UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2023

or

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

For the transition period from to

Commission file number 001-33072

Leidos Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-3562868**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1750 Presidents Street, Reston, Virginia	**20190**
(Address of principal executive offices)	(Zip Code)

(571) 526-6000

(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, par value $.0001 per share	**LDOS**	**New York Stock Exchange**

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

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

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

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

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

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

The number of shares issued and outstanding of each of the issuer’s classes of common stock as of October 24, 2023, was 137,506,428 shares of common stock ($.0001 par value per share).

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PART I—FINANCIAL INFORMATION

Item 1. ***Financial Statements.***

LEIDOS HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 29, 2023	December 30, 2022
	(unaudited; in millions, except share and per share data)	
Assets:		
Cash and cash equivalents	**$ 750**	$ 516
Receivables, net	**2,452**	2,350
Inventory, net	**295**	287
Other current assets	**494**	490
Total current assets	**3,991**	3,643
Property, plant and equipment, net	**935**	847
Intangible assets, net	**713**	952
Goodwill	**6,079**	6,696
Operating lease right-of-use assets, net	**512**	545
Other long-term assets	**527**	388
Total assets	**$ 12,757**	$ 13,071
Liabilities:		
Accounts payable and accrued liabilities	**$ 2,221**	$ 2,254
Accrued payroll and employee benefits	**801**	701
Short-term debt and current portion of long-term debt	**18**	992
Total current liabilities	**3,040**	3,947
Long-term debt, net of current portion	**4,667**	3,928
Operating lease liabilities	**527**	570
Deferred tax liabilities	**6**	40
Other long-term liabilities	**314**	233
Total liabilities	**8,554**	8,718
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, $0.0001 par value, 500,000,000 shares authorized,137,506,136 and 136,926,990 shares issued and outstanding at September 29, 2023, and December 30, 2022, respectively	**—**	—
Additional paid-in capital	**2,055**	2,005
Retained earnings	**2,186**	2,367
Accumulated other comprehensive loss	**(95)**	(73)
Total Leidos stockholders' equity	**4,146**	4,299
Non-controlling interest	**57**	54
Total stockholders' equity	**4,203**	4,353
Total liabilities and stockholders' equity	**$ 12,757**	$ 13,071

See accompanying notes to condensed consolidated financial statements.

LEIDOS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	September 29, 2023	September 30, 2022	**September 29, 2023**	September 30, 2022
	(unaudited; in millions, except per share data)			
Revenues	**$ 3,921**	$ 3,608	**$ 11,458**	$ 10,699
Cost of revenues	**3,334**	3,095	**9,809**	9,136
Selling, general and administrative expenses	**239**	232	**709**	730
Acquisition, integration and restructuring costs	**5**	4	**14**	12
Goodwill impairment charges	**599**	—	**599**	—
Asset impairment charges	**88**	—	**88**	3
Equity earnings of non-consolidated subsidiaries	**(8)**	(4)	**(21)**	(5)
Operating (loss) income	**(336)**	281	**260**	823
Non-operating income (expense):				
Interest expense, net	**(53)**	(50)	**(163)**	(148)
Other income (expense), net	**1**	(10)	**(4)**	(7)
(Loss) income before income taxes	**(388)**	221	**93**	668
Income tax expense	**(8)**	(57)	**(115)**	(155)
Net (loss) income	**$ (396)**	$ 164	**$ (22)**	$ 513
Less: net income attributable to non-controlling interest	**3**	2	**8**	5
Net (loss) income attributable to Leidos common stockholders	**$ (399)**	$ 162	**$ (30)**	$ 508
Earnings per share:				
Basic	**$ (2.91)**	$ 1.18	**$ (0.22)**	$ 3.71
Diluted	**(2.91)**	1.17	**(0.22)**	3.68

See accompanying notes to condensed consolidated financial statements.

LEIDOS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended		Nine Months Ended	
	September 29, 2023	September 30, 2022	**September 29, 2023**	September 30, 2022
	(unaudited; in millions)			
Net (loss) income	**$ (396)**	$ 164	**$ (22)**	$ 513
Foreign currency translation adjustments	**(31)**	(75)	**(19)**	(158)
Unrecognized gain (loss) on derivative instruments	**—**	18	**(1)**	54
Pension adjustments	**(1)**	1	**(2)**	(19)
Total other comprehensive (loss) income, net of taxes	**(32)**	(56)	**(22)**	(123)
Comprehensive (loss) income	**(428)**	108	**(44)**	390
Less: net income attributable to non-controlling interest	**3**	2	**8**	5
Comprehensive (loss) income attributable to Leidos common stockholders	**$ (431)**	$ 106	**$ (52)**	$ 385

See accompanying notes to condensed consolidated financial statements.

LEIDOS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

	Shares of common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Leidos stockholders' equity	Non-controlling interest	Total stockholders' equity
	(unaudited; in millions, except per share data)						
Balance at December 30, 2022	137	$ 2,005	$ 2,367	$ (73)	$ 4,299	$ 54	$ 4,353
Net income	—	—	162	—	162	2	164
Other comprehensive income, net of taxes	—	—	—	9	9	—	9
Issuances of stock	—	14	—	—	14	—	14
Repurchases of stock and other	—	(43)	—	—	(43)	—	(43)
Dividends of $0.36 per share	—	—	(50)	—	(50)	—	(50)
Stock-based compensation	—	18	—	—	18	—	18
Net capital distributions to non-controlling interest	—	—	—	—	—	(1)	(1)
Balance at March 31, 2023	137	$ 1,994	$ 2,479	$ (64)	$ 4,409	$ 55	$ 4,464
Net income	—	—	207	—	207	3	210
Other comprehensive income, net of taxes	—	—	—	1	1	—	1
Issuances of stock	—	14	—	—	14	—	14
Dividends of $0.36 per share	—	—	(50)	—	(50)	—	(50)
Stock-based compensation	—	19	—	—	19	—	19
Net capital distributions to non-controlling interest	—	(3)	—	—	(3)	(2)	(5)
Balance at June 30, 2023	137	$ 2,024	$ 2,636	$ (63)	$ 4,597	$ 56	$ 4,653
Net (loss) income	—	—	(399)	—	(399)	3	(396)
Other comprehensive loss, net of taxes	—	—	—	(32)	(32)	—	(32)
Issuances of stock	1	12	—	—	12	—	12
Repurchases of stock and other	—	(1)	—	—	(1)	—	(1)
Dividends of $0.36 per share	—	—	(51)	—	(51)	—	(51)
Stock-based compensation	—	20	—	—	20	—	20
Net capital distributions to non-controlling interest	—	—	—	—	—	(2)	(2)
Balance at September 29, 2023	**138**	**$ 2,055**	**$ 2,186**	**$ (95)**	**$ 4,146**	**$ 57**	**$ 4,203**

See accompanying notes to condensed consolidated financial statements.

LEIDOS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

	Shares of common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Leidos stockholders' equity	Non-controlling interest	Total stockholders' equity
	(unaudited; in millions, except per share data)						
Balance at December 31, 2021	140	$ 2,423	$ 1,880	$ (12)	$ 4,291	$ 53	$ 4,344
Net income	—	—	175	—	175	2	177
Other comprehensive income, net of taxes	—	—	—	32	32	—	32
Issuances of stock	1	15	—	—	15	—	15
Repurchases of stock and other	(4)	(526)	—	—	(526)	—	(526)
Dividends of $0.36 per share	—	—	(48)	—	(48)	—	(48)
Stock-based compensation	—	16	—	—	16	—	16
Net capital distributions to non-controlling interest	—	—	—	—	—	(2)	(2)
Balance at April 1, 2022	137	$ 1,928	$ 2,007	$ 20	$ 3,955	$ 53	$ 4,008
Net income	—	—	171	—	171	1	172
Other comprehensive loss, net of taxes	—	—	—	(99)	(99)	—	(99)
Issuances of stock	—	10	—	—	10	—	10
Repurchases of stock and other	—	(2)	—	—	(2)	—	(2)
Dividends of $0.36 per share	—	—	(50)	—	(50)	—	(50)
Stock-based compensation	—	19	—	—	19	—	19
Net capital distributions to non-controlling interest	—	—	—	—	—	(1)	(1)
Balance at July 1, 2022	137	$ 1,955	$ 2,128	$ (79)	$ 4,004	$ 53	$ 4,057
Net income	—	—	162	—	162	2	164
Other comprehensive loss, net of taxes	—	—	—	(56)	(56)	—	(56)
Issuances of stock	—	13	—	—	13	—	13
Repurchases of stock and other	—	(4)	—	—	(4)	—	(4)
Dividends of $0.36 per share	—	—	(51)	—	(51)	—	(51)
Stock-based compensation	—	18	—	—	18	—	18
Net capital distributions to non-controlling interest	—	—	—	—	—	(2)	(2)
Balance at September 30, 2022	137	$ 1,982	$ 2,239	$ (135)	$ 4,086	$ 53	$ 4,139

See accompanying notes to condensed consolidated financial statements.

LEIDOS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	September 29, 2023	September 30, 2022
	(unaudited; in millions)	
Cash flows from operations:		
Net (loss) income	**$ (22)**	$ 513
Adjustments to reconcile net (loss) income to net cash provided by operations:		
Depreciation and amortization	**248**	249
Stock-based compensation	**57**	53
Deferred income taxes	**(192)**	(221)
Goodwill impairment charges	**599**	—
Asset impairment charges	**88**	3
Other	**25**	21
Change in assets and liabilities, net of effects of acquisitions and dispositions:		
Receivables	**(109)**	(139)
Other current assets and other long-term assets	**141**	132
Accounts payable and accrued liabilities and other long-term liabilities	**22**	(70)
Accrued payroll and employee benefits	**105**	217
Income taxes receivable/payable	**(101)**	109
Net cash provided by operating activities	**861**	867
Cash flows from investing activities:		
Acquisition of a business, net of cash acquired	**(6)**	(2)
Divestiture of a business	**—**	15
Payments for property, equipment and software	**(129)**	(76)
Net proceeds from sale of assets	**—**	6
Other	**—**	2
Net cash used in investing activities	**(135)**	(55)
Cash flows from financing activities:		
Proceeds from debt issuance	**1,743**	380
Repayments of borrowings	**(2,041)**	(459)
Payments for debt issuance costs	**(7)**	—
Dividend payments	**(150)**	(149)
Repurchases of stock and other	**(44)**	(532)
Proceeds from issuances of stock	**37**	35
Net capital distributions to non-controlling interests	**(8)**	(5)
Net cash used in financing activities	**(470)**	(730)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	**—**	14
Net increase in cash, cash equivalents and restricted cash	**256**	96
Cash, cash equivalents and restricted cash at beginning of period	**683**	875
Cash, cash equivalents and restricted cash at end of period	**939**	971
Less: restricted cash at end of period	**189**	164
Cash and cash equivalents at end of period	**$ 750**	$ 807

See accompanying notes to condensed consolidated financial statements.

