive income attributable to Orbital ATK, Inc.</b>	<b><u>294</u></b>	<b><u>315</u></b>	<b><u>248</u></b>



**ORBITAL ATK, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<b>(Amounts in millions)</b>	<b>Year Ended December 31, 2017</b>	<b>Year Ended December 31, 2016</b>	<b>Nine Months Ended December 31, 2015</b>
<b>Operating Activities</b>			
Continuing operations:			
Net income	\$ 310	\$ 293	\$ 186
Net income from discontinued operations	—	—	(1)
Income from continuing operations	<u>310</u>	<u>293</u>	<u>185</u>
Adjustments to reconcile income from continuing operations to cash provided by operating activities of continuing operations:			
Depreciation	118	116	89
Amortization of intangible assets	37	43	33
Amortization and write-off of deferred financing costs	2	2	13
Fixed asset impairment	8	10	8
Deferred income taxes	68	42	58
Loss on disposal of property	2	6	11
Share-based plans expense	23	21	19
Excess tax benefits from share-based plans	—	—	(5)
Other	5	4	—
Changes in assets and liabilities:			
Net receivables	(122)	(88)	17
Net inventories	18	(9)	(16)
Income taxes receivable	—	50	(19)
Accounts payable	10	38	(29)
Contract advances and allowances	97	61	(1)
Contract loss reserve	(45)	(26)	(27)
Accrued compensation	18	(5)	(10)
Contract-related liabilities	(19)	39	(19)
Pension and postemployment benefits	(57)	(71)	(4)
Other assets and liabilities	47	(7)	—
Cash provided by operating activities of continuing operations	<u>520</u>	<u>519</u>	<u>303</u>
Cash provided by operating activities of discontinued operations	—	—	—
<b>Cash provided by operating activities</b>	<b><u>520</u></b>	<b><u>519</u></b>	<b><u>303</u></b>
<b>Investing Activities</b>			
Capital expenditures	(245)	(187)	(105)
Cash dividend (refunded to) Vista Outdoor, net of cash transferred to Vista Outdoor in conjunction with the Distribution of Sporting Group	—	—	(6)
Proceeds from the disposition of property, plant and equipment	—	4	—
<b>Cash used in investing activities</b>	<b><u>(245)</u></b>	<b><u>(183)</u></b>	<b><u>(111)</u></b>
<b>Financing Activities</b>			
Credit facility borrowings	505	930	745
Credit facility payments	(505)	(930)	(745)
Payments made on bank debt	(40)	(40)	(25)
Payments made to extinguish debt	—	—	(1,274)
Proceeds from issuance of long-term debt	—	—	1,200
Payments made for debt issuance costs	—	—	(10)
Purchase of treasury shares	(32)	(134)	(81)
Dividends paid	(74)	(70)	(46)
Proceeds from employee stock compensation plans	17	4	4
Excess tax benefits from share-based plans	—	—	5
<b>Cash used in financing activities</b>	<b><u>(129)</u></b>	<b><u>(240)</u></b>	<b><u>(227)</u></b>

Increase (decrease) in cash and cash equivalents	146	96	(35)
Cash and cash equivalents at beginning of period	200	104	139
<b>Cash and cash equivalents at end of period</b>	<b>\$ 346</b>	<b>\$ 200</b>	<b>\$ 104</b>

**Supplemental Cash Flow Disclosures**

Cash paid for interest, net	\$ 60	\$ 62	\$ 41
Cash paid for income taxes, net	\$ 24	\$ 36	\$ 26

**Noncash investing activity:**

Capital expenditures included in accounts payable of continuing operations	\$ 12	\$ 7	\$ 5
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See Notes to the Consolidated Financial Statements.

ORBITAL ATK, INC.

CONSOLIDATED STATEMENTS OF EQUITY

(Amounts in millions except share data)	Common Stock \$.01 Par Value		Additional Paid-in-capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interest	Total Equity
	Shares	Amount						
<b>Balance, March 31, 2015</b>	59,427,942	\$ 1	\$ 2,182	\$ 894	\$ (848)	\$ (719)	\$ 11	\$ 1,521
Comprehensive income	—	—	—	186	62	—	—	248
Exercise of stock options	121,477	—	(5)	—	—	9	—	4
Restricted stock grants	67,529	—	(7)	—	—	7	—	—
Share-based compensation	—	—	20	—	—	—	—	20
Treasury stock purchased	(1,008,445)	—	—	—	—	(76)	—	(76)
Shares issued net of treasury stock withheld	125,717	—	(15)	—	—	10	—	(5)
Tax benefit related to share based plans and other	—	—	11	—	—	—	—	11
Distribution of Sporting Group	—	—	—	(6)	—	—	—	(6)
Dividends	—	—	—	(31)	—	—	—	(31)
Employee benefit plans and other	(4,225)	—	2	—	—	(2)	—	—
<b>Balance, December 31, 2015</b>	58,729,995	1	2,188	1,043	(786)	(771)	11	1,686
Comprehensive income	—	—	—	293	22	—	—	315
Exercise of stock options	32,175	—	(2)	—	—	2	—	—
Restricted stock grants	176,800	—	(13)	—	—	13	—	—
Share-based compensation	—	—	21	—	—	—	—	21
Treasury stock purchased	(1,570,333)	—	—	—	—	(124)	—	(124)
Shares issued net of treasury stock withheld	172,582	—	(16)	—	—	12	—	(4)
Tax benefit related to share based plans and other	—	—	(4)	—	—	—	—	(4)
Dividends	—	—	—	(70)	—	—	—	(70)
Employee benefit plans and other	(53,753)	—	1	—	—	(4)	—	(3)
<b>Balance, December 31, 2016</b>	57,487,466	1	2,175	1,266	(764)	(872)	11	1,817
Comprehensive income	—	—	—	310	(16)	—	—	294
Exercise of stock options	84,544	—	(3)	—	—	6	—	3
Restricted stock grants	156,675	—	(12)	—	—	12	—	—
Share-based compensation	—	—	23	—	—	—	—	23
Treasury stock purchased	(230,918)	—	—	—	—	(23)	—	(23)
Shares issued net of treasury stock withheld	247,977	—	(8)	—	—	18	—	10
Dividends	—	—	—	(74)	—	—	—	(74)
Employee benefit plans and other	(59,530)	—	—	—	—	(5)	—	(5)
<b>Balance, December 31, 2017</b>	57,686,214	\$ 1	\$ 2,175	\$ 1,502	\$ (780)	\$ (864)	\$ 11	\$ 2,045

See Notes to the Consolidated Financial Statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions except share and per share data and unless otherwise indicated)

### 1. Summary of Significant Accounting Policies

**Nature of Operations.** Orbital ATK, Inc. (the "Company") is an aerospace and defense systems company and supplier of related products to the U.S. Government, allied nations and prime contractors. The Company is headquartered in Dulles, Virginia and has operating locations throughout the United States. The Company was incorporated in Delaware in 1990.

On February 9, 2015, the Company completed a tax-free spin-off of and distribution (the "Distribution") of its former Sporting Group to its stockholders as a new public company called Vista Outdoor Inc. ("Vista Outdoor"). Immediately following the Distribution, the Company combined with Orbital Sciences Corporation ("Orbital") through the merger of a company subsidiary with Orbital (the "Orbital-ATK Merger"). As a result of the Distribution, the Sporting Group is reported as a discontinued operation for all prior periods presented.

**Basis of Presentation.** The consolidated financial statements of the Company include all majority-owned affiliates. Intercompany transactions and accounts have been eliminated.

**Fiscal Year.** Beginning January 1, 2016, the Company changed its fiscal year from the period beginning on April 1 and ending on March 31 to the period beginning on January 1 and ending on December 31. As a result, for the fiscal period ended December 31, 2015, in these consolidated statements, including the notes thereto, the financial results are for a nine-month transition period ended December 31, 2015 ("2015 transition period"). Audited results for the year ended December 31, 2017 and 2016 are for a twelve-month period.

**Use of Estimates.** The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires ("GAAP") management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

**Revenue Recognition.** The Company's sales come primarily from contracts with agencies of the U.S. Government and its prime contractors and subcontractors. The various U.S. Government customers, including the U.S. Navy, U.S. Army, NASA and the U.S. Air Force, make independent purchasing decisions. Consequently, each agency is regarded as a separate customer.

**Contracts** — Substantially all of the Company's sales are accounted for as long-term contracts. Sales under long-term contracts are accounted for under the percentage-of-completion method and include cost-plus and fixed-price contracts. Sales under cost-plus contracts are recognized as costs are incurred. Sales under fixed-price contracts are either recognized as the actual cost of work performed relates to the estimate at completion ("cost-to-cost") or based on results achieved, which usually coincides with customer acceptance ("units-of-delivery"). The majority of the Company's total revenue is accounted for using the cost-to-cost method of accounting.

Profits expected to be realized on contracts are based on management's estimates of total contract sales value and costs at completion. Estimated amounts for contract changes, including scope and claims, are included in contract sales only when realization is estimated to be probable. Assumptions used for recording sales and earnings are adjusted in the period of change to reflect revisions in contract value and estimated costs that include an allocation of overhead costs. In the period in which it is determined that a loss will be incurred on a contract, the entire amount of the estimated loss, based on gross profit along with general and administrative costs, is charged to cost of sales. Changes in estimates of contract sales, costs or profits are recognized using the cumulative catch-up method of accounting. The cumulative effect of a change in estimate is recognized in the period a change in estimate occurs. The effect of the changes on future periods of contract performance is recognized as if the revised estimate had been used since contract inception or, in the case of contracts acquired in business combinations, from the date of acquisition.

Changes in contract estimates occur for a variety of reasons including changes in contract scope, unforeseen changes in contract cost estimates due to unanticipated cost growth or risks affecting contract costs and/or the resolution of contract risks at lower costs than anticipated, termination of commercial contracts in the event of a lack of end user demand, as well as changes in contract overhead costs over the performance period. Changes in estimates could have a material effect on the Company's consolidated financial position or results of operations.

Generally, favorable changes in contract estimates recognized using the cumulative catch-up method of accounting represent margin improvement on programs where either estimated cost at completion was lower than previously



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

estimated or a change in contract scope on a program caused a higher profit rate. Conversely, the unfavorable changes in contract estimates represent margin declines on programs where either estimated cost at completion was higher than previously estimated or a change in contract scope on a program caused a lower profit rate.

Aggregate net changes in contract estimates recognized increased income before income taxes and noncontrolling interest by approximately \$105 million (\$1.22 per diluted share) for the year ended December 31, 2017, approximately \$81 million (\$1.00 per diluted share) for the year ended December 31, 2016, and approximately \$38 million (\$0.43 per diluted share) in the 2015 transition period. Estimated costs to complete on loss contracts at December 31, 2017 and 2016 are \$1,108 million and \$1,333 million, respectively.

Contracts may contain provisions to earn incentive and award fees if specified targets are achieved as well as penalty provisions related to performance. Incentive and award fees and penalties that can be reasonably estimated and are probable are recorded over the performance period of the contract. Incentive and award fees that cannot be reasonably estimated are recorded when awarded.

*Other* — Sales not recognized under the long-term contract method are recognized when persuasive evidence of an arrangement exists, the product has been delivered and legal title and all risks of ownership have been transferred, written contract and sales terms are complete, customer acceptance has occurred and payment is reasonably assured. Sales are reduced for allowances and price discounts.

**Operating Expenses.** Research and development, selling and general and administrative costs are expensed in the period incurred. Research and development ("R&D") costs include costs incurred for experimentation and design testing. Company-funded R&D is primarily for the improvement of current products and for development of next-generation technology. Customer-funded R&D is comprised primarily of activities we conduct under contracts with the U.S. Government and its prime contractors. Selling costs include bid and proposal efforts related to products and services. Costs that are incurred pursuant to contractual arrangements are recorded over the period that revenue is recognized, consistent with the Company's contract accounting policy.

**Environmental Remediation and Compliance.** Costs associated with environmental compliance, restoration and preventing future contamination that are estimable and probable are accrued and expensed, or capitalized as appropriate. Expected remediation, restoration and monitoring costs relating to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are accrued and expensed in the period that such costs become estimable. Liabilities are recognized for remedial and resource restoration activities when they are probable and the cost can be reasonably estimated. The Company expects that a portion of its environmental remediation costs will be recoverable under U.S. Government contracts and has recorded a receivable equal to the amounts the Company expects to recover.

The Company's engineering, financial and legal specialists estimate, based on current law and existing technologies, the cost of each environmental liability. Such estimates are based primarily upon the estimated cost of investigation and remediation required and the likelihood that other potentially responsible parties ("PRPs") will be able to fulfill their commitments at the sites where the Company may be jointly and severally liable. The Company's estimates for environmental obligations are dependent on, and affected by, the nature and extent of historical information and physical data relating to a contaminated site, the complexity of the site, methods of remediation available, the technology that will be required, the outcome of discussions with regulatory agencies and other PRPs at multi-party sites, the number and financial viability of other PRPs, changes in environmental laws and regulations, future technological developments, and the timing of expenditures; accordingly, the Company periodically evaluates and revises such estimates based on expenditures against established reserves and the availability of additional information.

**Cash Equivalents.** Cash equivalents are all highly liquid cash investments purchased with original maturities of three months or less.

**Marketable Securities.** Investments in a common collective trust that primarily invests in fixed income securities are classified as available-for-sale securities and are recorded at fair value within other noncurrent assets on the consolidated balance sheet. Unrealized gains and losses are recorded in other comprehensive income ("OCI"). When such investments are sold, the unrealized gains or losses are reversed from OCI and recognized in the consolidated income statement.

**Net Inventories.** Inventories are stated at the lower of cost or market. Inventoried costs relating to contracts in progress are stated at actual production costs, including factory overhead, initial tooling and other related costs incurred to date, reduced by amounts associated with recognized sales. Recorded amounts for raw materials, work in process and finished goods are generally determined using the average cost method.

**Net Property, Plant and Equipment.** Property, plant and equipment is stated at cost and depreciated over estimated useful lives. Machinery and equipment is depreciated using the double declining balance method at most of the Company's facilities, and using the straight-line method at other Company facilities. Other depreciable property is depreciated using the straight-line method. Machinery and equipment is depreciated over 1 to 30 years and buildings and improvements is depreciated over 1 to 45 years. Leasehold improvements are depreciated over the shorter of the useful life of the asset or the length of the lease.

Property, plant and equipment is reviewed for impairment when indicators of potential impairment are present. When such impairment is identified, it is recorded as a loss in that period. Maintenance and repairs are charged to expense as incurred. Major improvements that extend useful lives are capitalized and depreciated. The cost and accumulated depreciation of property, plant and equipment retired or otherwise disposed of are removed from the related accounts, and any residual values are charged or credited to income.

**Accounting for Goodwill and Identifiable Intangible Assets.**

**Goodwill** — Historically, the Company has tested goodwill for impairment on January 1 or upon the occurrence of events or changes in circumstances that indicate that the asset might be impaired. During 2015, the Company changed its fiscal year end to December 31st and as a result, has changed the timing of impairment testing, primarily in order to better align the timing with our annual operating plan, forecasting and budgeting process, to the first day of the fourth quarter and whenever events or circumstances indicate that the carrying value of goodwill may not be recoverable. The 2017 impairment analysis date was on October 2nd and the 2016 impairment analysis was October 3rd. The Company determined that the reporting units for its goodwill impairment review are its operating segments, or components of an operating segment, that constitute a business for which discrete financial information is available, and for which segment management regularly reviews the operating results.

The impairment test is performed using a two-step process. In the first step, the Company estimates the fair value of each reporting unit and compares it to the carrying value of the reporting unit, including goodwill. If the carrying amount of a reporting unit is higher than its fair value, an indication of goodwill impairment exists and the second step is performed in order to determine the amount of the goodwill impairment. In the second step, the Company determines the implied fair value of the reporting unit's goodwill which it determines by allocating the estimated fair value of the reporting unit in a manner similar to a purchase price allocation. The implied fair value is compared to the carrying amount and if the carrying amount of the reporting unit's goodwill exceeds the implied fair value of its goodwill, an impairment loss is recognized for the excess.

**Identifiable Intangible Assets** — The Company's primary identifiable intangible assets consist of contract backlog intangible assets recorded as part of the Orbital-ATK Merger. Identifiable intangible assets with finite lives are amortized and evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Identifiable intangibles with indefinite lives are not amortized, if applicable, and are tested for impairment annually on the first day of the fourth quarter, or more frequently if events warrant.

**Treasury Stock.** Shares of Company common stock repurchased under the Company's share repurchase program are held as treasury stock. Treasury stock is accounted for using the cost method. Shares held in treasury may be reissued to satisfy (i) the vesting of performance awards, total stockholder return performance awards ("TSR awards") and restricted stock units, (ii) the grant of restricted stock and (iii) the exercise of stock options. When treasury stock is reissued, the value is determined using a weighted-average basis.

**Stock-based Compensation.** The Company's stock-based compensation plans, which are described more fully in Note 17, *Stock Based Compensation*, provide for the grant of various types of stock-based incentive awards, including performance awards, total stockholder return performance awards ("TSR awards"), restricted stock and options to purchase common stock. The types and mix of stock-based incentive awards are evaluated on an ongoing basis and may vary based on the Company's overall strategy regarding compensation, including consideration of the impact of expensing stock awards on the Company's results of operations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Performance awards are valued at the fair value of the Company stock at the grant date and expense is recognized based on the number of shares expected to vest under the terms of the award under which they are granted. The Company uses an integrated Monte Carlo simulation model to determine the fair value of the TSR awards and the calculated fair value is recognized in income over the vesting period, which approximates the service period. Restricted stock issued vests over periods ranging from one to three years and is valued based on the market value of the Company stock on the grant date. The estimated grant date fair value of stock options is recognized in income on a straight-line basis over the requisite service period, generally one to three years. The estimated fair value of each option is calculated using the Black-Scholes option-pricing model.

