# 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 July 2, 2021

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 July 26, 2021, was 141,565,183 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 (UNAUDITED)**

| | July 2, 2021 | January 1, 2021 |
|---|---|---|
| | (in millions) | |
| Assets: | | |
| Cash and cash equivalents | $ 338 | $ 524 |
| Receivables, net | 2,271 | 2,137 |
| Inventory, net | 251 | 276 |
| Other current assets | 403 | 402 |
| Total current assets | 3,263 | 3,339 |
| Property, plant and equipment, net | 654 | 604 |
| Intangible assets, net | 1,329 | 1,216 |
| Goodwill | 6,707 | 6,313 |
| Operating lease right-of-use assets, net | 634 | 581 |
| Other assets | 448 | 458 |
| Total assets | $ 13,035 | $ 12,511 |
| | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | $ 1,944 | $ 2,175 |
| Accrued payroll and employee benefits | 683 | 632 |
| Short-term debt and current portion of long-term debt | 481 | 100 |
| Total current liabilities | 3,108 | 2,907 |
| Long-term debt, net of current portion | 4,639 | 4,644 |
| Operating lease liabilities | 600 | 564 |
| Deferred tax liabilities | 255 | 234 |
| Other long-term liabilities | 285 | 291 |
| Total liabilities | 8,887 | 8,640 |
| | | |
| Commitments and contingencies (Note 11) | | |
| | | |
| Stockholders’ equity: | | |
| Common stock, $0.0001 par value, 500 million shares authorized, 142 million shares issued and outstanding at July 2, 2021 and January 1, 2021 | — | — |
| Additional paid-in capital | 2,509 | 2,580 |
| Retained earnings | 1,605 | 1,328 |
| Accumulated other comprehensive loss | (15) | (46) |
| Total Leidos stockholders’ equity | 4,099 | 3,862 |
| Non-controlling interest | 49 | 9 |
| Total stockholders' equity | 4,148 | 3,871 |
| Total liabilities and stockholders' equity | $ 13,035 | $ 12,511 |

See accompanying notes to condensed consolidated financial statements.

**LEIDOS HOLDINGS, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 2, 2021** | July 3, 2020 | **July 2, 2021** | July 3, 2020 |
| | (in millions, except per share amounts) | | | |
| Revenues | **$ 3,448** | $ 2,914 | **$ 6,763** | $ 5,803 |
| Cost of revenues | **2,950** | 2,531 | **5,798** | 5,025 |
| Selling, general and administrative expenses | **224** | 195 | **392** | 383 |
| Bad debt expense and recoveries | **(1)** | (81) | **(10)** | (72) |
| Acquisition, integration and restructuring costs | **10** | 16 | **15** | 28 |
| Asset impairment charges | **—** | 11 | **—** | 11 |
| Equity earnings of non-consolidated subsidiaries | **(4)** | (7) | **(9)** | (13) |
| Operating income | **269** | 249 | **577** | 441 |
| Non-operating expense: | | | | |
| Interest expense, net | **(46)** | (41) | **(91)** | (89) |
| Other expense, net | **—** | (16) | **(1)** | (30) |
| Income before income taxes | **223** | 192 | **485** | 322 |
| Income tax expense | **(53)** | (38) | **(110)** | (53) |
| Net income | **$ 170** | $ 154 | **$ 375** | $ 269 |
| Less: net income attributable to non-controlling interest | **1** | 1 | **1** | 1 |
| Net income attributable to Leidos common stockholders | **$ 169** | $ 153 | **$ 374** | $ 268 |
| | | | | |
| Earnings per share: | | | | |
| Basic | **$ 1.20** | $ 1.08 | **$ 2.65** | $ 1.89 |
| Diluted | **1.18** | 1.06 | **2.62** | 1.86 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 2, 2021** | July 3, 2020 | **July 2, 2021** | July 3, 2020 |
| | (in millions) | | | |
| Net income | **$ 170** | $ 154 | **$ 375** | $ 269 |
| Foreign currency translation adjustments | **21** | 61 | **17** | (13) |
| Unrecognized gain (loss) on derivative instruments | **1** | (3) | **14** | (45) |
| Pension adjustments | **—** | — | **—** | 1 |
| Total other comprehensive income (loss), net of taxes | **22** | 58 | **31** | (57) |
| Comprehensive income | **192** | 212 | **406** | 212 |
| Less: net income attributable to non-controlling interest | **1** | 1 | **1** | 1 |
| Comprehensive income attributable to Leidos common stockholders | **$ 191** | $ 211 | **$ 405** | $ 211 |

See accompanying notes to condensed consolidated financial statements.

## LEIDOS HOLDINGS, INC.
## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

| | Shares of common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive loss | Leidos Holdings, Inc. stockholders' equity | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|
| | (in millions, except for per share amounts) | | | | | | |
| Balance at January 1, 2021 | 142 | $ 2,580 | $ 1,328 | $ (46) | $ 3,862 | $ 9 | $ 3,871 |
| Net income | — | — | 205 | — | 205 | — | 205 |
| Other comprehensive income, net of taxes | — | — | — | 9 | 9 | — | 9 |
| Issuances of stock | — | 14 | — | — | 14 | — | 14 |
| Repurchases of stock and other | (1) | (123) | — | — | (123) | — | (123) |
| Dividends of $0.34 per share | — | — | (49) | — | (49) | — | (49) |
| Stock-based compensation | — | 15 | — | — | 15 | — | 15 |
| Capital contributions from non-controlling interests | — | — | — | — | — | 38 | 38 |
| Balance at April 2, 2021 | 141 | 2,486 | 1,484 | (37) | 3,933 | 47 | 3,980 |
| Net income | — | $ — | $ 169 | $ — | $ 169 | $ 1 | $ 170 |
| Other comprehensive income, net of taxes | — | — | — | 22 | 22 | — | 22 |
| Issuances of stock | 1 | 9 | — | — | 9 | — | 9 |
| Repurchases of stock and other | — | (3) | — | — | (3) | — | (3) |
| Dividends of $0.34 per share | — | — | (48) | — | (48) | — | (48) |
| Stock-based compensation | — | 17 | — | — | 17 | — | 17 |
| Net capital contributions from non-controlling interests | — | — | — | — | — | 1 | 1 |
| **Balance at July 2, 2021** | **142** | **$ 2,509** | **$ 1,605** | **$ (15)** | **$ 4,099** | **$ 49** | **$ 4,148** |

See accompanying notes to condensed consolidated financial statements.

## LEIDOS HOLDINGS, INC.
## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

| | Shares of common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive loss | Leidos Holdings, Inc. stockholders' equity | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|
| | (in millions, except for per share amounts) | | | | | | |
| Balance at January 3, 2020 | 141 | $ 2,587 | $ 896 | $ (70) | $ 3,413 | $ 4 | $ 3,417 |
| Cumulative adjustments related to ASU adoption | — | — | (1) | — | (1) | — | (1) |
| Balance at January 4, 2020 | 141 | 2,587 | 895 | (70) | 3,412 | 4 | 3,416 |
| Net income | — | — | 115 | — | 115 | — | 115 |
| Other comprehensive loss, net of taxes | — | — | — | (115) | (115) | — | (115) |
| Issuances of stock | 1 | 9 | — | — | 9 | — | 9 |
| Repurchases of stock and other | — | (32) | — | — | (32) | — | (32) |
| Dividends of $0.34 per share | — | — | (49) | — | (49) | — | (49) |
| Stock-based compensation | — | 15 | — | — | 15 | — | 15 |
| Balance at April 3, 2020 | 142 | 2,579 | 961 | (185) | 3,355 | 4 | 3,359 |
| Net income | — | — | 153 | — | 153 | 1 | 154 |
| Other comprehensive loss, net of taxes | — | — | — | 58 | 58 | — | 58 |
| Issuances of stock | — | 8 | — | — | 8 | — | 8 |
| Repurchases of stock and other | — | (2) | — | — | (2) | — | (2) |
| Dividends of $0.34 per share | — | — | (49) | — | (49) | — | (49) |
| Stock-based compensation | — | 15 | — | — | 15 | — | 15 |
| Capital contributions from non-controlling interests | — | — | — | — | — | 4 | 4 |
| Balance at July 3, 2020 | 142 | $ 2,600 | $ 1,065 | $ (127) | $ 3,538 | $ 9 | $ 3,547 |

See accompanying notes to condensed consolidated financial statements.