LEIDOS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	September 29, 2023	September 30, 2022
	(unaudited; in millions)	
Supplementary cash flow information:		
Cash paid for income taxes, net of refunds	**$ 325**	$ 166
Cash paid for interest	**160**	136
Non-cash investing activity:		
Property, plant and equipment additions	**$ 2**	$ 7
Non-cash financing activity:		
Finance lease obligations	**$ 65**	$ 1

See accompanying notes to condensed consolidated financial statements.

Note 1–Basis of Presentation and Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

Leidos Holdings, Inc. ("Leidos"), a Delaware corporation, is a holding company whose direct 100%-owned subsidiary and principal operating company is Leidos, Inc. Leidos is a FORTUNE 500® technology, engineering, and science company that provides services and solutions in the defense, intelligence, civil and health markets, both domestically and internationally. Leidos' customers include the U.S. Department of Defense ("DoD"), the U.S. Intelligence Community, the U.S. Department of Homeland Security, the Federal Aviation Administration, the Department of Veterans Affairs and many other U.S. civilian, state and local government agencies, foreign government agencies and commercial businesses. Unless indicated otherwise, references to "we," "us" and "our" refer collectively to Leidos Holdings, Inc. and its consolidated subsidiaries. We operate in three reportable segments: Defense Solutions, Civil and Health. Additionally, we separately present the unallocable costs associated with corporate functions as Corporate.

We have a controlling interest in Mission Support Alliance, LLC ("MSA"), a joint venture with Centerra Group, LLC. We also have a controlling interest in Hanford Mission Integration Solutions, LLC ("HMIS"), the legal entity for the follow-on contract to MSA's contract and a joint venture with Centerra Group, LLC and Parsons Government Services, Inc. The financial results for MSA and HMIS are consolidated into our unaudited condensed consolidated financial statements. The unaudited condensed consolidated financial statements also include the balances of all voting interest entities in which Leidos has a controlling voting interest ("subsidiaries") and a variable interest entity ("VIE") in which Leidos is the primary beneficiary. The consolidated balances of the VIE are not material to the unaudited condensed consolidated financial statements for the periods presented. Intercompany accounts and transactions between consolidated companies have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements has been prepared in accordance with the rules of the U.S. Securities and Exchange Commission and accounting principles generally accepted in the United States of America ("GAAP"). Certain disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Management evaluates these estimates and assumptions on an ongoing basis, including those relating to estimated profitability of long-term contracts, indirect billing rates, allowances for doubtful accounts, inventories, right-of-use assets and lease liabilities, fair value and impairment of intangible assets and goodwill, income taxes, stock-based compensation expense and contingencies. These estimates have been prepared by management on the basis of the most current and best available information; however, actual results could differ materially from those estimates.

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. We combined "Bad debt expense and recoveries" into "Selling, general and administrative expenses" on the condensed consolidated statements of operations. We have certain entities where the functional currency is not the U.S. dollar and have separately presented the effect of exchange rate changes on cash, cash equivalents and restricted cash held in foreign currencies as a separate line in the condensed consolidated statements of cash flows.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which consist of normal recurring adjustments, necessary for a fair presentation thereof. The results reported in these unaudited condensed consolidated financial statements are not necessarily indicative of the results that may be expected for the entire year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K filed on February 14, 2023.

Accounting Standards Updates Issued and Adopted

ASU 2020-04, ASU 2021-01 and ASU 2022-06, *Reference Rate Reform (ASC 848)*

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-04, which provides companies with optional expedients and exceptions to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. This update provides optional expedients for applying accounting guidance to contracts, hedging relationships and other transactions that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of the reference rate reform. The amendments in this update are effective for all entities as of March 2020 and can be adopted using a prospective approach no later than December 31, 2022.

In January 2021, the FASB issued ASU 2021-01 which amends the scope of ASU 2020-04. The amendments in this update are elective and provide optional relief for entities with hedge accounting and contract modifications affected by the transition from LIBOR through December 31, 2022. In December 2022, the FASB issued ASU 2022-06 which extends the deadline for application of ASU 2021-01 through December 31, 2024. Under this relief, entities may continue to account for contract modifications as a continuation of the existing contract and the continuation of the hedge accounting arrangement. In the first half of fiscal 2023, we adopted certain practical expedients available under ASC 848. Our term loans are based on a Secured Overnight Financing Rate ("SOFR") rate (see "Note 6–Debt"). Additionally, we modified our interest rate swap agreements to reference SOFR (see "Note 5–Derivative Instruments") in conformity with the relief available under ASC 848. The standard did not have a material impact on our financial position, results of operations or earnings per share.

Changes in Estimates on Contracts

Changes in estimates related to contracts accounted for using the cost-to-cost method of accounting are recognized in the period in which such changes are made for the inception-to-date effect of the changes, with the exception of contracts acquired through a business combination, where the adjustment is made for the period commencing from the date of acquisition.

Changes in estimates on contracts were as follows:

	Three Months Ended		Nine Months Ended	
	September 29, 2023	September 30, 2022	**September 29, 2023**	September 30, 2022
	(in millions, except per share data)			
Favorable impact	**$ 40**	$ 36	**$ 102**	$ 116
Unfavorable impact	**(24)**	(29)	**(62)**	(75)
Net impact to (loss) income before income taxes	**$ 16**	$ 7	**$ 40**	$ 41
Impact on diluted EPS attributable to Leidos common stockholders	**$ 0.09**	$ 0.03	**$ 0.22**	$ 0.22

The impact on diluted earnings per share ("EPS") attributable to Leidos common stockholders is calculated using the statutory tax rate.

Revenue Recognized from Prior Obligations

Revenue recognized from performance obligations satisfied in previous periods was $13 million and $14 million for the three and nine months ended September 29, 2023, respectively, and $6 million and $38 million for the three and nine months ended September 30, 2022, respectively. The changes primarily related to revisions of variable consideration including award and incentive fees, and revisions to estimates at completion resulting from changes in contract scope, mitigation of contract risks or true-ups of contract estimates at the end of contract performance.

Cash and Cash Equivalents

Our cash equivalents are primarily comprised of investments in several large institutional money market accounts, with original maturity of three months or less. At September 29, 2023, and December 30, 2022, $64 million and $158 million, respectively, of outstanding payments were included within "Cash and cash equivalents" and "Accounts payable and accrued liabilities" correspondingly on the condensed consolidated balance sheets.

Restricted Cash

We have restricted cash balances, primarily representing advances from customers that are restricted for use on certain expenditures related to that customer's contract. Restricted cash balances are included as "Other current assets" in the condensed consolidated balance sheets. Our restricted cash balances were $189 million and $167 million at September 29, 2023, and December 30, 2022, respectively.

Note 2–Revenues

Remaining Performance Obligations

Remaining performance obligations ("RPO") represent the expected value of exercised contracts, both funded and unfunded, less revenue recognized to date. RPO does not include unexercised option periods and future potential task orders expected to be awarded under indefinite delivery/indefinite quantity ("IDIQ") contracts, General Services Administration Schedule or other master agreement contract vehicles, with the exception of certain IDIQ contracts where task orders are not competitively awarded and separately priced but instead are used as a funding mechanism, and where there is a basis for estimating future revenues and funding on future anticipated task orders.

As of September 29, 2023, we had $15.5 billion of RPO and expect to recognize approximately 63% and 79% over the next 12 months and 24 months, respectively, with the remainder to be recognized thereafter.

Disaggregation of Revenues

We disaggregate revenues by customer-type, contract-type and geographic location for each of our reportable segments.

Disaggregated revenues by customer-type were as follows:

	Three Months Ended September 29, 2023				**Nine Months Ended September 29, 2023**			
	Defense Solutions	Civil	Health	Total	Defense Solutions	Civil	Health	Total
				(in millions)				
DoD and U.S. Intelligence Community	**$ 1,677**	**$ 28**	**$ 242**	**$ 1,947**	**$ 4,798**	**$ 71**	**$ 755**	**$ 5,624**
Other U.S. government agencies[(1)]	**261**	**695**	**512**	**1,468**	**772**	**2,054**	**1,413**	**4,239**
Commercial and non-U.S. customers	**283**	**177**	**22**	**482**	**948**	**512**	**66**	**1,526**
Total	**$ 2,221**	**$ 900**	**$ 776**	**$ 3,897**	**$ 6,518**	**$ 2,637**	**$ 2,234**	**$ 11,389**

	Three Months Ended September 30, 2022				Nine Months Ended September 30, 2022			
	Defense Solutions	Civil	Health	Total	Defense Solutions	Civil	Health	Total
				(in millions)				
DoD and U.S. Intelligence Community	$ 1,559	$ 22	$ 255	$ 1,836	$ 4,620	$ 62	$ 732	$ 5,414
Other U.S. government agencies[(1)]	236	676	372	1,284	686	1,949	1,177	3,812
Commercial and non-U.S. customers	280	151	28	459	869	446	83	1,398
Total	$ 2,075	$ 849	$ 655	$ 3,579	$ 6,175	$ 2,457	$ 1,992	$ 10,624

[(1)] Includes federal government agencies other than the DoD and U.S. Intelligence Community, as well as state and local government agencies.

