



Supplementary Financials

**NON-GAAP FINANCIAL INFORMATION FOR FISCAL YEAR
END CHANGE**



Non-GAAP Financial Information for Fiscal Year End Change

On March 20, 2015, the Board of Directors of Leidos approved a change in fiscal year end from the Friday closest to January 31 to the Friday closest to December 31. This change will be effective for the year ended January 1, 2016. The Company does not believe that the change in its fiscal year has a material effect on the comparability of the periods presented.

In consideration of the change in fiscal year end, this presentation includes certain mathematically derived non-GAAP financial measures, such as revenue, operating income, operating margin, earnings per share, and segment information. These mathematically derived non-GAAP financial measures are not meant to be considered in isolation or as a substitute for results prepared in accordance with generally accepted accounting principles in the United States (GAAP). A reconciliation of mathematically derived non-GAAP financial measures included in this presentation to the most directly comparable financial measure calculated and presented in accordance with GAAP accompanies this presentation. Leidos management believes that these mathematically derived non-GAAP financial measures may be useful information to investors and financial analysts covering Leidos and its peers.

Non-GAAP Income Statement for Fiscal Year End Change: Q1-Q4 Fiscal Year 2015

	Three Months Ended			
	April 4, 2014	July 4, 2014	October 3, 2014	January 2, 2015
	(in millions, except for per share amounts)			
Revenue	\$ 1,311	\$ 1,302	\$ 1,293	\$ 1,198
Cost of revenue	1,136	1,120	1,121	1,043
Selling, general and administrative expenses	88	85	77	73
Operating income from continuing operations	87	97	95	82
Non-operating expense, net	(21)	(21)	(19)	(15)
Income from continuing operations before income taxes	66	76	76	67
Income tax expense	(22)	(32)	(25)	(14)
Income from continuing operations	\$ 44	\$ 44	\$ 51	\$ 53
Diluted earnings per share from continuing operations	\$ 0.55	\$ 0.59	\$ 0.69	\$ 0.71
Diluted weighted average number of shares outstanding	80	75	74	75

Notes:

- Please refer to the Appendix for the reconciliation from GAAP to non-GAAP and for a description of period alignment and non-GAAP adjustments



Non-GAAP Financial Information for Fiscal Year End Change – Segment Information

Three Months Ended

April 4, 2014 July 4, 2014 October 3, 2014 January 2, 2015

(in millions)

National Security Segment

Non-GAAP revenue	\$ 947	\$ 926	\$ 917	\$ 843
Non-GAAP operating income	79	78	75	64
Non-GAAP operating margin %	8.3%	8.4%	8.2%	7.6%

Health & Engineering Segment

Non-GAAP revenue	\$ 367	\$ 376	\$ 378	\$ 363
Non-GAAP operating income	22	26	24	23
Non-GAAP operating margin %	6.0%	6.9%	6.3%	6.3%

Notes:

- Please refer to the Appendix for the reconciliation from GAAP to non-GAAP and for a description of period alignment adjustments and non-GAAP adjustments



Appendix

Non-GAAP Income Statement for Fiscal Year End Change Q1 FY15

	As Reported		Adjusted		Non-GAAP	
	Three Months Ended May 2, 2014	Period Alignment Adjustments	Three Months Ended April 4, 2014	Non-GAAP Adjustments	Three Months Ended April 4, 2014	
(in millions, except for per share amounts)						
Revenue	\$ 1,312	\$ (1)	\$ 1,311	\$ -	\$ 1,311	
Cost of revenue	1,141	(5)	1,136	-	1,136	
Selling, general and administrative expenses	83	5	88	-	88	
Separation transaction and restructuring expenses	1	-	1	(1)	-	
Operating income (loss) from continuing operations	87	(1)	86	1	87	
Non-operating expense, net	(18)	(3)	(21)	-	(21)	
Income (loss) from continuing operations before income taxes	69	(4)	65	1	66	
Income tax expense	(24)	2	(22)	-	(22)	
Income from continuing operations	\$ 45	\$ (2)	\$ 43	\$ 1	\$ 44	
Diluted earnings per share from continuing operations	\$ 0.58		\$ 0.54		\$ 0.55	
Diluted weighted average number of shares outstanding	78		80		80	