**LEIDOS HOLDINGS, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| | Six Months Ended | |
|---|---|---|
| | **July 2, 2021** | July 3, 2020 |
| | (in millions) | |
| Cash flows from operations: | | |
| Net income | **$ 375** | $ 269 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation and amortization | **157** | 132 |
| Stock-based compensation | **32** | 30 |
| Loss on debt extinguishment | **—** | 31 |
| Asset impairment charges | **—** | 11 |
| Deferred income taxes | **3** | (1) |
| Other | **(11)** | 11 |
| Change in assets and liabilities, net of effects of acquisitions: | | |
| Receivables | **(89)** | 226 |
| Other current assets and other long-term assets | **91** | 15 |
| Accounts payable and accrued liabilities and other long-term liabilities | **(347)** | (44) |
| Accrued payroll and employee benefits | **46** | 70 |
| Income taxes receivable/payable | **(1)** | 44 |
| Net cash provided by operating activities | **256** | 794 |
| Cash flows from investing activities: | | |
| Acquisition of businesses, net of cash acquired | **(593)** | (2,610) |
| Payments for property, equipment and software | **(47)** | (90) |
| Other | **—** | 1 |
| Net cash used in investing activities | **(640)** | (2,699) |
| Cash flows from financing activities: | | |
| Proceeds from debt issuance | **380** | 6,225 |
| Payments of long-term debt | **(53)** | (4,203) |
| Payments for debt issuance costs | **—** | (39) |
| Dividend payments | **(98)** | (99) |
| Repurchases of stock and other | **(126)** | (34) |
| Capital distributions to non-controlling interests | **(3)** | — |
| Capital contributions from non-controlling interests | **42** | 4 |
| Proceeds from issuances of stock | **23** | 16 |
| Net cash provided by financing activities | **165** | 1,870 |
| Net decrease in cash, cash equivalents and restricted cash | **(219)** | (35) |
| Cash, cash equivalents and restricted cash at beginning of period | **687** | 717 |
| Cash, cash equivalents and restricted cash at end of period | **468** | 682 |
| Less: restricted cash at end of period | **130** | 94 |
| Cash and cash equivalents at end of period | **$ 338** | $ 588 |
| | | |
| Supplementary cash flow information: | | |
| Cash paid for income taxes, net of refunds | **$ 110** | $ 7 |
| Cash paid for interest | **102** | 82 |
| Non-cash investing activity: | | |
| Property, plant and equipment additions | **$ —** | $ 15 |
| Non-cash financing activity: | | |
| Finance lease obligations | **$ 45** | $ 12 |

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® science, engineering and information technology 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 as well as foreign government agencies. 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 financial information 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.

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 23, 2021.

***Accounting Standards Updates ("ASU") Adopted***

ASU 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40)*

In August 2020, the Financial Accounting Standards Board ("FASB") issued ASU 2020-06 which simplifies the accounting for convertible debt and convertible preferred stock by removing the requirements to separate embedded conversion features from the host convertible instruments. Additionally, the amendments in this update simplify the guidance in Subtopic 815-40 by removing certain criteria that must be satisfied in order to classify a contract as equity. This update also improves the consistency of earnings per share calculations by requiring an entity to use the if-converted method of calculating diluted earnings per share rather than the treasury stock method for convertible instruments and also by requiring the inclusion of the potential effect of shares settled in cash or shares in the diluted earnings per share calculation. The amendments in this update are effective for public entities for fiscal years beginning after December 15, 2021, and adopted using either a fully or modified retrospective approach. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. Entities should adopt the guidance as of the beginning of the fiscal year of adoption and cannot adopt the guidance in an interim reporting period.

Effective January 2, 2021, we adopted the requirements of ASU 2020-06 using the modified retrospective method. The adoption did not have an impact to our financial position, results of operations and earnings per share.

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

ASU 2020-04 and ASU 2021-01, *Reference Rate Reform (Topic 848)*

In March 2020, the FASB issued 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 discounting transition through December 31, 2022. 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. We are currently evaluating the impacts of reference rate reform. We currently use the one-month LIBOR for which the rate publication will cease in June 2023.

ASU 2021-05, *Leases (Topic 842) Lessors—Certain Leases with Variable Lease Payments*

In July 2021, the FASB issued ASU 2021-05, which amends lessor’s accounting for leases with variable lease payments classified as sales-type or direct financing leases. The amendments in this update modify the lease classification requirements for lessors, whereby leases with variable lease payments that are not dependent on a reference index or a rate will be accounted for as operating leases if classification as a sales-type or direct financing lease would have resulted in a day-one loss. The amendments in this update are effective for public entities for fiscal years beginning after December 15, 2021, as well as interim periods within those fiscal years, and can be adopted using either a prospective or retrospective approach. Early adoption is also permitted. We are currently evaluating the impact and adoption approach for this update.

***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.

**LEIDOS HOLDINGS, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Changes in estimates on contracts were as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 2, 2021** | July 3, 2020 | **July 2, 2021** | July 3, 2020 |
| | (in millions, except per share amounts) | | | |
| Favorable impact | **$ 37** | 28 | **$ 68** | $ 52 |
| Unfavorable impact | **(29)** | (19) | **(48)** | (26) |
| Net impact to income before income taxes | **$ 8** | $ 9 | **$ 20** | $ 26 |
| Impact on diluted EPS attributable to Leidos common stockholders | **$ 0.04** | $ 0.05 | **$ 0.11** | $ 0.14 |

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 $9 million and $18 million for the three and six months ended July 2, 2021, respectively, and $12 million and $32 million for the three and six months ended July 3, 2020, 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. Outstanding payments are included within "Cash and cash equivalents" and "Accounts payable and accrued liabilities" correspondingly on the condensed consolidated balance sheets. At July 2, 2021 and January 1, 2021, $196 million and $237 million, respectively, of outstanding payments were included within "Cash and cash equivalents."

***Restricted Cash***

We have restricted cash balances, primarily representing advances from customers that are restricted as to use for certain expenditures related to that customer's contract and cash collected from the sale of accounts receivable but not yet remitted to the financial institution (see "Note 9–Sale of Accounts Receivable"). Restricted cash balances are included as "Other current assets" in the condensed consolidated balance sheets. Our restricted cash balances were $130 million and $163 million at July 2, 2021 and January 1, 2021, respectively.

## Note 2–Revenues from Contracts with Customers

***Remaining Performance Obligations***

Remaining performance obligations ("RPO") represent the expected value of exercised contracts, both funded and unfunded, less revenue recognized to date. Remaining performance obligations do 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 July 2, 2021, we had $14.6 billion of RPO and expect to recognize approximately 51% and 81% 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. These categories represent how the nature, timing and uncertainty of revenues and cash flows are affected.

**LEIDOS HOLDINGS, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Disaggregated revenues by customer-type were as follows:

| | Three Months Ended July 2, 2021 | | | | Six Months Ended July 2, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Defense Solutions | Civil | Health | Total | Defense Solutions | Civil | Health | Total |
| | (in millions) | | | | | | | |
| DoD and U.S. Intelligence Community | $ 1,466 | $ 13 | $ 184 | $ 1,663 | $ 2,873 | $ 26 | $ 342 | $ 3,241 |
| Other government agencies[1] | 237 | 625 | 435 | 1,297 | 509 | 1,230 | 842 | 2,581 |
| Commercial and non-U.S. customers | 300 | 131 | 26 | 457 | 578 | 256 | 52 | 886 |
| Total | $ 2,003 | $ 769 | $ 645 | $ 3,417 | $ 3,960 | $ 1,512 | $ 1,236 | $ 6,708 |

| | Three Months Ended July 3, 2020 | | | | Six Months Ended July 3, 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Defense Solutions | Civil | Health | Total | Defense Solutions | Civil | Health | Total |
| | (in millions) | | | | | | | |
| DoD and U.S. Intelligence Community | $ 1,362 | $ 12 | $ 123 | $ 1,497 | $ 2,647 | $ 29 | $ 247 | $ 2,923 |
| Other government agencies[1] | 175 | 615 | 247 | 1,037 | 383 | 1,159 | 622 | 2,164 |
| Commercial and non-U.S. customers | 219 | 112 | 27 | 358 | 431 | 183 | 55 | 669 |
| Total | $ 1,756 | $ 739 | $ 397 | $ 2,892 | $ 3,461 | $ 1,371 | $ 924 | $ 5,756 |