**Restructuring Costs.** In fiscal 2015 and during the 2015 transition period, the Company executed business restructuring initiatives aimed at reducing the Company's fixed cost structure. The remaining restructuring liability for these actions relates primarily to lease losses on terminated leases and was \$16 million at December 31, 2017 and \$20 million at December 31, 2016. The change in the liability was primarily due to cash payments. No additional charges are expected for these actions.

**Income Taxes.** Provisions for federal, state and foreign income taxes are calculated based on reported pre-tax earnings and current tax law. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. Significant judgment is required in determining income taxes and evaluating tax positions. The Company periodically assesses its liabilities and contingencies for all periods that are currently open to examination or have not been effectively settled based on the most current available information. Where it is not more likely than not that the Company's tax position will be sustained, the Company records the entire resulting tax liability and when it is more likely than not of being sustained, the Company records its best estimate of the resulting tax liability. Any applicable interest and penalties related to those positions are also recorded in the consolidated financial statements. To the extent the Company's assessment of the tax outcome of these matters changes, such change in estimate will impact income taxes in the period of the change. It is the Company's policy to record any interest and penalties related to income taxes as part of the income taxes for financial reporting purposes. Deferred tax assets related to carryforwards are reduced by a valuation allowance when it is not more likely than not that the amount will be realized before expiration of the carryforward period. As part of this analysis, the Company takes into account the amount and character of the income to determine if the carryforwards will be realized. Significant estimates and judgments are required for this analysis. Changes in the amounts of valuation allowance are recorded in tax expense in the period when the change occurs. For information on the effect of the Tax Cuts and Jobs Act (the "Tax Act") that was signed into law in December 2017, see Note 14, *Income Taxes*.

**Derivative Instruments and Hedging Activities.** From time to time, the Company uses derivative instruments, consisting mainly of commodity forward contracts to hedge forecasted purchases of certain commodities, foreign currency exchange contracts to hedge forecasted transactions denominated in a foreign currency and interest rate swaps to manage interest rate risk on debt. The Company does not hold or issue derivatives for trading purposes. At the inception of each derivative instrument, the Company documents the relationship between the derivative instrument and the hedged item, as well as its risk-management objectives and strategy for undertaking the hedge transaction. The Company assesses, both at the derivative's inception and on an ongoing basis, whether the derivative instrument is highly effective in offsetting changes in the fair value of the hedged item. Derivatives are recognized on the balance sheet at fair value. The effective portion of changes in fair value of derivatives designated as cash flow hedges are recorded to accumulated OCI and recognized in earnings in the same account in which the hedged item is recognized when the hedged item impacts earnings, and the cash flows from the effective portion of cash flow hedges are classified in the same section of the cash flows as the hedged item. The ineffective portion of derivatives designated as cash flow hedges and changes in fair value of derivative instruments not designated in a qualifying hedging relationship are reflected in current earnings, and the cash flows from the ineffective portion of cash flow hedges are classified as investing activities. The Company's current derivatives are designated as cash flow hedges. See Note 3, *Derivative Financial Instruments* for further details.

**Earnings Per Share Data.** Basic earnings per share ("EPS") is computed based upon the weighted-average number of common shares outstanding for each period. Diluted EPS is computed based on the weighted-average number of common shares and common equivalent shares outstanding for each period. Common equivalent shares represent the effect of stock-based awards (see Note 17, *Stock-Based Compensation*) during each period presented, which, if exercised or earned, would have a dilutive effect on earnings per share.

**Fair Value of Non-financial Instruments.** The carrying amounts of receivables, inventory, accounts payable, accrued liabilities and other current assets and liabilities, approximate fair values due to the short maturity of these instruments. See Note 2, *Fair Value of Financial Instruments*, for additional disclosure regarding fair value of financial instruments.

**Accounting Standards Updates Adopted.** During the year ended December 31, 2017, the Company adopted the following Accounting Standard Updates:

In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-17, *Consolidation (Topic 810), Interests Held through Related Parties That Are under Common Control* ("ASU 2016-17"). This ASU amends the consolidation guidance issued under ASU 2015-02, *Consolidation (Topic 810) Amendments to the Consolidation Analysis*, for those entities that are the single decision maker of a variable interest entity ("VIE") such that a single decision maker is not required to consider indirect interests held through related parties that are under common control with the single decision maker to be the equivalent of direct interest in their entirety. Instead, they are required to include those interests on a proportionate basis consistent with indirect interests held through other related parties. The amendments in this ASU were effective for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

**Accounting Standards Updates Issued But Not Yet Adopted.**

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"). The ASU amends Accounting Standard Codification ("ASC") *Topic 815, Derivatives and Hedging*, in order to simplify hedge accounting by better aligning an entity's financial reporting for hedging relationships with its risk management activities. The ASU also simplifies the application of the hedge accounting guidance. ASU 2017-12 is effective for annual periods beginning after December 15, 2018, and interim periods therein. The ASU will be applied utilizing a modified retrospective approach to existing hedging relationships as of the adoption date. The Company does not expect the provisions of ASU 2017-12 to have a material impact on the Company's consolidated financial position, results of operations and cash flows.

In May 2017, the FASB issued ASU 2017-09, *Modification Accounting for Share-Based Payment Arrangements* ("ASU 2017-09"), which identifies and provides guidance on the types of changes to share-based payment awards that an entity would be required to apply modification accounting under ASU 2016-09, *Stock Compensation (Topic 718)*. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions and classification of the awards are the same immediately before and after the modification. ASU 2017-09 is effective for annual periods beginning after December 15, 2017 and will be applied prospectively to awards modified on or after the effective date. The Company does not expect the provisions of ASU 2017-09 to have a material impact on the Company's consolidated financial position, results of operations and cash flows.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* ("ASU 2017-07"). The ASU amends ASC *Topic 715, Compensation—Retirement Benefits*, to require employers that present a measure of operating income in their statement of income to include only the service cost component of net periodic pension costs and net periodic postretirement benefit cost in operating expenses. The ASU also stipulates that only the service cost component of net benefit cost is eligible for capitalization. This guidance is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance. Disclosures of the nature of and reason for the change in accounting principle are required in the first interim and annual periods of adoption. The Company is currently evaluating the provisions of ASU 2017-07 and its impact on the Company's consolidated financial position, results of operations and cash flows.

In February 2017, the FASB issued ASU 2017-06, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965), Employee Benefit Plan Master Trust Reporting* ("ASU 2017-06"). The ASU relates primarily to the reporting by an employee benefit plan for its interest in a master trust. The amendments in ASU 2017-06 are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. An entity should apply the amendments in ASU 2017-06 retrospectively to each period for which financial statements are presented. The Company does not expect the provisions of ASU 2017-06 to have a material impact on the Company's consolidated financial position, results of operations and cash flows.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"), which simplifies the accounting for goodwill impairments by eliminating Step 2 from the goodwill impairment test. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, versus determining an implied fair value in Step 2 to measure the impairment loss. ASU 2017-04 is effective for annual periods beginning after December 15, 2019. The Company does not expect the provisions of ASU 2017-04 to have a material impact on the Company's consolidated financial position, results of operations and cash flows.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires recognition of lease assets and lease liabilities for those leases classified as operating leases under previous U.S. GAAP. The new standard is effective for annual reporting periods beginning after December 15, 2018 with early adoption permitted. The Company currently is evaluating the potential changes from this ASU to its future financial reporting and disclosures.

During 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments* and ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. These ASUs clarify how entities should classify certain cash receipts and cash payments on the statement of cash flows and requires that the statement of cash flows explain the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. These standards will be adopted on January 1, 2018 and are not expected to have a material impact on the Company's consolidated statement of cash flows.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will replace numerous requirements in U.S. GAAP, including industry-specific requirements, and provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. The new standard is effective for annual reporting periods beginning after December 15, 2017. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which such company expects to be entitled in exchange for those goods or services. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application.

The Company will adopt the standard on January 1, 2018 and apply the modified retrospective method. The Company has completed its analysis of ASU 2014-09, and the associated impact on the Company's business processes, systems and internal controls. As part of this analysis, the Company compared existing policies and procedures to the requirements of the standard and prepared modifications to ensure appropriate application of the standard. Additionally, the Company has designed and implemented specific controls over the adoption of the new standard. The Company did not experience significant changes to current controls. The Company is finalizing its assessment of the quantitative impact of adopting ASU 2014-09. The current anticipated financial impact of adoption is a reduction to retained earnings of approximately \$325 million, a reduction to unbilled accounts receivable of approximately \$475 million and increases in inventory and other current assets of approximately \$150 million. The primary area of anticipated change relates to the determination of performance obligations in a contract. While not impacting the total amount of revenue recognized over the life of a contract, this determination will alter the timing of revenue recognition for certain contracts in the Company's portfolio. In addition, the Company will present expanded disclosures related to revenues and contracts with customers as required by ASU 2014-09.

Under ASU 2014-09, revenue is recognized as the Company satisfies a performance obligation by transferring control to the customer. For performance obligations satisfied over time, the objective is to measure progress in a manner which depicts the performance of transferring control to the customer. As such, the Company expects contract revenue will generally be recognized over time using a cost incurred input measure. This is consistent with the percentage of completion cost-to-cost revenue recognition model currently used for the majority of the Company's contracts.

Other new pronouncements issued but not effective for the Company until after December 31, 2017 are not expected to have a material impact on the Company's continuing financial position, results of operations and cash flows.



## 2. Fair Value of Financial Instruments

The current authoritative guidance on fair value clarifies the definition of fair value, prescribes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and expands disclosures about the use of fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The valuation techniques required by the current authoritative literature are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1—Quoted prices for identical instruments in active markets.

Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3—Significant inputs to the valuation model are unobservable.

The following section describes the valuation methodologies used by the Company to measure its financial instruments at fair value.

*Derivative financial instruments and hedging activities* — In order to manage its exposure to commodity pricing and foreign currency risk, the Company periodically utilizes commodity and foreign currency derivatives, which are considered Level 2 instruments. As discussed further in Note 3, *Derivative Financial Instruments*, the Company has outstanding commodity forward contracts that were entered into to hedge forecasted purchases of copper and zinc, as well as outstanding foreign currency forward contracts that were entered into to hedge forecasted transactions denominated in a foreign currency. Commodity derivatives are valued based on prices of futures exchanges and recently reported transactions in the marketplace. The Company currently holds one interest rate swap with a total notional value of \$100 million. The swap is valued based on future LIBOR, and the established fixed rate is based primarily on quotes from banks. Foreign currency derivatives are valued based on observable market transactions of spot currency rates and forward currency prices.

*Long-term Debt* — The fair value of the variable rate long-term debt is calculated based on current market rates for debt of the same risk and maturities. The fair value of the fixed rate debt is based on market quotes for each issuance. The Company considers these to be Level 2 instruments.

The Company's non-financial instruments measured at fair value on a non-recurring basis include goodwill, indefinite-lived intangible assets and long-lived tangible assets. The valuation methods used to determine fair value require a significant degree of management judgment to determine the key assumptions. As such, the Company generally classifies non-financial instruments as either Level 2 or Level 3 fair value measurements. At December 31, 2017 and 2016, the Company did not have any non-financial instruments measured at fair value on a non-recurring basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following tables set forth, by level within the fair value hierarchy, the Company's financial assets and liabilities that are measured at fair value on a recurring basis (*in millions*):

	December 31, 2017		
	Fair Value Measurements Using Inputs Considered as		
	Level 1	Level 2	Level 3
Assets:			
Derivatives	\$ —	\$ 13	\$ —
Liabilities:			
Derivatives	\$ —	\$ 2	\$ —

	December 31, 2016		
	Fair Value Measurements Using Inputs Considered as		
	Level 1	Level 2	Level 3
Assets:			
Derivatives	\$ —	\$ 9	\$ —
Liabilities:			
Derivatives	\$ —	\$ 1	\$ —

Recorded carrying amount and fair value of debt was as follows (*in millions*):

	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Fixed rate debt	\$ 700	\$ 732	\$ 700	\$ 727
Variable rate debt	\$ 710	\$ 706	\$ 750	\$ 746

*Investments in marketable securities* — The Company has investments in marketable securities held in a common collective trust ("CCT") that are primarily fixed income securities used to pay benefits under a nonqualified supplemental executive retirement plan for certain executives and highly compensated employees. Investments in a collective investment vehicle are valued by multiplying the investee company's net asset value per share, as determined by the investee company, with the number of units or shares owned at the valuation date. Net asset value per share is determined by the investee company's custodian or fund administrator by deducting from the value of the assets of the investee company all its liabilities and the resulting number is divided by the outstanding number of shares or units. Investments held by the CCT, including collateral invested for securities on loan, are valued on the basis of valuations furnished by a pricing service approved by the CCT's investment manager, which determines valuations using methods based on market transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders, or at fair value as determined in good faith by the CCT's investment manager. The fair value of these securities, not subject to leveling, is included within other noncurrent assets on the Company's consolidated balance sheet. The fair value of these securities is measured on a recurring basis and was \$15 million and \$13 million at December 31, 2017 and 2016, respectively.

### 3. Derivative Financial Instruments

The Company is exposed to market risks arising from adverse changes in commodity prices affecting the cost of raw materials and energy, interest rates and foreign exchange risks. In the normal course of business, these risks are managed through a variety of strategies, including the use of derivative instruments.

#### *Cash Flow Hedges*

The Company periodically uses interest rate swaps to hedge forecasted interest payments and the risk associated with variable interest rates on long-term debt.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company entered into interest rate swaps during fiscal 2014 requiring fixed rate payments on a total notional amount of \$400 million, of which \$100 million remains outstanding, and receives one-month LIBOR. The fair value of interest rate swap agreements approximates the amount at which they could be settled, based on future LIBOR, and the established fixed rate is based primarily on quotes from banks.

Interest rate swap agreements entered into to manage interest costs and risk associated with variable interest rates outstanding at December 31, 2017 were as follows (*in millions*):

	Notional	Fair Value	Pay Fixed	Receive Floating	Maturity Date
Non-amortizing swap	\$ 100	\$ —	1.69%	1.57%	August 2018

The amount to be paid or received under these swaps is recorded as an adjustment to interest expense.

The counterparties to the interest rate swap agreements expose the Company to credit risk in the event of nonperformance. However, at December 31, 2017, the outstanding swap agreements were in a net liability position which would require the Company to make the net settlement payments to the counterparties if the agreements were settled as of that date. The Company does not anticipate nonperformance by counterparties and does not hold or issue derivative financial instruments for trading purposes.

Commodity forward contracts are periodically used to hedge forecasted purchases of certain commodities. The contracts essentially establish a fixed price for the underlying commodity and are designated and qualify as effective cash flow hedges of purchases of the commodity. Ineffectiveness is calculated as the amount by which the change in the fair value of the derivatives exceeds the change in the fair value of the anticipated commodity purchases.

Commodity forward contracts outstanding that hedge forecasted commodity purchases were as follows:

(Amounts in millions of pounds)

	December 31,	
	2017	2016
Copper	17	10
Zinc	6	3

Due to the customer contract requirements, the benefits associated with the commodity contracts may be passed on to the customer and not realized by the Company.

The Company enters into foreign currency forward contracts to hedge forecasted transactions, denominated in foreign currencies. These transactions qualify as effective cash flow hedges and are designated as such.

Ineffectiveness with respect to forecasted transactions is calculated based on changes in the forward rate until the anticipated purchase or cash receipt occurs; ineffectiveness of the hedge of the accounts payable is evaluated based on the change in fair value of its anticipated settlement.

As of December 31, 2017, the Company had the following outstanding Euro currency forward contracts in place:

(Amounts in millions of Euros)

	December 31,	
	2017	2016
Euros Sold	€ 7	€ 33
Euros Purchased	36	45

The gains or losses on the commodity forward contracts are recorded in inventory as the commodities are purchased and in cost of sales when the related inventory is sold. The gains or losses on the foreign currency forward contracts are recorded in earnings when the related inventory is sold or customer cash receipts are received.

The fair values of the commodity and foreign currency forward contracts are recorded in other assets or liabilities, as appropriate, and the effective portion is reflected in accumulated other comprehensive income (loss) in the financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Fair values in the consolidated balance sheets related to derivative instruments designated as hedging instruments were as follows (*in millions*):

	Asset Derivatives Fair Value		Liability Derivatives Fair Value	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Commodity forward contracts <sup>(1)</sup>	\$ 11	\$ 5	\$ —	\$ —
Foreign currency forward contracts <sup>(1)</sup>	2	3	2	—
Foreign currency forward contracts <sup>(2)</sup>	—	1	—	—
Interest rate swap contracts <sup>(2)</sup>	—	—	—	1
Total	\$ 13	\$ 9	\$ 2	\$ 1

<sup>(1)</sup> Location - Other current assets/Other current liabilities

<sup>(2)</sup> Location - Other noncurrent assets/Other noncurrent liabilities

Gains and (losses) reclassified from Accumulated Other Comprehensive Loss to the consolidated statements of comprehensive income related to derivative instruments were as follows (*in millions*):

	Location	Year Ended	Year Ended
		December 31, 2017	December 31, 2016
Commodity forward contracts	Cost of sales	\$ 2	\$ (3)
Interest rate swap contracts	Interest expense	(1)	(3)
Foreign currency forward contracts	Cost of sales	4	—

The Company expects the remaining unrealized losses will be realized and reported in cost of sales or interest expense depending on the type of contract consistent with realized gains and losses noted in the table above. Estimated and actual gains or losses will change as market prices change.

