



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 March 31, 2017

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**

(State or other jurisdiction of incorporation or organization)

**20-3562868**

(I.R.S. Employer Identification No.)

**11951 Freedom Drive, Reston, Virginia**

(Address of principal executive office)

**20190**

(Zip Code)

**(571) 526-6000**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark 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  (Do not check if a smaller reporting company)

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 issuer's classes of common stock as of April 25, 2017, was 151,033,623 shares of common stock (\$.0001 par value per share).

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**LEIDOS HOLDINGS, INC.**  
**FORM 10-Q**  
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## PART I—FINANCIAL INFORMATION

Item 1. *Financial Statements.*LEIDOS HOLDINGS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2017	December 30, 2016
(in millions)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 206	\$ 376
Receivables, net	1,841	1,657
Inventory, prepaid expenses and other current assets	348	348
Total current assets	2,395	2,381
Property, plant and equipment, net	238	259
Intangible assets, net	1,520	1,589
Goodwill	4,619	4,622
Deferred tax assets	15	16
Other assets	353	265
	<u>\$ 9,140</u>	<u>\$ 9,132</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 592	\$ 591
Accrued liabilities	837	836
Accrued payroll and employee benefits	396	483
Dividends payable	21	23
Income taxes payable	53	21
Notes payable and long-term debt, current portion	84	62
Total current liabilities	1,983	2,016
Notes payable and long-term debt, net of current portion	3,188	3,225
Deferred tax liabilities	564	540
Other long-term liabilities	217	204
Stockholders' equity:		
Common stock, \$.0001 par value, 500 million shares authorized, 151 million and 150 million shares issued and outstanding at March 31, 2017 and December 30, 2016, respectively	—	—
Additional paid-in capital	3,323	3,316
Accumulated deficit	(154)	(177)
Accumulated other comprehensive income (loss)	8	(4)
Total Leidos stockholders' equity	3,177	3,135
Non-controlling interest	11	12
Total equity	3,188	3,147
	<u>\$ 9,140</u>	<u>\$ 9,132</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	March 31, 2017	April 1, 2016
	(in millions, except per share amounts)	
Revenues	\$ 2,580	\$ 1,312
Cost of revenues	2,270	1,154
Selling, general and administrative expenses	144	60
Acquisition and integration costs	19	9
Restructuring expenses	13	—
Equity earnings of non-consolidated subsidiaries	(7)	—
Operating income	141	89
Interest income	2	3
Interest expense	(38)	(14)
Other income, net	3	—
Income from continuing operations before income taxes	108	78
Income tax expense	(34)	(25)
Net income	74	53
Less: net income attributable to non-controlling interest, net of taxes	2	—
Net income attributable to Leidos common stockholders	\$ 72	\$ 53
Earnings per share:		
Basic	\$ 0.48	\$ 0.74
Diluted	0.47	0.72
Cash dividends declared per share	\$ 0.32	\$ 0.32

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	March 31, 2017	April 1, 2016
	(in millions)	
Net income	\$ 74	\$ 53
Other comprehensive income, net of taxes:		
Foreign currency translation adjustments	11	2
Unrecognized gain on derivative instruments	1	—
Total other comprehensive income, net of taxes	12	2
Comprehensive income	86	55
Less: comprehensive income attributable to non-controlling interest, net of taxes	2	—
Comprehensive income attributable to Leidos common stockholders	\$ 84	\$ 55

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	March 31, 2017	April 1, 2016
	(in millions)	
<b>Cash flows from operations:</b>		
Net income	\$ 74	\$ 53
<b>Adjustments to reconcile net income to net cash used in operations:</b>		
Depreciation and amortization	82	8
Stock-based compensation	10	8
Other	2	2
<b>Change in assets and liabilities, net of effects of acquisitions and dispositions:</b>		
Receivables	(190)	(48)
Inventory, prepaid expenses and other current assets	6	(11)
Accounts payable and accrued liabilities	(37)	18
Accrued payroll and employee benefits	(86)	(51)
Deferred income taxes and income taxes receivable/payable	31	9
Other long-term assets/liabilities	20	(2)
Total cash flows used in operating activities of continuing operations	(88)	(14)
<b>Cash flows from investing activities:</b>		
Payments for property, plant and equipment	(7)	(4)
Proceeds from collections on promissory note	2	—
Net proceeds from sale of assets	—	3
Total cash flows used in investing activities of continuing operations	(5)	(1)
<b>Cash flows from financing activities:</b>		
Payments of long-term debt	(22)	(1)
Proceeds from issuances of stock	1	2
Repurchases of stock and other	(6)	(9)
Dividend payments	(50)	(23)
Total cash flows used in financing activities of continuing operations	(77)	(31)
Decrease in cash and cash equivalents from continuing operations	(170)	(46)
<b>Cash flows from discontinued operations:</b>		
Cash used in investing activities of discontinued operations	—	(1)
Decrease in cash and cash equivalents from discontinued operations	—	(1)
Total decrease in cash and cash equivalents	(170)	(47)
Cash and cash equivalents at beginning of period	376	656
Cash and cash equivalents at end of period	\$ 206	\$ 609