[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 July 2, 2021 | | | | Six Months Ended July 2, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Defense Solutions | Civil | Health | Total | Defense Solutions | Civil | Health | Total |
| | (in millions) | | | | | | | |
| Cost-reimbursement and fixed-price-incentive-fee | $ 1,234 | $ 405 | $ 125 | $ 1,764 | $ 2,397 | $ 779 | $ 224 | $ 3,400 |
| Firm-fixed-price | 526 | 248 | 419 | 1,193 | 1,079 | 510 | 811 | 2,400 |
| Time-and-materials and fixed-price-level-of-effort | 243 | 116 | 101 | 460 | 484 | 223 | 201 | 908 |
| Total | $ 2,003 | $ 769 | $ 645 | $ 3,417 | $ 3,960 | $ 1,512 | $ 1,236 | $ 6,708 |

| | Three Months Ended July 3, 2020 | | | | Six Months Ended July 3, 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Defense Solutions | Civil | Health | Total | Defense Solutions | Civil | Health | Total |
| | (in millions) | | | | | | | |
| Cost-reimbursement and fixed-price-incentive-fee | $ 1,105 | $ 343 | $ 64 | $ 1,512 | $ 2,199 | $ 689 | $ 129 | $ 3,017 |
| Firm-fixed-price | 462 | 289 | 237 | 988 | 902 | 462 | 610 | 1,974 |
| Time-and-materials and fixed-price-level-of-effort | 189 | 107 | 96 | 392 | 360 | 220 | 185 | 765 |
| Total | $ 1,756 | $ 739 | $ 397 | $ 2,892 | $ 3,461 | $ 1,371 | $ 924 | $ 5,756 |

Disaggregated revenues by geographic location were as follows:

| | Three Months Ended July 2, 2021 | | | | Six Months Ended July 2, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Defense Solutions | Civil | Health | Total | Defense Solutions | Civil | Health | Total |
| | (in millions) | | | | | | | |
| United States | $ 1,746 | $ 728 | $ 645 | $ 3,119 | $ 3,459 | $ 1,432 | $ 1,236 | $ 6,127 |
| International | 257 | 41 | — | 298 | 501 | 80 | — | 581 |
| Total | $ 2,003 | $ 769 | $ 645 | $ 3,417 | $ 3,960 | $ 1,512 | $ 1,236 | $ 6,708 |

| | Three Months Ended July 3, 2020 | | | | Six Months Ended July 3, 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Defense Solutions | Civil | Health | Total | Defense Solutions | Civil | Health | Total |
| | (in millions) | | | | | | | |
| United States | $ 1,560 | $ 691 | $ 397 | $ 2,648 | $ 3,073 | $ 1,310 | $ 924 | $ 5,307 |
| International | 196 | 48 | — | 244 | 388 | 61 | — | 449 |
| Total | $ 1,756 | $ 739 | $ 397 | $ 2,892 | $ 3,461 | $ 1,371 | $ 924 | $ 5,756 |

Revenues by customer-type, contract-type and geographic location exclude lease income of $31 million and $55 million for the three and six months ended July 2, 2021, respectively, and $22 million and $47 million for the three and six months ended July 3, 2020, 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, where right to payment is not solely subject to the passage of time. Unbilled receivables exclude amounts billable where the right to consideration is unconditional. 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 | July 2, 2021 | January 1, 2021 |
|---|---|---|---|
| | | (in millions) | |
| Contract assets - current: | | | |
| Unbilled receivables | Receivables, net | $ 1,029 | $ 906 |
| Contract liabilities - current: | | | |
| Deferred revenue [1] | Accounts payable and accrued liabilities | $ 320 | $ 481 |
| Contract liabilities - non-current: | | | |
| Deferred revenue [1] | Other long-term liabilities | $ 18 | $ 20 |

[1] Certain contracts record revenue on a net contract basis, and therefore, the respective deferred revenue balance will not fully convert to revenue.

The increase in unbilled receivables was primarily due to the timing of billings and the acquisitions of Gibbs & Cox, Inc. ("Gibbs & Cox") and 1901 Group, LLC ("1901 Group"), partially offset by revenue recognized on certain contracts. The decrease in deferred revenue was primarily due to the timing of advance payments and revenue recognized during the period.

Revenue recognized for the three and six months ended July 2, 2021 of $78 million and $222 million, respectively, was included as a contract liability at January 1, 2021. Revenue recognized for the three and six months ended July 3, 2020 of $81 million and $226 million, respectively, was included as a contract liability at January 3, 2020.

**Note 3–Acquisitions, Goodwill and Intangible Assets**

***Gibbs & Cox Acquisition***

On May 7, 2021 (the "Purchase Date"), we completed the acquisition of Gibbs & Cox for preliminary purchase consideration of approximately $376 million, net of $1 million of cash acquired. Gibbs & Cox is an independent engineering and design firm specializing in naval architecture, marine engineering, management support and engineering consulting.

The preliminary goodwill recognized of $244 million represents intellectual capital and the acquired assembled workforce, neither of which qualify for recognition as a separate intangible asset. All of the goodwill recognized is tax deductible.

The following table summarizes the preliminary fair value of intangible assets acquired at the Purchase Date and the related weighted average amortization period:

| | Weighted average amortization period | Fair value |
|---|---|---|
| | (in years) | (in millions) |
| Programs | 10 | $ 101 |
| Technology | 10 | 20 |
| Trade names | 5 | 4 |
| Total | 10 | $ 125 |

The preliminary fair value and related weighted average amortization period of the intangible assets acquired were based on an industry benchmarking analysis surrounding recent and relevant industry transactions. The difference between the benchmark estimate and ultimate fair value of intangible assets identified may be material.

As of July 2, 2021, we had not finalized the determination of fair values allocated to assets and liabilities, including, but not limited to, intangible assets, accounts receivables, accounts payable and accrued liabilities and other long-term liabilities.

***1901 Group Acquisition***

On January 14, 2021 (the "Closing Date"), we completed the acquisition of 1901 Group for preliminary purchase consideration of $212 million, net of $2 million of cash acquired.

The preliminary goodwill recognized of $123 million represents intellectual capital and the acquired assembled workforce, none of which qualify for recognition as separate intangible assets. Of the goodwill recognized, $103 million is tax deductible.

The following table summarizes the preliminary fair value of intangible assets acquired at the Closing Date and the related weighted average amortization period:

| | Weighted average amortization period | Fair value |
|---|---|---|
| | (in years) | (in millions) |
| Technology | 8 | $ 43 |
| Programs | 10 | 37 |
| Backlog | 1 | 5 |
| Total | 8 | $ 85 |

As of July 2, 2021, we had not finalized the determination of fair values allocated to assets and liabilities, including, but not limited to intangible assets, accounts receivables, accounts payable and accrued liabilities.

For the three and six months ended July 2, 2021, $37 million and $50 million, respectively, of revenues related to the Gibbs & Cox and 1901 Group acquisitions were recognized within the Defense Solutions reportable segment.

***SD&A Businesses Acquisition***

On May 4, 2020 (the "Transaction Date"), we completed the acquisition of L3Harris Technologies' security detection and automation businesses (the "SD&A Businesses"). The SD&A Businesses were acquired for cash consideration of $1,019 million, net of $27 million of cash acquired. The purchase consideration includes the initial cash payment of $1,015 million, plus a $31 million payment for contractual net working capital acquired. The SD&A Businesses provide airport and critical infrastructure screening products, automated tray return systems and other industrial automation products. The addition of the SD&A Businesses expands the scope and scale of our global security detection and automation offerings.

The final fair values of the assets acquired and liabilities assumed at the Transaction Date were as follows (in millions):

| | |
|---|---|
| Cash | $ 27 |
| Receivables | 128 |
| Inventory | 106 |
| Other current assets | 26 |
| Operating lease right-of-use assets | 35 |
| Property, plant and equipment | 32 |
| Intangible assets | 355 |
| Accounts payable and accrued liabilities | (132) |
| Accrued payroll and employee benefits | (8) |
| Operating lease liabilities | (32) |
| Deferred tax liabilities | (52) |
| Other long-term liabilities | (13) |
| Total identifiable net assets acquired | 472 |
| Goodwill | 574 |
| Purchase price | $ 1,046 |

As of July 2, 2021, we had completed the determination of fair values of the acquired assets and liabilities assumed. The goodwill represents intellectual capital and the acquired assembled workforce. Of the goodwill recognized, $432 million is deductible for tax purposes.

The following table summarizes the final fair value of intangible assets acquired at the Transaction Date and the related weighted average amortization period:

| | Weighted average amortization period | Fair value |
|---|---|---|
| | (in years) | (in millions) |
| Programs | 13 | $ 141 |
| Customer relationships | 10 | 49 |
| Technology | 10 | 73 |
| In-process research and development ("IPR&D")[(1)] | | 92 |
| Total | 11 | $ 355 |

[(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.

For the three and six months ended July 2, 2021, $74 million and $146 million, respectively, of revenues related to the SD&A Businesses were recognized within the Civil reportable segment. For the three and six months ended July 3, 2020, $80 million of revenues related to the SD&A Businesses were recognized within the Civil reportable segment.