The Company performs assessments of the effectiveness of hedge instruments on a quarterly basis and determined the hedges to be highly effective.

There was no ineffective portion of derivative instruments and no derivatives were excluded from effectiveness testing during the years ended December 31, 2017 and December 31, 2016; accordingly, the Company did not recognize any related gains or losses in the income statement.

All derivatives used by the Company during the periods presented were designated as hedging instruments for accounting purposes.

#### 4. Mergers and Divestiture

**Northrop Grumman.** On September 17, 2017, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Northrop Grumman Corporation (“Northrop Grumman”) and Neptune Merger, Inc., a wholly owned subsidiary of Northrop Grumman (“Sub”), under which Sub will merge with and into the Company, with the Company continuing as the surviving corporation and a wholly-owned subsidiary of Northrop Grumman (the “Merger”).

Upon the closing of the Merger, each outstanding share of Company common stock, other than shares owned by the Company, Northrop Grumman or Sub (which will be canceled) and appraisal shares, will automatically be converted into the right to receive \$134.50 in cash, without interest and less any applicable withholding taxes.

The stockholders of the Company voted in favor of approving the Merger Agreement at a special meeting held on November 29, 2017. Closing remains subject to customary closing conditions, including obtaining required

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

regulatory approvals. The Company received a request for additional information from the Federal Trade Commission ("FTC") on December 6, 2017.

**Orbital.** On February 9, 2015, the Company completed the spin-off and Distribution of its former Sporting Group to its stockholders and merged with Orbital pursuant to a transaction agreement dated April 28, 2014 (the "Transaction Agreement"). Both the Distribution and Orbital-ATK Merger were structured to be tax-free to U.S. stockholders for U.S. federal income tax purposes. Under the Transaction Agreement, a subsidiary of the Company merged with and into Orbital, with Orbital continuing as a wholly-owned subsidiary of the Company.

### *Ongoing Business with Vista Outdoor*

In conjunction with the Distribution of the Company's former Sporting Group, the Company entered into two supply agreements and one Transition Services Agreement ("TSA") with Vista Outdoor. The supply agreements call for Vista Outdoor to purchase certain minimum quantities of ammunition and gun powder from the Company through 2018 or 2017, as applicable. The supply agreements, which are priced at arms-length, expire in 2018 for the ammunition agreement with the gun powder agreement expiring in 2017. The supply agreements had an option to be extended in one-to-three year increments. The agreements were not extended and expired or will expire according to their original terms. Under the terms of the TSA, the Company provided Vista Outdoor with administrative services for 12 months following the Distribution and provided tax-related services for 18 months following the Distribution, extendable to 30 months. At the option of Vista Outdoor, the Company is currently providing tax-audit related services. Fees for services under the TSA are charged to Vista Outdoor.

Sales to Vista Outdoor under the two supply agreements, reported within Defense Systems Group, were \$181 million for the year ended December 31, 2017, \$238 million for the year ended December 31, 2016 and \$138 million for the 2015 transition period.

## 5. Net Receivables

Net receivables, including amounts due under long-term contracts, consisted of the following:

	December 31,	
	2017	2016
	(in millions)	
Billed receivables		
U.S. Government contracts	\$ 159	\$ 132
Commercial and other	92	112
Unbilled receivables		
U.S. Government contracts	850	806
Commercial and other	793	691
Less allowance for doubtful accounts	(1)	—
Net receivables	\$ 1,893	\$ 1,741

Receivable balances are shown net of customer progress payments received of \$697 million at December 31, 2017 and \$601 million at December 31, 2016.

Unbilled receivables represent the balance of recoverable costs and accrued profit, comprised principally of revenue recognized on contracts for which billings have not been presented to the customer because the amounts were earned but not contractually billable at the balance sheet date. These amounts include expected additional billable general overhead costs and fees on flexibly priced contracts awaiting final rate negotiations.

Progress payments received from customers relating to the uncompleted portions of contracts are offset against unbilled receivable balances or applicable inventories. Any remaining progress payment balances are classified as contract advances.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2017 and 2016, the aggregate amount of contract-related unbilled receivables the Company does not expect to collect within the next 12 months was \$275 million and \$287 million, respectively.

The Company records an allowance for doubtful accounts, reducing the receivables balance to an amount the Company estimates is collectible from customers. Estimates used in determining the allowance for doubtful accounts are based on current trends, aging of accounts receivable, periodic credit evaluations of customers' financial condition and historical collection experience.

### 6. Net Inventories

Net inventories consisted of the following:

	December 31,	
	2017	2016
	(in millions)	
Raw materials	\$ 89	\$ 93
Work/contracts in process	113	121
Finished goods	19	1
<b>Net inventories</b>	<b>\$ 221</b>	<b>\$ 215</b>

### 7. Net Property, Plant and Equipment

Net property, plant and equipment consisted of the following:

	December 31,	
	2017	2016
	(in millions)	
Land	\$ 29	\$ 29
Buildings and other improvements	412	383
Machinery, equipment and other	1,432	1,313
Property not yet in service	280	212
Gross property, plant and equipment	2,153	1,937
Less accumulated depreciation	(1,219)	(1,121)
<b>Net property, plant and equipment</b>	<b>\$ 934</b>	<b>\$ 816</b>

Depreciation expense was \$118 million for the year ended December 31, 2017, \$116 million in the year ended December 31, 2016 and \$89 million in the 2015 transition period.

### 8. Goodwill and Net Intangibles

Changes in goodwill by segment were as follows:

	Flight Systems Group	Defense Systems Group	Space Systems Group	Total
	(in millions)			
<b>Balance, December 31, 2015</b>	\$ 923	\$ 363	\$ 542	\$ 1,828
Measurement period adjustments	6	—	(2)	4
<b>Balance, December 31, 2016</b>	929	363	540	1,832
Adjustments	—	—	—	—
<b>Balance at December 31, 2017</b>	<b>\$ 929</b>	<b>\$ 363</b>	<b>\$ 540</b>	<b>\$ 1,832</b>

The goodwill impairment analysis conducted for the years ended December 31, 2017 and 2016 and for the 2015 transition period concluded there were no impairments.

Goodwill recorded within Defense Systems Group and Space Systems Group is presented net of accumulated impairment losses totaling \$4 million and \$143 million, respectively, at December 31, 2017.

Net intangibles consisted of the following amortizing intangibles:

	December 31, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Total	Gross Carrying Amount	Accumulated Amortization	Total
	(in millions)					
Contract backlog	\$ 173	\$ (115)	\$ 58	\$ 173	\$ (79)	\$ 94
Patented technology	11	(8)	3	11	(7)	4
Customer relationships and other	—	—	—	2	(2)	—
<b>Net intangibles</b>	<b>\$ 184</b>	<b>\$ (123)</b>	<b>\$ 61</b>	<b>\$ 186</b>	<b>\$ (88)</b>	<b>\$ 98</b>

The contract backlog asset in the table above is being amortized as underlying costs are recognized under the contract. The other assets in the table above are being amortized using a straight-line method. Amortization expense related to these assets was \$37 million for the year ended December 31, 2017, \$43 million for the year ended December 31, 2016 and \$33 million in the 2015 transition period.

Scheduled amortization is as follows:

	Contract Backlog	Patented Technology	Total
	(in millions)		
2018	\$ 25	\$ 1	\$ 26
2019	22	1	23
2020	11	1	12
2021	—	—	—
2022	—	—	—
<b>Total</b>	<b>\$ 58</b>	<b>\$ 3</b>	<b>\$ 61</b>

## 9. Other Current Liabilities

Other current liabilities consisted of the following:

	December 31,	
	2017	2016
	(in millions)	
Employee benefits and insurance	\$ 81	\$ 74
Deferred lease obligation	2	2
Interest	10	10
Accrued tax liabilities	26	28
Environmental liability	5	6
Other	86	63
<b>Total other current liabilities</b>	<b>\$ 210</b>	<b>\$ 183</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 10. Long-term Debt

Long-term debt, including the current portion, consisted of the following:

	December 31,	
	2017	2016
	(in millions)	
<b>Senior Credit Facility:</b>		
Term Loan A due 2020	\$ 710	\$ 750
Revolving Credit Facility due 2020	—	—
5.25% Senior Notes due 2021	300	300
5.50% Senior Notes due 2023	400	400
<b>Carrying amount of long-term debt</b>	<b>1,410</b>	<b>1,450</b>
<b>Unamortized debt issuance costs:</b>		
Senior Credit Facility	4	5
5.25% Senior Notes due 2021	1	2
5.50% Senior Notes due 2023	4	5
<b>Unamortized debt issuance costs</b>	<b>9</b>	<b>12</b>
Long-term debt less unamortized debt issuance costs	1,401	1,438
Less: Current portion of long-term debt	40	40
<b>Long-term debt</b>	<b>\$ 1,361</b>	<b>\$ 1,398</b>

#### *Senior Credit Facility*

In September 2015, the Company refinanced its former senior credit facility (the "Former Senior Credit Facility") with a new senior credit facility (the "Senior Credit Facility"), which is comprised of a term loan of \$800 million (the "Term Loan A") and a revolving credit facility of \$1,000 million (the "Revolving Credit Facility"), both of which mature in 2020. The Term Loan A is subject to quarterly principal payments of \$10 million, with the remaining balance due at maturity. Substantially all tangible and intangible assets of the Company and certain domestic subsidiaries, excluding real property, are pledged as collateral under the Senior Credit Facility. Borrowings under the Senior Credit Facility bear interest at a per annum rate equal to either the sum of a base rate plus a margin or the sum of a LIBOR rate plus a margin. Borrowings under the Former Senior Credit Facility were charged interest at a rate equal to either the sum of a base rate plus a margin or the sum of a Eurodollar rate plus a margin. Each margin is based on the Company's total leverage ratio. In compliance with the terms of the Senior Credit Facility, the current base rate margin is 0.25% and the current LIBOR margin is 1.25%. The weighted-average interest rate for the Term Loan A, after taking into account the interest rate swaps discussed below, was 2.84% at December 31, 2017. The Company pays a quarterly commitment fee on the unused portion of the Revolving Credit Facility based on its total leverage ratio. Based on the Company's current total leverage ratio, this current fee is 0.20%. At December 31, 2017, the Company had no borrowings outstanding on the Revolving Credit Facility and had outstanding letters of credit of \$240 million, which reduced amounts available on the Revolving Credit Facility to \$760 million.

As a result of the refinancing in September 2015, the Company recorded a charge of \$10 million, reported in net interest expense, to write off a portion of the unamortized debt issuance costs associated with the Former Senior Credit Facility. There are debt issuance costs totaling \$6 million associated with the Former Senior Credit Facility in addition to debt issuance costs incurred related to the new Senior Credit Facility that are being amortized to interest expense over five years, the term of the Senior Credit Facility.

#### *5.25% Senior Notes*

In fiscal 2014, the Company issued \$300 million aggregate principal amount of 5.25% Senior Notes (the "5.25% Notes") that mature on October 1, 2021. These notes are general unsecured obligations. Interest on these notes is payable on April 1 and October 1 of each year. The Company has the right to redeem some or all of these notes on or after October 1, 2016, at specified redemption prices. Debt issuance costs of \$3 million related to these notes are being amortized to interest expense over eight years, the term of the notes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5.50% Senior Notes

In September 2015, the Company issued \$400 million aggregate principal amount of 5.50% Senior Notes (the "5.50% Notes") that mature on October 1, 2023. These notes are general unsecured obligations. Interest on these notes is payable on April 1 and October 1 of each year. The Company has the right to redeem some or all of these notes from time to time on or after October 1, 2018, at specified redemption prices. Debt issuance costs of \$6 million related to these notes are being amortized to interest expense over eight years, the term of the notes.

### Interest Rate Swaps

In fiscal 2014, the Company entered into floating-to-fixed interest rate swap agreements in order to hedge the Company's forecasted interest payments on its outstanding variable rate debt, which has included the term loans associated with the Senior Credit Facility and Former Senior Credit Facility.

At December 31, 2017, the Company had the following cash flow hedge interest rate swaps in place:

	Notional	Fair Value	Pay Fixed	Receive Floating	Maturity Date
	(in millions)				
Non-amortizing swap	\$ 100	\$ —	1.69%	1.57%	August 2018

The amount to be paid or received under these swaps is recorded as an adjustment to interest expense.

### Rank and Guarantees

The 5.25% Notes and the 5.50% Notes are the Company's general unsecured and unsubordinated obligations and rank equally in right of payment with all of the Company's existing and future unsecured and unsubordinated indebtedness, rank senior in right of payment to all of the Company's existing and future subordinated indebtedness, and are effectively subordinated to all existing and future senior secured indebtedness, including the Senior Credit Facility, to the extent of the collateral. The 5.25% Notes and the 5.50% Notes are guaranteed on an unsecured basis, jointly and severally and fully and unconditionally, by substantially all of the Company's domestic subsidiaries. The Senior Credit Facility obligations are guaranteed on a secured basis, jointly and severally and fully and unconditionally, by substantially all of the Company's domestic subsidiaries. All of these guarantor subsidiaries are 100% owned by the Company. The Company, exclusive of these guarantor subsidiaries, has no independent operations or material assets.

### Scheduled Minimum Loan Payments

Scheduled minimum loan payments are as follows:

	(in millions)
2018	\$ 40
2019	40
2020	630
2021	300
2022	—
Thereafter	400
<b>Total</b>	<b>\$ 1,410</b>

### Covenants and Default Provisions

The Company's Senior Credit Facility and the indentures governing the 5.25% Notes and the 5.50% Notes impose restrictions on the Company, including limitations on its ability to incur additional debt, enter into capital leases, grant liens, pay dividends and make certain other payments, sell assets, or merge or consolidate with or into another entity. In addition, the Senior Credit Facility limits the Company's ability to enter into sale-and-leaseback transactions. The 5.25% Notes and 5.50% Notes limit the aggregate sum of dividends, share repurchases and other designated restricted payments. The Senior Credit Facility also requires the Company to meet and maintain

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

specified financial ratios, including a minimum interest coverage ratio and a maximum consolidated total leverage ratio. The Company's debt agreements contain cross-default provisions so that noncompliance with the covenants within one debt agreement that would give rise to the right to accelerate repayment of any outstanding indebtedness could cause a default under other debt agreements as well. The Company's ability to comply with these covenants and to meet and maintain the financial ratios may be affected by events beyond its control. Borrowings under the Senior Credit Facility are subject to compliance with these covenants. The Company is in compliance with its credit agreement covenants as of December 31, 2017.

### 11. Accumulated Other Comprehensive Loss

Changes in Accumulated Other Comprehensive Income (Loss) ("AOCI"), net of income taxes, were as follows:

	Year Ended December 31, 2017				Year Ended December 31, 2016			
	Derivatives	Pension and Other Post-retirement Benefits	Available-for-sale Securities	Total	Derivatives	Pension and Other Post-retirement Benefits	Available-for-sale Securities	Total
	(in millions)							
<b>Beginning of period unrealized gain (loss) in AOCI</b>	\$ 5	\$ (771)	\$ 2	\$ (764)	\$ (3)	\$ (784)	\$ 1	\$ (786)
Net increase in fair value of derivatives	5	—	—	5	4	—	—	4
Net (gains) losses reclassified from AOCI, offsetting the price paid to suppliers <sup>(1)</sup>	(3)	—	—	(3)	4	—	—	4
Net actuarial losses reclassified from AOCI <sup>(2)</sup>	—	82	—	82	—	79	—	79
Prior service costs reclassified from AOCI <sup>(2)</sup>	—	(17)	—	(17)	—	(17)	—	(17)
Valuation adjustment for pension and postretirement benefit plans	—	(83)	—	(83)	—	(49)	—	(49)
Other	—	—	—	—	—	—	1	1
<b>End of period unrealized gain (loss) in AOCI</b>	<u>\$ 7</u>	<u>\$ (789)</u>	<u>\$ 2</u>	<u>\$ (780)</u>	<u>\$ 5</u>	<u>\$ (771)</u>	<u>\$ 2</u>	<u>\$ (764)</u>

(1) Amounts related to derivative instruments that were reclassified from AOCI and recorded as a component of cost of sales or interest expense for each period presented.

(2) Amounts related to pension and other postretirement benefits that were reclassified from AOCI and recorded as a component of net periodic benefit cost for each period presented (Note 13, *Employee Benefit Plans*).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 12. Earnings per Share

The following is a reconciliation of the numerator and denominator used in the basic and diluted earnings per share ("EPS") calculations, with amounts in millions, except per share data:

	<u>Year Ended December 31, 2017</u>	<u>Year Ended December 31, 2016</u>	<u>Nine Months Ended December 31, 2015</u>
<b>Numerator:</b>			
Income from continuing operations of Orbital ATK, Inc.	\$ 310	\$ 293	\$ 185
Income from discontinued operations	—	—	1
Net income attributable to Orbital ATK, Inc.	<u>310</u>	<u>293</u>	<u>186</u>
Earnings allocated to participating securities	—	—	—
Income available to common stockholders	<u>\$ 310</u>	<u>\$ 293</u>	<u>\$ 186</u>
<b>Denominator:</b>			
Weighted-average shares of common stock	57.38	57.99	59.36
Dilutive effect of stock-based awards	<u>0.53</u>	<u>0.47</u>	<u>0.56</u>
Diluted weighted-average shares of common stock	<u>57.91</u>	<u>58.46</u>	<u>59.92</u>
Anti-dilutive stock options and other stock awards excluded from the calculation of diluted earnings per share	0.10	0.31	0.10
<b>Net income per common share from:</b>			
Basic:			
Continuing operations	\$ 5.39	\$ 5.05	\$ 3.12
Discontinued operations	—	—	0.02
Net income attributable to Orbital ATK, Inc.	<u>\$ 5.39</u>	<u>\$ 5.05</u>	<u>\$ 3.14</u>
Diluted:			
Continuing operations	\$ 5.34	\$ 5.01	\$ 3.09
Discontinued operations	—	—	0.02
Net income attributable to Orbital ATK, Inc.	<u>\$ 5.34</u>	<u>\$ 5.01</u>	<u>\$ 3.11</u>

Diluted earnings per share is calculated using net income available to common stockholders divided by the diluted weighted average number of common shares outstanding during each period determined using the treasury stock method.

