LEIDOS 3Q FY15

Earnings Conference Call

December 3, 2014

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Forward-Looking Statements

Certain statements in this presentation contain or are based on "forward-looking" information within the meaning of the Private Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by words such as "expects," "intends," "plans," "anticipates," "believes," "estimates" and similar words or phrases. Forward-looking statements in this presentation include, among others: estimates of future revenues, operating income, earnings per share, cash flow, growth and profitability as well as statements about future regular or special dividends, stock repurchases and other anticipated uses of capital. These statements reflect our belief and assumptions as to future events that may not prove to be accurate.

Actual performance and results may differ materially from the forward-looking statements made in these slides depending on a variety of factors, including: changes to our reputation and relationships with government agencies, developments in the U.S. Government defense budget, including budget reductions, implementation of spending cuts (sequestration) or changes in budgetary priorities; delays in the U.S. Government budget process; delays in the U.S. Government contract procurement process or the award of contracts; delays or loss of contracts as a result of competitor protests; changes in U.S. Government procurement rules, regulations and practices; our compliance with various U.S. Government and other government procurement rules and regulations; governmental reviews, audits and investigations of our company; our ability to effectively compete and win contracts with the U.S. Government and other customers; our ability to attract, train and retain skilled employees, including our management team, and to obtain security clearances for our employees; our ability to accurately estimate costs associated with our firm-fixed-price and other contracts; our ability to comply with certain agreements entered into in connection with the CityTime matter; cybersecurity, data security or other security threats, systems failures or other disruptions of our business; resolution of legal and other disputes with our customers and others or legal or regulatory compliance issues; our ability to effectively acquire businesses and make investments; our ability to maintain relationships with prime contractors, subcontractors and joint venture partners; our ability to manage performance and other risks related to customer contracts, including complex engineering or design build projects; our ability to profitably operate and recover our investment in the Plainfield Renewable Energy Project; the failure of our inspection or detection systems to detect threats; the adequacy of our insurance programs designed to protect us from significant product or other liability claims; our ability to manage risks associated with our international business; our ability to declare future dividends based on our earnings, financial condition, capital requirements and other factors, including compliance with applicable laws and contractual agreements; risks associated with our 2013 spin-off of our technical, engineering and enterprise information technology services business, such as disruption to business operations or a failure to realize the expected benefits of the spin-off; our ability to execute our business plan and long-term management initiatives effectively; and to overcome these and other known and unknown risks that we face. These are only some of the factors that may affect the forward-looking statements contained in these slides. For further information concerning risks and uncertainties associated with our business, please refer to the filings we make from time to time with the U.S. Securities and Exchange Commission.

All information in this presentation is as of December 3, 2014. The Company expressly disclaims any duty to update the forward-looking statements provided in this presentation to reflect subsequent events, actual results or changes in the Company's expectations. The Company also disclaims any duty to comment upon or correct information that may be contained in reports published by investment analysts or others.

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Executive Summary

- Strong 3Q15
  - Revenue and earnings ahead of expectations
  - Robust cash flow from operations
  - Increased operating margins year over year
- Ongoing internal improvements
  - Business development
  - Cost reductions
  - Portfolio shaping
- Capital deployment philosophy unchanged:
  - Paying regular quarterly dividend is top priority
  - Additional deployment options include:
    - Investing in future growth
    - Managing financial leverage
    - Capital return to shareholders

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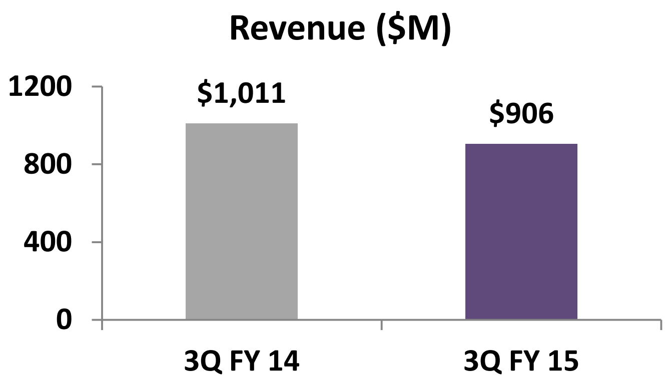
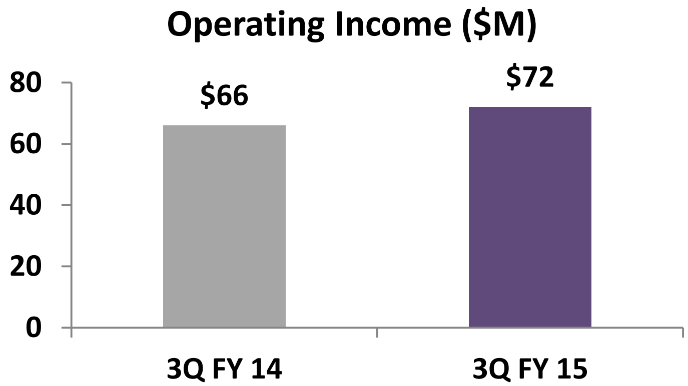
National Security Solutions – Overview