Disaggregated revenues by contract-type were as follows:

	Three Months Ended September 29, 2023				Nine Months Ended September 29, 2023			
	Defense Solutions	Civil	Health	Total	Defense Solutions	Civil	Health	Total
	(in millions)							
Cost-reimbursement and fixed-price-incentive-fee	$ 1,247	$ 472	$ 131	$ 1,850	$ 3,578	$ 1,401	$ 542	$ 5,521
Firm-fixed-price	718	286	543	1,547	2,128	813	1,396	4,337
Time-and-materials and fixed-price-level-of-effort	256	142	102	500	812	423	296	1,531
Total	$ 2,221	$ 900	$ 776	$ 3,897	$ 6,518	$ 2,637	$ 2,234	$ 11,389

	Three Months Ended September 30, 2022				Nine Months Ended September 30, 2022			
	Defense Solutions	Civil	Health	Total	Defense Solutions	Civil	Health	Total
	(in millions)							
Cost-reimbursement and fixed-price-incentive-fee	$ 1,166	$ 442	$ 200	$ 1,808	$ 3,493	$ 1,293	$ 534	$ 5,320
Firm-fixed-price	668	279	389	1,336	1,950	792	1,260	4,002
Time-and-materials and fixed-price-level-of-effort	241	128	66	435	732	372	198	1,302
Total	$ 2,075	$ 849	$ 655	$ 3,579	$ 6,175	$ 2,457	$ 1,992	$ 10,624

Disaggregated revenues by geographic location were as follows:

	Three Months Ended September 29, 2023				Nine Months Ended September 29, 2023			
	Defense Solutions	Civil	Health	Total	Defense Solutions	Civil	Health	Total
	(in millions)							
United States	$ 1,936	$ 845	$ 776	$ 3,557	$ 5,659	$ 2,504	$ 2,234	$ 10,397
International	285	55	—	340	859	133	—	992
Total	$ 2,221	$ 900	$ 776	$ 3,897	$ 6,518	$ 2,637	$ 2,234	$ 11,389

	Three Months Ended September 30, 2022				Nine Months Ended September 30, 2022			
	Defense Solutions	Civil	Health	Total	Defense Solutions	Civil	Health	Total
	(in millions)							
United States	$ 1,830	$ 810	$ 655	$ 3,295	$ 5,429	$ 2,340	$ 1,992	$ 9,761
International	245	39	—	284	746	117	—	863
Total	$ 2,075	$ 849	$ 655	$ 3,579	$ 6,175	$ 2,457	$ 1,992	$ 10,624

Revenues by customer-type, contract-type and geographic location exclude lease income of $24 million and $69 million for the three and nine months ended September 29, 2023, respectively, and $29 million and $75 million for the three and nine months ended September 30, 2022, respectively.

Contract Assets and Liabilities

Performance obligations are satisfied either over time as work progresses or at a point in time. Firm-fixed-price contracts are typically billed to the customer using milestone payments while cost-reimbursable and time and materials contracts are typically billed to the customer on a monthly or bi-weekly basis as indicated by the negotiated billing terms and conditions of the contract. As a result, the timing of revenue recognition, customer billings and cash collections for each contract results in a net contract asset or liability at the end of each reporting period.

Contract assets consist of unbilled receivables, which is the amount of revenue recognized that exceeds the amount billed to the customer. Unbilled receivables exclude amounts billable where the right to consideration is solely subject to the passage of time. Contract liabilities consist of deferred revenue, which represents cash advances received prior to performance for programs and billings in excess of revenue recognized.

The components of contract assets and contract liabilities consisted of the following:

	Balance sheet line item	**September 29, 2023**	December 30, 2022
		(in millions)	
Contract assets - current:			
Unbilled receivables	Receivables, net	**$ 1,047**	$ 1,010
Contract liabilities - current:			
Deferred revenue[1]	Accounts payable and accrued liabilities	**$ 449**	$ 380
Contract liabilities - non-current:			
Deferred revenue[1]	Other long-term liabilities	**$ 23**	$ 29

[1] Certain contracts record revenue net of cost of revenues, and therefore, the respective deferred revenue balance will not fully convert to revenue.

Revenue recognized for the three and nine months ended September 29, 2023, of $28 million and $215 million, respectively, was included as a contract liability at December 30, 2022. Revenue recognized for the three and nine months ended September 30, 2022, of $17 million and $257 million, respectively, was included as a contract liability at December 31, 2021.

Note 3–Acquisitions, Divestitures, Goodwill and Intangible Assets

Business Acquisition

On October 30, 2022 (the "Agreement Date"), we completed the acquisition of Cobham Special Mission for purchase consideration of $298 million Australian dollars, net of $10 million of Australian dollars acquired, or $192 million United States dollars, net of $6 million of cash acquired. Cobham Special Mission provides airborne border surveillance and search and rescue services to the Australian Federal Government.

As of September 29, 2023, we completed the determination of fair values of the assets acquired and liabilities assumed.The final goodwill recognized of $22 million represents intellectual capital and the acquired assembled workforce, neither of which qualify for recognition as a separate intangible asset. None of the goodwill recognized is tax deductible.

In connection with this acquisition, we acquired property, plant and equipment with a fair value of $148 million at the Agreement Date. The following table summarizes the fair value of intangible assets acquired at the Agreement Date and the related weighted average amortization period:

	Weighted average amortization period	Fair value
	(in years)	(in millions)
Programs	11	$ 19
Technology	10	5
Total	11	$ 24

For the three and nine months ended September 29, 2023, $28 million and $86 million of revenues related to the Cobham Special Mission acquisition were recognized within the Defense Solutions reportable segment.

Goodwill

The following table presents changes in the carrying amount of goodwill by reportable segment:

	Defense Solutions	Civil	Health	Total
		(in millions)		
Goodwill at December 31, 2021[(1)]	$ 3,681	$ 2,097	$ 966	$ 6,744
Acquisition of businesses	26	—	—	26
Divestiture of a business	(6)	—	—	(6)
Foreign currency translation adjustments	(37)	(31)	—	(68)
Goodwill at December 30, 2022[(1)]	$ 3,664	$ 2,066	$ 966	$ 6,696
Goodwill impairment	—	(599)	—	(599)
Acquisition of a business[(2)]	(4)	—	—	(4)
Foreign currency translation adjustments	(18)	4	—	(14)
Goodwill at September 29, 2023[(3)]	**$ 3,642**	**$ 1,471**	**$ 966**	**$ 6,079**

(1) Carrying amount includes accumulated impairment losses of $369 million and $117 million within the Health and Civil segments, respectively.
(2) Adjustment to goodwill resulting from a measurement period purchase accounting adjustment.
(3) Carrying amount includes accumulated impairment losses of $369 million and $716 million within the Health and Civil segments, respectively.

We evaluate qualitative factors that could cause us to believe the estimated fair value of each of our reporting units may be lower than the carrying value and trigger a quantitative assessment, including, but not limited to (i) macroeconomic conditions, (ii) industry and market considerations, (iii) our overall financial performance, including an analysis of our current and projected cash flows, revenues and earnings, (iv) a sustained decrease in share price and (v) other relevant entity-specific events including changes in management, strategy, partners or litigation.

Operations of the Security Enterprise Solutions ("SES") reporting unit rely heavily on the sales and servicing of security and detection products, which continue to be negatively impacted due to delays in airline travel infrastructure projects as customer budgetary restraints recover from reduced travel activity post-pandemic. During the third quarter of fiscal 2023, the SES reporting unit refined its portfolio and made strategic business decisions to exit certain product offerings, as well as cease operations in certain countries in order to align the operations of the reporting unit with its strategic business plan. These decisions, along with the delays in airline travel infrastructure projects and higher than anticipated servicing costs, contributed to a significant reduction in the reporting unit's forecasted revenue and cash flows.

As a result, we conducted an interim quantitative goodwill impairment analysis and our estimates led us to determine that the carrying value of the SES reporting unit exceeded its estimated fair value (see "Note 4–Fair Value Measurements"). Accordingly, we recognized a non-cash goodwill impairment charge of $599 million for the three and nine months ended September 29, 2023, leaving $303 million of goodwill at the SES reporting unit. The impairment was recorded within the Civil reportable segment in the condensed consolidated statements of operations. In the event that there are significant unfavorable changes to the forecasted cash flows, forecasted revenue, terminal growth rates or the cost of capital used in the fair value estimates, we may be required to record an additional impairment of goodwill at a future date.

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Intangible Assets

Intangible assets, net consisted of the following:

	September 29, 2023			December 30, 2022		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
	(in millions)					
Finite-lived intangible assets:						
Programs	$ 1,686	$ (1,132)	$ 554	$ 1,721	$ (1,016)	$ 705
Software and technology	203	(138)	65	225	(136)	89
Customer relationships	52	(21)	31	87	(25)	62
Trade names	1	(1)	—	1	(1)	—
Total finite-lived intangible assets	1,942	(1,292)	650	2,034	(1,178)	856
Indefinite-lived intangible assets:						
In-process research and development ("IPR&D")[1]	59	—	59	92	—	92
Trade names	4	—	4	4	—	4
Total indefinite-lived intangible assets	63	—	63	96	—	96
Total intangible assets	$ 2,005	$ (1,292)	$ 713	$ 2,130	$ (1,178)	$ 952

[1] IPR&D assets are indefinite-lived at the acquisition date until placed into service, at which time such assets will be reclassified to a finite-lived amortizable intangible asset.

Our strategic decisions regarding SES' product offerings and operating regions (see the goodwill discussion on page 13) caused certain technology and IPR&D intangible assets to be abandoned and the carrying values of certain program intangible assets to become unrecoverable. As a result, for the three and nine months ended September 29, 2023, we recognized intangible asset impairment charges of $79 million. The impairment was recorded to "Asset impairment charges" in the condensed consolidated statements of operations within the Civil reportable segment. In the event that we are required to make an additional impairment of goodwill at a future date for any of the reasons identified in our discussion of goodwill or if other events occur that negatively impact these intangible assets, we may also be required to record an additional impairment of intangible assets at that time.

Amortization expense was $50 million and $153 million for the three and nine months ended September 29, 2023, respectively and $57 million and $173 million for the three and nine months ended September 30, 2022, respectively.

Program intangible assets are amortized over their respective estimated useful lives in proportion to the pattern of economic benefit based on expected future discounted cash flows. Backlog and finite-lived trade name intangible assets are amortized on a straight-line basis over their estimated useful lives. Customer relationships and software and technology intangible assets are amortized either on a straight-line basis over their estimated useful lives or over their respective estimated useful lives in proportion to the pattern of economic benefit based on expected future discounted cash flows, as deemed appropriate.

The estimated annual amortization expense as of September 29, 2023, was as follows:

Fiscal year ending	(in millions)
2023 (remainder of year)	$ 49
2024	140
2025	113
2026	92
2027	66
2028 and thereafter	190
	$ 650

Note 4–Fair Value Measurements

The accounting standard for fair value measurements establishes a three-level fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: observable inputs such as quoted prices in active markets (Level 1); inputs other than quoted prices in active markets that are observable, either directly or indirectly, or quoted prices that are not active (Level 2); and unobservable inputs in which there is little or no market data (e.g., discounted cash flow and other similar pricing models), which requires us to develop our own market participant assumptions used in pricing the asset or liability (Level 3).