See accompanying notes to condensed consolidated financial statements.

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

**Note 1—Basis of Presentation and Summary of Significant Accounting Policies**

***Nature of Operations and Basis of Presentation***

Leidos Holdings, Inc. ("Leidos") is a holding company whose direct 100%-owned subsidiaries and principal operating companies are Leidos, Inc. and Leidos Innovations Corporation ("Leidos Innovations"). Leidos is a global science and technology company that provides technology and engineering services and solutions in the defense, intelligence, civil and health markets. Leidos' domestic customers include the U.S. Department of Defense ("DoD"), the U.S. Intelligence Community, the U.S. Department of Homeland Security ("DHS"), the Federal Aviation Administration ("FAA"), the Department of Health and Human Services ("HHS"), U.S. Government civil agencies and state and local government agencies. Leidos' international customers include foreign governments and their agencies, primarily located in the United Kingdom, the Middle East and Australia. Unless indicated otherwise, references to the "Company," "we," "us" and "our" refer collectively to Leidos Holdings, Inc. and its consolidated subsidiaries.

The unaudited condensed consolidated financial statements of Leidos include the balances of its majority-owned and 100%-owned subsidiaries. All intercompany transactions and balances 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 ("SEC") 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 indirect billing rates, allowances for doubtful accounts, inventories, fair value and impairment of intangible assets and goodwill, income taxes, estimated profitability of long-term contracts, pension benefits, stock-based compensation expense and contingencies. 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 Company's Annual Report on Form 10-K filed on February 24, 2017.

During the quarter ended March 31, 2017, the Company completed its business reorganization, which resulted in identification of new reportable segments. The Company commenced operating and reporting under the new organizational structure effective the beginning of fiscal 2017. As a result of this change, prior year segment results and disclosures have been recast to reflect the new reportable segments. The Company now operates in the following segments: Defense Solutions, Civil, Health and Corporate (see "Note 14—Business Segments").

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. The Company separately disclosed "Accounts payable" and "Accrued liabilities," which were previously aggregated within "Accounts payable and accrued liabilities" on the condensed consolidated balance sheets. Additionally, the Company disaggregated "Interest expense, net" into "Interest income" and "Interest expense" on the condensed consolidated statements of income.

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

**Changes in Estimates on Contracts**

Changes in estimates related to long-term contracts accounted for using the percentage of completion 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 the acquisition of the IS&GS Business (see "Note 2--Acquisitions"), where the adjustment is made for the period commencing from the date of acquisition. Changes in these estimates can occur over the contract performance period for a variety of reasons, including changes in contract scope, contract cost estimates and estimated incentive or award fees.

Changes in estimates on contracts for the periods presented were as follows:

	Three Months Ended	
	March 31, 2017	April 1, 2016
	(in millions, except per share amounts)	
Net favorable impact to income from continuing operations before taxes	\$ 22	\$ 8
Impact on diluted EPS from continuing operations attributable to Leidos common stockholders	\$ 0.09	\$ 0.07

**Accounting Standards Updates Adopted**

In March 2016, the FASB issued ASU 2016-09 *Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The ASU requires that an entity, (i) recognize excess tax benefits and deficiencies related to employee share-based payment transactions as an income tax expense or benefit in the income statement rather than in equity; (ii) present the excess tax benefits as an operating activity on the statement of cash flows versus current guidance to present them as financing activities; and, (iii) elect to either recognize stock forfeitures as they occur or estimate them. During the quarter ended July 1, 2016, the Company elected to early adopt the provisions of the ASU prospectively from January 2, 2016, including continuation of estimating forfeitures instead of recording them as they occur. Consequently, the Company recognized a \$3 million and \$7 million discrete tax benefit for the quarter and six months ended July 1, 2016, respectively, and operating cash flows for the six months ended July 1, 2016, increased \$7 million with a corresponding decrease to financing cash flows.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This ASU eliminates Step 2 of the goodwill impairment test and simplifies how the amount of an impairment loss is determined. The update is effective for public companies in the beginning of fiscal year 2020 and shall be applied on a prospective basis. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. The Company adopted the provisions of ASU 2017-04 prospectively in the first quarter of fiscal 2017.