Revenue declined $105M, or 10% yoy, driven by:

- Overseas drawdown ($51M), including ramp down of JLI contract
- Overall reductions in defense and U.S. government spending resulting from sequestration and budget cuts

Operating Margin Expansion:

- Operating income increased $6M, or 9% yoy
- Operating income margin increased to 7.9% in 3Q15 from 6.5% in the prior year
- Improved fee performance on existing contracts more than offset decline in revenues.

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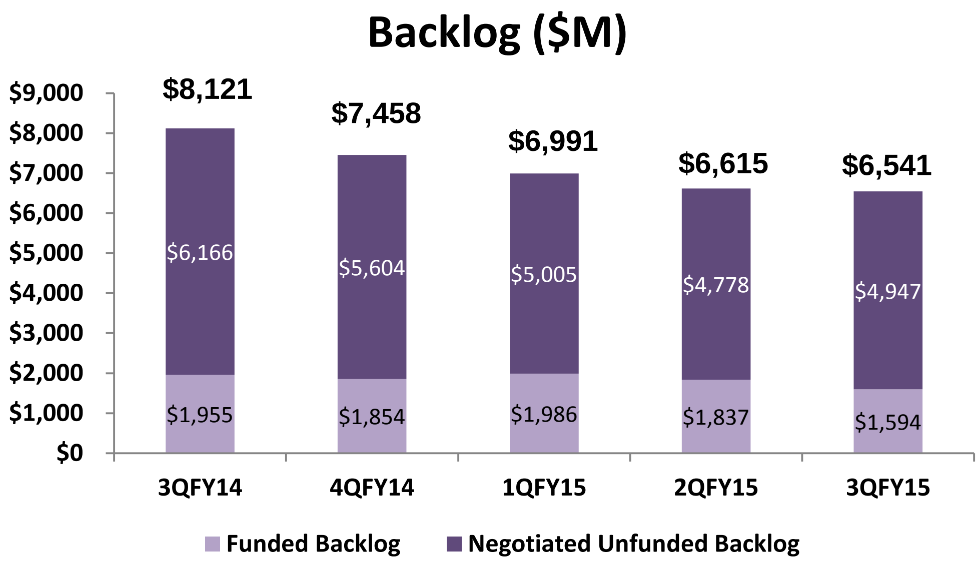
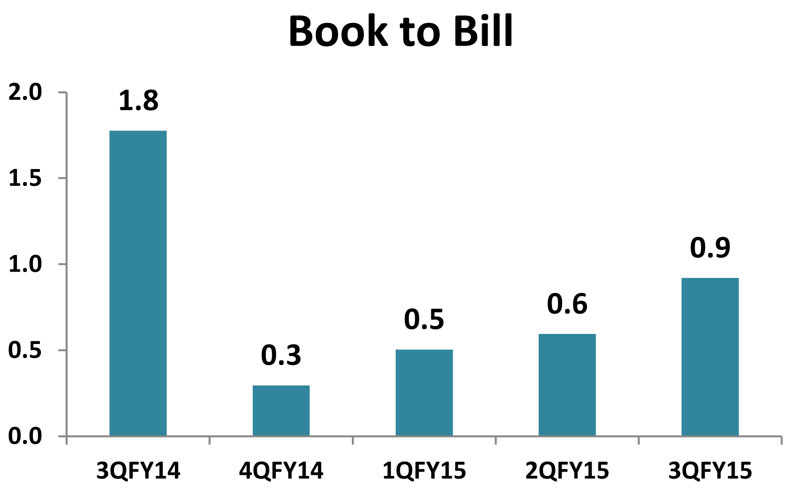
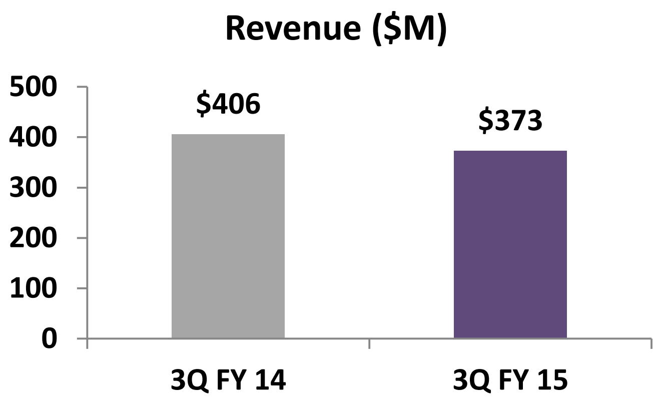
National Security Solutions – Awards & Backlog