The financial instruments measured at fair value on a recurring basis primarily consisted of the following:

	September 29, 2023		December 30, 2022	
	Carrying value	**Fair value**	Carrying value	Fair value
	(in millions)			
Financial assets:				
Derivatives	**$ 19**	**$ 19**	$ 20	$ 20

As of September 29, 2023, and December 30, 2022, our derivatives primarily consisted of the cash flow interest rate swaps on $500 million and $1.0 billion, respectively, of the variable rate senior unsecured term loan (see "Note 5–Derivative Instruments"). The fair value of the cash flow interest rate swaps is determined based on observed values for underlying interest rates on the one-month SOFR rate as of September 29, 2023 and the LIBOR yield curve as of December 30, 2022 (Level 2 inputs).

The carrying amounts of our financial instruments, other than derivatives, which include cash equivalents, accounts receivable, accounts payable and accrued expenses, are reasonable estimates of their related fair values.

As of September 29, 2023, and December 30, 2022, the fair value of debt was $4.3 billion and $4.6 billion, respectively, and the carrying amount was $4.7 billion and $4.9 billion, respectively (see "Note 6–Debt"). The fair value of long-term debt is determined based on current interest rates available for debt with terms and maturities similar to our existing debt arrangements (Level 2 inputs).

During the three months ended September 29, 2023, we recorded impairment charges of SES' goodwill (see "Note 3–Acquisitions, Divestitures, Goodwill and Intangible Assets"). The fair values of the assets and liabilities of the SES reporting unit were determined using a blended approach, including discounted cash flow models and market earnings multiples. The market approach estimates fair value based on profitability and valuation metrics for peer companies and applies a multiple to the reporting unit's operating performance. The income approach estimates fair value by discounting the reporting unit's estimated future cash flows using a weighted-average cost of capital reflecting current market conditions as well as the risk profile of the reporting unit. Future cash flows are based on estimates of economic and market assumptions made using the best judgment of management, including growth rates in revenue and margins, and future changes in tax rates and cash expenditures. Other significant assumptions and estimates include estimates of future capital expenditures, terminal value growth rates, and changes in future working capital requirements. The fair value of the SES reporting unit was determined using Level 3 inputs.

On October 30, 2022, non-financial instruments measured at fair value on a non-recurring basis were recorded in connection with the completed acquisitions of Cobham Special Mission. The fair values of the assets acquired and liabilities assumed were determined using Level 3 inputs.

Note 5–Derivative Instruments

We manage our risk to changes in interest rates through the use of derivative instruments. We do not hold derivative instruments for trading or speculative purposes. For variable rate borrowings, we use fixed interest rate swaps, effectively converting a portion of the variable interest rate payments to fixed interest rate payments. These swaps are designated as cash flow hedges.

The fair value of the interest rate swaps was as follows:

	Asset derivatives		
	Balance sheet line item	**September 29, 2023**	December 30, 2022
		(in millions)	
Cash flow interest rate swaps	Other long-term assets	**$ 19**	$ 20

The cash flows associated with the interest rate swaps are classified as operating activities in the condensed consolidated statements of cash flows.

Cash Flow Hedges

We have interest rate swap agreements to hedge the cash flows of $500 million of the variable rate senior unsecured term loan (the "Variable Rate Loan"). These interest rate swap agreements have a maturity date of August 2025 and a fixed interest rate of 2.96%. The objective of these instruments is to reduce variability in the forecasted interest payments of the Variable Rate Loan. During fiscal 2023, we modified our interest rate swap agreements to receive monthly variable interest payments based on the one-month SOFR rate, as compared to LIBOR, and will continue to pay interest at a fixed rate. We applied the guidance of ASC 848 which permits the continuation of hedge accounting for such modification.

The interest rate swap transactions are accounted for as cash flow hedges. The gain/loss on the swaps is reported as a component of other comprehensive (loss) income and is reclassified into earnings when the interest payments on the underlying hedged items impact earnings. A qualitative assessment of hedge effectiveness is performed on a quarterly basis, unless facts and circumstances indicate the hedge may no longer be highly effective.

The effect of the cash flow hedges on other comprehensive income (loss) and earnings for the periods presented was as follows:

	Three Months Ended		Nine Months Ended	
	September 29, 2023	September 30, 2022	**September 29, 2023**	September 30, 2022
	(in millions)			
Total interest expense, net presented in the condensed consolidated statements of operations in which the effects of cash flow hedges are recorded	**$ 53**	$ 50	**$ 163**	$ 148
Amount recognized in other comprehensive income (loss)	**$ 3**	$ 21	**$ 11**	$ 57
Amount reclassified from accumulated other comprehensive income (loss) to interest expense, net	**$ (3)**	$ 2	**$ (12)**	$ 13

We expect to reclassify net gains of $13 million from accumulated other comprehensive loss into earnings during the next 12 months.

Note 6–Debt

Our debt consisted of the following:

	Stated interest rate	Effective interest rate	September 29, 2023	December 30, 2022
			(in millions)	
Short-term debt and current portion of long-term debt:				
Senior unsecured term loans:				
$380 million term loan, due May 2023	6.08%	6.17%	$ —	$ 320
Current portion of long-term debt			18	672
Total short-term debt and current portion of long-term debt			$ 18	$ 992
Long-term debt:				
Senior unsecured term loans:				
$1,925 million term loan, due January 2025	5.77%	6.09%	$ —	$ 1,211
$1,000 million term loan, due March 2028	6.68%	6.86%	1,000	—
Senior unsecured notes:				
$500 million notes, due May 2023	2.95%	3.17%	—	500
$500 million notes, due May 2025	3.63%	3.76%	500	500
$750 million notes due May 2030	4.38%	4.50%	750	750
$750 million notes due March 2033	5.75%	5.81%	750	—
$1,000 million notes, due February 2031	2.30%	2.38%	1,000	1,000
$250 million notes, due July 2032	7.13%	7.43%	250	250
$300 million notes, due July 2033	5.50%	5.88%	161	161
$300 million notes, due December 2040	5.95%	6.03%	218	218
Finance leases due on various dates through fiscal 2032	Various	1.84%-6.31%	96	44
Less: unamortized debt discounts and deferred debt issuance costs			(40)	(34)
Total long-term debt			4,685	4,600
Less current portion			(18)	(672)
Total long-term debt, net of current portion			$ 4,667	$ 3,928

Term Loans and Revolving Credit Facility

On March 10, 2023 (the "Closing Date"), we entered into a Credit Agreement (the "Credit Agreement") with certain financial institutions, which provided for a senior unsecured term loan facility in an aggregate principal amount of $1.0 billion (the "Term Loan Facility") and a $1.0 billion senior unsecured revolving facility (the "Revolving Facility" and, together with the Term Loan Facility, the "Credit Facilities"). The Credit Facilities will mature in March 2028. The Revolving Facility permits two additional one-year extensions subject to lender consent. As of September 29, 2023, there were no borrowings outstanding under the Revolving Facility.

The proceeds of the Term Loan Facility and cash on hand on the Closing Date were used to repay in full all indebtedness, terminate all commitments and discharge all guarantees existing in connection with the credit agreement related to the $1.9 billion senior unsecured term loan facility and $750 million senior unsecured revolving facility.

Borrowings under the Credit Agreement bear interest at a rate determined, at our option, based on either an alternate base rate or a Term SOFR rate with a 0.10% per annum Term SOFR adjustment, plus, in each case, an applicable margin that varies depending on our credit rating. The applicable margin range for Term SOFR-denominated borrowings is from 1.00% to 1.50%. Based on our current ratings, the applicable margin for Term SOFR-denominated borrowings is 1.25%. Principal payments are made quarterly on the Term Loan Facility beginning in March 2025, with the majority of the principal due at maturity. Interest on the Term Loan Facility for Term SOFR-denominated borrowings is payable on a periodic basis, which must be at least quarterly.

The financial covenants in the Credit Agreement require that we maintain, as of the last day of each fiscal quarter, a ratio of adjusted consolidated total debt to consolidated EBITDA of not more than 3.75 to 1.00, subject to two increases to 4.50 to 1.00 for four fiscal quarters following a material acquisition, and a ratio of EBITDA to consolidated interest expense of not less than 3.50 to 1.00.

Senior Notes

On February 28, 2023, we issued and sold $750 million aggregate principal amount of fixed-rate senior notes (the “Notes”) maturing in March 2033. The Notes are senior unsecured obligations issued by Leidos, Inc. and guaranteed by Leidos Holdings, Inc. The annual interest rate for the Notes is 5.75% and is payable on a semi-annual basis. In connection with the issuance of the Notes, $11 million of debt issuance costs and discount were recognized, which were recorded as an offset against the carrying value of debt. The proceeds from the Notes were used to repay all of the outstanding obligations in respect of principal, interest and fees on the $500 million 2.95% notes, due May 2023, the majority of which were retired on February 28, 2023. The remaining proceeds from the Notes were used to repay $210 million of the outstanding balance on the $1.9 billion senior unsecured term loan facility, due January 2025, and fund general corporate purposes.

Commercial Paper

We have a commercial paper program in which the Company may issue short-term unsecured commercial paper notes ("Commercial Paper Notes"). On May 26, 2023, we increased the size of the commercial paper program by $250 million, or not to exceed $1.0 billion. The proceeds will be used for general corporate purposes, including working capital, capital expenditures, acquisitions and share repurchases.

The Commercial Paper Notes are issued in minimum denominations of $0.25 million and have maturities of up to 397 days from the date of issuance. The Commercial Paper Notes either bear a stated or floating interest rate, if interest bearing, or will be sold at a discount from the face amount. As of September 29, 2023, we did not have any Commercial Paper Notes outstanding.

The Credit Facilities, Commercial Paper Notes, senior unsecured term loans and notes are fully and unconditionally guaranteed and contain certain customary restrictive covenants, including among other things, restrictions on our ability to create liens and enter into sale and leaseback transactions under certain circumstances. We were in compliance with all covenants as of September 29, 2023.