### 13. Employee Benefit Plans

The Company provides defined benefit pension plans and defined contribution plans for its employees. The Company has tax-qualified defined benefit plans, a supplemental (nonqualified) defined benefit pension plan, a defined contribution plan and a supplemental (non-qualified) defined contribution plan. A qualified plan meets the requirements of certain sections of the Internal Revenue Code and, generally, contributions to qualified plans are tax deductible. A qualified plan typically provides benefits to a broad group of employees and may not discriminate in favor of highly compensated employees in coverage, benefits or contributions. In addition, the Company provides medical and life insurance benefits to certain retirees and their eligible dependents through its postretirement plans.

#### Defined Benefit Plans

The Company's noncontributory defined benefit pension plans include the following legacy Alliant Techsystems Inc. plans: "Alliant Techsystems Inc. Pension and Retirement Plan" and "Thiokol Propulsion Pension Plan" (the "ATK Plans") and the legacy Orbital Sciences plans: "Fairchild Bargained Plan" and "Fairchild Space and Defense Plan" (the "Orbital Plans"). The Orbital Plans were merged into the Alliant Techsystems Inc. Pension and Retirement Plan on December 31, 2015 and the combined plan's name was changed to the "Orbital ATK, Inc. Pension and

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Retirement Plan." The Company's ongoing defined benefit pension plans are the Orbital ATK Inc. Pension and Retirement Plan and the Thiokol Propulsion Pension Plan (the "Orbital ATK Plans").

The Company is required to reflect the funded status of the pension and other postretirement benefit ("PRB") plans on the consolidated balance sheet. The funded status of the plans is measured as the difference between the plan assets at fair value and the projected benefit obligation. The Company has recognized the aggregate of all underfunded plans within the accrued pension liability and postretirement and postemployment benefits liabilities. The Company has recognized the aggregate of all overfunded plans within other noncurrent assets. The portion of the amount by which the actuarial present value of benefits included in the projected benefit obligation exceeds the fair value of plan assets, payable in the next 12 months, is reflected in other accrued liabilities.

Previously unrecognized differences between actual amounts and estimates based on actuarial assumptions are included in accumulated other comprehensive loss in the consolidated balance sheet and the difference between actual amounts and estimates based on actuarial assumptions has been recognized in other comprehensive income in the period in which they occur.

The Company's measurement date for remeasuring its plan assets and benefit obligations is December 31.

*Pension Plans.* The ATK Plans are qualified noncontributory defined benefit pension plans that cover substantially all legacy ATK employees hired prior to January 1, 2007. Eligible legacy ATK non-union employees hired on or after January 1, 2007 and certain union employees are not covered by a defined benefit plan but receive an employer contribution through a defined contribution plan, discussed below. Prior to July 1, 2013 (January 1, 2014, January 1, 2015 and April 1, 2016 for certain union groups), the ATK Plans provided either pension benefits based on employee annual pay levels and years of credited service or stated amounts for each year of credited service. Effective July 1, 2013 and with certain collective bargaining agreements, pension benefits were frozen and a new cash balance formula applicable to pay and service was implemented. The cash balance formula provides each impacted employee with pay credits based on the sum of that employee's age plus years of pension service at December 31 of each calendar year, plus 4% annual interest credits. The Orbital Plans were frozen in 1994 and no pension benefits are being accrued by those employees. The Company funds the Orbital ATK Plans in accordance with federal requirements calculated using appropriate actuarial methods. Depending on the plan they are covered by, employees generally vest after three or five years.

The Company also sponsors a nonqualified supplemental executive retirement plan which provides certain executives and highly compensated employees the opportunity to receive pension benefits in excess of those payable through tax-qualified pension plans. The benefit obligation of these plans is included in the pension information below.

*Other Postretirement Benefit Plans.* Generally, employees who terminated employment from the Company on or before January 1, 2004 and were at least age 50 or 55 with at least five or ten years of service, depending on the provisions of the pension plan they are eligible for, are entitled to a pre- and/or post-65 health care company subsidy and retiree life insurance coverage. Employees who terminated employment after January 1, 2004, but before January 1, 2006, are eligible only for a pre-65 Company subsidy. The portion of the health care premium cost borne by the Company for such benefits is based on the pension plan the employees are eligible for, years of service and age at termination.

During the year ending December 31, 2016, the Company amended its retiree health care plan to provide coverage through a private exchange effective January 1, 2017. The exchange offers the retiree a broad choice of health care plans from which to choose. The Company will contribute fixed payments to a Health Retirement Account (HRA), when applicable, for those retirees that previously had subsidized health care coverage through the Company. The Company's contributions to the HRAs are retirees' funds to be spent on qualified health care premiums and eligible out-of-pocket expenses. This plan amendment caused a remeasurement that increased the Company's funded status by \$39 million and will reduce expenses recorded in future periods.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table shows changes in the benefit obligation, plan assets and funded status of the Company's qualified and non-qualified pension plans and other PRB plans, including Orbital Plans. Benefit obligation balances presented below reflect the projected benefit obligation ("PBO") for pension plans and Accumulated PRB obligations ("APBO") or other PRB plans.

	Pension Benefits		Other Postretirement Benefits	
	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2016
	(in millions)			
Change in benefit obligation:				
Benefit obligation at beginning of period	\$ 2,926	\$ 2,953	\$ 69	\$ 114
Service cost	17	18	—	—
Interest cost	98	101	2	3
Plan amendments	—	—	—	(39)
Actuarial loss (gain)	229	87	3	1
Retiree contributions	—	—	—	5
Benefits paid	(218)	(233)	(7)	(15)
Benefit obligation at end of period	3,052	2,926	67	69
Change in plan assets:				
Fair value of plan assets at beginning of period	2,208	2,190	61	60
Actual return on plan assets	277	131	4	4
Retiree contributions	—	—	—	5
Employer contributions	118	120	3	7
Benefits paid	(218)	(233)	(7)	(15)
Fair value of plan assets at end of period	2,385	2,208	61	61
Unfunded status	\$ (667)	\$ (718)	\$ (6)	\$ (8)

	Pension Benefits		Other Postretirement Benefits	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	(in millions)			
Noncurrent assets	\$ —	\$ —	\$ 19	\$ 17
Other current liabilities	(4)	(3)	(3)	(3)
Postretirement benefit liabilities	—	—	(22)	(22)
Pension liabilities	(663)	(715)	—	—
Net amount recognized	\$ (667)	\$ (718)	\$ (6)	\$ (8)
Accumulated other comprehensive loss (income) related to:				
Unrecognized net actuarial losses	\$ 1,376	\$ 1,398	\$ 16	\$ 15
Unrecognized prior service benefits	(90)	(110)	(36)	(43)
Accumulated other comprehensive loss (income)	\$ 1,286	\$ 1,288	\$ (20)	\$ (28)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The estimated amount that will be amortized from AOCI into net periodic benefit cost in 2018 is as follows:

	Pension	Other Postretirement Benefits
	(in millions)	
Recognized net actuarial losses	\$ 147	\$ 2
Amortization of prior service benefits	(20)	(5)
Total	\$ 127	\$ (3)

The accumulated benefit obligation for all defined benefit pension plans was \$3,052 million at December 31, 2017 and \$2,926 million at December 31, 2016.

	December 31,	
	2017	2016
	(in millions)	
Information for pension plans with an accumulated benefit obligation in excess of plan assets:		
Projected benefit obligation	\$ 3,052	\$ 2,926
Accumulated benefit obligation	\$ 3,052	\$ 2,926
Fair value of plan assets	\$ 2,385	\$ 2,208

Components of net periodic benefit cost were as follows *(in millions)*:

	Pension Benefits			Other Postretirement Benefits		
	Year Ended December 31, 2017	Year Ended December 31, 2016	Nine Months Ended December 31, 2015	Year Ended December 31, 2017	Year Ended December 31, 2016	Nine Months Ended December 31, 2015
Components of net periodic benefit cost:						
Service cost	\$ 17	\$ 18	\$ 14	\$ —	\$ —	\$ —
Interest cost	98	101	91	2	3	3
Expected return on plan assets	(157)	(162)	(120)	(3)	(3)	(3)
Amortization of unrecognized net loss	131	126	113	2	1	2
Amortization of unrecognized prior service benefit	(20)	(21)	(16)	(7)	(6)	(5)
Net periodic benefit cost before special termination benefits cost/curtailment	69	62	82	(6)	(5)	(3)
Special termination benefits cost/curtailment	—	2	—	—	—	—
Net periodic benefit cost	\$ 69	\$ 64	\$ 82	\$ (6)	\$ (5)	\$ (3)

The special termination benefits cost/curtailment cost in the table above represents a settlement expense to recognize the impact of lump sum benefit payments made in the non-qualified supplemental executive retirement plan.

At the end of the 2015 transition period, the Company changed the approach used to measure service and interest costs for pension and other postretirement benefits. For the 2015 transition period, the Company measured service and interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the plan obligations. For 2016 and 2017, the Company elected to measure service and interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows. The Company believes this approach provides a more precise measurement of service and interest costs by aligning the timing of the plans' liability cash

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

flows to the corresponding spot rates on the yield curve. This change does not affect the measurement of our plan obligations. The Company accounted for this change as a change in accounting estimate and, accordingly, has accounted for it on a prospective basis.

### Assumptions

	Pension Benefits			Other Postretirement Benefits		
	Year Ended December 31, 2017	Year Ended December 31, 2016	Nine Months Ended December 31, 2015	Year Ended December 31, 2017	Year Ended December 31, 2016	Nine Months Ended December 31, 2015
Weighted-average assumptions used to determine benefit obligations at the end of each period						
Discount rate	3.65%	4.14%	4.40%	3.36%	3.62%	3.98%
Rate of compensation increase:						
Union	2.90%	3.11%	3.13%			
Salaried	3.51%	3.56%	3.62%			

	Pension Benefits			Other Postretirement Benefits		
	Year Ended December 31, 2017	Year Ended December 31, 2016	Nine Months Ended December 31, 2015	Year Ended December 31, 2017	Year Ended December 31, 2016	Nine Months Ended December 31, 2015
Weighted-average assumptions used to determine net periodic benefit cost for each period						
Discount rate	4.14%	4.40%	3.90%	3.63%	3.98%	3.55%
Expected long-term rate of return on plan assets	7.00%	7.25%	7.25%	4.00% / 6.00%	4.00% / 6.00%	5.00% / 6.25%
Rate of compensation increase:						
Union	3.11%	3.13%	3.66%			
Salaried	3.56%	3.60%	3.14%			

In developing the expected long-term rate of return assumption, the Company considers input from its actuaries and other advisors, annualized returns of various major indices over a long-term time horizon and the Company's own historical 5-year and 10-year compounded investment returns. The expected long-term rate of return of 7.00% used in the year ended December 31, 2017 for the plans was based on an asset allocation range of 20 - 45% in public equity investments, 35 - 50% in fixed income investments, 0 - 10% in real estate investments, 15 - 30% collectively in hedge fund and private investments and 0 - 6% in cash investments. The actual return in any fiscal year will likely differ from the Company's assumption, but the Company's estimate of its return is based on long-term projections and historical results. Therefore, any variance in a given year does not necessarily indicate that the assumption should be changed.

In developing the expected long-term rate of return assumption for other PRB plans, the Company considers input from actuaries, historical returns and annualized returns of various major indices over long periods. The expected long-term rates of returns are based on the weighted average asset allocation between the assets held within the 401(h) and those held in fixed income investments.

The Company amended its retiree health care plan to provide coverage through a private exchange effective January 1, 2017. The Company will contribute fixed payments to an HRA for those retirees who previously had subsidized health care coverage through the Company. As such, health care cost trend rates have no effect on the amounts reported for health care plans. A one percentage point increase or decrease in the assumed health care cost trend rates would have no effect.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Plan Assets

*Pension.* Pension plan weighted-average asset allocations:

	Anticipated 2018		Actual	
	Low	High	December 31, 2017	December 31, 2016
Asset category:				
Domestic equity	10.0%	20.0%	15.7%	12.5%
International equity	10.0%	20.0%	14.6%	18.4%
Fixed income	35.0%	50.0%	34.2%	38.2%
Real estate	2.0%	6.0%	3.6%	3.5%
Hedge funds/private equity	15.0%	30.0%	24.6%	21.1%
Other investments/cash	2.0%	8.0%	7.3%	6.3%

The Company has a committee which, assisted by outside consultants, evaluates the objectives and investment policies concerning its long-term investment goals and asset allocation strategies. Plan assets are invested in various asset classes that are expected to produce a sufficient level of diversification and investment return over the long term. The investment goals are (1) to meet or exceed the assumed actuarial rate of return over the long term within reasonable and prudent levels of risk, and (2) to preserve the real purchasing power of assets to meet future obligations. The nature and duration of benefit obligations, along with assumptions concerning asset class returns and return correlations, are considered when determining an appropriate asset allocation to achieve the investment objectives. Pension plan assets for the Company's qualified pension plans are held in a trust for the benefit of the plan participants and are invested in a diversified portfolio of equity investments, fixed income investments, real asset investments, hedge funds, private equity and cash. Risk targets are established and monitored against acceptable ranges. All investment policies and procedures are designed to ensure that the plans' investments are in compliance with the Employee Retirement Income Security Act. Guidelines are established defining permitted investments within each asset class.

During the 2015 transition period, the Company implemented an investment strategy derived from the asset-liability study conducted during fiscal 2013. The results of the asset-liability study reinforced the emphasis on managing the volatility of pension assets relative to pension liabilities while still achieving a competitive investment return, achieving diversification between and within various asset classes and managing other risks. In order to manage the volatility between the value of pension assets and liabilities, the Company has maintained an allocation to long-duration fixed income investments. The Company regularly reviews its actual asset allocation and periodically rebalances its investments to the targeted allocation when considered appropriate. Target allocation ranges are guidelines, not limitations, and occasionally due to market conditions and other factors actual asset allocation may vary above or below a target.

The implementation of the investment strategy discussed above is executed through a variety of investment structures such as: direct share or bond ownership, common/collective trusts or registered investment companies. Valuation methodologies differ for each of these structures. The valuation methodologies used for these investment structures are as follows:

*U.S. Government Securities, Corporate Debt, Common Stock and Registered Investment*

*Companies:* Investments are valued at the closing price reported on the active market on which the individual securities are traded.

*Common/Collective Trusts:* Investments in a collective investment vehicle are valued by multiplying the investee company's net asset value per share with the number of units or shares owned at the valuation date as determined by the investee company. Net asset value per share is determined by the investee company's custodian or fund administrator by deducting from the value of the assets of the investee company all of its liabilities and the resulting number is divided by the outstanding number of shares or units. Investments held by the common/collective trusts ("CCT"), including collateral invested for securities on loan, are valued on the basis of valuations furnished by a pricing service approved by the CCT's investment manager, which determines valuations using methods based on market transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders, or at fair value as determined in good faith by the CCT's investment manager.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*Partnership/Joint Venture Interests:* Given the inherent illiquidity of many partnership/joint venture investments, these investments are generally valued based on unobservable inputs that reflect the reporting entity's own assumptions about the assumptions that market participants would use pricing the asset. While the valuation methodologies may differ among each entity, the method for valuing these assets is primarily net asset values; other methods may include, but are not limited to, discounted cash flow analysis and comparable trading data for similar investments. The General Partner or Account Manager for these investments aggregates the values of underlying account securities and assets, then determines a final net asset value at the overall fund or account level and apportions that among the various investors by percentage of partnership or account ownership percentages.

*Funds in Insurance Company Accounts:* These investments are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

*Fair Value:* Pension plan investments using the fair value hierarchy consisted of the following:

December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in millions)			
Interest-bearing cash	\$ —	\$ 2	\$ —	\$ 2
U.S. Government securities	4	—	—	4
Corporate debt	—	147	—	147
Common stock	83	—	—	83
Registered investment companies	28	—	—	28
Value of funds in insurance company accounts	—	40	—	40
Total assets in the fair value hierarchy	\$ 115	\$ 189	\$ —	\$ 304
Investments measured at NAV				2,081
<b>Total investments</b>				<b>\$ 2,385</b>

Pension plan investments using the fair value hierarchy consisted of the following:

December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in millions)			
Interest-bearing cash	\$ —	\$ 2	\$ —	\$ 2
U.S. Government securities	3	—	—	3
Corporate debt	—	138	—	138
Common stock	62	1	—	63
Registered investment companies	56	—	—	56
Value of funds in insurance company accounts	—	39	1	40
Total assets in the fair value hierarchy	\$ 121	\$ 180	\$ 1	\$ 302
Investments measured at NAV				1,906
<b>Total investments</b>				<b>\$ 2,208</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

There were no material changes in Level 3 assets during the year ended December 31, 2017 or the year ended December 31, 2016.

There was no direct ownership of the Company's common stock included in plan assets at any of the periods presented.