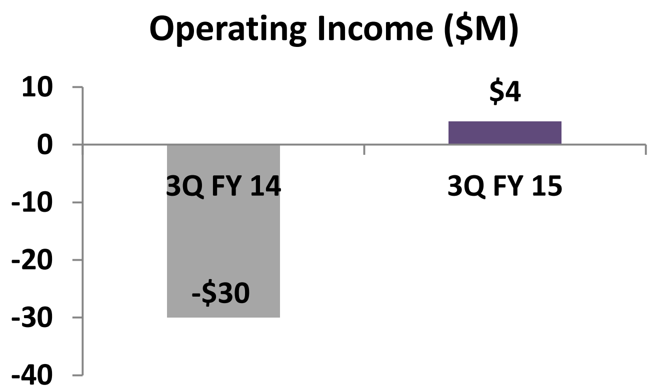




- Book to bill 0.9x for 3Q15
- Total bids outstanding of $13.9B at end of 3Q15
- Notable wins during the quarter
  - Contracts with a value of $626 million, by U.S. national security and intel clients
  - U.S. Air Force Research Laboratory – $49M IDIQ and $47M IDIQ
  - National Geospatial-Intelligence Agency – $31M

Health and Engineering – Overview





Revenue declined $33M, or 8% yoy, due to:

- Lower commercial health revenues ($20M)
- Lower revenues in security products ($13M)

Operating income increased $34M yoy, due to:

- Favorable comparison to 3Q14, which was impacted by $43M of bad debt expense & $19M impairment expense
- Plainfield operating loss ($6 million), intangible impairments ($17 million), & business mix driven by lower security products revenues in 3Q15
- Operating margin increased to 1.1% from (7.4%) in the prior year

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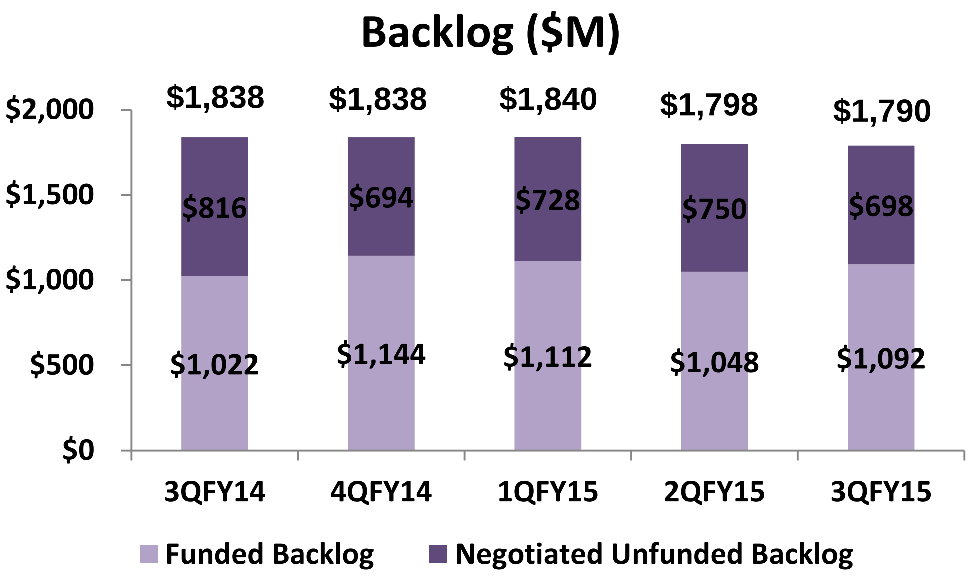
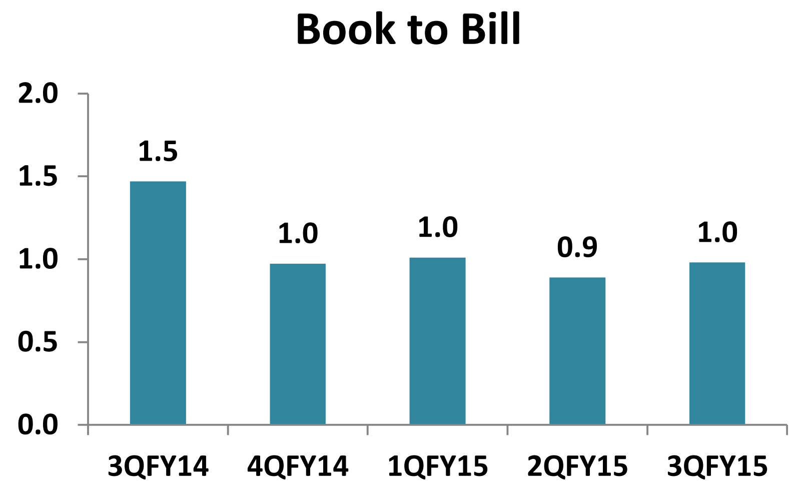
Health and Engineering – Awards & Backlog