Finance Leases

In fiscal 2022, the Company entered into a Master Lease Agreement whereby we agreed to lease two aircraft from the time each aircraft is accepted through June 30, 2027. In March 2023, we took possession of both aircraft and recognized a $64 million finance lease obligation and a corresponding property, plant and equipment asset.

Principal Payments

Future minimum payments of debt are as follows:

Fiscal year ending	(in millions)
2023 (remainder of year)	$ 5
2024	18
2025	619
2026	120
2027	114
2028 and thereafter	3,849
Total principal payments	4,725
Less: unamortized debt discounts and deferred debt issuance costs	(40)
Total short-term and long-term debt	$ 4,685

Note 7–Accumulated Other Comprehensive Income (Loss)

Changes in the components of Accumulated Other Comprehensive Income (Loss) ("AOCI") were as follows:

	Foreign currency translation adjustments	Unrecognized gain (loss) on derivative instruments	Pension adjustments	Total AOCI
		(in millions)		
Balance at December 31, 2021	$ 22	$ (41)	$ 7	$ (12)
Other comprehensive income (loss)	(108)	59	(27)	(76)
Taxes	13	(16)	7	4
Reclassification from AOCI	—	11	—	11
Balance at December 30, 2022	(73)	13	(13)	(73)
Other comprehensive income (loss)	(22)	11	(1)	(12)
Taxes	3	—	(1)	2
Reclassification from AOCI	—	(12)	—	(12)
Balance at September 29, 2023	**$ (92)**	**$ 12**	**$ (15)**	**$ (95)**

Reclassifications from unrecognized gain (loss) on derivative instruments are recorded in "Interest expense, net" in the condensed consolidated statements of operations.

Note 8–Earnings Per Share

The following table provides a reconciliation of the weighted average number of shares outstanding used to compute basic and diluted EPS for the periods presented:

	Three Months Ended		Nine Months Ended	
	September 29, 2023[(1)]	September 30, 2022	**September 29, 2023**[(1)]	September 30, 2022
		(in millions)		
Basic weighted average number of shares outstanding	**137**	137	**137**	137
Dilutive common share equivalents—stock options and other stock awards	**—**	1	**—**	1
Diluted weighted average number of shares outstanding	**137**	138	**137**	138

[(1)] Dilutive common share equivalents did not include the impact of 1 million potentially dilutive equity awards because the result would have been anti-dilutive due to the net losses.

Anti-dilutive stock-based awards are excluded from the weighted average number of shares outstanding used to compute diluted EPS. For the three and nine months ended September 29, 2023, and September 30, 2022, the total outstanding stock options and vesting stock awards that were anti-dilutive were 2 million and 1 million, respectively.

During the nine months ended September 29, 2023, we made open market repurchases of our common stock for an aggregate purchase price of $25 million. All shares repurchased were immediately retired. No share repurchases were made under the Company's share repurchase program during the three months ended September 29, 2023.

Note 9–Income Taxes

For the three months ended September 29, 2023, the effective tax rate was (2.1)% compared to 25.8% for the three months ended September 30, 2022. The decrease to the effective tax rate was primarily due to the tax impacts of non-deductible goodwill impairments, see "Note 3–Acquisitions, Divestitures, Goodwill and Intangible Assets" for further information.

For the nine months ended September 29, 2023, the effective tax rate was 123.7% compared to 23.2% for the nine months ended September 30, 2022. The increase to the effective tax rate was primarily due to the tax impacts of non-deductible goodwill impairments, see "Note 3–Acquisitions, Divestitures, Goodwill and Intangible Assets" for further information.

Beginning in 2022, the Tax Cuts and Jobs Act of 2017 ("TCJA") eliminated the option to currently deduct certain research and development costs for tax purposes and requires taxpayers to capitalize and amortize research costs over five years. TCJA increased both our income taxes payable and net deferred tax assets since the beginning of 2022. For the nine months ended September 29, 2023, unrecognized tax benefits increased $71 million with a corresponding increase to net deferred tax assets as a result of uncertain tax positions arising from capitalizing research and development costs. Future impacts of TCJA will depend on the amount of research and development costs the Company will incur, whether Congress modifies or repeals this provision and whether new guidance and interpretive rules are issued by the U.S. Treasury, among other factors.

Note 10–Business Segments

Our operations and reportable segments are organized around the customers and markets we serve. We define our reportable segments based on the way the chief operating decision maker ("CODM"), currently our Chief Executive Officer, manages operations for the purposes of allocating resources and assessing performance.

The segment information for the periods presented was as follows:

	Three Months Ended		Nine Months Ended	
	September 29, 2023	September 30, 2022	**September 29, 2023**	September 30, 2022
	(in millions)			
Revenues:				
Defense Solutions	**$ 2,221**	$ 2,075	**$ 6,520**	$ 6,176
Civil	**924**	874	**2,703**	2,526
Health	**776**	659	**2,235**	1,997
Total revenues	**$ 3,921**	$ 3,608	**$ 11,458**	$ 10,699
Operating (loss) income:				
Defense Solutions	**$ 147**	$ 137	**$ 469**	$ 409
Civil	**(607)**	79	**(503)**	160
Health	**152**	91	**381**	335
Corporate	**(28)**	(26)	**(87)**	(81)
Total operating (loss) income	**$ (336)**	$ 281	**$ 260**	$ 823

The income statement performance measures used to evaluate segment performance are revenues and operating (loss) income. As a result, "Interest expense, net," "Other income (expense), net" and "Income tax expense" as reported in the condensed consolidated statements of operations are not allocated to our segments. Under U.S. Government Cost Accounting Standards, indirect costs including depreciation expense are collected in indirect cost pools, which are then collectively allocated to the reportable segments based on a representative causal or beneficial relationship of the costs in the pool to the costs in the base. As such, depreciation expense is not separately disclosed on the condensed consolidated statements of operations.

Asset information by segment is not a key measure of performance used by the CODM.

Note 11–Commitments and Contingencies

Contingencies

VirnetX, Inc. ("VirnetX")

On April 10, 2018, a jury trial concluded in an additional patent infringement case brought by VirnetX against Apple, referred to as the Apple II case, in which the jury returned a verdict against Apple for infringement and awarded VirnetX damages in the amount of over $502 million. On April 11, 2018, in a second phase of the Apple II trial, the jury found Apple's infringement to be willful. On August 30, 2018, the federal trial court in the Eastern District of Texas entered a final judgment and rulings on post-trial motions in the Apple II case. The court affirmed the jury's verdict of over $502 million and granted VirnetX's motions for supplemental damages, a sunset royalty and royalty rate of $1.20 per infringing device, along with pre-judgment and post-judgment interest and costs. The court denied VirnetX's motions for enhanced damages, attorneys' fees and an injunction. The court also denied Apple's motions for judgment as a matter of law and for a new trial. An additional sum of over $93 million for costs and pre-judgment interest was subsequently agreed upon pursuant to a court order, bringing the total award to VirnetX in the Apple II case to over $595 million. Apple filed an appeal of the judgment in the Apple II case with the U.S. Court of Appeals for the Federal Circuit, and on November 22, 2019, the Federal Circuit affirmed in part, reversed in part and remanded the Apple II case back to the District Court. The Federal Circuit affirmed that Apple infringed two of the patents at issue in the case, and ruled that Apple is precluded from making certain patent invalidity arguments. However, the Federal Circuit reversed the judgment that Apple infringed two other patents at issue, vacated the prior damages awarded in the Apple II case, and remanded the Apple II case back to the District Court for further proceedings regarding damages. On April 23, 2020, the District Court ordered a new trial on damages in the Apple II case, which was delayed by the coronavirus pandemic and started on October 26, 2020. On October 30, 2020, the jury awarded VirnetX $503 million in damages and specified a royalty rate of $0.84 per infringing device. In January 2021, the District Court entered final judgment affirming the jury award and the parties separately agreed on additional costs and interest of over $75 million, subject to Apple's appeal. On February 4, 2021, Apple filed a notice of appeal with the U.S. Court of Appeals for the Federal Circuit in the Apple II case.

Under our agreements with VirnetX, Leidos would receive 25% of the proceeds obtained by VirnetX after reduction for attorneys' fees and costs. However, the verdict in the Apple II case remains subject to the ongoing and potential future proceedings and appeals. In addition, the patents at issue in these cases are subject to U.S. Patent and Trademark Office ("USPTO") post-grant inter partes review and/or reexamination proceedings and related appeals, which may result in all or part of these patents being invalidated or the claims of the patents being limited. On March 30, 2023, the U.S. Court of Appeals for the Federal Circuit issued a ruling affirming prior decisions of the USPTO's Patent Trial and Appeal Board finding certain claims of the patents at issue in the Apple II case to be unpatentable. On March 31, 2023, the Federal Circuit issued a decision vacating the District Court's judgment in the Apple II case and remanding it back to the District Court with instructions to dismiss the case as moot. These Federal Circuit decisions remain subject to potential motions and/or appeals by VirnetX, including potentially seeking rehearing or certiorari review. On May 1, 2023, VirnetX filed a petition for panel rehearing on the Apple II litigation decision at the Federal Circuit, but this petition was denied by the Federal Circuit on June 27, 2023. On June 5, 2023, VirnetX filed a petition for panel rehearing on the Federal Circuit's decision finding the patents at issue in the Apple II case to be unpatentable, but this petition was denied by the Federal Circuit on June 22, 2023. On September 20, 2023, VirnetX filed a petition for a writ of certiorari with the Supreme Court of the United States to review the Federal Circuit decisions.

Thus, no assurances can be given when or if we will receive any proceeds in connection with the Apple II case. In addition, if Leidos receives any proceeds, we are required to pay a royalty to the customer who paid for the development of the technology.

Government Investigations and Reviews

We are routinely subject to investigations and reviews relating to compliance with various laws and regulations with respect to our role as a contractor to federal, state and local government customers and in connection with performing services in countries outside of the United States. Adverse findings could have a material effect on our business, financial position, results of operations and cash flows due to our reliance on government contracts.

Defense Contract Audit Agency

As of September 29, 2023, active indirect cost audits by the Defense Contract Audit Agency remain open for fiscal 2021 and subsequent fiscal years. Although we have recorded contract revenues based upon an estimate of costs that we believe will be approved upon final audit or review, we cannot predict the outcome of any ongoing or future audits or reviews and adjustments, and if future adjustments exceed estimates, our profitability may be adversely affected. As of September 29, 2023, we believe we have adequately reserved for potential adjustments from audits or reviews of contract costs.