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). This ASU will supersede all revenue recognition requirements in Topic 605, Revenue Recognition, and industry-specific guidance throughout the Industry Topics of the codification. The guidance's core principle is that an entity should recognize revenue to depict the transfer of control for promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue principles, an entity will identify the contract(s) with a customer, identify the performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and recognize revenue when the performance obligation is satisfied (i.e., either over time or point in time). The ASU further states that an entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The original effective date for public companies was the beginning of fiscal 2017.



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

Subsequently, in August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which approved a one-year deferral of the effective date of the ASU to the beginning of fiscal 2018, with an option for early adoption of the standard on the original effective date.

The Company will adopt the new revenue standard in the beginning of fiscal 2018, under the modified retrospective method, where the cumulative effect is recognized at the date of initial application.

An initial assessment of the new standard has been completed and the Company believes the majority of its long-term contracts will continue to recognize revenue over time as the work progresses because of the continuous transfer of control to the customer, generally using an input measure (e.g., cost incurred) to reflect progress. The Company is in the process of quantifying the financial statement impact, revising current accounting policies and determining the appropriate changes to business processes and controls.

**Note 2—Acquisitions**

On August 16, 2016, a wholly-owned subsidiary of Leidos Holdings, Inc. merged with the Information Systems & Global Solutions business (the "IS&GS Business") of Lockheed Martin Corporation in a Reverse Morris Trust transaction (the "Transactions"). The acquired IS&GS Business was renamed Leidos Innovations Corporation.

The preliminary purchase consideration for the acquisition of the IS&GS Business was as follows (in millions):

Value of common stock issued to Lockheed Martin stockholders <sup>(1)</sup>	\$	2,929
Equity consideration for replacement awards <sup>(2)</sup>		9
Preliminary working capital adjustments		56
Preliminary purchase price	\$	<u>2,994</u>

<sup>(1)</sup> Represents approximately 77 million new shares of Leidos common stock issued to those Lockheed Martin stockholders who elected to participate in the exchange offer, based on the Company's August 16, 2016, closing share price of \$51.69, less the Leidos special cash dividend amount of \$13.64, which the Lockheed Martin stockholders were not entitled to receive.

<sup>(2)</sup> The fair value of replacement equity-based awards attributable to pre-Merger service was recorded as part of the consideration transferred in the Merger.

The preliminary fair values of the assets acquired and liabilities assumed at the date of the Transactions were as follows (in millions):

Cash	\$	25
Receivables		943
Inventory, prepaid expenses and other current assets		73
Property, plant and equipment		114
Deferred tax assets		12
Intangible assets		1,650
Other assets		104
Accounts payable		(286)
Accrued liabilities		(446)
Accrued payroll and employee benefits		(190)
Long-term debt, current portion		(23)
Deferred tax liabilities		(556)
Long-term debt, net of current portion		(1,780)
Other long-term liabilities		(50)
Total identifiable net liabilities assumed		<u>(410)</u>
Non-controlling interest		(8)
Goodwill		3,412
Preliminary purchase price	\$	<u>2,994</u>

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

Due to the timing and complexity of the Transactions, the Company recorded the assets acquired and liabilities assumed at their preliminary estimated fair values. As of March 31, 2017, the Company had not finalized the determination of fair values allocated to various assets and liabilities, including, but not limited to, receivables; property, plant and equipment; deferred income taxes; deferred revenue; intangible assets; accounts payable; accrued liabilities; contractual contingencies; loss contracts; non-controlling interest; the residual amount allocated to goodwill; and the allocation of goodwill to reporting units. The preliminary purchase price allocation is subject to change as the Company completes its analysis of the fair value at the date of the Transactions, which could have a material impact. During the quarter ended March 31, 2017, the Company recorded valuation adjustments to certain preliminary estimated fair values which resulted in a decrease of \$23 million in property, plant, and equipment; an increase of \$81 million in other assets related to equity-method investments; and increases of \$19 million, \$13 million and \$24 million in accounts payable, accrued liabilities and deferred tax liabilities, respectively.