- Book to bill 1.0x for 3Q15
- Total bids outstanding of $2.2B at end of 3Q15
- Notable wins during the quarter
  - National Institutes of Health – $113M
  - Magellan Midstream Partners – multi-million dollar prime contract
  - Naval Medical Logistics Command – $14M

Leidos Fiscal Year 2015 Guidance

- No change to Fiscal Year 2015 Guidance

	FY15 Guidance
Revenue	$4.9B to $5.1B
Non-GAAP Diluted EPS*	$2.10 to $2.30
Cash Flow from Continuing Operations	At or above $300M

* For a definition of Non-GAAP Diluted EPS please see slide 18

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Profit and Loss

$ in millions, except for EPS

	3QFY15	3QFY14	*% chg.*
Revenues	$1,276	$1,414	*(10%)*
Cost of revenues	1,115	1,219	*(9%)*
Selling, general and administrative expenses	72	113	*(36%)*
Bad debt expense	-	43	
Intangible asset impairment charges	17	19	
Separation transaction and restructuring expenses	-	25	
Operating income (loss)	72	(5)	
Operating income (loss) margin	*5.6%*	*(0.4%)*	
Net interest	(18)	(16)	
Other income, net	-	2	
Income (loss) from continuing operations before income taxes	54	(19)	
Income tax (expense) benefit	(16)	11	
Income (loss) from continuing operations	**38**	**(8)**	
Diluted EPS from continuing operations	**$ 0.51**	**$ (0.10)**	

Note: Prior periods have been recast to reflect discontinued operations

Appendix

Working Days per Quarter

	Q1	Q2	Q3	Q4	Year Total
FY15	64	63	64	60	251
FY14	65	63	64	60	252
Increase / (Decrease)	(1)	0	0	0	(1)

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Non-GAAP Reconciliations

This presentation includes certain non-GAAP financial measures, such as operating income, operating margin, and earnings per share. These non-GAAP financial measures are not meant to be considered in isolation or as a substitute for results prepared in accordance with generally accepted accounting principles in the United States (GAAP). A reconciliation of non-GAAP financial measures included in this presentation to the most directly comparable financial measure calculated and presented in accordance with GAAP accompanies this presentation and is on our website at www.Leidos.com. Leidos management believes that these non-GAAP financial measures provide useful information to investors regarding the Company's financial condition and results of operations as they provide another measure of the Company's profitability, and are considered important measures by financial analysts covering Leidos and its peers.