Other Government Investigations and Reviews

Through its internal processes, the Company discovered, in late 2021, activities by its employees, third party representatives and subcontractors, raising concerns related to a portion of our business that conducts international operations. The Company is conducting an internal investigation, overseen by an independent committee of the Board of Directors, with the assistance of external legal counsel, to determine whether the identified conduct may have violated the Company's Code of Conduct and potentially applicable laws, including the U.S. Foreign Corrupt Practices Act ("FCPA"). The Company has voluntarily self-reported this investigation to the Department of Justice and the Securities and Exchange Commission and is cooperating with both agencies. Because the investigation is ongoing, the Company cannot anticipate the timing, outcome or possible impact of the investigation, although violations of the FCPA and other applicable laws may result in criminal and civil sanctions, including monetary penalties, and reputational damage. In September 2022, the Company received a Federal Grand Jury Subpoena related to the criminal investigation by the U.S. Attorney's Office for the Southern District of California, in conjunction with the U.S. Department of Justice's Fraud Division. The subpoena requests documents relating to the conduct that is the subject of the Company's internal investigation. The Company has responded to the subpoena. In February 2023, a former employee of the Company who was terminated at the outset of the investigation was indicted on wire fraud and other charges by a Federal Grand Jury in the U.S. District Court in the Southern District of California.

In August 2022, the Company received a Federal Grand Jury Subpoena in connection with a criminal investigation being conducted by the U.S. Department of Justice Antitrust Division. The subpoena requests that the Company produce a broad range of documents related to three U.S. Government procurements associated with the Company's Intelligence Group in 2021 and 2022. We are fully cooperating with the investigation, and we are conducting our own internal investigation with the assistance of outside counsel. It is not possible at this time to determine whether we will incur, or to reasonably estimate the amount of, any fines, penalties, or further liabilities in connection with the investigation pursuant to which the subpoena was issued.

Commitments

As of September 29, 2023, we have outstanding letters of credit of $60 million, principally related to performance guarantees on contracts and outstanding surety bonds with a notional amount of $104 million, principally related to performance and subcontractor payment bonds on contracts. The value of the surety bonds may vary due to changes in the underlying project status and/or contractual modifications.

As of September 29, 2023, the future expirations of the outstanding letters of credit and surety bonds were as follows:

Fiscal year ending	(in millions)
2023 (remainder of year)	$ 34
2024	10
2025	102
2026	2
2027	13
2028 and thereafter	3
	$ 164

Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

The following discussion and analysis of Leidos Holdings, Inc.'s ("Leidos") financial condition, results of operations, and quantitative and qualitative discussion about business environment and trends should be read in conjunction with Leidos' condensed consolidated financial statements and related notes.

The following discussion contains forward-looking statements, including statements regarding our intent, belief or current expectations with respect to, among other things, trends affecting our financial condition or results of operations, backlog, our industry, the impact of our merger and acquisition activity, government budgets and spending, our business contingency plans, interest rates and uncertainties in tax due to new tax legislation or other regulatory developments. In some cases, forward-looking statements can be identified by words such as "will," "expect," "estimate," "plan," "potential," "continue" or similar expressions. Such statements are not guarantees of future performance and involve risks and uncertainties and actual results may differ materially from those in the forward-looking statements as a result of various factors. Some of these factors include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K, as updated by the risk factor in this report under Part II, Item 1A. "Risk Factors" and as may be further updated in subsequent filings with the U.S. Securities and Exchange Commission. Due to such uncertainties and risks, you are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to update these factors or to publicly announce the results of any changes to our forward-looking statements due to future events or developments.

Unless indicated otherwise, references in this report to "we," "us" and "our" refer collectively to Leidos and its consolidated subsidiaries.

Overview

We are a FORTUNE 500® technology, engineering, and science company that provides services and solutions in the defense, intelligence, civil and health markets, both domestically and internationally. We bring domain-specific capability and cross-market innovations to customers in each of these markets by leveraging five technical core competencies: digital modernization, cyber operations, mission software systems, integrated systems and mission operations. Our customers include the U.S. Department of Defense ("DoD"), the U.S. Intelligence Community, the U.S. Department of Homeland Security, the Federal Aviation Administration, the Department of Veterans Affairs and many other U.S. civilian, state and local government agencies, foreign government agencies and commercial businesses. We operate in three reportable segments: Defense Solutions, Civil and Health. Additionally, we separately present the unallocable costs associated with corporate functions as Corporate.

Business Environment and Trends

U.S. Government Markets

During the three and nine months ended September 29, 2023, we generated approximately 87% and 86%, respectively, of total revenues from contracts with the U.S. government, as compared to 87% during both of the three and nine months ended September 30, 2022. Accordingly, our business performance is affected by the overall level of U.S. government spending, especially on national security, homeland security and intelligence, and the alignment of our service and product offerings and capabilities with current and future budget priorities of the U.S. government.

On September 30, 2023, Congress avoided a federal government shutdown by passing a continuing resolution ("CR") that provides government funding until November 17, 2023. The CR gives lawmakers more time to consider the 12 appropriations bills for government fiscal year ("GFY") 2024 and organize new leadership of the House of Representatives. The House has passed the State and Foreign Operations, Defense, Military Construction and Homeland Security Appropriations bills. For GFY 2024, the total federal discretionary spending request is $1.59 trillion with $886 billion for defense spending and $703 billion for non-defense discretionary spending programs. The Senate is also working on a government funding bill that will provide aid to Ukraine since such funding was not included in the CR. Failure to pass the appropriations bills or another CR by November 17, 2023, will result in a partial or complete federal government shutdown.

International Markets

Sales to customers in international markets represented approximately 9% of total revenues for both the three and nine months ended September 29, 2023, as compared to 8% of total revenues for both the three and nine months ended September 30, 2022. Our international customers include foreign governments and their agencies. Our international business increases our exposure to international markets and the associated international regulatory and geopolitical risks.

Changes in international trade policies, including higher tariffs on imported goods and materials, may increase our procurement costs of certain IT hardware used both on our contracts and for internal use. However, we expect to recover certain portions of these higher tariffs through our cost-plus contracts. While we evaluate the impact of higher tariffs, currently, we do not expect tariffs to have a significant impact to our business.

Results of Operations

The following table summarizes our condensed consolidated results of operations for the periods presented:

	Three Months Ended				Nine Months Ended			
	September 29, 2023	September 30, 2022	Dollar change	Percent change	**September 29, 2023**	September 30, 2022	Dollar change	Percent change
	(dollars in millions)							
Revenues	**$ 3,921**	$ 3,608	$ 313	8.7 %	**$ 11,458**	$ 10,699	$ 759	7.1 %
Operating (loss) income	**(336)**	281	(617)	(219.6)%	**260**	823	(563)	(68.4)%
Non-operating expense, net	**(52)**	(60)	8	(13.3)%	**(167)**	(155)	(12)	7.7 %
(Loss) income before income taxes	**(388)**	221	(609)	(275.6)%	**93**	668	(575)	(86.1)%
Income tax expense	**(8)**	(57)	49	(86.0)%	**(115)**	(155)	40	(25.8)%
Net (loss) income	**$ (396)**	$ 164	$ (560)	(341.5)%	**$ (22)**	$ 513	$ (535)	(104.3)%
Net (loss) income attributable to Leidos common stockholders	**$ (399)**	$ 162	$ (561)	(346.3)%	**$ (30)**	$ 508	$ (538)	(105.9)%
Operating margin	***(8.6)%***	*7.8 %*			***2.3 %***	*7.7 %*		

Segment and Corporate Results

	Three Months Ended				Nine Months Ended			
Defense Solutions	**September 29, 2023**	September 30, 2022	Dollar change	Percent change	**September 29, 2023**	September 30, 2022	Dollar change	Percent change
	(dollars in millions)							
Revenues	**$ 2,221**	$ 2,075	$ 146	7.0 %	**$ 6,520**	$ 6,176	$ 344	5.6 %
Operating income	**147**	137	10	7.3 %	**469**	409	60	14.7 %
Operating margin	***6.6 %***	*6.6 %*			***7.2 %***	*6.6 %*		

The increase in revenues for the three months ended September 29, 2023, as compared to the three months ended September 30, 2022, was primarily attributable to programs wins, a net increase in volumes on certain programs and a $28 million increase in revenues related to our Cobham Special Mission acquisition made in the last quarter of fiscal 2022. The increase was partially offset by the completion of certain contracts.

The increase in revenues for the nine months ended September 29, 2023, as compared to the nine months ended September 30, 2022, was primarily attributable to a net increase in volumes on certain programs, programs wins, an increase in net write-ups on certain programs and a $86 million increase in revenues related to our Cobham Special Mission acquisition made in the last quarter of fiscal 2022. The increase was partially offset by the completion of certain contracts and a $29 million unfavorable impact from exchange rate movements.

The increase in operating income for the three months ended September 29, 2023, as compared to the three months ended September 30, 2022, was primarily attributable to a net increase in volumes on certain programs and program wins, partially offset by the completion of certain contracts.

The increase in operating income for the nine months ended September 29, 2023, as compared to the nine months ended September 30, 2022, was primarily attributable to a net increase in volumes on certain programs, program wins, partially offset by the completion of certain contracts.

Civil	Three Months Ended				Nine Months Ended			
	September 29, 2023	September 30, 2022	Dollar change	Percent change	**September 29, 2023**	September 30, 2022	Dollar change	Percent change
	(dollars in millions)							
Revenues	**$ 924**	$ 874	$ 50	5.7 %	**$ 2,703**	$ 2,526	$ 177	7.0 %
Operating (loss) income	**(607)**	79	(686)	*NM*	**(503)**	160	(663)	*NM*
Operating margin	***(65.7)%***	*9.0 %*			***(18.6)%***	*6.3 %*		

NM - not meaningful

The increase in revenues for the three and nine months ended September 29, 2023, as compared to the three and nine months ended September 30, 2022, were primarily attributable to a net increase in volumes and product mix on certain programs.

The decrease in operating income for the three months ended September 29, 2023, as compared to the three months ended September 30, 2022, were primarily driven by impairment charges of $679 million and restructuring charges of $9 million.