During the quarter ended March 31, 2017, the Company recorded a valuation adjustment to fair value the non-controlling interest acquired. The fair value of \$8 million was determined by calculating the present value of future cash flows for the non-controlling interest. Significant assumptions inherent in the valuation of the non-controlling interest include the estimated after-tax cash flows expected to be received and an assessment of the appropriate discount rate.

The goodwill represents intellectual capital and the acquired assembled work force, none of which qualify for recognition as a separate intangible asset. The preliminary value of goodwill has been allocated to the new segments on a relative fair value approach (see "Note 6–Goodwill"). Of the total goodwill, \$418 million is tax deductible.

The Company identified \$1.7 billion of intangible assets, representing programs and contract intangibles and backlog. The following table summarizes the preliminary fair value of intangible assets acquired at the date of acquisition and the related weighted average amortization period:

	Weighted average amortization period (in years)	Fair value (in millions)
Programs and contract intangibles <sup>(1)</sup>	10.0	\$ 1,450
Backlog	1.4	200
<b>Total</b>	<b>9.0</b>	<b>\$ 1,650</b>

<sup>(1)</sup> The weighted average amortization period is estimated based on the projected economic benefits associated with these assets. Refer to "Note 7–Intangible Assets" for additional information.

The Company incurred the following expenses related to the acquisition and integration of the IS&GS Business:

	Three Months Ended	
	March 31, 2017	April 1, 2016
	(in millions)	
Acquisition costs	\$ 1	\$ 6
Integration costs	18	3
<b>Total acquisition and integration costs</b>	<b>\$ 19</b>	<b>\$ 9</b>

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

*Pro Forma Financial Information (unaudited)*

The following pro forma financial information presents condensed consolidated results of operations as if the acquisition had occurred on January 3, 2015. The pro forma financial information was prepared based on historical financial information and has been adjusted to give effect to the events that are directly attributable to the Transactions and factually supportable. The unaudited pro forma results below do not reflect future events that have occurred or may occur after the Transactions, including anticipated synergies or other expected benefits that may be realized from the Transactions. The pro forma financial information is not intended to reflect the actual results of operations that would have occurred if the acquisition had been completed on January 3, 2015, nor is it intended to be an indication of future operating results.

(unaudited)	Three Months Ended April 1, 2016
	(in millions, except per share amounts)
Revenues	\$ 2,637
Income from continuing operations	52
Income from continuing operations attributable to Leidos common stockholders	50
Earnings per share:	
Basic	\$ 0.34
Diluted	0.33

The unaudited pro forma financial information above excludes acquisition-related costs of \$6 million as a nonrecurring significant adjustment. This adjustment was made to account for certain costs incurred as if the Transactions had been completed on January 3, 2015.

**Note 3—Divestitures**

In April 2016, the Company disposed of a business, historically included within the Civil segment, that was primarily focused on providing design, build and heavy construction engineering services. The Company received cash proceeds of \$23 million, resulting in a preliminary pre-tax gain on sale of \$3 million. The major classes of assets and liabilities sold included \$73 million of accounts receivable, net; \$3 million of non-current assets and \$63 million of accounts payable and accrued liabilities. In addition, the Company recorded a \$6 million liability in connection with issuance of a performance guarantee on a contract sold and guarantee of collection of the accounts receivables transferred. The Company paid \$1 million of selling costs related to the transaction. The Company recorded the preliminary pre-tax gain on sale in "Other income, net" in the Company's condensed consolidated statements of income during the quarter ended July 1, 2016.

On July 24, 2015, the Company completed the sale of its equity interests in Plainfield Renewable Energy Holdings LLC for an aggregate consideration of \$102 million, subject to certain adjustments and contingent earn-out payments. The consideration received by the Company at closing consisted of a cash payment of \$29 million and a secured promissory note for \$73 million, net of discount (the "Note"). The Note is payable semi-annually with a final lump sum in July 2018. The Company collected \$6 million of principal and interest during the quarter ended March 31, 2017. As of March 31, 2017, the Company expects the remainder of the Note to be collectible in full.