***Dynetics Acquisition***

On January 31, 2020 (the "Acquisition Date"), we completed our acquisition of Dynetics, an industry-leading applied research and national security solutions company. The addition of Dynetics will accelerate opportunities within our innovation engine that researches and develops new technologies and solutions to address the most challenging needs of our customers. All of the issued and outstanding shares of common stock of Dynetics were purchased for $1.64 billion, net of cash acquired.

The final goodwill recognized of $789 million represents intellectual capital and the acquired assembled workforce. All of the goodwill recognized is deductible for tax purposes.

The following table summarizes the final fair value of intangible assets acquired at the Acquisition Date and the related weighted average amortization period:

| | Weighted average amortization period | Fair value |
|---|---|---|
| | (in years) | (in millions) |
| Programs | 13 | $ 485 |
| Backlog | 1 | 32 |
| Technology | 11 | 11 |
| Total | 12 | $ 528 |

For the six months ended July 2, 2021 and July 3, 2020, $567 million and $335 million, respectively, of revenues related to Dynetics were recognized within the Defense Solutions reportable segment.

***Acquisition and Integration Costs***

The following expenses were incurred related to the acquisitions of Dynetics, the SD&A Businesses, 1901 Group and Gibbs & Cox:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 2, 2021** | July 3, 2020 | **July 2, 2021** | July 3, 2020 |
| | (in millions) | | | |
| Acquisition costs | **$ 4** | $ 12 | **$ 4** | $ 23 |
| Integration costs | **4** | 3 | **9** | 3 |
| Total acquisition and integration costs | **$ 8** | $ 15 | **$ 13** | $ 26 |

These acquisition and integration costs are recorded within Corporate and presented in "Acquisition, integration and restructuring costs" on the condensed consolidated statements of income.

***Goodwill***

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

| | Defense Solutions | Civil | Health | Total |
|---|---|---|---|---|
| | (in millions) | | | |
| Goodwill at January 3, 2020 | $ 2,039 | $ 1,907 | $ 966 | $ 4,912 |
| Goodwill re-allocation | 429 | (429) | — | — |
| Acquisitions of Dynetics and the SD&A Businesses | 788 | 569 | — | 1,357 |
| Foreign currency translation adjustments | 44 | — | — | 44 |
| Goodwill at January 1, 2021 | 3,300 | 2,047 | 966 | 6,313 |
| Acquisitions of Dynetics, the SD&A Businesses, 1901 Group and Gibbs & Cox | 368 | 5 | — | 373 |
| Foreign currency translation adjustments | (13) | 34 | — | 21 |
| **Goodwill at July 2, 2021** | **$ 3,655** | **$ 2,086** | **$ 966** | **$ 6,707** |

There were no goodwill impairments during the six months ended July 2, 2021 and July 3, 2020.

***Intangible Assets***

Intangible assets, net consisted of the following:

| | **July 2, 2021** | | | January 1, 2021 | | |
|---|---|---|---|---|---|---|
| | **Gross carrying value** | **Accumulated amortization** | **Net carrying value** | Gross carrying value | Accumulated amortization | Net carrying value |
| | | | (in millions) | | | |
| Finite-lived intangible assets: | | | | | | |
| Programs | **$ 1,774** | **$ (775)** | **$ 999** | $ 1,632 | $ (687) | $ 945 |
| Software and technology | **255** | **(112)** | **143** | 188 | (100) | 88 |
| Customer relationships | **98** | **(14)** | **84** | 93 | (10) | 83 |
| Backlog | **37** | **(34)** | **3** | 32 | (29) | 3 |
| Trade names | **5** | **(1)** | **4** | 1 | — | 1 |
| Total finite-lived intangible assets | **2,169** | **(936)** | **1,233** | 1,946 | (826) | 1,120 |
| Indefinite-lived intangible assets: | | | | | | |
| In-process research and development | **92** | **—** | **92** | 92 | — | 92 |
| Trade names | **4** | **—** | **4** | 4 | — | 4 |
| Total indefinite-lived intangible assets | **96** | **—** | **96** | 96 | — | 96 |
| Total intangible assets | **$ 2,265** | **$ (936)** | **$ 1,329** | $ 2,042 | $ (826) | $ 1,216 |

Amortization expense was $55 million and $110 million for the three and six months ended July 2, 2021, respectively, and $51 million and $94 million for the three and six months ended July 3, 2020, 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 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 July 2, 2021, was as follows:

| Fiscal year ending | (in millions) |
|---|---|
| 2021 (remainder of year) | $ 113 |
| 2022 | 230 |
| 2023 | 204 |
| 2024 | 152 |
| 2025 | 125 |
| 2026 and thereafter | 409 |
| | $ 1,233 |

**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 assumptions about the assumptions that market participants would use in pricing the asset or liability (Level 3).

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

| | **July 2, 2021** | | January 1, 2021 | |
|---|---|---|---|---|
| | **Carrying value** | **Fair value** | Carrying value | Fair value |
| | (in millions) | | | |
| Financial liabilities: | | | | |
| Derivatives | **$ 78** | **$ 78** | $ 103 | $ 103 |

As of July 2, 2021, our derivatives primarily consisted of the cash flow interest rate swaps on $1.1 billion 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 LIBOR yield curve and the underlying interest rate (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. The carrying value of our notes receivable of $15 million as of July 2, 2021, and January 1, 2021, approximates fair value as the stated interest rates within the agreements are consistent with current market rates used in notes with similar terms in the market (Level 2 inputs).

As of July 2, 2021, and January 1, 2021, the fair value of debt was $5.5 billion and $5.2 billion, respectively, and the carrying amount was $5.1 billion and $4.7 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).

On May 7, 2021, January 14, 2021, May 4, 2020 and January 31, 2020, non-financial instruments measured at fair value on a non-recurring basis were recorded in connection with the acquisitions of Gibbs & Cox, 1901 Group, SD&A Businesses and Dynetics, respectively (see "Note 3–Acquisitions, Goodwill and Intangible Assets"). The fair values of the assets acquired and liabilities assumed were determined using Level 3 inputs. As of July 2, 2021, we did not have any assets or liabilities measured at fair value on a non-recurring basis.

## 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:

| | Liability derivatives | | |
|---|---|---|---|
| | Balance sheet line item | **July 2, 2021** | January 1, 2021 |
| | | (in millions) | |
| Cash flow interest rate swaps | Other long-term liabilities | **$ 78** | $ 103 |

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 $1.1 billion 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 3.00%. The objective of these instruments is to reduce variability in the forecasted interest payments of the Variable Rate Loan, which are based on the LIBOR rate. Under the terms of the interest rate swap agreements, we will receive monthly variable interest payments based on the one-month LIBOR rate and will pay interest at a fixed rate.

The interest rate swap transactions were accounted for as cash flow hedges. The gain/loss on the swaps is reported as a component of other comprehensive loss 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 loss and earnings for the periods presented was as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 2, 2021** | July 3, 2020 | **July 2, 2021** | July 3, 2020 |
| | (in millions) | | | |
| Total interest expense, net presented in the condensed consolidated statements of income in which the effects of cash flow hedges are recorded | **$ 46** | $ 41 | **$ 91** | $ 89 |
| Amount recognized in other comprehensive income (loss) | **$ (3)** | $ (7) | **$ 9** | $ (62) |
| Amount reclassified from accumulated other comprehensive income (loss) to interest expense, net | **$ 4** | $ 4 | **$ 9** | $ 4 |

We expect to reclassify net losses of $21 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 | July 2, 2021[1] | January 1, 2021[1] |
|---|---|---|---|---|
| | | | (in millions) | |
| Short-term debt: | | | | |
| Senior unsecured term loans: | | | | |
| $380 million term loan, due May 2022 | 1.24% | 1.34% | **$ 380** | $ — |
| Long-term debt: | | | | |
| Senior unsecured term loans: | | | | |
| $1,925 million term loan, due January 2025 | 1.49% | 1.75% | **1,345** | 1,391 |
| Senior secured notes: | | | | |
| $500 million notes, due May 2023[2] | 2.95% | 3.17% | **498** | — |
| $500 million notes, due May 2025[2] | 3.63% | 3.76% | **496** | — |
| $750 million notes due May 2030[2] | 4.38% | 4.50% | **737** | — |
| $1,000 million notes, due February 2031[2] | 2.30% | 2.38% | **989** | — |
| Senior unsecured notes: | | | | |
| $500 million notes, due May 2023[2] | 2.95% | 3.17% | **—** | 497 |
| $500 million notes, due May 2025[2] | 3.63% | 3.76% | **—** | 496 |
| $750 million notes due May 2030[2] | 4.38% | 4.50% | **—** | 737 |
| $1,000 million notes, due February 2031[2] | 2.30% | 2.38% | **—** | 989 |
| $250 million notes, due July 2032 | 7.13% | 7.43% | **247** | 247 |
| $300 million notes, due July 2033 | 5.50% | 5.88% | **158** | 158 |
| $300 million notes, due December 2040 | 5.95% | 6.03% | **216** | 216 |
| Notes payable and finance leases due on various dates through fiscal 2032 | 1.56%-5.49% | Various | **54** | 13 |
| Total long-term debt | | | **4,740** | 4,744 |
| Less current portion | | | **(101)** | (100) |
| Total long-term debt, net of current portion | | | **$ 4,639** | $ 4,644 |

[1] The carrying amounts of the senior term loans and notes as of July 2, 2021, and January 1, 2021, include the remaining principal outstanding of $5,114 million and $4,782 million, respectively, less total unamortized debt discounts and deferred debt issuances costs of $48 million and $51 million, respectively.