The decrease in operating income for the nine months ended September 29, 2023, as compared to the nine months ended September 30, 2022, were primarily driven by impairment charges of $679 million, restructuring charges of $10 million and a net decrease in volumes and product mix on certain programs. The decrease was partially offset by $19 million in legal reserves and fees resulting from an adverse arbitration ruling related to the 2016 acquisition of the Information Systems & Global Solutions business from Lockheed Martin in the prior year periods and the performance of an equity method investment.

Health	Three Months Ended				Nine Months Ended			
	September 29, 2023	September 30, 2022	Dollar change	Percent change	**September 29, 2023**	September 30, 2022	Dollar change	Percent change
	(dollars in millions)							
Revenues	**$ 776**	$ 659	$ 117	17.8 %	**$ 2,235**	$ 1,997	$ 238	11.9 %
Operating income	**152**	91	61	67.0 %	**381**	335	46	13.7 %
Operating margin	***19.6 %***	*13.8 %*			***17.0 %***	*16.8 %*		

The increase in revenues for the three months ended September 29, 2023, as compared to the three months ended September 30, 2022, was primarily attributable to a net increase in volumes, program wins, write-ups for incentive awards and recovery of prior expenditures in the medical examination business.

The increase in revenues for the nine months ended September 29, 2023, as compared to the nine months ended September 30, 2022, was primarily attributable to a net increase in program volumes, program wins and write-ups for incentive awards in the medical examination business. The increase was partially offset by the completion of certain contracts.

The increase in operating income for the three months ended September 29, 2023, as compared to the three months ended September 30, 2022, was primarily attributable to program wins, write-ups for incentive awards and recovery of prior expenditures in the medical examination business.

The increase in operating income for the nine months ended September 29, 2023, as compared to the nine months ended September 30, 2022, was primarily attributable to write-ups for incentive awards in the medical examination business and program wins.

Corporate	Three Months Ended				Nine Months Ended			
	September 29, 2023	September 30, 2022	Dollar change	Percent change	**September 29, 2023**	September 30, 2022	Dollar change	Percent change
	(dollars in millions)							
Operating loss	**$ (28)**	$ (26)	$ (2)	7.7 %	**$ (87)**	$ (81)	$ (6)	7.4 %

The increase in operating loss for the nine months ended September 29, 2023, as compared to the nine months ended September 30, 2022, was primarily attributable to increased administrative costs and transaction fees in connection with the issuance of the senior unsecured notes and Credit Agreement entered into during the first quarter of fiscal 2023, see "Note 6–Debt" for further information. The increase was partially offset by the impact of foreign payroll tax reserves.

Non-Operating Expense, net

Non-operating expense, net for the three months ended September 29, 2023, was $52 million as compared to $60 million for the three months ended September 30, 2022. The decrease was primarily due to a net unrealized loss in our foreign currency forward contract related to the Cobham Special Mission acquisition as a result of unfavorable exchange rate movements in the prior year, partially offset by higher net interest expense driven by increased interest rates and refinancing activities.

Non-operating expense, net for the nine months ended September 29, 2023, was $167 million as compared to $155 million for the nine months ended September 30, 2022. The increase was primarily due to higher net interest expense driven by increased interest rates and refinancing activities, partially offset by a net unrealized loss in our foreign currency forward contract related to the Cobham Special Mission acquisition as a result of unfavorable exchange rate movements in the prior year.

Provision for Income Taxes

For the three months ended September 29, 2023, our effective tax rate was (2.1)% compared to 25.8% for the three months ended September 30, 2022. The decrease to the effective tax rate was primarily due to the tax impacts of non-deductible goodwill impairments.

For the nine months ended September 29, 2023, our effective tax rate was 123.7% compared to 23.2% for the nine months ended September 30, 2022. The increase to the effective tax rate was primarily due to the tax impacts of non-deductible goodwill impairments.

Beginning in 2022, the Tax Cuts and Jobs Act of 2017 ("TCJA") eliminated the option to currently deduct certain research and development costs for tax purposes and requires taxpayers to capitalize and amortize research costs over five years. The actual impact will depend on the amount of research and development costs the Company will incur, whether Congress modifies or repeals this provision and whether new guidance and interpretive rules are issued by the U.S. Treasury, among other factors.

Bookings and Backlog

We recorded net bookings worth an estimated $7.9 billion and $13.8 billion during the three and nine months ended September 29, 2023, as compared to $4.1 billion and $11.6 billion for the three and nine months ended September 30, 2022.

The estimated value of our total backlog was as follows:

	September 29, 2023			September 30, 2022		
Segment	Funded	Unfunded	Total	Funded	Unfunded	Total
			(in millions)			
Defense Solutions	$ 4,994	$ 14,568	$ 19,562	$ 4,178	$ 13,842	$ 18,020
Civil	2,297	9,602	11,899	2,037	8,652	10,689
Health	1,756	4,826	6,582	1,214	5,105	6,319
Total	$ 9,047	$ 28,996	$ 38,043	$ 7,429	$ 27,599	$ 35,028

Total backlog as of September 29, 2023, as compared to September 30, 2022, included $610 million of backlog acquired through a business combination in our Defense Solutions reportable segment.

Backlog represents the estimated amount of future revenues to be recognized under negotiated contracts, both funded and unfunded. Backlog does not include unexercised option periods and future potential task orders expected to be awarded under indefinite delivery/indefinite quantity ("IDIQ") contracts, General Services Administration Schedule or other master agreement contract vehicles, with the exception of certain IDIQ contracts where task orders are not competitively awarded and separately priced but instead are used as a funding mechanism, and where there is a basis for estimating future revenues and funding on future anticipated task orders.

Backlog estimates are subject to change and may be affected by factors including modifications of contracts and foreign currency movements.

Liquidity and Capital Resources

Overview

As of September 29, 2023, we had $750 million in cash and cash equivalents. In March 2023, we entered into a senior unsecured revolving credit facility which can provide up to $1 billion in additional borrowing, if required. This new credit facility replaced the previous senior unsecured revolving credit facility. As of September 29, 2023, there were no borrowings outstanding under the revolving credit facility.

We had outstanding debt of $4.7 billion and $4.9 billion at September 29, 2023, and December 30, 2022, respectively. In February 2023, we entered into $750 million 5.75% fixed-rate senior notes. The annual interest rate is payable on a semi-annual basis. In March 2023, we entered into a Credit Agreement with certain financial institutions, which provided for a senior unsecured term loan facility in an aggregate principal amount of $1.0 billion (the “Term Loan Facility”). The proceeds of the Term Loan Facility and cash on hand were used to repay in full all indebtedness, terminate all commitments and discharge all existing guarantees related to the $1.9 billion senior unsecured term loan facility and $750 million senior unsecured revolving facility, due January 2025.

As of September 29, 2023, borrowings under our Credit Agreement were based on a Term Secured Overnight Financing Rate (“SOFR”) with a 0.10% Term SOFR adjustment and an applicable margin range from 1.00% to 1.50%. At September 29, 2023, the applicable margin for SOFR-denominated borrowings was 1.25%.

We have a commercial paper program in which we may issue short-term unsecured commercial paper notes ("Commercial Paper Notes") and have maturities of up to 397 days from the date of issuance. On May 26, 2023, we increased the size of the commercial paper program by $250 million, or not to exceed $1.0 billion. As of September 29, 2023, we did not have any Commercial Paper Notes outstanding.

We made principal payments, excluding the impacts of our Commercial Paper Notes, on our debt of $5 million and $2,041 million during the three and nine months ended September 29, 2023, respectively, and $25 million and $459 million during the three and nine months ended September 30, 2022, respectively. The activity for the nine months ended September 29, 2023, included a $1,210 million payment to discharge the existing Term Loan Facility, a $498 million payment to discharge the $500 million 2.95% notes, due May 2023, and a principal repayment of $320 million to discharge the 364-day term loan credit agreement, as compared to $452 million required principal payments on our Term Loan Facility for the nine months ended September 30, 2022.

Our credit facilities, commercial paper notes, senior unsecured term loans and notes outstanding as of September 29, 2023, contain financial covenants and customary restrictive covenants. We were in compliance with all covenants as of September 29, 2023.

We paid dividends of $50 million and $150 million during the three and nine months ended September 29, 2023, respectively, and $49 million and $149 million during the three and nine months ended September 30, 2022, respectively.

Stock repurchases of Leidos common stock may be made on the open market or in privately negotiated transactions with third parties including through accelerated share repurchase agreements. Whether repurchases are made and the timing and actual number of shares repurchased depends on a variety of factors including price, corporate capital requirements, other market conditions and regulatory requirements. The repurchase program may be accelerated, suspended, delayed or discontinued at any time.

During the nine months ended September 29, 2023, we made open market repurchases of our common stock for aggregate purchase price of $25 million. No share repurchases were made during the three months ended September 29, 2023.

Beginning in 2022, a provision in the TCJA which eliminated the option to currently deduct research and development costs for tax purposes and requires taxpayers to capitalize and amortize the costs over five years became effective. We anticipate our tax cash payments to increase by approximately $270 million in 2023, primarily to cover both the 2022 and 2023 tax obligations related to this provision. The actual impact will depend on the amount of research and development costs the Company incurs, whether Congress modifies or repeals this provision and whether new guidance and interpretive rules are issued by the U.S. Treasury, among other factors.

For the next 12 months, we anticipate that we will be able to meet our liquidity needs, including servicing our debt, through cash generated from operations, available cash balances, borrowings from our commercial paper program and, if needed, sales of accounts receivable and borrowings from our revolving credit facility.

Summary of Cash Flows

The following table summarizes cash flow information for the periods presented:

	Three Months Ended		Nine Months Ended	
	September 29, 2023	September 30, 2022	**September 29, 2023**	September 30, 2022
	(in millions)			
Net cash provided by operating activities[1]	**$ 795**	$ 729	**$ 861**	$ 867
Net cash used in investing activities	**(52)**	(26)	**(135)**	(55)
Net cash used in financing activities	**(249)**	(217)	**(470)**	(730)

[1] Net cash provided by operating activities during the three and nine months ended September 30, 2022, were recast to present the effect of foreign exchange rate changes on cash, cash equivalents and restricted cash as a separate line in the condensed consolidated statements of cash flows.

Net cash provided by operating activities increased $66 million during the three months ended September 29, 2023, when compared to the prior year quarter. The changes were primarily due to favorable timing of customer advance payments and vendor payments, partially offset by higher tax payments.