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

**Note 4—Restructuring Expenses**

After the acquisition of the IS&GS Business, the Company began an initiative to align its cost structure, which includes optimization of its real estate portfolio by vacating certain facilities and consolidating others, and by reducing headcount.

The restructuring expenses related to this program were as follows:

	Three Months Ended	
	<b>March 31,</b>	
	<b>2017</b>	
	(in millions)	
Severance costs	<b>\$</b>	<b>10</b>
Lease termination expenses		<b>3</b>
Restructuring expenses related to the IS&GS Business	<b>\$</b>	<b>13</b>

These restructuring expenses have been recorded within the Corporate segment and presented separately on the condensed consolidated statements of income.

The restructuring liability related to this program at March 31, 2017, was:

	Severance costs		Lease termination expenses		Total	
	(in millions)					
Balance as of December 30, 2016	\$	7	\$	1	\$	8
Charges		10		3		13
Cash payments		(14)		(3)		(17)
<b>Balance as of March 31, 2017</b>	<b>\$</b>	<b>3</b>	<b>\$</b>	<b>1</b>	<b>\$</b>	<b>4</b>

The Company expects the remainder of the restructuring liability to be settled within one year.

**Note 5—Fair Value Measurements**

The accounting standard for fair value measurements establishes a three-tier 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 (Level 2); and unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions (Level 3).

The Company's assets measured on a recurring basis at fair value consisted of the following:

	March 31, 2017		December 30, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
Financial assets				
Derivatives	\$ 31	\$ 31	\$ 29	\$ 29

The Company's derivatives consisted of the fair value interest rate swaps on its \$450 million fixed rate 4.45% notes maturing in December 2020, and cash flow interest rate swaps on its \$1.2 billion of the Company's variable rate senior secured notes (see "Note 9—Derivative Instruments"). The fair value of the fair value interest rate swaps and 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, respectively (Level 2 inputs).

The carrying amounts of the Company's 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 the Company's notes receivable as of March 31, 2017, of \$91 million approximates fair value as the stated interest rates within the agreements are consistent with the current market rates used in notes with similar terms in the market (Level 2 inputs).

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

As of March 31, 2017, and December 30, 2016, the fair value of notes payable and long-term debt was \$3.4 billion and \$3.3 billion, respectively, and the carrying amount was \$3.3 billion for both periods. The fair value of long-term debt (see "Note 10–Debt") is determined based on current interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements (Level 2 inputs).

The Company's cash equivalents were primarily comprised of investments in several large institutional money market funds and bank deposits, with original maturity of three months or less.

At March 31, 2017, the Company did not have any assets or liabilities measured at fair value on a non-recurring basis, other than associated with purchase accounting (see "Note 2–Acquisitions").

**Note 6–Goodwill**

During the quarter ended March 31, 2017, the Company completed its business reorganization, which resulted in identification of new reportable segments. The Company commenced operating and reporting under the new organizational structure effective the beginning of fiscal 2017 (see "Note 14–Business Segments").

Goodwill, including the goodwill from the acquisition of the IS&GS Business, was allocated to the new reportable segments on a relative fair value approach. The amount of goodwill from the acquisition of the IS&GS Business has been valued on a preliminary basis and may change as purchase accounting is finalized (see "Note 2–Acquisitions").

The carrying amount of goodwill by reportable segments was as follows:

	Defense Solutions	Civil	Health	Total
	(in millions)			
Goodwill at January 1, 2016	\$ 792	\$ 244	\$ 171	\$ 1,207
Acquisition of the IS&GS Business	1,162	1,487	766	3,415
Goodwill at December 30, 2016	1,954	1,731	937	4,622
Adjustment to original purchase price allocation	(1)	(1)	(1)	(3)
<b>Goodwill at March 31, 2017</b>	<b>\$ 1,953</b>	<b>\$ 1,730</b>	<b>\$ 936</b>	<b>\$ 4,619</b>

In conjunction with the change in reportable segments, the Company evaluated goodwill for impairment, both before and after the segment change and determined that goodwill was not impaired.

Goodwill is tested for impairment at the beginning of the fourth quarter and during interim periods whenever events or circumstances indicate that the carrying value may not be recoverable. There was no goodwill impairment during the quarters ended March 31, 2017, and April 1, 2016.