Notes:

- Please refer to Slides 13 and 14 for a description of period alignment and non-GAAP adjustments
- Prior periods have been recast to reflect discontinued operations



Non-GAAP Income Statement for Fiscal Year End Change Q2 FY15

	As Reported		Adjusted		Non-GAAP	
	Three Months Ended August 1, 2014	Period Alignment Adjustments	Three Months Ended July 4, 2014	Non-GAAP Adjustments	Three Months Ended July 4, 2014	
(in millions, except for per share amounts)						
Revenue	\$ 1,306	\$ (4)	\$ 1,302	\$ -	\$ 1,302	
Cost of revenue	1,119	1	1,120	-	1,120	
Selling, general and administrative expenses	87	(2)	85	-	85	
Goodwill impairment charges	486	-	486	(486)	-	
Asset impairment charges	24	-	24	(24)	-	
Operating (loss) income from continuing operations	(410)	(3)	(413)	510	97	
Non-operating expense, net	(20)	(1)	(21)	-	(21)	
(Loss) income from continuing operations before income taxes	(430)	(4)	(434)	510	76	
Income tax expense	(9)	2	(7)	(25)	(32)	
(Loss) income from continuing operations	\$ (439)	\$ (2)	\$ (441)	\$ (485)	\$ 44	
Diluted (loss) earnings per share from continuing operations	\$ (5.93)		\$ (5.88)		\$ 0.59	
Diluted weighted average number of shares outstanding	74		75		75	

Notes:

- Please refer to Slides 13 and 14 for a description of period alignment and non-GAAP adjustments

Non-GAAP Income Statement for Fiscal Year End Change Q3 FY15

	As Reported		Adjusted		Non-GAAP
	Three Months Ended October 31, 2014	Period Alignment Adjustments	Three Months Ended October 3, 2014	Non-GAAP Adjustments	Three Months Ended October 3, 2014
(in millions, except for per share amounts)					
Revenue	\$ 1,276	\$ 17	\$ 1,293	\$ -	\$ 1,293
Cost of revenue	1,115	6	1,121	-	1,121
Selling, general and administrative expenses	72	5	77	-	77
Asset impairment charges	17	-	17	(17)	-
Operating income from continuing operations	72	6	78	17	95
Non-operating expense, net	(18)	(1)	(19)	-	(19)
Income from continuing operations before income taxes	54	5	59	17	76
Income tax expense	(16)	(2)	(18)	(7)	(25)
Income from continuing operations	\$ 38	\$ 3	\$ 41	\$ 10	\$ 51
Diluted earnings per share from continuing operations	\$ 0.51		\$ 0.55		\$ 0.69
Diluted weighted average number of shares outstanding	74		74		74

Notes:

- Please refer to Slides 13 and 14 for a description of period alignment and non-GAAP adjustments

Non-GAAP Income Statement for Fiscal Year End Change Q4 FY15

	As Reported		Adjusted		Non-GAAP	
	Three Months Ended January 30, 2015	Period Alignment Adjustments	Three Months Ended January 2, 2015	Non-GAAP Adjustments	Three Months Ended January 2, 2015	
(in millions, except for per share amounts)						
Revenue	\$ 1,169	\$ 29	\$ 1,198	\$ -	\$ 1,198	
Cost of revenue	1,017	26	1,043	-	1,043	
Selling, general and administrative expenses	73	-	73	-	73	
Asset impairment charges	40	-	40	(40)	-	
Separation transaction and restructuring expenses	2	-	2	(2)	-	
Operating income from continuing operations	37	3	40	42	82	
Non-operating expense, net	(13)	(2)	(15)	-	(15)	
Income from continuing operations before income taxes	24	1	25	42	67	
Income tax benefit (expense)	2	-	2	(16)	(14)	
Income from continuing operations	\$ 26	\$ 1	\$ 27	\$ 26	\$ 53	
Diluted earnings per share from continuing operations	\$ 0.35		\$ 0.36		\$ 0.71	
Diluted weighted average number of shares outstanding	75		75		75	

Notes:

- Please refer to Slides 13 and 14 for a description of period alignment and non-GAAP adjustments



Non-GAAP Financial Information for Fiscal Year End Change – National Security Segment