[2] We filed a Registration Statement on Form S-4 with the Securities and Exchange Commission on May 6, 2021, and was declared effective on May 19, 2021.

### *Term Loans and Revolving Credit Facility*

We have 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 $1.9 billion (the "Term Loan Facility") and a $750 million senior unsecured revolving facility (the "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 LIBOR rate plus, in each case, an applicable margin that varies depending on our credit rating. The applicable margin range for LIBOR-denominated borrowings is from 1.13% to 1.75%. Based on our current ratings, the applicable margin for LIBOR-denominated borrowings is 1.38%. Principal payments are made quarterly on the Term Loan Facility, with the majority of the principal due at maturity. Interest on the Term Loan Facility for LIBOR-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 following a material acquisition, and a ratio of EBITDA to consolidated interest expense of not less than 3.50 to 1.00.

On May 7, 2021, we entered into a Credit Agreement (the "2021 Credit Agreement") with certain financial institutions, which provided for a senior unsecured term loan facility in an aggregate principal amount of $380 million with maturity 364 days after the 2021 Credit Agreement date. The proceeds were used to fund the acquisition of Gibbs & Cox.

Borrowings under the 2021 Credit Agreement bear interest at a rate determined, at our option, based on either an alternate base rate plus 0.13% or a LIBOR rate plus 1.13%.

The financial covenants in the 2021 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 increases to 4.50 to 1.00 following a material acquisition, and a ratio of EBITDA to consolidated interest expense of not less than 3.50 to 1.00.

The senior secured and unsecured term loans, notes and revolving credit facility 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 July 2, 2021.

***Principal Payments and Debt Issuance Costs***

We made principal payments on our long-term debt of $27 million and $53 million during the three and six months ended July 2, 2021, respectively, and $226 million and $228 million during the three and six months ended July 3, 2020, respectively. This activity included required principal payments on our term loans of $24 million and $48 million during the three and six months ended July 2, 2021, respectively, and $24 million for the three and six months ended July 3, 2020. During the three and six months ended July 3, 2020 we made additional payments of $2,050 million and $3,975 million, respectively, related to our refinancing activities.

As of July 2, 2021 and January 1, 2021, there were no borrowings outstanding under the Revolving Facility.

For the three and six months ended July 3, 2020, $12 million and $31 million of debt discount and debt issuance costs were written off related to the prior year refinancing activities. Amortization of debt discount and debt issuance costs was $2 million and $4 million for the three and six months ended July 2, 2021, respectively, and $5 million and $9 million for the three and six months ended July 3, 2020, respectively.

**Note 7–Accumulated Other Comprehensive Loss**

Changes in the components of accumulated other comprehensive loss were as follows:

| | Foreign currency translation adjustments | Unrecognized gain (loss) on derivative instruments | Pension adjustments | Total accumulated other comprehensive loss |
|---|---|---|---|---|
| | | (in millions) | | |
| Balance at January 3, 2020 | $ (33) | $ (33) | $ (4) | $ (70) |
| Other comprehensive income (loss) | 70 | (61) | (3) | 6 |
| Taxes | (7) | 10 | 1 | 4 |
| Reclassification from accumulated other comprehensive loss | — | 14 | — | 14 |
| Balance at January 1, 2021 | 30 | (70) | (6) | (46) |
| Other comprehensive income | 25 | 9 | — | 34 |
| Taxes | (8) | (4) | — | (12) |
| Reclassification from accumulated other comprehensive loss | — | 9 | — | 9 |
| **Balance at July 2, 2021** | **$ 47** | **$ (56)** | **$ (6)** | **$ (15)** |

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

### 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 | | Six Months Ended | |
|---|---|---|---|---|
| | **July 2, 2021** | July 3, 2020 | **July 2, 2021** | July 3, 2020 |
| | (in millions) | | | |
| Basic weighted average number of shares outstanding | **141** | 142 | **141** | 142 |
| Dilutive common share equivalents—stock options and other stock awards | **2** | 2 | **2** | 2 |
| Diluted weighted average number of shares outstanding | **143** | 144 | **143** | 144 |

Anti-dilutive stock-based awards are excluded from the weighted average number of shares outstanding used to compute diluted EPS. The total outstanding stock options and vesting stock awards that were anti-dilutive were 1 million for both the three and six months ended July 2, 2021 and the three and six months July 3, 2020.

During the six months ended July 2, 2021, we made open market repurchases of our common stock for an aggregate purchase price of $100 million. All shares repurchased were immediately retired. No share repurchases were made under the Company's share repurchase program during the three months ended July 2, 2021.

### Note 9–Sale of Accounts Receivable

We have entered into purchase agreements with a financial institution which provide us the election to sell accounts receivable at a discount. The receivables sold are typically collectable from our customers within 30 days of the sale date. During the six months ended July 2, 2021 and July 3, 2020, we sold $693 million and $1,113 million, respectively, of accounts receivable under the agreements and received proceeds of $693 million and $1,112 million, respectively, which were classified as operating activities in the condensed consolidated statements of cash flows.

These transfers have been recognized as a sale, as the receivables have been legally isolated from Leidos, the financial institution has the right to pledge or exchange the assets received and we do not maintain effective control over the transferred accounts receivable. Our only continuing involvement with the transferred financial assets is as the collection and servicing agent. As a result, the accounts receivable balance on the condensed consolidated balance sheets is presented net of the transferred amounts. No servicing asset or liability was recognized for continued servicing of the sold receivables, as the servicing fee approximates fair value. The difference between the carrying amount of the receivables sold and the net cash received was recognized as a loss on sale and was recorded within "Selling, general and administrative expenses" on the condensed consolidated statements of income.

Sold receivables activity for the periods presented was as follows:

| | Six Months Ended | |
|---|---|---|
| | **July 2, 2021** | July 3, 2020 |
| | (in millions) | |
| Sales of accounts receivable | **$ 693** | $ 1,113 |
| Cash collections on sold receivables remitted to financial institution | **(693)** | (888) |
| Outstanding balance sold to financial institution | **—** | 225 |
| Cash collected but not yet remitted to financial institution | **—** | (14) |
| Sold receivables due from customers | **$ —** | $ 211 |

## 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 Chairman and 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 | | Six Months Ended | |
|---|---|---|---|---|
| | **July 2, 2021** | July 3, 2020 | **July 2, 2021** | July 3, 2020 |
| | (in millions) | | | |
| Revenues: | | | | |
| Defense Solutions | **$ 2,004** | $ 1,757 | **$ 3,962** | $ 3,462 |
| Civil | **799** | 758 | **1,565** | 1,412 |
| Health | **645** | 399 | **1,236** | 929 |
| Total revenues | **$ 3,448** | $ 2,914 | **$ 6,763** | $ 5,803 |
| Operating income (loss): | | | | |
| Defense Solutions | **$ 137** | $ 119 | **$ 289** | $ 214 |
| Civil | **55** | 78 | **129** | 137 |
| Health | **107** | 1 | **209** | 74 |
| Corporate | **(30)** | 51 | **(50)** | 16 |
| Total operating income | **$ 269** | $ 249 | **$ 577** | $ 441 |

The income statement performance measures used to evaluate segment performance are revenues and operating income. As a result, "Interest expense, net," "Other expense, net" and "Income tax expense" as reported in the condensed consolidated statements of income 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 income.