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

**Note 7—Intangible Assets**

Intangible assets, including the preliminary fair values of those acquired through the acquisition of the IS&GS Business, consisted of the following:

	March 31, 2017			December 30, 2016		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
(in millions)						
Finite-lived intangible assets:						
Programs and contract intangibles	\$ 1,450	\$ (57)	\$ 1,393	\$ 1,450	\$ (25)	\$ 1,425
Backlog	200	(91)	109	200	(54)	146
Software and technology	61	(48)	13	61	(48)	13
Customer relationships	6	(5)	1	6	(5)	1
Total finite-lived intangible assets	<u>1,717</u>	<u>(201)</u>	<u>1,516</u>	<u>1,717</u>	<u>(132)</u>	<u>1,585</u>
Indefinite-lived intangible assets:						
Trade names	4	—	4	4	—	4
Total intangible assets	<u>\$ 1,721</u>	<u>\$ (201)</u>	<u>\$ 1,520</u>	<u>\$ 1,721</u>	<u>\$ (132)</u>	<u>\$ 1,589</u>

Amortization expense related to intangible assets, including those acquired through the Transactions, was \$69 million and \$1 million for the quarter ended March 31, 2017, and April 1, 2016, respectively. The acquired programs and contract 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. The acquired backlog intangible assets, as well as the Company's existing customer relationships and software and technology intangible assets, are amortized on a straight-line basis over their estimated useful lives.

The estimated annual amortization expense as of March 31, 2017, was as follows:

Fiscal Year Ending	(in millions)
2017 (remainder of year)	\$ 208
2018	213
2019	188
2020	165
2021	139
2022 and thereafter	603
	<u>\$ 1,516</u>

The acquired asset balances related to the Transactions may change upon final valuation (see "Note 2—Acquisitions").

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

**Note 8—Property, Plant and Equipment**

Property, plant and equipment, net, including preliminary fair value of those acquired through the acquisition of the IS&GS Business, consisted of the following:

	March 31, 2017	December 30, 2016
	(in millions)	
Computers and other equipment	\$ 193	\$ 172
Leasehold improvements	165	161
Buildings and improvements	62	104
Office furniture and fixtures	41	35
Land	52	57
Construction in progress	14	12
	<u>527</u>	<u>541</u>
Less: accumulated depreciation and amortization	(289)	(282)
	<u>\$ 238</u>	<u>\$ 259</u>

Depreciation expense was \$13 million and \$7 million for the quarter ended March 31, 2017, and April 1, 2016, respectively. The acquired asset balances related to the Transactions may change upon final valuation (see "Note 2—Acquisitions").

**Note 9—Derivative Instruments**

The Company manages its risk to changes in interest rates through the use of derivative instruments. The Company does not hold derivative instruments for trading or speculative purposes. For fixed rate borrowings, the Company uses variable interest rate swaps, effectively converting fixed rate borrowings to variable rate borrowings. These swaps are designated as fair value hedges. For variable rate borrowings, the Company uses fixed interest rate swaps, effectively converting a portion of the variable rate borrowings to fixed rate borrowings. These swaps are designated as cash flow hedges.

*Fair Value Hedges*

The Company has interest rate swap agreements to hedge the fair value of the \$450 million fixed rate 4.45% senior secured notes maturing in December 2020 (the "Notes"). The objective of these instruments is to hedge the Notes against changes in fair value due to the variability in the six-month LIBOR rate (the benchmark interest rate). Under the terms of the interest rate swap agreements, the Company will receive semi-annual interest payments at the coupon rate of 4.45% and will pay variable interest based on the six-month LIBOR rate.

The interest rate swaps were accounted for as a fair value hedge of the Notes and qualified for the shortcut method of hedge accounting, which allows for the assumption of no ineffectiveness reported in earnings. The resulting changes in the fair value of the interest rate swaps are fully offset by the changes in the fair value of the underlying debt (the hedged item).

The fair value of the Notes is stated at an amount that reflects changes in the benchmark interest rate, the six-month LIBOR rate, subsequent to the inception of the interest rate swaps through the reporting date.

*Cash Flow Hedges*

In August 2016, the Company entered into interest rate swap agreements to hedge the cash flows with respect to \$1.2 billion of the Company's variable rate senior secured term loans (the "Variable Rate Loans"). The objective of these instruments is to reduce variability in the forecasted interest payments of the Company's Variable Rate Loans, which is based on the LIBOR rate. Under the terms of the interest rate swap agreements, which mature in December 2021, the Company will receive monthly variable interest payments based on the one-month LIBOR rate and will pay interest at a fixed rate of 1.08%. The counterparties to these agreements are financial institutions.