Historical Financials – Segment Income Statement

	1Q14	2Q14	3Q14	4Q14	FY14	1Q15	2Q15	3Q15
National Security Segment								
Revenue	$ 1,077	$ 1,019	$ 1,011	$ 942	**$ 4,049**	$ 944	$ 925	$ 906
Operating income	$ 71	$ 72	$ 66	$ 83	**$ 292**	$ 77	$ 78	$ 72
Health & Engineering Segment								
Revenue	$ 517	$ 445	$ 406	$ 350	**$ 1,718**	$ 372	$ 381	$ 373
Operating income (loss)	$ 35	$ (3)	$ (30)	$ 18	**$ 20**	$ 23	$ (482)	$ 4
Corporate								
Revenue	$ -	$ (6)	$ (2)	$ (1)	**$ (9)**	$ (4)	$ -	$ (3)
Operating loss	$ (29)	$ (59)	$ (41)	$ (20)	**$ (149)**	$ (13)	$ (6)	$ (4)
Elimination								
Revenue	$ (1)	$ (1)	$ (1)	$ -	**$ (3)**	$ -	$ -	$ -
Total Continuing Operations								
Revenue	$ 1,593	$ 1,457	$ 1,414	$ 1,291	**$ 5,755**	$ 1,312	$ 1,306	$ 1,276
Operating income (loss)	$ 77	$ 10	$ (5)	$ 81	**$ 163**	$ 87	$ (410)	$ 72

Note : Prior periods have been recast to reflect discontinued operations

Historical Financials — Income Statement

	1Q14	2Q14	3Q14	4Q14	FY14	1Q15	2Q15	3Q15
Revenue	**$ 1,593**	**$ 1,457**	**$ 1,414**	**$ 1,291**	**$ 5,755**	**$ 1,312**	**$ 1,306**	**$ 1,276**
Cost of revenue	1,373	1,293	1,219	1,107	**4,992**	1,141	1,119	1,115
Selling, general and administrative expenses	125	105	113	97	**440**	84	82	73
Bad debt expense	2	-	43	(1)	**44**	(1)	5	(1)
Goodwill impairment charges	-	-	-	-	**-**	-	486	-
Intangible asset impairment charges	2	30	19	-	**51**	-	24	17
Separation transaction and restructuring expenses	14	19	25	7	**65**	1	-	-
Operating income (loss) from continuing operations	**$ 77**	**$ 10**	**$ (5)**	**$ 81**	**$ 163**	**$ 87**	**$ (410)**	**$ 72**
Non-Operating income (expense):								
Interest income	4	6	5	-	**15**	-	1	-
Interest expense	(20)	(18)	(21)	(23)	**(82)**	(20)	(20)	(18)
Other income (expense), net	1	-	2	(11)	**(8)**	2	(1)	-
Income (loss) from continuing operations before income taxes	62	(2)	(19)	47	**88**	69	(430)	54
Income tax (expense) benefit	(21)	6	11	-	**(4)**	(24)	(9)	(16)
Income (loss) from continuing operations	**$ 41**	**$ 4**	**$ (8)**	**$ 47**	**$ 84**	**$ 45**	**$ (439)**	**$ 38**
Diluted earnings (loss) per share from continuing operations	**$ 0.44**	**$ 0.05**	**$ (0.10)**	**$ 0.56**	**$ 0.98**	**$ 0.58**	**$ (5.93)**	**$ 0.51**
Diluted weighted average number of shares outstanding	**84**	**84**	**84**	**84**	**83**	**78**	**74**	**74**

Note : Prior periods have been recast to reflect discontinued operations

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Non-GAAP Operating Income Reconciliation

	1Q14	2Q14	3Q14	4Q14	FY14	1Q15	2Q15	3Q15
Revenue	**$ 1,593**	**$ 1,457**	**$ 1,414**	**$ 1,291**	**$ 5,755**	**$ 1,312**	**$ 1,306**	**$ 1,276**
Operating income (loss) from continuing operations	**$ 77**	**$ 10**	**$ (5)**	**$ 81**	**$ 163**	**$ 87**	**$ (410)**	**$ 72**
Goodwill impairment charges	-	-	-	-	**-**	-	486	-
Intangible asset impairment charges	2	30	19	-	**51**	-	24	17
Separation transaction and restructuring expenses	14	19	25	7	**65**	1	-	-
Impact of Plainfield	3	14	32	-	**49**	-	-	-
Non-GAAP operating income from continuing operations	**$ 96**	**$ 73**	**$ 71**	**$ 88**	**$ 328**	**$ 88**	**$ 100**	**$ 89**

Note 1: Please see description of non-GAAP Operating Income on slide 17
Note 2: Prior periods have been recast to reflect discontinued operations