*Other Postretirement Benefits.* The Company's other PRB obligations were 91.0% and 88.4% pre-funded at December 31, 2017 and December 31, 2016, respectively.

Portions of the assets are held in a 401(h) account held within the pension master trust and are invested in the same manner as the pension assets. Approximately 52% and 47% of the assets were held in the 401(h) account at December 31, 2017 and December 31, 2016, respectively. The remaining assets are in fixed income investments. The Company's investment objective for the other PRB plan assets is the preservation and safety of capital.

### Contributions

During the year ended December 31, 2017, the Company contributed \$115 million directly to the Orbital ATK pension plans. The Company distributed \$3 million directly to retirees under its supplemental (nonqualified) executive retirement plan and \$3 million to its other PRB plans during the year ended December 31, 2017. The Company is not required to make any contributions to the Orbital ATK pension plans to meet its legally required minimum for 2018. The Company also expects to distribute approximately \$4 million directly to retirees under its supplemental executive retirement plans and to distribute approximately \$4 million to its other postretirement benefit plans in 2018.

### Expected Future Benefit Payments

The following benefit payments, which reflect expected future service, are expected to be paid in the years ending December 31. The pension benefits will be paid primarily out of the pension trust.

	Pension Benefits	Other Postretirement Benefits
	(in millions)	
2018	\$ 225	\$ 8
2019	197	7
2020	200	7
2021	203	7
2022	203	6
2023 through 2027	994	24

### Termination

In the event the Company terminates any of the plans under conditions in which the plan's assets exceed that plan's obligations, U.S. Government regulations require that a fair allocation of any of the plan's assets based on plan contributions that were reimbursed under U.S. Government contracts will be returned to the U.S. Government.

### Defined Contribution Plan

Through December 31, 2015, the Company also sponsored two defined contribution plans - the Alliant Techsystems Inc. 401(k) Plan and the Deferred Salary and Profit Sharing Plan for Employees of Orbital Sciences Corporation (the "Orbital Sciences 401(k) Plan"). Participation in these plans was available to substantially all U.S. employees. Effective January 1, 2016, the Orbital Sciences 401(k) Plan merged into the Alliant Techsystems Inc. 401(k) Plan, and the combined plan's name was changed to the Orbital ATK, Inc. 401(k) Plan.

The Orbital ATK, Inc. 401(k) Plan is a 401(k) plan, with an employee stock ownership ("ESOP") feature. Employees may contribute up to 50% of their pay (highly compensated employees are subject to limitations). Employee contributions are invested, at the employees' direction, among a variety of investment alternatives including a Company common stock fund. Participants may transfer amounts into and out of the investment alternatives at any time, except for the Company common stock fund. Effective January 1, 2013, employees no longer had the option to invest in the Company common stock fund, other than for the reinvestment of dividends paid on the Company

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

common stock in participants' accounts. Balances in the fund prior to January 1, 2013 remain in the fund unless distributed or transferred. Any dividends declared on the Company common stock can be either reinvested within the Company common stock fund or provided as a cash payment.

The Company matching contributions and non-elective contribution to this plan are summarized below:

- a matching contribution of 100% of the first 3% of the participant's contributed pay plus 50% of the next 3% of the participant's contributed pay for most employees (subject to one-year vesting), or
- a matching contribution of 100% of the first 6% of the participant's contributed pay for Technical Services Division employees (subject to one-year vesting), or
- a non-elective contribution based on the recognized compensation, age and service for most employees who are not earning a pension benefit (subject to three-year vesting).

The Company's contributions to the 401(K) plan were \$73 million in the year ended December 31, 2017, \$56 million in the year ended December 31, 2016 and \$41 million in the 2015 transition period. The Company also made a contribution to the 401(k) plan of \$4 million in fiscal 2016 for a prior Orbital Sciences 401(k) Plan annual discretionary profit sharing contribution based on the participant's compensation earned prior to the merger.

### 14. Income Taxes

On December 22, 2017, the Tax Act was signed into law. The Tax Act changes existing United States tax law and includes numerous provisions that will impact the Company, including reducing the corporate tax rate to 21% from 35% for years beginning after December 31, 2017. The Tax Act also introduces prospective changes beginning in 2018, including repeal of the domestic manufacturing deduction, acceleration of tax revenue recognition and additional limitations on executive compensation. The Company is continuing to evaluate the impact of the Tax Act on our business and results of operations.

In accordance with Staff Accounting Bulletin No. 118 ("SAB 118"), which provides SEC staff guidance for the application of ASC Topic 740, Income Taxes, in the reporting period in which the Tax Act was signed into law, the Company recognized the income tax effects of the Tax Act in its 2017 financial statements. The income tax effects of the Tax Act that have been accounted for in 2017 are based on reasonable estimates. If the Company was able to make reasonable estimates for the effects of the Tax Act for which the Company's analysis was not complete, the Company recorded provisional adjustments in accordance with SAB 118.

The Company believes the reduction of the U.S. corporate income tax rate as a result of the Tax Act will have the most significant impact on the Company's federal income taxes. The Company measures deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. The company recognized income tax expense of \$39 million for the year ended December 31, 2017 and a corresponding \$39 million decrease in net deferred tax assets as of December 31, 2017 related to the remeasurement of deferred tax assets and liabilities to reflect the reduction in the U.S. corporate income tax rate from 35% to 21%, both which are complete under SAB 118.

The Company's accounting for the following effects of the Tax Act are not complete: (1) cost recovery, (2) limitation on the deductibility of certain executive compensation, (3) recovery of Alternative Minimum Tax credits and (4) valuation allowances against state tax attribute carryforwards. The Company was able to make reasonable estimates of certain effects and, therefore recorded provisional adjustments for such effects, none of which were material. The Company expects to finalize all provisional and non-estimable amounts within the measurement period as described in SAB 118.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Income Tax Expense

Substantially all of the Company's income from continuing operations before income taxes for the three years ended December 31, 2017 was earned in the United States. The provision for income taxes related to continuing operations for each of the three years ended December 31, 2017 included the following:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Nine Months Ended December 31, 2015
	(in millions)		
<b>Current:</b>			
Federal	\$ 75	\$ 63	\$ 28
State	9	2	2
Non-US	—	4	—
<b>Deferred:</b>			
Federal	72	39	55
State	(4)	3	2
<b>Income taxes</b>	<b>\$ 152</b>	<b>\$ 111</b>	<b>\$ 87</b>

Differences between the federal statutory rate and the Company's effective rate related to the following:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Nine Months Ended December 31, 2015
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal impact	3.3	2.8	2.1
Domestic manufacturing deduction	(1.9)	(2.3)	(1.5)
True-up of prior year taxes	(3.2)	(2.6)	0.1
Research and development tax credit	(9.3)	(12.6)	(5.2)
Change in prior year contingent tax liabilities	(1.3)	0.1	1.0
Impacts related to the 2017 Tax Act	8.4	—	—
Other, net	(0.1)	0.1	(1.2)
Change in valuation allowance	2.1	7.0	1.6
Income tax provision	<b>33.0%</b>	<b>27.5%</b>	<b>31.9%</b>

### Deferred Income Taxes

Deferred income taxes arise because of temporary differences in the timing of the recognition of income and expense items for financial statement reporting and income tax purposes. The net effect of these temporary differences are classified in the consolidated financial statements of financial position as noncurrent assets or liabilities.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Deferred income tax assets and liabilities resulting from temporary differences related to the following:

	December 31,	
	2017	2016
	(in millions)	
<b>Deferred income tax assets:</b>		
Retirement benefits	\$ 169	\$ 271
Federal carryforwards	31	13
State carryforwards	73	50
Other	8	19
Other reserves	10	21
Accruals for employee benefits	25	40
Inventory	13	25
Contract method of revenue recognition	42	80
<b>Total deferred income tax assets before valuation allowance</b>	<b>371</b>	<b>519</b>
Valuation allowance	(62)	(42)
<b>Total deferred income tax assets</b>	<b>309</b>	<b>477</b>
<b>Deferred income tax liabilities:</b>		
Intangible assets	(47)	(86)
Property, plant and equipment	(104)	(127)
Debt-related	(3)	(10)
<b>Total deferred income tax liabilities</b>	<b>(154)</b>	<b>(223)</b>
<b>Net deferred income tax assets</b>	<b>\$ 155</b>	<b>\$ 254</b>

The Company believes it is more likely than not that the recorded deferred benefits will be realized through the reduction of future taxable income. The Company's recorded valuation allowance of \$62 million at December 31, 2017 relates to certain capital loss, tax credits and net operating losses that are not expected to be realized before their expiration.

Included in the net deferred tax asset are net operating loss and credit carryovers of \$35 million, net of valuation allowances, which expire in years ending from December 31, 2018 through December 31, 2038, and a \$9 million federal AMT tax credit that will be utilized or fully refunded prior to 2022.

The following summarizes activity related to valuation allowances for deferred tax assets:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Nine Months Ended December 31, 2015
	(in millions)		
<b>Beginning Balance</b>	\$ 42	\$ 13	\$ 9
Additions, charged to expense	21	37	5
Deductions	(1)	(8)	(1)
<b>Ending Balance</b>	<b>\$ 62</b>	<b>\$ 42</b>	<b>\$ 13</b>

The Company has significant deferred tax assets in the U.S. against which valuation allowances have been established to reduce such deferred tax assets to an amount that is more likely than not to be realized. The establishment of valuation allowances requires significant judgment and is impacted by various estimates. Both positive and negative evidence, as well as the objectivity and verifiability of that evidence, is considered in determining the appropriateness of recording a valuation allowance on deferred tax assets. While the Company believes positive evidence exists with regard to the realizability of these deferred tax assets, it is not considered sufficient to outweigh the objectively verifiable negative evidence.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Unrecognized Tax Benefits

Unrecognized tax benefits consist of the carrying value of the Company's recorded uncertain tax positions as well as the potential tax benefits that could result from other tax positions that have not been recognized in the financial statements under current authoritative guidance. At December 31, 2017 and December 31, 2016, unrecognized tax benefits that have not been recognized in the financial statements amounted to \$137 million and \$121 million, respectively, of which \$125 million and \$106 million, respectively, would affect the effective tax rate, if recognized. The remaining balance is related to deferred tax items which only impact the timing of tax payments. Although the timing and outcome of audit settlements are uncertain, it is reasonably possible that a \$30 million reduction of the uncertain tax benefits will occur in the next 12 months. The settlement of these unrecognized tax benefits could result in earnings from \$0 million to \$27 million.

Changes in unrecognized tax benefits, excluding interest and penalties, were as follows:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Nine Months Ended December 31, 2015
	(in millions)		
<b>Unrecognized tax benefits, beginning of period</b>	\$ 119	\$ 81	\$ 34
Gross increases—tax positions in prior periods	6	30	42
Gross decreases—tax positions in prior periods	(2)	(4)	(1)
Gross increases—current-period tax positions	21	18	6
Settlements	—	(5)	—
Lapse of statute of limitations	(10)	(1)	—
<b>Unrecognized tax benefits, end of period</b>	<u>\$ 134</u>	<u>\$ 119</u>	<u>\$ 81</u>

The Company reports income tax-related interest income within income taxes. Penalties and tax-related interest expense are also reported as a component of income taxes. At December 31, 2017 and December 31, 2016, \$3 million and \$2 million of income tax-related interest and an immaterial amount of penalties were included in accrued income taxes, respectively.

The Company or one of its subsidiaries files income tax returns in the U.S. federal, various U.S. state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or foreign income tax examinations by tax authorities for years prior to 2011. The IRS has completed the audits of the Company through fiscal 2014 and is currently auditing the Company's income tax returns for fiscal year 2015 and calendar year 2015. The Company believes appropriate provisions for all outstanding issues have been made for all remaining open years in all jurisdictions.

### 15. Commitments

The Company leases land, buildings and equipment under various operating leases, which generally have renewal options of one to five years. Rent expense was \$95 million in the year ended December 31, 2017, \$88 million in the year ended December 31, 2016, and \$69 million in the 2015 transition period.

Scheduled operating lease payments are as follows:

	(in millions)
2018	\$ 85
2019	81
2020	67
2021	59
2022	48
Thereafter	60
<b>Total</b>	<u>\$ 400</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As part of the Company's restructuring activities in connection with the Orbital-ATK Merger, certain leased spaces were vacated by the Company. The Company has subleased most of this space and sublease income was not material for the year ended December 31, 2017.

The Company currently leases land from a private party for its facility in Magna, Utah. This facility is used in the production and testing of some of the Company's rocket motors. The current lease extends through September 2022. The lease requires the Company to surrender the property back to its owner in its original condition. While the Company currently anticipates operating this facility indefinitely, the Company could incur significant costs if the Company were to terminate this lease.

The Company has known conditional asset retirement obligations, such as contractual lease restoration obligations, to be performed in the future, that are not reasonably estimable due to insufficient information about the timing and method of settlement of the obligation. Accordingly, these obligations have not been recorded in the consolidated financial statements. A liability for these obligations will be recorded in the period when sufficient information regarding timing and method of settlement becomes available to make a reasonable estimate of the liability's fair value.

### 16. Contingencies

#### *Litigation*

From time to time, the Company is subject to various legal proceedings, including lawsuits, which arise out of, and are incidental to, the conduct of the Company's business. The Company does not consider any of such proceedings that are currently pending, individually or in the aggregate to be material to its business or likely to result in a material adverse effect on its operating results, financial condition or cash flows, notwithstanding that the unfavorable resolution of any matter may have a material effect on net earnings in any particular quarter.

On April 29, 2016, US Space LLC filed a complaint against the Company and its subsidiary, ATK Space Systems Inc. in New York Supreme Court, alleging breach of contract and various other claims, and seeking unspecified damages, all related to ViviSat LLC, a former joint venture between the parties. The Company believes US Space's claims are without merit. On May 27, 2016, the Company filed a countersuit in Loudoun County Circuit Court in the Commonwealth of Virginia (*ATK Space Systems, Inc. and Orbital ATK, Inc. v. U.S. Space LLC, Case No. CL-101847*) asserting claims for declaratory and injunctive relief against US Space LLC relating to ViviSat. The Company's Virginia complaint alleged a failure of US Space to perform contractual obligations relating to obtaining financing for ViviSat, triggering certain rights of the Company that led to the dissolution of the venture. On November 11, 2016, the New York Supreme Court dismissed US Space's New York case in its entirety. On January 6, 2017, US Space filed counterclaims against the Company, similar to its previous claims in its now-dismissed New York lawsuit. US Space's initial counterclaims in the Virginia case sought damages of at least \$125 million, but increased its damages demand to \$385 million in the fourth quarter of 2017. A jury trial is currently ongoing. While the Company continues to believe that US Space's counterclaims are without merit, the amount of the damages sought, if ever awarded, could be material to our cash flows and results of operations.

#### *Securities Class Action*

Seven purported class actions challenging the Merger were filed in the United States District Court for the Eastern District of Virginia, captioned *Lickteig v. Orbital ATK, Inc., et al.*, filed October 11, 2017 (the "Lickteig Action"), *Ayzin v. Orbital ATK, Inc., et al.*, filed October 13, 2017 (the "Ayzin Action"), *Sedon v. Orbital ATK, Inc., et al.*, filed October 16, 2017 (the "Sedon Action"), *Berg v. Orbital ATK, Inc., et al.*, filed October 16, 2017 (the "Berg Action"), *Simnowitz v. Orbital ATK, Inc., et al.*, filed October 18, 2017 (the "Simnowitz Action"), *Cramer v. Orbital ATK, Inc., et al.*, filed October 25, 2017 (the "Cramer Action"), and *Donato v. Orbital ATK, Inc., et al.*, filed on November 7, 2017 (the "Donato Action" and collectively with the Lickteig Action, Ayzin Action, Sedon Action, Berg Action, Simnowitz Action and Cramer Action, the "Actions"). The Actions alleged certain violations of the Securities and Exchange Act of 1934 (the "Exchange Act"), as amended, and sought, among other things, damages, attorneys' fees and injunctive relief to prevent the Merger from closing. While the Company believed that the Actions lacked merit and that the disclosures set forth in the proxy statement complied fully with applicable law, in order to moot plaintiffs' unmeritorious disclosure claims, avoid nuisance and possible expense and provide additional information to our stockholders, the Company determined to voluntarily supplement the proxy statement, as set forth in the Company's Schedule 14A filed with the SEC on November 20, 2017. On November 20, 2017, the Ayzin Action, Sedon Action, Berg Action, Cramer Action and Donato Action were each voluntarily dismissed with prejudice as to the plaintiffs. On

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 8, 2017, the Simnowitz Action was voluntarily dismissed with prejudice as to the plaintiff and on January 12, 2018, the Lickteig Action was voluntarily dismissed with prejudice as to the plaintiff. While each of the Actions have been voluntarily dismissed with prejudice as to the plaintiffs, additional plaintiffs may file lawsuits against the Company and/or its directors and officers in connection with the Merger.

On August 12, 2016, a putative class action complaint, naming the Company, our Chief Executive Officer and our Chief Financial Officer as defendants, was filed in the United States District Court for the Eastern District of Virginia (*Steven Knurr, et al. v. Orbital ATK, Inc., No. 16-cv-01031 (TSE-MSN)*). The class action complaint asserts claims on behalf of purchasers of Orbital ATK securities for violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 thereunder, arising out of allegedly false and misleading statements and the failure to disclose that: (i) the Company lacked effective control over financial reporting; and (ii) as a result, the Company failed to record an anticipated loss on its long-term contract with the U.S. Army to manufacture and supply small caliber ammunition at the U.S. Army's Lake City Army Ammunition Plant. On April 24, 2017 and October 10, 2017, the plaintiffs filed amended complaints naming additional defendants and asserting claims for violations of additional sections of the Exchange Act and alleged false and misleading statements in the Company's Form S-4 filed with the SEC relating to the Orbital-ATK Merger. The complaint seeks an award of damages, an award of reasonable costs and expenses at trial, including counsel and expert fees, and an award of such other relief as deemed appropriate by the Court.