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

## Note 11–Commitments and Contingencies

### *Legal Proceedings*

*MSA Joint Venture*

On November 10, 2015, MSA received a final decision by the Department of Energy ("DoE") contracting officer for the Mission Support Contract concluding that certain payments to MSA by the DoE for the performance of IT services by Lockheed Martin Services, Inc. ("LMSI") under a subcontract to MSA constituted alleged affiliate fees in violation of Federal Acquisition Regulations ("FAR"). Lockheed Martin Integrated Technology LLC (now known as Leidos Integrated Technology LLC) is a member entity of MSA. Subsequent to the contracting officer's final decision, MSA, LMSI, and Lockheed Martin Corporation received notice from the U.S. Attorney's Office for the Eastern District of Washington that the U.S. government had initiated a False Claims Act investigation into the facts surrounding this dispute. On February 8, 2019, the Department of Justice filed a complaint in the United States District Court for the Eastern District of Washington against MSA, Lockheed Martin Corporation, Lockheed Martin Services, Inc. and a Lockheed Martin employee ("Defendants"). The complaint alleges violations of the False Claims Act, the Anti-Kickback Act and breach of contract with the DoE, among other things. On January 13, 2020, the Defendants' motions to dismiss were granted in part and denied in part. Litigation would proceed for the False Claims Act and other common law claims, although the Anti-Kickback Act claim has been dismissed with prejudice. The U.S. Attorney's office had previously advised that a parallel criminal investigation was open, although no subjects or targets of the investigation had been identified. The U.S. Attorney's office has informed MSA that it has closed the criminal investigation.

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Since this issue first was raised by the DoE, MSA has asserted that the IT services performed by LMSI under a fixed-price/fixed-unit rate subcontract approved by the DoE meet the definition of a "commercial item" under the FAR and any profits earned on that subcontract are permissible. MSA filed an appeal of the contracting officer's decision with the Civilian Board of Contract Appeals ("CBCA"), which was stayed pending resolution of the False Claims Act matter. Subsequent to the filing of MSA's appeal, the contracting officer demanded that MSA reimburse the DoE in the amount of $64 million, which was his estimate of the profits earned during the period from 2010 to 2014 by LMSI. The DoE has deferred collection of $32 million of that demand, pending resolution of the appeal and without prejudice to MSA's position that it is not liable for any of the DoE's $64 million reimbursement claim. On December 10, 2019, MSA received a second final decision by the DoE contracting officer, estimating approximately $29 million in alleged unallowable profit and associated general and administrative costs during the period from 2015 to 2016 by LMSI. MSA filed an appeal of the second contracting officer's decision, which has been consolidated with the prior proceeding before the CBCA and stayed pending resolution of the False Claims Act matter. The DoE and MSA also executed an agreement to defer the entire amount of the disallowed costs from the second contracting officer's final decision until the CBCA proceedings are finally resolved. Leidos has agreed to indemnify Jacobs Group, LLC and Centerra Group, LLC for any liability MSA incurs in this matter. Under the terms of the Separation Agreement, Lockheed Martin agreed to indemnify Leidos for 100% of any damages in excess of $38 million up to $64 million, and 50% of any damages in excess of $64 million, with respect to claims asserted against MSA related to this matter.

On April 5, 2021, MSA finalized the settlement of the False Claims Act litigation in the Eastern District of Washington and the related contract claim at the CBCA. Pursuant to the settlement agreement, DoE paid MSA approximately $37 million on April 19, 2021 and MSA paid the Department of Justice $3 million on April 22, 2021. Accordingly, following joint motions by the parties, the CBCA dismissed the claim before the Board with prejudice on April 28, 2021 and the District Court dismissed the False Claims Act litigation with prejudice on April 30, 2021.

There remain other outstanding matters in dispute between DoE and MSA as the two parties work to close out the Mission Support Contract. As of July 2, 2021, we believe we have adequately reserved for any potential liabilities related to these disputes.

*Class Action Lawsuit*

On March 2, 2021, Leidos and certain current officers of Leidos were named as defendants in a putative class action securities lawsuit filed in the U.S. District Court for the Southern District of New York. The complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder relating to alleged misstatements or omissions in Leidos' public filings with the SEC and other public statements during the period from May 4, 2020 to February 23, 2021 relating, among other things, to Leidos' acquisition of the SD&A Businesses. The plaintiff seeks to recover from the Company and the individual defendants an unspecified amount of damages at this time. We believe the suit lacks merit and we intend to vigorously defend against it.

***Other 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. Apple is expected to appeal this decision. 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 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. Thus, no assurances can be given when or if we will receive any proceeds in connection with these jury awards. 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.

As of July 2, 2021, indirect cost active audits by the Defense Contract Audit Agency remain open for fiscal 2016 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 July 2, 2021, we believe we have adequately reserved for potential adjustments from audits or reviews of contract costs.

***Commitments***

We have outstanding letters of credit of $75 million as of July 2, 2021, principally related to performance guarantees on contracts. We also have outstanding surety bonds with a notional amount of $131 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 July 2, 2021, the future expirations of the outstanding letters of credit and surety bonds were as follows:

| Fiscal year ending | (in millions) |
|---|---|
| 2021 (remainder of year) | $ 79 |
| 2022 | 103 |
| 2023 | 4 |
| 2024 | 2 |
| 2025 | 2 |
| 2026 and thereafter | 16 |
| | $ 206 |

**Note 12–Subsequent Events**

***Commercial paper program***

On July 12, 2021, Leidos, Inc. established a commercial paper program in which the Company may issue short-term unsecured commercial paper notes ("Commercial Paper Notes") not to exceed $750 million. The Commercial Paper Notes will have maturities of up to 397 days from the date of issuance. The net proceeds of the Commercial Paper Notes are expected to be used for general corporate purposes, including working capital, capital expenditures, acquisitions and share repurchases.

**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 and our ability to recover certain costs through the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). Such statements are not guarantees of future performance and involve risks and uncertainties, including uncertainties relating to the coronavirus pandemic ("COVID-19") and the actions taken by authorities and us to respond, 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® science, engineering and information technology 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 as well as foreign government agencies. We operate in three reportable segments: Defense Solutions, Civil and Health. Additionally, we separately present the unallocable costs associated with corporate functions as Corporate.

*COVID-19*

For the three and six months ended July 2, 2021, COVID-19 did not have a material impact to revenues and operating income. The full extent of the impact of the COVID-19 pandemic on our operational and financial performance, including our ability to execute on programs in the expected timeframe, will depend on future developments, including the duration and spread of the pandemic and the distribution of vaccines, all of which are uncertain and cannot be predicted. While we have been able to make some recoveries, the ultimate timing and amount of recoveries remain uncertain as they will depend on a range of government actions, including each government agency and/or contracting officer's implementation of the authority granted in Section 3610 of the CARES Act, a $2 trillion coronavirus response bill providing widespread emergency relief, including the availability of funds. As a result of Congress passing government fiscal year ("GFY") 2021 appropriations, the relief from the CARES Act has been extended until September 30, 2021.

## Business Environment and Trends

*U.S. Government Markets*

During the three and six months ended July 2, 2021, we generated approximately 86% and 87%, respectively, of our total revenues from contracts with the U.S. government. 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.

Congress received the GFY 2022 President's Budget Request on May 28, 2021. Congress is working through the appropriations process before the end of the GFY on September 30; however, a continuing resolution is likely. Other potential spending packages include an infrastructure package and a budget reconciliation package.

*International Markets*

Sales to customers in international markets represented approximately 9% of total revenues for the three and six months ended July 2, 2021. 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 | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | **July 2, 2021** | July 3, 2020 | Dollar change | Percent change | **July 2, 2021** | July 3, 2020 | Dollar change | Percent change |
| | (dollars in millions) | | | | | | | |
| Revenues | **$ 3,448** | $ 2,914 | $ 534 | 18.3 % | **$ 6,763** | $ 5,803 | $ 960 | 16.5 % |
| | | | | | | | | |
| Operating income | **269** | 249 | 20 | 8.0 % | **577** | 441 | 136 | 30.8 % |
| Non-operating expense, net | **(46)** | (57) | 11 | (19.3)% | **(92)** | (119) | 27 | (22.7)% |
| Income before income taxes | **223** | 192 | 31 | 16.1 % | **485** | 322 | 163 | 50.6 % |
| Income tax expense | **(53)** | (38) | (15) | 39.5 % | **(110)** | (53) | (57) | 107.5 % |
| Net income | **$ 170** | $ 154 | $ 16 | | **$ 375** | $ 269 | $ 106 | |
| Net income attributable to Leidos common stockholders | **$ 169** | $ 153 | $ 16 | 10.5 % | **$ 374** | $ 268 | $ 106 | 39.6 % |
| *Operating margin* | ***7.8 %*** | *8.5 %* | | | ***8.5 %*** | *7.6 %* | | |

*Segment and Corporate Results*

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| **Defense Solutions** | **July 2, 2021** | July 3, 2020 | Dollar change | Percent change | **July 2, 2021** | July 3, 2020 | Dollar change | Percent change |
| | (dollars in millions) | | | | | | | |
| Revenues | **$ 2,004** | $ 1,757 | $ 247 | 14.1 % | **$ 3,962** | $ 3,462 | $ 500 | 14.4 % |
| Operating income | **137** | 119 | 18 | 15.1 % | **289** | 214 | 75 | 35.0 % |
| *Operating margin* | ***6.8 %*** | *6.8 %* | | | ***7.3 %*** | *6.2 %* | | |

The increase in revenues for the three and six months ended July 2, 2021, as compared to the three and six months ended July 3, 2020, was primarily attributable to program wins, a net increase in volumes on certain programs and total of $37 million and $50 million, respectively, of revenues from the acquisitions of Gibbs & Cox and 1901 Group, partially offset by the completion of certain contracts. In addition, for the three and six months ended July 2, 2021, there was a $29 million and $53 million benefit, respectively, in exchange rate movements.