Non-GAAP EPS Reconciliation

	1Q14	2Q14	3Q14	4Q14	FY14	1Q15	2Q15	3Q15
GAAP income (loss) from continuing operations	**$ 41**	**$ 4**	**$ (8)**	**$ 47**	**$ 84**	**$ 45**	**$ (439)**	**$ 38**
Goodwill impairment charges	-	-	-	-	**-**	-	486	-
Intangible asset impairment charges	2	30	19	-	**51**	-	24	17
Separation transaction and restructuring expenses	14	19	25	7	**65**	1	-	-
Impact of Plainfield	3	14	32	12	**61**	-	-	-
Total non-GAAP adjustments	**$ 19**	**$ 63**	**$ 76**	**$ 19**	**$ 177**	**$ 1**	**$ 510**	**$ 17**
Adjustment to the income tax provision to reflect non-GAAP adjustments [1]	(7)	(22)	(26)	(7)	**(62)**	-	(25)	(7)
Non-GAAP income from continuing operations	**$ 53**	**$ 45**	**$ 42**	**$ 59**	**$ 199**	**$ 46**	**$ 46**	**$ 48**
GAAP diluted earnings (loss) per share from continuing operations [2]	**$ 0.44**	**$ 0.05**	**$(0.10)**	**$ 0.56**	**$ 0.98**	**$ 0.58**	**$ (5.93)**	**$ 0.51**
Total adjustments from non-GAAP income from continuing operations, above [2]	$ 0.14	$ 0.48	$ 0.59	$ 0.14	$ 1.38	$ 0.01	$ 6.54	$ 0.14
Non-GAAP diluted earnings per share from continuing operations [2]	**$ 0.58**	**$ 0.53**	**$ 0.49**	**$ 0.70**	**$ 2.36**	**$ 0.59**	**$ 0.61**	**$ 0.65**
Diluted Shares	**84**	**85**	**86**	**84**	**83**	**78**	**75**	**74**

[1] Calculation uses an estimated tax rate on non-GAAP tax deductible adjustments.
[2] Earnings per share are computed independently for each of the quarters presented and therefore may not sum to the total for the fiscal year.

Note 1: Please see description of non-GAAP EPS on slide 18
Note 2: Prior periods have been recast to reflect discontinued operations

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Non-GAAP Reconciliations

Non-GAAP Operating Income is a non-GAAP financial measure that is reconciled to the most directly comparable GAAP financial measure, operating income. Non-GAAP operating income adjusts operating income for the following discrete items:

- Goodwill and Intangible asset impairment charges – This adjustment represents impairments of goodwill and long-lived intangible assets due to changes in actual performance against performance projected when the goodwill and long-lived intangible assets were acquired.
- Separation transaction and restructuring expenses – This adjustment represents costs for strategic advisory services, legal and accounting services, lease termination and facility consolidation, and severance costs associated with the September 2013 spin-off of New SAIC.
- Impact of Plainfield – This adjustment represents the write-down of $32 million taken as part of cancelling our outstanding accounts receivable in exchange for the assets of the Plainfield Plant in 3Q14, and estimate-at-completion adjustments related to the Plainfield project taken in 1Q14 and 2Q14. These adjustments relate to the Plainfield construction project prior to the Company's acquisition of the Plainfield plant in October 2013. Not included in the adjustment are ordinary operating losses associated with the Plainfield plant.

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Non-GAAP Reconciliations (continued)

Non-GAAP Earnings Per Share is a non-GAAP financial measure that is reconciled to the most directly comparable GAAP financial measure, earnings per share. Non-GAAP earnings per share adjusts earnings per share for the following discrete items:

- Goodwill and Intangible asset impairment charges – This adjustment represents impairments of goodwill and long-lived intangible assets due to changes in actual performance against performance projected when the goodwill and long-lived intangible assets were acquired.
- Separation transaction and restructuring expenses – This adjustment represents costs for strategic advisory services, legal and accounting services, lease termination and facility consolidation and severance costs associated with the September 2013 spin-off of New SAIC.
- Impact of Plainfield – This adjustment represents the write-down taken as part of cancelling our outstanding accounts receivable in exchange for the assets of the Plainfield Plant, and estimate-at-completion adjustments related to the Plainfield project. Plainfield refinancing charges of $12 million incurred in 4Q14 are included in this amount. These adjustments relate to the Plainfield construction project prior to the Company's acquisition of the Plainfield plant in October 2013. Not included in the adjustment are ordinary operating losses associated with Plainfield plant.