### *SEC Investigation*

The SEC is conducting a non-public investigation relating to our historical accounting practices as a result of the prior restatement of the Company's unaudited condensed consolidated financial statements for the quarterly periods ended July 5, 2015 and October 4, 2015 as described in the Company's Amendment to the Transition Report on Form 10-K for the nine-month transition period ending December 31, 2015 filed with the SEC on March 15, 2016. The Company has also voluntarily self-reported to the SEC regarding matters pertaining to the Restatement described in the Company's Amendment to the Transition Report on Form 10-K for the nine-month transition period ending December 31, 2015 filed on February 24, 2017. The Company is cooperating fully with the SEC in connection with these matters.

### *U.S. Government Investigations*

The Company is also subject to U.S. Government investigations from which civil, criminal or administrative proceedings could result. Such proceedings could involve claims by the U.S. Government for fines, penalties, compensatory and treble damages, restitution and/or forfeitures. Under government regulations, a company, or one or more of its operating divisions or subdivisions, can also be suspended or debarred from government contracts, or lose its export privileges, based on the results of investigations. The Company believes, based upon all available information, that the outcome of any such pending government investigations will not have a material adverse effect on its operating results, financial condition or cash flows.

### *Claim Recovery*

Profits expected to be realized on contracts are based on management's estimates of total contract sales value and costs at completion. Estimated amounts for contract changes and claims are included in contract sales only when realization is estimated to be probable. Unbilled receivables included \$17 million and \$18 million as of December 31, 2017 and December 31, 2016, respectively, for contract claims based on progress to date on certain contracts.

### *Environmental Liabilities*

The Company's operations and ownership or use of real property are subject to a number of federal, state and local environmental laws and regulations, as well as applicable foreign laws and regulations, including those for discharge of hazardous materials, remediation of contaminated sites and restoration of damage to the environment. At certain sites that the Company owns or operates or formerly owned or operated, there is known or potential contamination that the Company is required to investigate or remediate. The Company could incur substantial costs, including remediation costs, resource restoration costs, fines and penalties, or third party property damage or personal injury claims, as a result of liabilities associated with past practices or violations of environmental laws or non-compliance with environmental permits.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company has been identified as a potentially responsible party ("PRP"), along with other parties, in several regulatory agency actions associated with hazardous waste sites. As a PRP, the Company may be required to pay a share of the costs of the investigation and clean-up of these sites. While uncertainties exist with respect to the amounts and timing of the ultimate environmental liabilities, based on currently available information, the Company has concluded that these matters, individually or in the aggregate, will not have a material adverse effect on operating results, financial condition or cash flows.

The Company could incur substantial costs, including cleanup costs, resource restoration, fines and penalties or third-party property damage or personal injury claims, as a result of violations or liabilities under environmental laws or non-compliance with environmental permits. While environmental laws and regulations have not had a material adverse effect on the Company's operating results, financial condition or cash flows in the past, and the Company has environmental management programs in place to mitigate these risks, it is difficult to predict whether they will have a material impact in the future.

The liability for environmental remediation represents management's best estimate of the probable and reasonably estimable costs related to known remediation obligations. The receivable represents the amount that the Company expects to recover, as discussed below.

The following is a summary of the amounts recorded for environmental remediation:

	December 31, 2017		December 31, 2016	
	Liability	Receivable	Liability	Receivable
	(in millions)			
Current	\$ 5	\$ 3	\$ 6	\$ 3
Noncurrent	28	10	35	15
Total	\$ 33	\$ 13	\$ 41	\$ 18

At December 31, 2017, the estimated range of reasonably possible costs of environmental remediation was \$33 million to \$59 million.

The Company expects that a portion of its environmental compliance and remediation costs will be recoverable under U.S. Government contracts. Some of the remediation costs that are not recoverable from the U.S. Government that are associated with facilities purchased in a business acquisition may be covered by various indemnification agreements, as described below.

- As part of its acquisition of the Hercules Aerospace Company in fiscal 1995, the Company generally assumed responsibility for environmental compliance at the facilities acquired from Hercules ("the Hercules Facilities"). The Company believes that a portion of the compliance and remediation costs associated with the Hercules Facilities will be recoverable under U.S. Government contracts. If the Company were unable to recover those environmental remediation costs under these contracts, the Company believes that these costs will be covered by Hercules Incorporated, a subsidiary of Ashland Inc., ("Hercules") under environmental agreements entered into in connection with the Hercules acquisition. Under these agreements, Hercules has agreed to indemnify the Company for environmental conditions relating to releases or hazardous waste activities occurring prior to the Company's purchase of the Hercules Facilities as long as they were identified in accordance with the terms of the agreement; fines relating to pre-acquisition environmental compliance; and environmental claims arising out of breaches of Hercules' representations and warranties. Hercules is not required to indemnify the Company for any individual claims below \$50 thousand. Hercules is obligated to indemnify the Company for the lowest cost response of remediation required at the facility that is acceptable to the applicable regulatory agencies. The Company is not responsible for conducting any remedial activities with respect to the Clearwater, FL facility. In accordance with its agreement with Hercules, the Company notified Hercules of all known contamination on non-federal lands on or before March 31, 2000, and on federal lands on or before March 31, 2005.
- The Company generally assumed responsibility for environmental compliance at the Thiokol Facilities acquired from Alcoa Inc. ("Alcoa") in fiscal 2002. The Company expects that a portion of the compliance and remediation costs associated with the acquired Thiokol Facilities will be recoverable under U.S. Government contracts. In accordance with its agreement with Alcoa, the Company notified Alcoa of all



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

known environmental remediation issues at January 30, 2004. Of these known issues, the Company is responsible for any costs not recovered through U.S. Government contracts at the Thiokol Facilities up to \$14 million, the Company and Alcoa have agreed to split evenly any amounts between \$14 million and \$34 million, and the Company is responsible for any payments in excess of \$34 million. At this time, the Company believes that costs not recovered through U.S. Government contracts will be immaterial.

The Company cannot ensure that the U.S. Government, Hercules, Alcoa, or other third parties will reimburse it for any particular environmental costs or reimburse the Company in a timely manner or that any claims for indemnification will not be disputed. U.S. Government reimbursements for cleanups are financed out of a particular agency's operating budget and the ability of a particular governmental agency to make timely reimbursements for cleanup costs will be subject to national budgetary constraints. The Company's failure to obtain full or timely reimbursement from the U.S. Government, Hercules, Alcoa, or other third parties could have a material adverse effect on its operating results, financial condition or cash flows. While the Company has environmental management programs in place to mitigate these risks, and environmental laws and regulations have not had a material adverse effect on the Company's operating results, financial condition or cash flows in the past, it is difficult to predict whether they will have a material impact in the future.

In December 2001, the Company received notice from the State of Utah of a potential claim against the Company under Section 107(f) of the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") for natural resource damages at Bacchus, one of the Hercules Facilities, in Magna, Utah. The notice letter, which was issued to preserve the State's rights under CERCLA, also expressly acknowledged the State's willingness to allow the Company to go forward with its currently-planned monitoring and remediation program. The State's preliminary estimate of damages contained in this claim was \$139 million, which is based on known and alleged groundwater contamination at and near Bacchus and is related to Hercules' manufacturing operations at the site. The Company received similar notices related to the Promontory facility that was acquired from Alcoa in the acquisition of Thiokol and Kennecott's Section 21 Well Field due to the presence of perchlorate. Although the Company has previously made accruals for its best estimate of the probable and reasonably estimable costs related to the remediation obligations known to the Company with respect to the affected areas, the Company cannot yet predict if or when a suit may be filed against it, nor can the Company determine any additional costs that may be incurred in connection with this matter.

Expected aggregate undiscounted environmental remediation payments, net of expected recoveries, are as follows:

	(in millions)
2018	\$ 2
2019	1
2020	—
2021	2
2022	2
Thereafter	13
<b>Total</b>	<b>\$ 20</b>

There were no material insurance recoveries related to environmental remediation during any of the periods presented.

### 17. Stock-Based Compensation

The Company has authorized 5,000,000 shares of preferred stock, par value \$1.00, none of which has been issued.

During the year ended December 31, 2017, the Company sponsored five stock-based incentive plans, including: the Orbital ATK, Inc. 2015 Stock Incentive Plan (the "2015 Stock Incentive Plan"); three legacy ATK plans (the Alliant Techsystems Inc. 2005 Stock Incentive Plan, the Non-Employee Director Restricted Stock Plan and the 1990 Equity Incentive Plan); and one legacy Orbital plan, under which the Company assumed the obligation to issue Company common stock pursuant to the terms of the transaction agreement ("the Transaction Agreement") relating to the Orbital-ATK Merger (the Orbital Sciences Corporation 2005 Amended and Restated Stock Incentive Plan). At December 31, 2017, the Company has authorized up to 3,750,000 common shares under the 2015 Stock Incentive

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Plan, of which 2,084,273 common shares are available to be granted. No new grants will be made out of the other four plans.

During the year ended December 31, 2016, the Company adopted an Employee Stock Purchase Plan ("ESPP") whereby eligible employees may purchase shares of the Company's common stock at the lesser of 85% of the fair market value of a share of common stock at the beginning or at the end of the quarterly offering period. The ESPP is compensatory and the fair value of the shares purchased is determined using the Black-Scholes option pricing model. As of December 31, 2017, the Company had authorized up to 2,000,000 common shares, of which 1,781,318 shares of common shares were available for purchase under the ESPP. The Company recognized \$2 million and \$1 million of ESPP expense during the year ended December 31, 2017 and 2016, respectively. In connection with the Merger, the ESPP has been suspended as of October 1, 2017.

There are four types of awards outstanding under the Company's stock incentive plans: performance awards, total stockholder return performance awards ("TSR awards"), restricted stock and stock options. The Company issues treasury shares upon (i) the vesting of performance awards, TSR awards and restricted stock units, (ii) the grant of restricted stock, and (iii) the exercise of stock options.

The Company's nonvested stock-based compensation awards activity was as follows:

	Performance Share and TSR Awards	Restricted Stock Units	Restricted Stock Awards	Combined Weighted Average Grant Date Fair Value
Nonvested, March 31, 2015	160,530	500,939	212,635	\$ 77.02
Granted	2,976	—	86,108	74.88
Canceled/forfeited	(5,374)	(10,908)	(9,914)	80.88
Vested	(333)	(191,084)	(17,806)	43.87
Nonvested, December 31, 2015	157,799	298,947	271,023	\$ 75.57
Granted	153,888	—	176,800	80.14
Canceled/forfeited	(706)	(2,933)	(7,720)	78.73
Vested	—	(193,687)	(128,854)	64.68
Nonvested, December 31, 2016	310,981	102,327	311,249	\$ 82.31
Granted	118,786	—	161,207	99.55
Canceled/forfeited	(12,137)	(1,016)	(9,356)	84.74
Vested	—	(101,311)	(156,190)	92.80
Nonvested, December 31, 2017	417,630	—	306,910	\$ 88.54

In the table above, the fair value of vested stock awards was \$26 million, \$28 million and \$15 million for shares that vested during the year ended December 31, 2017, the year ended December 31, 2016 and the 2015 transition period, respectively.

*Performance Awards.* There were performance shares reserved for executive officers and key employees. Performance shares are valued at the fair value of the Company's stock as of the grant date and expense is recognized based on the number of shares expected to vest according to the terms of the awards under which they are granted. Of these performance shares outstanding:

- up to 58,506 will become payable upon achievement of financial performance goals relating to absolute sales growth and return on investment of capital for the performance period beginning January 1, 2017 and ending December 31, 2019; and
- up to 71,074 will become payable upon achievement of financial performance goals relating to absolute sales growth and return on investment of capital for the performance period beginning January 1, 2016 and ending December 31, 2018; and
- up to 79,235 will become payable upon achievement of financial performance goals relating to absolute earnings per share growth and absolute sales growth for the performance period beginning April 1, 2015 and ending December 31, 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*TSR Awards.* There were 208,815 shares outstanding reserved for executive officers and key employees for the fiscal year 2017-2019, 2016-2018 and 2015-2017 performance periods. The Company used an integrated Monte Carlo simulation model to determine the fair value of the TSR awards. The Monte Carlo model calculates the probability of satisfying the market conditions stipulated in the award. This probability is an input into the trinomial lattice model used to determine the fair value of the awards as well as the assumptions of other variables, including the risk-free interest rate and expected volatility of the peer average and the Company's stock price in future periods. The risk-free rate is based on the zero-coupon U.S. Treasury bill with a remaining term that approximates the life assumed at the date of grant.

Weighted-average assumptions used in estimating the value of the TSR award were as follows:

	<u>Year Ended December 31, 2017</u>	<u>Year Ended December 31, 2016</u>	<u>Nine Months Ended December 31, 2015</u>
Risk-free rate	1.42%	1.00%	1.02%
Expected volatility	26.77%	25.39%	22.81%
Expected dividend yield	1.28%	1.51%	1.78%
Expected award life	2.8 years	2.8 years	2.8 years
Weighted average grant date fair value	\$ 115.26	\$ 87.85	\$ 94.93

*Restricted Stock Units.* Pursuant to the terms of the Transaction Agreement and under the terms of the ATK 2005 Stock Incentive Plan, all of the performance awards and TSR awards outstanding at February 9, 2015 were converted into time-vesting restricted stock units in connection with the Distribution, with vesting periods corresponding to the respective performance periods. During the year ended December 31, 2017, 53,449 shares of restricted stock units vested for the performance period ending March 31, 2017. Pursuant to the terms of the Transaction Agreement, the Company also assumed the obligation to issue Company common stock from the legacy Orbital plan. At December 31, 2017, there were no restricted stock units outstanding under the legacy Orbital plan as 47,862 shares of restricted stock units vested and 1,016 shares were forfeited during the year ended December 31, 2017.

*Restricted Stock Awards.* Restricted stock granted to non-employee directors and certain key employees vests over periods generally ranging from one to three years from the date of award and is valued at the fair value of the Company's common stock at the grant date.

*Stock Options.* Stock options may be granted periodically, with an exercise price equal to the fair market value of the Company's common stock on the date of grant, and generally vest from one to three years from the date of grant. Options are generally granted with seven-year or ten-year terms.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company's stock option activity was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (per option)
<b>Outstanding, March 31, 2015</b>	354,730	\$ 41.83	7.8	\$ 34.80
Granted	1,443	73.13		
Exercised	(122,893)	30.90		
<b>Outstanding, December 31, 2015</b>	233,280	\$ 47.79	7.7	\$ 41.55
Granted	72,328	79.43		
Exercised	(33,629)	29.93		
<b>Outstanding, December 31, 2016</b>	271,979	\$ 58.41	7.6	\$ 29.32
Granted	58,434	93.51		
Exercised	(84,544)	41.52		
<b>Outstanding, December 31, 2017</b>	245,869	\$ 72.56	7.6	\$ 58.94
<b>Options exercisable at:</b>				
December 31, 2017	114,364	\$ 59.07	6.6	\$ 72.43
<b>Options expected to vest:</b>				
December 31, 2017	131,505	\$ 84.30	8.4	\$ 47.20

The weighted-average fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The option pricing model requires the Company to make assumptions. The risk-free rate is based on U.S. Treasury securities with a remaining term that approximates the expected life assumed at the date of grant. Expected volatility is based on the historical volatility of peer companies' stock over the past six years. The expected option life was derived based on the "simplified" method under Staff Accounting Bulletins No. 107, "Share-Based Payment," as amended by Staff Accounting Bulletin No. 110 because of the Company's short history since the Orbital-ATK Merger and Distribution. The weighted-average fair value of options granted was \$24.47, \$20.53 and \$20.80 during the year ended December 31, 2017, the year ended December 31, 2016 and the 2015 transition period, respectively.

Weighted-average assumptions used in estimating the value of the stock option grants were as follows:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Nine Months Ended December 31, 2015
Risk-free rate	1.96%	1.62%	1.99%
Expected volatility	28.19%	26.89%	27.91%
Expected dividend yield	1.35%	1.36%	1.17%
Expected option life	6 years	7 years	7 years

The total intrinsic value of options exercised was \$6 million, \$2 million and \$5 million during the year ended December 31, 2017, the year ended December 31, 2016, and the 2015 transition period, respectively. The tax benefit realized from stock options exercised was \$1 million for the year ended December 31, 2017 and was immaterial for the year ended December 31, 2016 and the 2015 transition period. Total cash received from options exercised during the year ended December 31, 2017, the year ended December 31, 2016 and the 2015 transition period was \$4 million, \$1 million, and \$4 million, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Total pre-tax stock-based compensation expense of \$21 million, \$20 million and \$19 million was recognized during the year ended December 31, 2017, the year ended December 31, 2016 and the 2015 transition period, respectively. The total income tax benefit recognized in the statement of operations for share-based compensation was \$8 million, \$7 million and \$8 million during the year ended December 31, 2017, the year ended December 31, 2016 and the 2015 transition period, respectively.

At December 31, 2017, the total unrecognized compensation cost related to nonvested stock-based compensation awards was \$25 million and is expected to be realized over a weighted average period of 1.7 years.