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

The interest rate swaps were accounted for as a cash flow hedge of the Variable Rate Loans and qualified for hedge accounting treatment through the application of the long-haul method, which involves the comparison of cumulative changes in the fair value of the swap to the cumulative change in fair value of scheduled interest payments on the notional value (the perfectly effective hypothetical or "PEH"). The effective portion of the gain/loss on the swap will be reported as a component of other comprehensive income/loss and will be reclassified into earnings on the dates the interest payments impact earnings. The amount of ineffectiveness, if any, recorded in earnings will be equal to the excess of the cumulative change in fair value of the swap over the cumulative change in the fair value of the PEH.

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

	Balance sheet line item	March 31, 2017	December 30, 2016
		(in millions)	
Fair value interest rate swaps	Other assets	\$ 3	\$ 3
Cash flow interest rate swaps	Other assets	28	26

The effect of the Company's cash flow hedge on other comprehensive income and earnings for the periods presented was as follows:

	Three Months Ended March 31, 2017
	(in millions)
Effective portion recognized in other comprehensive income	\$ 1
Effective portion reclassified from accumulated other comprehensive income (loss) to earnings	1

The Company expects to reclassify gains of \$2 million from accumulated other comprehensive income (loss) into earnings during the next 12 months. Ineffectiveness recognized in earnings for the quarter ended March 31, 2017, was immaterial.

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



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

**Note 10—Debt**

**Notes Payable and Long-Term Debt**

The Company's notes payable and long-term debt consisted of the following:

	Stated interest rate	Effective interest rate	March 31, 2017 <sup>(1)</sup>	December 30, 2016 <sup>(1)</sup>
(in millions)				
<b>Senior secured notes:</b>				
\$450 million notes, due December 2020	4.45%	4.53%	\$ 451	\$ 451
\$300 million notes, due December 2040	5.95%	6.03%	216	216
<b>Senior secured term loans:</b>				
\$400 million Term Loan A, due August 2019	2.81%	3.73%	118	123
\$690 million Term Loan A, due August 2021	2.81%	3.37%	668	676
\$310 million Term Loan A, due August 2021	2.81%	3.35%	301	304
\$1,131 million Term Loan B, due August 2023	3.06%	3.42%	1,107	1,110
<b>Senior unsecured notes:</b>				
\$250 million notes, due July 2032	7.13%	7.43%	246	246
\$300 million notes, due July 2033	5.50%	5.88%	158	158
Capital leases due on various dates through fiscal 2020	0%-5.94%	Various	7	3
<b>Total notes payable and long-term debt</b>			<b>3,272</b>	<b>3,287</b>
<b>Less: current portion</b>			<b>84</b>	<b>62</b>
<b>Total notes payable and long-term debt, net of current portion</b>			<b>\$ 3,188</b>	<b>\$ 3,225</b>

<sup>(1)</sup> The carrying amounts of the senior secured term loans and notes and unsecured notes as of March 31, 2017, and December 30, 2016, include the remaining principal outstanding of \$3,315 million and \$3,336 million, respectively, plus \$3 million for both periods related to the fair value of the interest rate swaps (see "Note 9—Derivative Instruments"), less unamortized debt discounts of \$43 million and \$46 million, respectively, less deferred debt issuance costs of \$10 million and \$9 million, respectively.

The interest rate on the Company's senior secured term loans is determined based on the LIBOR rate plus a margin. The margin for the Term Loan A loans ranges from 1.75% to 2.25%, depending on the Company's senior secured leverage ratio, and is computed on a quarterly basis. At March 31, 2017, the current margin on Term Loan A was 2.00%.

In February 2017, Leidos repriced the Company's senior secured \$1.1 billion Term Loan B, due August 2023. As a result, the stated margin on Term Loan B was reduced by 50 basis points to 2.25% and the six month call provision was extended an additional six months. The repricing of the term loan became effective on February 16, 2017.

Principal of the Company's variable rate senior secured term loans is payable on a quarterly basis, with the majority of the principal due at maturity. Interest on the variable rate senior secured term loans is payable on a periodic basis, which must be at least quarterly. Interest on the senior fixed rate secured notes and unsecured notes is payable on a semi-annual basis with principal payments due at maturity.