The increase in operating income for the three and six months ended July 2, 2021, as compared to the three and six months ended July 3, 2020, was primarily due to program wins and a net increase in volumes on certain programs, partially offset by the completion of certain contracts.

| Civil | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | **July 2, 2021** | July 3, 2020 | Dollar change | Percent change | **July 2, 2021** | July 3, 2020 | Dollar change | Percent change |
| | (dollars in millions) | | | | | | | |
| Revenues | **$ 799** | $ 758 | $ 41 | 5.4 % | **$ 1,565** | $ 1,412 | $ 153 | 10.8 % |
| Operating income | **55** | 78 | (23) | (29.5)% | **129** | 137 | (8) | (5.8)% |
| *Operating margin* | ***6.9 %*** | *10.3 %* | | | ***8.2 %*** | *9.7 %* | | |

The increase in revenues for the three months ended July 2, 2021, as compared to the three months ended July 3, 2020, was primarily attributable to a net increase in program volumes, program wins and a reduction of the negative impacts from COVID-19 experienced during the prior year quarter.

The increase in revenues for the six months ended July 2, 2021, as compared to the six months ended July 3, 2020, was primarily attributable to a net increase of $66 million of revenues related to L3 Harris Technologies' security and detection businesses (the "SD&A Businesses") acquired in the prior year quarter, a net increase in program volumes, program wins and a reduction of the negative impacts from COVID-19 experienced during the prior year quarter.

The decrease in operating income for the three months ended July 2, 2021, as compared to the three months ended July 3, 2020, was primarily due to a net decrease in volumes due to the timing of product deliveries on certain programs.

The decrease in operating income for the six months ended July 2, 2021, as compared to the six months ended July 3, 2020, was primarily attributable to a net decrease in volumes due to the timing of product deliveries on certain programs and increased amortization reflecting one additional month in the current quarter related to intangible assets from the acquisition of the SD&A Businesses, partially offset by a $26 million benefit from an adjustment to legal reserves related to the Mission Support Alliance joint venture during the first quarter of fiscal 2021 and on-contract growth in certain programs.

| Health | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | **July 2, 2021** | July 3, 2020 | Dollar change | Percent change | **July 2, 2021** | July 3, 2020 | Dollar change | Percent change |
| | (dollars in millions) | | | | | | | |
| Revenues | **$ 645** | $ 399 | $ 246 | 61.7 % | **$ 1,236** | $ 929 | $ 307 | 33.0 % |
| Operating income | **107** | 1 | 106 | *NM* | **209** | 74 | 135 | 182.4 % |
| *Operating margin* | ***16.6 %*** | *0.3 %* | | | ***16.9 %*** | *8.0 %* | | |

The increase in revenues for the three and six months ended July 2, 2021, as compared to the three and six months ended July 3, 2020, was primarily attributable to a net increase in volumes on certain programs, program wins and an approximately $96 million reduction of the negative impacts of COVID-19 experienced during the prior year quarter.

The increase in operating income for the three and six months ended July 2, 2021, as compared to the three and six months ended July 3, 2020, was primarily due to a net increase in volumes on higher margin programs, an approximately $57 million reduction of the negative impacts of COVID-19 experienced during both the prior year quarter and prior year and an $11 million asset impairment charge in the prior year quarter.

| Corporate | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | **July 2, 2021** | July 3, 2020 | Dollar change | Percent change | **July 2, 2021** | July 3, 2020 | Dollar change | Percent change |
| | (dollars in millions) | | | | | | | |
| Operating (loss) income | **$ (30)** | $ 51 | $ (81) | (158.8)% | **$ (50)** | $ 16 | $ (66) | *NM* |

*NM - Not Meaningful*

The increase in operating loss for the three and six months ended July 2, 2021, as compared to the three and six months ended July 3, 2020, was primarily attributable to an $81 million net gain recognized during the second quarter of fiscal 2020 upon receipt of proceeds related to the VirnetX, Inc. ("VirnetX") legal matter and a decrease in acquisition and integration costs.

*Non-Operating Expense, net*

Non-operating expense, net for the three months ended July 2, 2021 was $46 million as compared to $57 million for the three months ended July 3, 2020. The change was primarily due to $12 million of debt discount and deferred financing costs written off related to refinancing activities in the prior year.

Non-operating expense, net for the six months ended July 2, 2021 was $92 million as compared to $119 million for the six months ended July 3, 2020. The change was primarily due to $31 million of debt discount and deferred financing costs written off related to refinancing activities in the prior year.

*Provision for Income Taxes*

For the three months ended July 2, 2021, our effective tax rate was 23.8% compared to 19.8% for the three months ended July 3, 2020. The increase in the effective tax rate was primarily due to an increase to state income taxes and the one-time effects of the increase to the UK tax rate.

For the six months ended July 2, 2021, our effective tax rate was 22.7% compared to 16.5% for the six months ended July 3, 2020. The increase in the effective tax rate was primarily due to a decrease in benefits related to employee stock-based payments, an increase to state income taxes and a prior period release of a valuation allowance related to foreign tax credits.

**Bookings and Backlog**

We recorded net bookings worth an estimated $3.8 billion and $7.6 billion during the three and six months ended July 2, 2021, as compared to $4.6 billion and $10.2 billion for the three and six months ended July 3, 2020.

The estimated value of our total backlog was as follows:

| | **July 2, 2021** | | | July 3, 2020 | | |
|---|---|---|---|---|---|---|
| Segment | Funded | Unfunded | Total | Funded | Unfunded | Total |
| | | | (in millions) | | | |
| Defense Solutions | **$ 4,293** | **$ 14,154** | **$ 18,447** | $ 4,275 | $ 13,779 | $ 18,054 |
| Civil | **1,608** | **7,493** | **9,101** | 1,695 | 6,634 | 8,329 |
| Health | **1,255** | **4,720** | **5,975** | 1,074 | 3,204 | 4,278 |
| Total | **$ 7,156** | **$ 26,367** | **$ 33,523** | $ 7,044 | $ 23,617 | $ 30,661 |

The change in backlog for the Defense Solutions reportable segment reflects $751 million of backlog acquired as a result of the acquisitions of 1901 Group and Gibbs & Cox.

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. Total backlog at July 2, 2021 included a positive impact of $244 million when compared to total backlog at July 3, 2020, due to exchange rate movements in the British pound and Australian dollar when compared to the U.S. dollar. 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 July 2, 2021, we had $338 million in cash and cash equivalents. Additionally, we have an unsecured revolving credit facility which can provide up to $750 million in additional borrowing, if required. As of July 2, 2021, there were no borrowings outstanding under the credit facility and we were in compliance with the related financial covenants.

At July 2, 2021, and January 1, 2021, we had outstanding debt of $5.1 billion and $4.7 billion, respectively. On May 7, 2021, we entered into a Credit Agreement which provided for a senior unsecured term loan facility in an aggregate principal amount of $380 million.

We made principal payments on our long-term debt of $27 million and $53 million during the three and six months ended July 2, 2021, respectively, and $226 million and $228 million during the three and six months ended July 3, 2020, respectively. This activity included required principal payments on our term loans of $24 million and $48 million during the three and six months ended July 2, 2021, and $24 million during the three and six months ended July 3, 2020. During the three and six months ended July 3, 2020 we made additional payments of $2,050 million and $3,975 million, respectively, related to our refinancing activities. The senior unsecured term loans and notes contain financial covenants and customary restrictive covenants. We were in compliance with all covenants as of July 2, 2021.