### Share Repurchases

Shares of the Company's common stock may be purchased in the open market, subject to compliance with applicable laws and regulations and the Company's debt covenants, depending upon market conditions and other factors. During 2016, the Board of Directors authorized an increase to the amount for repurchase of the Company's common stock to the lesser of \$300 million or 4 million shares and extended the repurchase period through March 31, 2017. In February 2017, the Board of Directors further increased the amount authorized for repurchase to \$450 million, removed the share quantity limitation, and extended the repurchase period through March 31, 2018. In connection with the Merger, the Company halted its share repurchase program.

The Company repurchased 230,918 shares for \$23 million during the year ended December 31, 2017, 1,570,333 shares for \$124 million in the year ended December 31, 2016, and 1,008,445 shares for \$76 million in the 2015 transition period.

### 18. Operating Segment Information

The Company operates its business structure within three operating segments. These operating segments ("Groups") are defined based on the reporting and review process used by the Company's chief executive officer and other management. The operating structure aligns the Company's capabilities and resources with its customers and markets and positions the Company for long-term growth and improved profitability. At December 31, 2017, the Company's three operating groups were:

- Flight Systems Group develops launch vehicles that are used as small- and medium-class space launch vehicles to place satellites into earth orbit and escape trajectories, interceptor and target vehicles for missile defense systems and suborbital launch vehicles that place payloads into a variety of high-altitude trajectories. The Group also develops and produces medium- and large-class rocket propulsion systems for human and cargo launch vehicles, strategic missiles, missile defense interceptors and target vehicles. Additionally, Flight Systems Group operates in the military and commercial aircraft and launch structures markets.
- Defense Systems Group develops and produces military small-, medium- and large-caliber ammunition, propulsion systems for tactical missiles and missile defense applications, strike weapons, precision weapons and munitions, high-performance gun systems, aircraft survivability systems, fuzes and warheads, energetic materials and special mission aircraft.
- Space Systems Group develops and produces small- and medium-class satellites that are used to enable global and regional communications and broadcasting, conduct space-related scientific research, and perform activities related to national security. In addition, Space Systems Group develops and produces human-rated space systems for earth orbit and deep space exploration, including cargo delivery to the International Space Station. This group is also a provider of spacecraft components and subsystems as well as specialized engineering and operations services to U.S. Government agencies.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company derives the majority of its sales from contracts with, and prime contractors to, the U.S. Government. Sales to the U.S. Government and U.S. Government prime contractors were as follows:

	<b>U.S. Government Sales</b>	<b>Percentage of sales</b>
	(in millions)	
Year ended December 31, 2017	\$ 3,489	73%
Year ended December 31, 2016	\$ 3,368	76%
Nine months ended December 31, 2015	\$ 2,359	70%

The CRS contracts with NASA, which are reported within Flight Systems Group and Space Systems Group, comprised 9%, 13% and 10% of total sales in the year ended December 31, 2017, the year ended December 31, 2016 and the 2015 transition period, respectively.

The Company's small-caliber ammunition contract with the U.S. Army, which is reported within Defense Systems Group, comprised 5%, 6% and 6% of total sales in the year ended December 31, 2017, the year ended December 31, 2016 and the 2015 transition period, respectively.

No single commercial customer accounted for more than 10% of the Company's sales in the year ended December 31, 2017, the year ended December 31, 2016 or the 2015 transition period, respectively.

The Company's international sales were \$878 million in the year ended December 31, 2017, \$778 million in the year ended December 31, 2016, and \$766 million in the 2015 transition period. Sales to no individual country outside the United States accounted for more than 5%, 4% or 4% of the Company's sales in the year ended December 31, 2017, the year ended December 31, 2016 and the 2015 transition period, respectively. Substantially all of the Company's assets are held in the United States.

Operating results and total assets by segment were as follows:

	Year Ended December 31, 2017				
	Flight Systems Group	Defense Systems Group	Space Systems Group	Corporate	Total
	(in millions)				
<b>Sales:</b>					
External customers	\$ 1,669	\$ 1,952	\$ 1,143	\$ —	\$ 4,764
Intercompany	12	16	141	(169)	—
Total	\$ 1,681	\$ 1,968	\$ 1,284	\$ (169)	\$ 4,764
Income (loss) before interest, income taxes and noncontrolling interest	\$ 211	\$ 193	\$ 142	\$ (17)	\$ 529
Capital expenditures	\$ 73	\$ 34	\$ 34	\$ 104	\$ 245
Depreciation	\$ 59	\$ 18	\$ 36	\$ 5	\$ 118
Amortization of intangibles	\$ —	\$ 1	\$ —	\$ 36	\$ 37
Total assets	\$ 2,262	\$ 1,337	\$ 1,256	\$ 811	\$ 5,666

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Year Ended December 31, 2016

	Flight Systems Group	Defense Systems Group	Space Systems Group	Corporate	Total
	(in millions)				
<b>Sales:</b>					
External customers	\$ 1,483	\$ 1,804	\$ 1,168	\$ —	\$ 4,455
Intercompany	13	19	70	(102)	—
Total	<u>\$ 1,496</u>	<u>\$ 1,823</u>	<u>\$ 1,238</u>	<u>\$ (102)</u>	<u>\$ 4,455</u>
Income (loss) before interest, income taxes and noncontrolling interest	\$ 204	\$ 172	\$ 129	\$ (33)	\$ 472
Capital expenditures	\$ 78	\$ 44	\$ 56	\$ 9	\$ 187
Depreciation	\$ 54	\$ 18	\$ 31	\$ 13	\$ 116
Amortization of intangibles	\$ —	\$ 1	\$ —	\$ 42	\$ 43
Total assets	\$ 2,208	\$ 1,228	\$ 1,280	\$ 702	\$ 5,418

### Nine Months Ended December 31, 2015

	Flight Systems Group	Defense Systems Group	Space Systems Group	Corporate	Total
	(in millions)				
<b>Sales:</b>					
External customers	\$ 1,115	\$ 1,314	\$ 962	\$ —	\$ 3,391
Intercompany	27	6	15	(48)	—
Total	<u>\$ 1,142</u>	<u>\$ 1,320</u>	<u>\$ 977</u>	<u>\$ (48)</u>	<u>\$ 3,391</u>
Income (loss) from continuing operations, before interest, income taxes and noncontrolling interest	\$ 197	\$ 126	\$ 67	\$ (57)	\$ 333
Capital expenditures	\$ 48	\$ 23	\$ 31	\$ 3	\$ 105
Depreciation	\$ 39	\$ 15	\$ 24	\$ 11	\$ 89
Amortization of intangibles	\$ —	\$ 1	\$ —	\$ 32	\$ 33
Total assets	\$ 2,224	\$ 1,184	\$ 1,273	\$ 643	\$ 5,324

Certain administrative functions are primarily managed by the Company at the corporate headquarters ("Corporate"). Some examples of such functions are human resources, pension and postretirement benefits, corporate accounting, legal, tax, treasury and certain strategic growth initiatives. Significant assets and liabilities managed at Corporate include those associated with debt, restructuring, pension and postretirement benefits, environmental liabilities, litigation liabilities, strategic growth costs and income taxes.

Costs related to the administrative functions managed by Corporate are either recorded at Corporate or allocated to the segments based on the nature of the expense. The difference between pension and postretirement benefit expense calculated under U.S. GAAP and the expense calculated under U.S. Cost Accounting Standards is recorded at the corporate level which provides for greater clarity on the operating results of the business segments. Administrative expenses such as corporate accounting, legal and treasury costs are allocated out to the business segments. Transactions between segments are recorded at the segment level, consistent with the Company's financial accounting policies. Intercompany balances and transactions involving different segments are eliminated at the Company's consolidated financial statements level and are shown above in Corporate. The amortization expense related to purchase accounting attributed to the acquisition of Orbital is also recorded in Corporate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19. Transition Period Comparative Data

The following table presents certain financial information for the nine months ended December 31, 2015 and December 28, 2014 respectively:

(in millions, except per share data)	Nine Months Ended	
	December 31, 2015	December 28, 2014 (unaudited)
Sales	\$ 3,391	\$ 2,142
Gross profit	\$ 674	\$ 478
Income from continuing operations	\$ 185	\$ 109
Income from discontinued operations	\$ 1	\$ 108
Net income attributable to Orbital ATK, Inc.	\$ 186	\$ 217
Basic earnings per common share		
Income from continuing operations	\$ 3.12	\$ 3.44
Income from discontinued operations	0.02	3.42
Net income attributable to Orbital ATK, Inc.	\$ 3.14	\$ 6.86
Diluted earnings per common share		
Income from continuing operations	\$ 3.09	\$ 3.37
Income from discontinued operations	0.02	3.34
Net income attributable to Orbital ATK, Inc.	\$ 3.11	\$ 6.71

Note: earnings per share amounts may not recalculate due to rounding.

### 20. Quarterly Financial Data (unaudited)

(in millions, except per share data)	For the Year Ended December 31, 2017			
	Quarter Ended			
	April 2,	July 2,	October 1,	December 31,
Sales	\$ 1,085	\$ 1,115	\$ 1,216	\$ 1,348
Gross profit	\$ 229	\$ 267	\$ 275	\$ 294
Net income attributable to Orbital ATK, Inc.	\$ 66	\$ 88	\$ 94	\$ 62
Basic earnings per common share <sup>(1)</sup>	\$ 1.16	\$ 1.52	\$ 1.65	\$ 1.07
Diluted earnings per common share <sup>(1)</sup>	\$ 1.15	\$ 1.51	\$ 1.64	\$ 1.06
Weighted-average common shares outstanding	57.33	57.41	57.31	57.38
Weighted-average diluted shares outstanding	57.78	57.73	57.76	57.97
Cash dividends per common share:				
Declared	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32
Paid	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in millions, except per share data)	For the Year Ended December 31, 2016			
	Quarter Ended			
	April 3,	July 3,	October 2,	December 31,
Sales	\$ 1,056	\$ 1,084	\$ 1,043	\$ 1,272
Gross profit	\$ 227	\$ 280	\$ 210	\$ 268
Net income attributable to Orbital ATK, Inc.	\$ 77	\$ 91	\$ 60	\$ 65
Basic earnings per common share <sup>(1)</sup>	\$ 1.33	\$ 1.56	\$ 1.04	\$ 1.12
Diluted earnings per common share <sup>(1)</sup>	\$ 1.31	\$ 1.55	\$ 1.04	\$ 1.11
Weighted-average common shares outstanding	58.30	58.19	57.93	57.30
Weighted-average diluted shares outstanding	58.88	58.64	58.26	57.69
Cash dividends per common share:				
Declared	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.30
Paid	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.30

<sup>(1)</sup> Quarterly earnings per common share amounts may not total to annual earnings per common share amounts because quarterly and annual earnings per share are calculated separately based on earnings and basic and diluted weighted-average common shares outstanding during the respective periods.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### ITEM 9A. CONTROLS AND PROCEDURES

#### Disclosure Controls and Procedures

The Company has established disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) to ensure that information required to be disclosed by the Company in reports that the Company files or submits under the Securities Exchange Act of 1934 is accurately recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports the Company files or submits is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2017. Based upon this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2017.

#### Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The assessment of the effectiveness of the Company's internal control over financial reporting was based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Management of the Company has assessed the effectiveness of the Company's internal control

over financial reporting as of December 31, 2017 and concluded that the Company's internal control over financial reporting was effective as of December 31, 2017.

Deloitte & Touche LLP issued an attestation report dated February 21, 2018, concerning the Company's internal control over financial reporting, which is contained in this Annual Report.

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

During the quarter ended December 31, 2017, there were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) other than changes related to the remediation of the material weakness below, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **Remediation Efforts to Address Material Weakness**

Management previously identified and disclosed a material weakness in internal control over financial reporting related to designing and maintaining controls associated with the preparation, review and approval of costs incurred and contract estimates used to determine revenue at the Small Caliber Systems division. During the quarter ended December 31, 2017, the Company completed the remediation of this material weakness.

#### **ITEM 9B. OTHER INFORMATION**

None.

### **PART III\***

**\* Note: Part III of the Company's Form 10-K has been omitted from this Annual Report. The Company's Form 10-K, including the full text of Part III, is available from the SEC's website at [www.sec.gov](http://www.sec.gov) or the Company's website at [www.orbitalatk.com](http://www.orbitalatk.com).**



## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

#### (a) Documents filed as part of this Report

##### 1. Financial Statements

The following is a list of all of the Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of Part II.

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##### 2. Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission have been omitted because of the absence of the conditions under which they are required or because the information required is shown in the financial statements or notes thereto.

##### 3. Exhibits

#### ORBITAL ATK, INC.

#### FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2017

#### EXHIBIT INDEX

The following exhibits are filed electronically with this report unless the exhibit number is followed by an asterisk (\*), in which case the exhibit is incorporated by reference from the document listed. The applicable Securities and Exchange Commission File Number is 1-10582 unless otherwise indicated. Exhibit numbers followed by a pound sign (#) identify exhibits that are either a management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K. Excluded from this list of exhibits, pursuant to Paragraph (b) (4) (iii) (A) of Item 601 of Regulation S-K, may be one or more instruments defining the rights of holders of long-term debt of the Registrant. The Registrant hereby agrees that it will, upon request of the Securities and Exchange Commission, furnish to the Commission a copy of any such instrument.

<u>Exhibit Number</u>	<u>Description of Exhibit (and document from which incorporated by reference, if applicable)</u>
2.1*	Transaction Agreement, dated at April 28, 2014 among ATK, Vista SpinCo Inc., Vista Merger Sub Inc. and Orbital Sciences (Exhibit 2.1 to Form 8-K dated April 28, 2014).
2.2*	Agreement and Plan of Merger, dated as of September 17, 2017 among Northrop Grumman Corporation, Neptune Merger, Inc. and the Registrant (Exhibit 2.1 to Form 8-K dated September 17, 2017).
3(i).1*	Restated Certificate of Incorporation of the Registrant, effective August 3, 2016 (Exhibit 3(i).1 to Form 10-Q for the quarter ended October 2, 2016).
3(ii).1*	Amended and Restated Bylaws of the Registrant, Effective August 9, 2017 (Exhibit 3.1 to Form 8-K dated August 9, 2017).
4.1.1*	Indenture, dated at November 1, 2013, among the Registrant, the subsidiary guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as trustee (Exhibit 4.1 to Form 8-K dated November 1, 2013).
4.1.2*	Supplemental Indenture, dated at November 1, 2013, among the Registrant, the subsidiary guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as trustee (Exhibit 4.2 to Form 8-K dated November 1, 2013).

Exhibit Number	Description of Exhibit (and document from which incorporated by reference, if applicable)
4.1.3*	Second Supplemental Indenture, dated at February 20, 2015, among the Registrant, the subsidiary guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as trustee (Exhibit 4.1.3 to the Form 10-K for the year ended March 31, 2015 (the "Fiscal 2015 Form 10-K")).
4.1.4*	Form of 5.25% Senior Notes due 2021 (Exhibit A to Exhibit 4.1 to Form 8-K dated November 1, 2013).
4.1.5*	Registration Rights Agreement, dated November 1, 2013, by and among the Registrant, the subsidiaries of the Registrant party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the several initial purchasers named therein (Exhibit 4.4 to Form 8-K dated November 1, 2013).
4.2.1*	Indenture, dated as of September 29, 2015, among the Registrant, the subsidiary guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as trustee (Exhibit 4.1 to Form 8-K dated September 29, 2015).
4.2.2*	Form of 5.50% Senior Notes due 2023 (Exhibit A to Exhibit 4.1 to Form 8-K dated September 29, 2015).
4.2.3*	Registration Rights Agreement, dated September 29, 2015, by and among the Registrant, the subsidiaries of the Registrant party thereto and Wells Fargo Securities, LLC, as representative of the several initial purchasers named therein (Exhibit 4.3 to Form 8-K dated September 29, 2015).
10.1*	Credit Agreement, dated as of September 29, 2015, by and among the Registrant, as Borrower, the subsidiaries of the Borrower party thereto as Guarantors, the Lenders party thereto, Wells Fargo Bank, National Association, as Administrative Agent, Wells Fargo Bank, National Association, Citibank, N.A., Bank of America, N.A., JPMorgan Chase Bank, N.A., U.S. Bank, National Association and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Issuing Lenders, Wells Fargo Bank, National Association and U.S. Bank, National Association, as Swingline Lenders, Wells Fargo Securities, LLC, CitiGroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC, U.S. Bank, National Association, The Bank of Tokyo-Mitsubishi UFJ, Ltd., and SunTrust Robinson Humphrey, Inc., as Joint Lead Arrangers and Joint Bookrunners, CitiGroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC, as Co-Syndication Agents, and U.S. Bank, National Association, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and SunTrust Bank, as Co-Documentation Agents (Exhibit 10.1 to Form 8-K dated September 29, 2015).
10.2*	Security and Pledge Agreement, dated as of September 29, 2015, among the Registrant, the other Obligors party thereto and Wells Fargo Bank, National Association, as Administrative Agent (Exhibit 10.2 to Form 8-K dated September 29, 2015).
10.3*	Tax Matters Agreement, dated at February 9, 2015, between the Registrant and Vista Outdoor Inc (Exhibit 10.1 to Form 8-K dated February 9, 2015).
10.4.1*	Purchase and Sale Agreement, dated at October 28, 1994, between the Registrant and Hercules Incorporated (the "Purchase Agreement"), including certain exhibits and certain schedules and a list of schedules and exhibits omitted (Exhibit 2 to Form 8-K dated October 28, 1994).
10.4.2*	Master Amendment to Purchase Agreement, dated at March 15, 1995, between the Registrant and Hercules Incorporated, including exhibits (Exhibit 2.2 to Form 8-K dated March 15, 1995).
10.5.1*	Environmental Agreement, dated at October 28, 1994, between the Registrant and Hercules Incorporated (Exhibit 10.2.1 to the Form 10-K for the year ended March 31, 2003 (the "Fiscal 2003 Form 10-K")).
10.5.2*	Amendment to Environmental Agreement, dated March 15, 1995 (Exhibit 10.2.2 to the Fiscal 2003 Form 10-K).
10.6*#	Form of Indemnification Agreement between the Registrant and its directors and officers (Exhibit 10.5 to the Fiscal 2015 Form 10-K).
10.7*#	Description of Non-Employee Directors' Cash and Equity Compensation, effective August 10, 2017 ("Director Compensation - Summary Compensation Information" of Item 11, Executive Compensation of Part III of this Form 10-K for the year ended December 31, 2017).