Net cash provided by operating activities decreased $6 million during the nine months ended September 29, 2023, when compared to the prior year. The changes were primarily due to higher tax payments of $189 million, mainly in connection to the TCJA provision and a $62 million payment for payroll taxes related to the CARES Act, partially offset with strong collections on trade accounts receivable, favorable timing of customer advance payments and vendor payments.

Net cash used in investing activities increased $26 million for the three months ended September 29, 2023, when compared to the prior year quarter primarily due to higher capital expenditures of $23 million.

Net cash used in investing activities increased $80 million for the nine months ended September 29, 2023, when compared to the prior year. The changes were primarily due to higher capital expenditures of $53 million and $15 million of proceeds received from the sale of Aviation & Missile Solutions LLC in the prior year.

Net cash used in financing activities increased $32 million for the three months ended September 29, 2023, when compared to the prior year quarter primarily due to a $30 million increase in net payments from debt activities.

Net cash used in financing activities decreased $260 million for the nine months ended September 29, 2023, when compared to the prior year primarily due to a net decrease of $488 million in stock repurchases driven by the accelerated share repurchase activities in the prior year and an increase of $1.4 billion in proceeds received from the issuance of debt in the current year, partially offset by an increase of $1.6 billion in payments of debt.

Off-Balance Sheet Arrangements

We have outstanding performance guarantees and cross-indemnity agreements in connection with certain aspects of our business. We also have letters of credit outstanding principally related to performance guarantees on contracts and surety bonds outstanding principally related to performance and subcontractor payment bonds as described in "Note 11–Commitments and Contingencies" of the notes to the condensed consolidated financial statements contained within this Quarterly Report on Form 10-Q. These arrangements have not had, and management does not believe it is likely that they will in the future have, a material effect on our liquidity, capital expenditures or capital resources, operations or financial condition.

Guarantor and Issuer of Guaranteed Securities

Leidos Holdings, Inc. (“Guarantor”) has fully and unconditionally guaranteed the debt securities of its subsidiary, Leidos, Inc. (“Issuer”), that were issued pursuant to transactions that were registered under the Securities Act of 1933, as amended (collectively, the “Registered Notes”). The following is a list of the Registered Notes guaranteed by Leidos Holdings, Inc.

Senior unsecured Registered Notes:
$500 million 3.625% notes, due May 2025
$750 million 4.375% notes, due May 2030
$1,000 million 2.300% notes, due February 2031
$750 million 5.750% notes, due May 2033

Leidos Holdings, Inc. has also fully and unconditionally guaranteed debt securities of Leidos, Inc. that were issued pursuant to transactions that were not registered under the Securities Act of 1933, as amended. The following is a list of unregistered debt securities guaranteed by Leidos Holdings, Inc.

Senior unsecured unregistered debt securities issued by Leidos, Inc.:
$250 million 7.125% notes, due July 2032
$300 million 5.500% notes, due July 2033

Additionally, Leidos, Inc. has fully and unconditionally guaranteed debt securities of Leidos Holding, Inc. that were issued pursuant to transactions that were not registered under the Securities Act of 1933, as amended. The following is a list of unregistered debt securities guaranteed by Leidos, Inc.

Senior unsecured unregistered debt securities issued by Leidos Holdings, Inc.:
$300 million 5.950% notes, due December 2040

The following summarized financial information includes the assets, liabilities and results of operations for the Guarantor and Issuer of the Registered Notes described above. Intercompany balances and transactions between the Issuer and Guarantor have been eliminated from the financial information below. Investments in the consolidated subsidiaries of the Issuer and Guarantor that do not guarantee the senior unsecured notes have been excluded from the financial information. Intercompany payables represent amounts due to non-guarantor subsidiaries of the Issuer.

Balance Sheet Information for the Guarantor and Issuer of Registered Notes

	September 29, 2023	December 30, 2022
	(in millions)	
Total current assets	**$ 2,345**	$ 2,115
Goodwill	**5,514**	5,810
Other long-term assets	**1,352**	1,188
Total assets	**$ 9,211**	$ 9,113
Total current liabilities	**$ 2,101**	$ 2,922
Long-term debt, net of current portion	**4,666**	3,925
Intercompany payables	**2,208**	1,695
Other long-term liabilities	**647**	699
Total liabilities	**$ 9,622**	$ 9,241

Statement of Operations Information for the Guarantor and Issuer of Registered Notes

	Nine Months Ended **September 29, 2023**
	(in millions)
Revenues, net	$ **7,761**
Operating income	**307**
Net loss attributable to Leidos common stockholders	**(67)**

Contractual Obligations and Commitments

We are subject to a number of reviews, investigations, claims, lawsuits, other uncertainties and future obligations related to our business. For a discussion of these items, see "Note 11–Commitments and Contingencies" of the notes to the condensed consolidated financial statements contained within this Quarterly Report on Form 10-Q.

Critical Accounting Policies

There were no material changes to our critical accounting policies, estimates or judgments during the period covered by this report from those discussed in our Annual Report on Form 10-K for the year ended December 30, 2022.

Recently Adopted and Issued Accounting Standards

For a discussion of these items, see "Note 1–Basis of Presentation and Summary of Significant Accounting Policies" of the notes to the condensed consolidated financial statements contained within this Quarterly Report on Form 10-Q.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk.***

There were no material changes in our market risk exposure from those discussed in our Annual Report on Form 10-K for the year ended December 30, 2022.

Item 4. ***Controls and Procedures.***

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer (our Chief Executive Officer) and principal financial officer (our Executive Vice President and Chief Financial Officer), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) as of September 29, 2023. Based upon that evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

On October 30, 2022, we completed the acquisition of Cobham Special Mission. In conducting our evaluation of the effectiveness of our internal control over financial reporting, we excluded Cobham Special Mission from our evaluation for the third quarter of fiscal 2023. We are in the process of integrating Cobham Special Mission into our system of internal control over financial reporting.

Other than the foregoing, there have been no changes in our internal control over financial reporting that occurred in the quarterly period covered by this report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. ***Legal Proceedings.***

We have furnished information relating to legal proceedings, and any investigations and reviews that we are involved with in "Note 11–Commitments and Contingencies" of the notes to the condensed consolidated financial statements contained within this Quarterly Report on Form 10-Q.

Item 1A. ***Risk Factors.***

There were no material changes to the risks described in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 30, 2022.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds.***

(a) None

(b) None

(c) Purchases of Equity Securities by the Issuer

In February 2022, our Board of Directors authorized a share repurchase program of up to 20 million shares of our outstanding common stock. The shares may be repurchased from time to time in one or more open market repurchases or privately negotiated transactions, including accelerated share repurchase transactions. The actual timing, number and value of shares repurchased under the program will depend on a number of factors, including the market price of our common stock, general market and economic conditions, applicable legal requirements, compliance with the terms of our outstanding indebtedness and other considerations. There is no assurance as to the number of shares that will be repurchased, and the repurchase program may be suspended or discontinued at any time at our Board of Directors' discretion. This share repurchase authorization replaces the previous share repurchase authorization announced in February 2018.

For the three months ended September 29, 2023, there were no repurchases of our common stock.

Item 3. ***Defaults Upon Senior Securities.***

None.

Item 4. ***Mine Safety Disclosures.***

Not applicable.

Item 5. ***Other Information.***

Securities Trading Plans of Directors and Executive Officers

The following table includes the material terms of each trading plan intended to satisfy the affirmative defense conditions of Rule 10b5-1 (c) under the Securities Exchange Act of 1934, as amended ("Rule 10b5-1 Plan") by our executive officers and directors during the three months ended September 29, 2023:

Name and title	Date of adoption[1]	Date of termination	Scheduled expiration date[2]	Aggregate number of shares of common stock to be purchased or sold[3]
James R. Moos, President - Civil	August 3, 2023	N/A	March 2, 2024	Up to 2,134 shares underlying options expiring March 2, 2024

[1] Transactions under each Rule 10b5-1 Plan commence no earlier than 90 days after adoption, or such later date as required by Rule 10b5-1.
[2] Each Rule 10b5-1 Plan may expire on such earlier date as all transactions are completed.
[3] Each Rule 10b5-1 Plan provides for shares to be sold on multiple predetermined dates.

Item 6. *Exhibits.*

Exhibit Number	Description of Exhibit
10.1	Amended and Restated Leidos Holdings, Inc. Severance Plan for Executive Officers, effective July 27, 2023. Incorporated herein by reference to Exhibit 10.2 on Form 10-Q filed with the SEC on August 1, 2023.
22	List of Guarantors and Subsidiary Issuers of Guaranteed Securities. Incorporated herein by reference to Exhibit 22 to our Quarterly Report on Form 10-Q filed with the SEC on May 2, 2023.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Executive Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Executive Vice President 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	Interactive Data File. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104	Cover Page Interactive Data File. The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

SIGNATURES

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

Date: October 31, 2023

Leidos Holdings, Inc.

/s/ Christopher R. Cage

Christopher R. Cage
Executive Vice President and Chief Financial Officer and
as a duly authorized officer

Exhibit 31.1

LEIDOS HOLDINGS, INC.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas A. Bell, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 29, 2023, of Leidos Holdings, Inc.;

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

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

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

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

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

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

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: October 31, 2023

/s/ Thomas A. Bell

Thomas A. Bell
Chief Executive Officer

Exhibit 31.2

LEIDOS HOLDINGS, INC.

CERTIFICATION OF EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Christopher R. Cage, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 29, 2023, of Leidos Holdings, Inc.;

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

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

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

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

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

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

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: October 31, 2023

/s/ Christopher R. Cage

Christopher R. Cage
Executive Vice President and Chief Financial Officer

Exhibit 32.1

LEIDOS HOLDINGS, INC.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Leidos Holdings, Inc. ("Leidos") on Form 10-Q for the period ended September 29, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas A. Bell, Chief Executive Officer of Leidos Holdings, Inc., certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

Date: October 31, 2023

/s/ Thomas A. Bell

Thomas A. Bell
Chief Executive Officer

Exhibit 32.2

LEIDOS HOLDINGS, INC.

**CERTIFICATION OF EXECUTIVE VICE PRESIDENT 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**

In connection with the Quarterly Report of Leidos Holdings, Inc. ("Leidos") on Form 10-Q for the period ended September 29, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher R. Cage, Executive Vice President and Chief Financial Officer of Leidos Holdings, Inc., certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

Date: October 31, 2023

/s/ Christopher R. Cage

Christopher R. Cage
Executive Vice President and Chief Financial Officer