On July 12, 2021, Leidos, Inc. established a commercial paper program in which we may issue short-term unsecured commercial paper notes not to exceed $750 million and have maturities of up to 397 days from the date of issuance (see "Note 12–Subsequent Events" ).

We paid dividends of $48 million and $98 million during the three and six months ended July 2, 2021, respectively, and $48 million and $99 million during the three and six months ended July 3, 2020, respectively.

During the three and six months ended July 2, 2021, we sold $228 million and $693 million, respectively, of accounts receivable under accounts receivable purchase agreements and received proceeds of $229 million and $693 million, respectively. During the three and six months ended July 3, 2020, we sold $549 million and $1,113 million of accounts receivable under accounts receivable purchase agreements and received proceeds of $549 million and $1,112 million, respectively (see "Note 9–Sale of Accounts Receivable").

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 six months ended July 2, 2021, we made open market repurchases of our common stock for an aggregate purchase price of $100 million. There were no share repurchases made under the Company’s share repurchase program during the second quarter ended July 2, 2021.

COVID-19 has negatively impacted the financial markets and may impact our liquidity; we will continue to assess our liquidity needs as the pandemic evolves.

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, sales of accounts receivable and, if needed, borrowings under our revolving credit facility.

*Summary of Cash Flows*

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 2, 2021** | July 3, 2020 | **July 2, 2021** | July 3, 2020 |
| | (in millions) | | | |
| Net cash provided by operating activities | **$ 17** | $ 422 | **$ 256** | $ 794 |
| Net cash used in investing activities | **(396)** | (1,014) | **(640)** | (2,699) |
| Net cash provided by financing activities | **313** | 709 | **165** | 1,870 |
| Net (decrease) increase in cash, cash equivalents and restricted cash | **$ (66)** | $ 117 | **$ (219)** | $ (35) |

Net cash provided by operating activities decreased $405 million for the three months ended July 2, 2021, when compared to the prior year quarter. The decrease was primarily due to lower sale of accounts receivable of $122 million, higher tax payments of $95 million, timing of customer advance payments of $94 million and the receipt of $85 million of proceeds related to the VirnetX legal matter in the prior year quarter.

Net cash provided by operating activities decreased $538 million for the six months ended July 2, 2021, when compared to the prior year. The decrease was primarily due to lower sale of accounts receivable of $225 million, higher tax payments of $103 million, timing of customer advance payments of $162 million, and the receipt of $85 million of proceeds related to the VirnetX legal matter in the prior year.

Net cash used in investing activities decreased $618 million for the three months ended July 2, 2021, when compared to the prior year quarter primarily due to the larger acquisition made in the prior year quarter for the SD&A Businesses compared to our current quarter acquisition of Gibbs & Cox (see "Note 3–Acquisitions, Goodwill and Intangible Assets") and lower capital expenditures in the current quarter.

Net cash used in investing activities decreased $2,059 million for the six months ended July 2, 2021, when compared to the prior year, primarily due to larger acquisitions made in the prior year for Dynetics and SD&A Businesses compared to our current year acquisitions of 1901 Group and Gibbs & Cox (see "Note 3–Acquisitions, Goodwill and Intangible Assets") and lower capital expenditures in the current year.

Net cash provided by financing activities decreased $396 million for the three months ended July 2, 2021 when compared to the prior year quarter. The change was primarily due to a decrease of approximately $394 million from the net change of proceeds received from the issuance of debt, principal payments and payments for debt issuance costs.

Net cash provided by financing activities decreased $1,705 million for the six months ended July 2, 2021, when compared to the prior year. The change was primarily due to a decrease of approximately $1,656 million from the net change of proceeds received from the issuance of debt, principal payments and payments for debt issuance costs and by $100 million of open market stock repurchases in the current year, partially offset by a $38 million increase in capital contributions received from our non-controlling interest.

### 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 resources, operations or financial condition.

## Guarantor and Issuer of Guaranteed Securities

Leidos Holdings, Inc. has fully and unconditionally guaranteed the obligations of its subsidiary, Leidos, Inc., under its $500 million notes due May 2023, $500 million notes due May 2025, $750 million due May 2030 and $1,000 million notes due February 2031 (collectively, "the Notes"). The underlying subsidiaries of Leidos, Inc. do not guarantee these obligations and have been excluded from the financial information presented below.

We have entered into registration rights agreements, pursuant to which we agreed to use reasonable best efforts to file registration statements to permit the exchange of the Notes and related guarantees for registered notes having terms substantially identical thereto, or in the alternative, the registered resale of the Notes and related guarantees under certain circumstances. Pursuant to these registration rights agreements, we filed a Registration Statement on Form S-4 with the Securities and Exchange Commission on May 6, 2021 which was declared effective on May 19, 2021.

The summarized balance sheet for Leidos Holdings, Inc. and Leidos, Inc., net of eliminations, as of July 2, 2021 was as follows (in millions):

***Balance Sheet***

| | | |
|---|---|---|
| Total current assets | $ | 1,791 |
| Goodwill | | 4,142 |
| Investments in consolidated subsidiaries | | 4,861 |
| Other long-term assets | | 1,442 |
| Total assets | $ | 12,236 |
| | | |
| Total current liabilities | $ | 2,308 |
| Long-term debt, net of current portion | | 4,637 |
| Intercompany payables | | 1,287 |
| Other long-term liabilities | | 888 |
| Total liabilities | | 9,120 |
| Total equity | | 3,116 |
| Total liabilities and stockholders' equity | $ | 12,236 |

The summarized statements of income for Leidos Holdings, Inc. and Leidos, Inc., net of eliminations, for the three and six months ended July 2, 2021 were as follows (in millions):

***Statements of Income***

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| Revenues, net | $ | 2,296 | $ | 4,516 |
| Operating income | | 149 | | 346 |
| Net income attributable to Leidos common stockholders | | 48 | | 144 |

## 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 January 1, 2021 except for the elimination of the Income Taxes critical accounting policy.

## 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 January 1, 2021.

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

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our principal executive officer (our Chairman and 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 July 2, 2021. 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 May 7, 2021 and January 14, 2021, we completed the acquisitions of Gibbs & Cox and 1901 Group, respectively. In conducting our evaluation of the effectiveness of our internal control over financial reporting, we excluded Gibbs & Cox and 1901 Group from our evaluation for the second quarter of fiscal 2021. As of July 2, 2021, we completed the integration of the SD&A Businesses into our controls 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 January 1, 2021.

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

(a) None

(b) None

(c) Purchases of Equity Securities by the Issuer

On February 16, 2018, 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.

| Period | Total Number of Shares (or Units) Purchased [(1)] | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Repurchase Plans or Programs | Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| April 3, 2021 - April 30, 2021 | — | $ — | — | 5,962,565 |
| May 1, 2021 - May 31, 2021 | — | — | — | 5,962,565 |
| June 1, 2021 - June 30, 2021 | — | — | — | 5,962,565 |
| July 1, 2021 - July 2, 2021 | 3,259 | 103.54 | — | 5,962,565 |
| Total | 3,259 | $ 103.54 | — | |

(1) The total number of shares purchased includes shares surrendered to satisfy statutory tax withholdings obligations related to vesting of restricted stock units.

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

None.

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

Not applicable.

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

None.

**Item 6.** ***Exhibits.***

| Exhibit Number | Description of Exhibit |
|---|---|
| 10.1* | Consulting Employee Agreement, dated May 3, 2021, between the Company and James C.Reagan. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on May 4, 2021. |
| 22 | List of Guarantors and Subsidiary Issuers of Guaranteed Securities. Incorporated herein by reference from the Company's Registration Statement on Form S-4, filed with the Commission on May 6, 2021. |
| 31.1 | Certification of Chairman and 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 Chairman and 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. |

* Executive Compensation Plans and Arrangements

## 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: August 3, 2021

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 CHAIRMAN AND CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Roger A. Krone, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended July 2, 2021, 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: August 3, 2021

/s/ Roger A. Krone

**Roger A. Krone**
**Chairman and 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 July 2, 2021, 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: August 3, 2021

/s/ Christopher R. Cage

**Christopher R. Cage**
**Executive Vice President and Chief Financial Officer**

**Exhibit 32.1**

**LEIDOS HOLDINGS, INC.**

**CERTIFICATION OF CHAIRMAN AND 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 July 2, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Roger A. Krone, Chairman and 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: August 3, 2021

/s/ Roger A. Krone

**Roger A. Krone**
**Chairman and 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 July 2, 2021, 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: August 3, 2021

/s/ Christopher R. Cage

**Christopher R. Cage**
**Executive Vice President and Chief Financial Officer**