<b>Exhibit Number</b>	<b>Description of Exhibit (and document from which incorporated by reference, if applicable)</b>
10.8*#	Non-Employee Director Stock Program (as amended and restated August 10, 2017) under the Orbital ATK, Inc. 2015 Stock Incentive Plan (Exhibit 10.2 to Form 10-Q for the quarter ended October 1, 2017).
10.9.1*#	Non-Employee Director Restricted Stock Award and Stock Deferral Program (as amended and restated October 30, 2007) Under the Alliant Techsystems Inc. 2005 Stock Incentive Plan (Exhibit 10.1 to Form 8-K dated October 29, 2007).
10.9.2*#	Amendment No. 1 (effective July 31, 2013) to Non-Employee Director Restricted Stock Award and Stock Deferral Program (as amended and restated October 30, 2007) Under the Alliant Techsystems Inc. 2005 Stock Incentive Plan (Exhibit 10.1 to the Form 10-Q for the quarter ended June 30, 2013).
10.10*#	Amended and Restated Non-Employee Director Restricted Stock Plan, Amended and Restated at October 30, 2007 (Exhibit 10.3 to Form 8-K dated October 29, 2007).
10.11*#	Deferred Fee Plan for Non-Employee Directors, as amended and restated October 30, 2007 (Exhibit 10.2 to Form 8-K dated October 29, 2007).
10.12*#	Orbital ATK Inc. Executive Officer Incentive Plan (as of May 3, 2016) (Exhibit 10.1 to Form 8-K dated May 3, 2016).
10.13.1*#	Orbital ATK, Inc. 2015 Stock Incentive Plan (Exhibit 4.2 to the Registration Statement on Form S-8 (File No. 333-206123 filed August 6, 2015).
10.13.2*#	Form of Non-Qualified Stock Option Award Agreement (Installment Vesting) under the Orbital ATK, Inc. 2015 Stock Incentive Plan (Exhibit 10.14.2 to the Form 10-K for the nine-month transition period ended December 31, 2015 (the "2015 Transition Period Form 10-K")).
10.13.3*#	Form of Performance Share Award Agreement under the Orbital ATK, Inc. 2015 Stock Incentive Plan for the three-fiscal-year period beginning January 1, 2016 (Exhibit 10.14.3 to the 2015 Transition Period Form 10-K).
10.13.4*#	Form of Performance Share Award Agreement under the Orbital ATK, Inc. 2015 Stock Incentive Plan for the three-fiscal-year period beginning January 1, 2017 (Exhibit 10.13.4 to the Form 10-K for the year ended December 31, 2016).
10.13.5#	Form of Performance Share Award Agreement under the Orbital ATK, Inc. 2015 Stock Incentive Plan for the three-fiscal-year period beginning January 1, 2018.
10.13.6*#	Form of Restricted Stock Award Agreement (Installment Vesting) under the Orbital ATK, Inc. 2015 Stock Incentive Plan (Exhibit 10.14.4 to the 2015 Transition Period Form 10-K).
10.13.7#	Form of Restricted Stock Award Agreement (Installment Vesting) under the Orbital ATK, Inc. 2015 Stock Incentive Plan for restricted stock grants in the year ended December 31, 2018.
10.14.1*#	Alliant Techsystems Inc. 2005 Stock Incentive Plan (As Amended and Restated Effective August 7, 2012) (Exhibit 10.1 to Form 8-K dated August 7, 2012).
10.14.2*#	Form of Non-Qualified Stock Option Award Agreement (Installment Vesting) under the Alliant Techsystems Inc. 2005 Stock Incentive Plan, for option grants in the years ended March 31, 2012 and March 31, 2013 (Exhibit 10.13.3 to the Form 10-K for the year ended March 31, 2012).
10.14.3*#	Form of Non-Qualified Stock Option Award Agreement (Installment Vesting) under the Alliant Techsystems Inc. 2005 Stock Incentive Plan, for option grants in the year ended March 31, 2014 (Exhibit 10.12.4 to the Form 10-K for the year ended March 31, 2014 (the "Fiscal 2014 Form 10-K")).
10.14.4*#	Amendment to ATK Non-Qualified Stock Option Award Agreement (applicable to options outstanding at February 9, 2015) (Exhibit 10.13.5 to the Fiscal 2015 Form 10-K).
10.14.5*#	Form of Non-Qualified Stock Option Award Agreement (Installment Vesting) under the Alliant Techsystems Inc. 2005 Stock Incentive Plan, for option grants in the year ended March 31, 2015 (Exhibit 10.13.6 to the Fiscal 2015 Form 10-K).
10.14.6*#	Form of Performance Growth Award Agreement under the Alliant Techsystems Inc. 2005 Stock Incentive Plan for the three-fiscal-year period beginning April 1, 2015 (Exhibit 10.13.11 to the Fiscal 2015 Form 10-K).

<b>Exhibit Number</b>	<b>Description of Exhibit (and document from which incorporated by reference, if applicable)</b>
10.14.7#	Form of Restricted Stock Award Agreement (Installment Vesting) under the Alliant Techsystems Inc. 2005 Stock Incentive Plan, for restricted stock grants in the year ended March 31, 2015.
10.15.1*#	Amended and Restated Alliant Techsystems Inc. 1990 Equity Incentive Plan (Exhibit 10.16.1 to the Form 10-K for the year ended March 31, 2007).
10.15.2*#	Amendment No. 1 to Amended and Restated Alliant Techsystems Inc. 1990 Equity Incentive Plan effective May 8, 2001 (Exhibit 10.7.2 to the Form 10-K for the year ended March 31, 2002 (the "Fiscal 2002 Form 10-K")).
10.15.3*#	Amendment No. 2 to Amended and Restated Alliant Techsystems Inc. 1990 Equity Incentive Plan effective March 19, 2002 (Exhibit 10.7.3 to the Fiscal 2002 Form 10-K).
10.15.4*#	Amendment No. 3 to Amended and Restated Alliant Techsystems Inc. 1990 Equity Incentive Plan effective October 29, 2002 (Exhibit 10.6.4 to the Form 10-K for the year ended March 31, 2004).
10.15.5*#	Amendment No. 4 to Amended and Restated Alliant Techsystems Inc. 1990 Equity Incentive Plan effective October 29, 2002 (Exhibit 10.3 to Form 8-K dated January 30, 2007).
10.16.1*#	Orbital ATK, Inc. Nonqualified Deferred Compensation Plan, as Amended and Restated February 16, 2016 (Exhibit 10.17.1 to the 2015 Transition Period Form 10-K).
10.16.2*#	Trust Agreement for Nonqualified Deferred Compensation Plan effective January 1, 2003 (Exhibit 10.9.2 to the Fiscal 2003 Form 10-K).
10.17*#	Alliant Techsystems Inc. Executive Severance Plan as amended effective October 29, 2007 (Exhibit 10.7 to Form 8-K dated October 29, 2007).
10.18*#	Alliant Techsystems Inc. Defined Benefit Supplemental Executive Retirement Plan, as Amended and Restated effective February 9, 2015 (Exhibit 10.17 to the Fiscal 2015 Form 10-K).
10.19.1*#	Alliant Techsystems Inc. Defined Contribution Supplemental Executive Retirement Plan, as Amended and Restated effective July 1, 2013 (Exhibit 10.2 to Form 8-K dated January 31, 2013).
10.19.2*#	First Amendment, effective at February 9, 2015, to the Alliant Techsystems Inc. Defined Contribution Supplemental Executive Retirement Plan, as Amended and Restated effective July 1, 2013 (Exhibit 10.18.2 to the Fiscal 2015 Form 10-K).
10.20*#	Orbital ATK, Inc. Income Security Plan Effective May 5, 2015 (Exhibit 10.21 to the 2015 Transition Period Form 10-K).
10.21*#	Alliant Techsystems Inc. Income Security Plan, As Amended and Restated, Effective July 1, 2013 (Exhibit 10.1 to Form 8-K dated July 30, 2013).
10.22.1*#	Trust Under Income Security Plan dated May 4, 1998 (effective March 2, 1998), by and between the Registrant and U.S. Bank National Association (Exhibit 10.20.1 to the Form 10-K for the fiscal year ended March 31, 1998).
10.22.2*#	First Amendment to the Trust Under the Income Security Plan effective December 4, 2001, by and between the Registrant and U.S. Bank National Association (Exhibit 10.17.2 to the Fiscal 2002 Form 10-K).
10.23*#	Executive Severance Agreement, dated November 30, 2007, between Orbital Sciences Corporation and Garrett E. Pierce (Exhibit 10.5 to Form 8-K dated February 9, 2015).
10.24.1*#	Orbital Sciences Corporation Nonqualified Management Deferred Compensation Plan, assumed by the Registrant in the Orbital-ATK Merger (Exhibit 10.13 to Orbital Sciences Corporation's Annual Report on Form 10-K for the year ended December 31, 2006).
10.24.2*#	Amendment Number One to the Orbital Sciences Corporation Nonqualified Management Deferred Compensation Plan, effective January 1, 2011 (Exhibit 10.26.2 to the 2015 Transition Period Form 10-K).
21	Subsidiaries of the Registrant as of December 31, 2017.
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
23.2	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.

<b>Exhibit Number</b>	<b>Description of Exhibit (and document from which incorporated by reference, if applicable)</b>
31.1	Certification of Chief Executive Officer.
31.2	Certification of Chief Financial Officer.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

**ITEM 16. FORM 10-K SUMMARY**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 21, 2018.

ORBITAL ATK, INC.

By: /s/ David W. Thompson

Name: David W. Thompson

Title: *President and Chief Executive Officer*

*(duly authorized and principal executive officer)*



Pursuant to the requirements of the Securities Exchange Act of 1934, this report is signed below by the following persons on behalf of the registrant and in the capacities indicated on February 21, 2018.

<u>Signature</u>	<u>Title</u>
<u>/s/ David W. Thompson</u> David W. Thompson	President and Chief Executive Officer, Director (Principal Executive Officer)
<u>/s/ Garrett E. Pierce</u> Garrett E. Pierce	Chief Financial Officer (Principal Financial Officer)
<u>/s/ Kenneth P. Sharp</u> Kenneth P. Sharp	Senior Vice President, Finance
<u>/s/ Christopher A. Voci</u> Christopher A. Voci	Vice President and Controller (Principal Accounting Officer)
<u>/s/ Kevin P. Chilton</u> Kevin P. Chilton	Director
<u>/s/ Roxanne J. Decyk</u> Roxanne J. Decyk	Director
<u>/s/ Lennard A. Fisk</u> Lennard A. Fisk	Director
<u>/s/ Ronald R. Fogleman</u> Ronald R. Fogleman	Chairman of the Board
<u>/s/ Ronald T. Kadish</u> Ronald T. Kadish	Director
<u>/s/ Tig H. Krekel</u> Tig H. Krekel	Director
<u>/s/ Douglas L. Maine</u> Douglas L. Maine	Director
<u>/s/ Roman Martinez IV</u> Roman Martinez IV	Director
<u>/s/ Janice I. Obuchowski</u> Janice I. Obuchowski	Director
<u>/s/ James G. Roche</u> James G. Roche	Director
<u>/s/ Harrison H. Schmitt</u> Harrison H. Schmitt	Director
<u>/s/ Scott L. Webster</u> Scott L. Webster	Director

# Corporate Information

## Orbital ATK Headquarters

45101 Warp Drive, Dulles, Virginia 20166  
703-406-5000

## Public/Investor Relations

Barron S. Beneski, Vice President  
Communications and Investor Relations  
703-406-5528  
public.relations@orbitalatk.com  
investor.relations@orbitalatk.com

## Common Stock

Stock symbol: OA  
Listed: New York Stock Exchange

## Internet

Orbital ATK maintains a corporate website on the Internet at [OrbitalATK.com](http://OrbitalATK.com)

## Independent Registered Public Accounting Firm

Deloitte & Touche LLP (McLean, Virginia)

## Transfer Agent

Stockholders may obtain information with respect to share position, transfer requirements and lost certificates by writing or telephoning:

Computershare  
P.O. Box 505000  
Louisville, Kentucky 40233, 866-865-6322  
[computershare.com/investor](http://computershare.com/investor)

## Employment

Orbital ATK is an equal opportunity employer.

## Non-GAAP Reconciliation Table

The adjusted 2015, 2016 and 2017 financial results contained in this annual report are non-GAAP financial measures adjusted to give effect to the merger of Orbital and ATK and adjust for the impact of costs and expenses summarized in the tables below. In addition, the adjusted results reflect estimates of interest expense, income tax expense and diluted shares that would be in effect for the periods as if the merger of Orbital and ATK and the divestiture of ATK's Sporting Group had occurred on January 1, 2015.

### 2017 (\$ in millions, except per share data)

	GAAP	Adjustment <sup>(1)</sup>	As Adjusted
Revenues	\$ 4,764	\$ -	\$ 4,764
Operating Income	529	23	552
Net Interest Expense	(67)	-	(67)
Income before taxes	462	23	485
Income Taxes	(152)	(8)	(160)
Net Income	\$ 310	\$ 15	\$ 325
Diluted EPS	\$ 5.34	\$ 0.27	\$ 5.61
Diluted Shares	58	58	58

<sup>(1)</sup> Includes costs related to the potential acquisition by Northrop Grumman and the restatement of our financial statements. Adjustments use the effective tax rate.

### 2016 (\$ in millions, except per share data)

	GAAP	Adjustment <sup>(1)</sup>	As Adjusted
Revenues	\$ 4,455	\$ -	\$ 4,455
Operating Income	472	44	516
Net Interest Expense	(68)	-	(68)
Income before taxes	404	44	448
Income Taxes	(111)	(12)	(123)
Net Income	\$ 293	\$ 32	\$ 325
Diluted EPS	\$ 5.01	\$ 0.55	\$ 5.56
Diluted Shares	58	58	58

<sup>(1)</sup> Includes the impact of merger-related costs from the company's change in its fiscal year, severance payments and IT expenses, among others. Also includes costs related to the restatement. Adjustments use the effective tax rate.

### 2015 (\$ in millions, except per share data)

	GAAP	Adjustment <sup>(1)</sup>	As Adjusted
Revenues	\$ 4,363	\$ 146	\$ 4,509
Operating Income	336	180	516
Net Interest Expense	(81)	15	(66)
Debt Extinguishment	(27)	27	-
Income before taxes	229	222	451
Income Taxes	(83)	(80)	(163)
Net Income	\$ 146	\$ 142	\$ 288
Diluted EPS	\$ 2.59	\$ 2.52	\$ 5.10
Diluted Shares	56	56	56

<sup>(1)</sup> Includes Orbital Sciences results through February 9, 2015, the impact of merger-related costs from the company's change in its fiscal year, severance payments, IT expenses, debt consolidation costs, legal settlement costs and goodwill impairment, among others. Adjustments use the effective tax rate.

## Free Cash Flow

### Year Ended December 31, 2017 (\$ in millions)

Net Cash Provided By Operating Activities	\$ 520
Capital Expenditures	(244)
	\$ 276
Adjustments	24 <sup>(1)</sup>
Adjusted Free Cash Flow	\$ 300

### Year Ended December 31, 2016 (\$ in millions)

Net Cash Provided By Operating Activities	\$ 519
Capital Expenditures	(187)
	\$ 332
Adjustments	30 <sup>(2)</sup>
Adjusted Free Cash Flow	\$ 362

<sup>(1)</sup> Includes costs related to the potential acquisition by Northrop Grumman and the restatement of our financial statements.

<sup>(2)</sup> Includes impact of merger-related expenses from severance payments, retention payments and IT expenses. Also includes costs related to the restatement, among others.

## "Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995

This report contains not only historical information, but also forward-looking statements made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements often include the words "forecast," "expect," "believe," "will," "intend," "plan," and words of similar substance. Such forward-looking statements are subject to risks and uncertainties that could cause actual results or performance to differ materially from those expressed in or contemplated by the forward-looking statements, including the risk that the proposed acquisition of Orbital ATK by Northrop Grumman may not be completed in a timely manner or at all, which may adversely affect Orbital ATK's business and the price of Orbital ATK's common stock; potential increased costs, liability, or reputational harm associated with the restatement of the company's financial statements; the company's ability to maintain and grow its relationship with its customers; reductions or changes in U.S. Government spending; changes in cost and revenue estimates and/or timing of programs and payments; the potential termination of U.S. Government contracts; failure to win or retain key contracts; supply, availability, and cost of raw materials and components; performance of subcontractors and other third parties; development of key technologies; the costs and ultimate outcome of contingencies, including litigation, government investigations and other legal proceedings; changes in Tax law arising from the 2017 Tax Act and any related Treasury regulations, rules or interpretations, if and when issued; and other risks described in Orbital ATK's filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date hereof.

## Photo Credits

Images courtesy of NASA, U.S. Air Force, U.S. Army, U.S. Navy, U.S. Missile Defense Agency and Lockheed Martin.

# Orbital ATK

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