	Three Months Ended			
	April 4, 2014	July 4, 2014	October 3, 2014	January 2, 2015
	(in millions)			
As reported revenue	\$ 944	\$ 925	\$ 906	\$ 819
Period alignment adjustments	3	1	11	24
Non-GAAP revenue	\$ 947	\$ 926	\$ 917	\$ 843
As reported operating income	\$ 77	\$ 78	\$ 72	\$ 59
Period alignment adjustments	2	-	3	5
Non-GAAP operating income	\$ 79	\$ 78	\$ 75	\$ 64
Operating margin %	8.2%	8.4%	7.9%	7.2%
Non-GAAP operating margin %	8.3%	8.4%	8.2%	7.6%

Notes:

- The “as reported” rows represent amounts from the three months ended May 2, 2014; August 1, 2014; October 31, 2014; and January 30, 2015
- Please refer to Slide 13 for a description of period alignment adjustments



Non-GAAP Financial Information for Fiscal Year End Change – Health & Engineering Segment

	Three Months Ended			
	April 4, 2014	July 4, 2014	October 3, 2014	January 2, 2015
	(in millions)			
As reported revenue	\$ 372	\$ 381	\$ 373	\$ 359
Period alignment adjustments	(5)	(5)	5	4
Non-GAAP revenue	\$ 367	\$ 376	\$ 378	\$ 363
As reported operating income (loss)	\$ 23	\$ (482)	\$ 4	\$ (17)
Period alignment adjustments	(1)	(2)	3	-
Adjusted operating income (loss)	22	(484)	7	(17)
Non-GAAP adjustments:				
Goodwill impairment charges	-	486	-	-
Asset impairment charges	-	24	17	40
Non-GAAP operating income	\$ 22	\$ 26	\$ 24	\$ 23
Operating margin %	6.2%	NM	1.1%	(4.7%)
Non-GAAP operating margin %	6.0%	6.9%	6.3%	6.3%

Notes:

- The “as reported” rows represent amounts from the three months ended May 2, 2014; August 1, 2014; October 31, 2014; and January 30, 2015
- Please refer to Slide 13 for a description of period alignment adjustments
- Prior periods have been recast to reflect discontinued operations



Cash Payment Information

Three Months Ended

	April 4, 2014	July 4, 2014	October 3, 2014	January 2, 2015
	(in millions)			
Dividend payments	\$ 27	\$ 25	\$ 25	\$ 24
Interest payments	\$ -	\$ 34	\$ -	\$ 34
Annual bonus payments	\$ 31	\$ 4	\$ -	\$ -
Extra week of payroll	\$ 72	\$ -	\$ 69	\$ -

Period Alignment Adjustments

- ▶ The adjustments for revenue, cost of revenue, and selling, general and administrative expense are mathematically derived from the productive hours of the last month of the prior quarter and the first two months of the “as reported” quarter (the “as reported” line item amount for the quarter divided by the total productive hours for the quarter times the productive hours for the months included in the calculation).
- ▶ No period alignment adjustments were made for goodwill impairment charges, asset impairment charges, and separation transaction and restructuring expenses.
- ▶ The adjustments for non-operating income (expense) are mathematically derived by including one month of activity from the prior quarter and two months of activity from the “as reported” quarter.
- ▶ The adjustments for income tax are based on an estimated federal and state statutory tax rate of 39%.
- ▶ Diluted weighted average number of shares outstanding is mathematically derived by including one month of activity from the prior quarter and two months from the “as reported” quarter.

Non-GAAP Adjustments

- ▶ The adjustments for goodwill and asset impairment charges represent impairments of goodwill and long-lived intangible assets due to changes in actual performance against performance projected when the goodwill and long-lived intangible assets were acquired and an impairment of a long-lived tangible asset in the fourth quarter of fiscal year 2015 related to entering into a definitive agreement for the sale of Plainfield.
- ▶ The adjustments for separation transaction and restructuring expenses represent costs for strategic advisory services, legal and accounting services, lease termination and facility consolidation, and severance costs associated with the September 2013 spin-off of its former technical services and enterprise IT business.
- ▶ The adjustments for income tax are based on an estimated federal and state statutory tax rate of 39%.