The Company has a revolving credit facility providing up to \$750 million in secured borrowing capacity at interest rates determined based upon the LIBOR rate plus a margin that is subject to step-down provisions based on the Company's senior secured leverage ratio. The maturity date of this credit facility is August 2021. As of March 31, 2017 and December 30, 2016, there were no borrowings outstanding under the credit facility.

The senior secured term loans and notes, unsecured notes and revolving credit facility are fully and unconditionally guaranteed and contain certain customary restrictive covenants, including among other things, restrictions on the Company's ability to create liens and enter into sale and leaseback transactions under certain circumstances. The Company was in compliance with all covenants as of March 31, 2017.

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

**Note 11—Accumulated Other Comprehensive Income (Loss)**

The components of accumulated other comprehensive income (loss), net of taxes, were as follows:

	Foreign currency translation adjustments	Unrecognized (loss) gain on derivative instruments	Pension liability adjustments	Total accumulated other comprehensive income (loss)
(in millions)				
Balance at January 1, 2016	\$ —	\$ (4)	\$ (4)	\$ (8)
Other comprehensive (loss) income	(8)	26	1	19
Taxes	1	(10)	2	(7)
Reclassification from accumulated other comprehensive income (loss)	—	(2)	(6)	(8)
Balance at December 30, 2016	(7)	10	(7)	(4)
Other comprehensive income	13	2	—	15
Taxes	(2)	—	—	(2)
Reclassification from accumulated other comprehensive income (loss)	—	(1)	—	(1)
<b>Balance at March 31, 2017</b>	<b>\$ 4</b>	<b>\$ 11</b>	<b>\$ (7)</b>	<b>\$ 8</b>

Reclassifications for unrecognized (loss) gain on derivative instruments associated with outstanding debt are recorded in "Interest expense" in the Company's condensed consolidated statements of income.

Reclassifications for pension liability adjustments are recorded in "Selling, general and administrative expenses" in the Company's condensed consolidated statements of income.

**Note 12—Earnings Per Share ("EPS")**

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	
	March 31, 2017	April 1, 2016
(in millions)		
Basic weighted average number of shares outstanding	150	72
Dilutive common share equivalents—stock options and other stock awards	3	2
Diluted weighted average number of shares outstanding	153	74

Anti-dilutive stock-based awards are excluded from the weighted average number of shares outstanding used to compute diluted EPS. For the quarters ended March 31, 2017, and April 1, 2016, there were a total of 1 million of outstanding stock options and vesting stock awards that were antidilutive.

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

**Note 13—Supplementary Cash Flow Information**

Supplementary cash flow information, including non-cash activities, for the periods presented was as follows:

	Three Months Ended	
	March 31, 2017	April 1, 2016
	(in millions)	
Supplementary cash flow information:		
Cash paid for interest	\$ 32	\$ 13
Cash paid for income taxes, net of refunds	1	17
Non-cash financing activity:		
Capital lease obligation	6	—

**Note 14—Business Segments**

During the quarter ended March 31, 2017, the Company completed its business reorganization, which resulted in identification of new reportable segments. The Company's operations and the new reportable segments are aligned around the markets it serves. The Company commenced operating and reporting under the new organizational structure effective the beginning of fiscal 2017.

At March 31, 2017, the Company's reportable segments were:

- Defense Solutions – delivers cutting edge technology and services to the DoD, military services, the U.S. Intelligence Community, DHS, agencies of U.S. allies abroad and other federal and civilian customers. The Company's Defense Solutions business is focused on cybersecurity, data analytics, IT modernization and software development, as well as technology to support intelligence, surveillance and reconnaissance services.
- Civil – provides services and solutions to civil agencies of the U.S. Government and commercial customers. The Company's Civil business is focused on software development, operations and sustainment, enterprise IT modernization, systems engineering and cyber services.
- Health – provides services and solutions to the Defense Health Agency, Veterans Administration, HHS, other civil health agencies of the U.S. Government and commercial healthcare providers. The Company's Health business is focused on enterprise IT modernization, software development, data analytics, electronic health record implementation, mission critical operations and sustainment, life sciences and public health.
- Corporate – includes the operations of various corporate activities and certain expense items that are not reimbursed by our U.S. Government customers.

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

The segment information for the periods presented, of which the prior period has been recast to reflect the Company's current reportable segment structure, was as follows:

	Three Months Ended	
	March 31, 2017	April 1, 2016
	(in millions)	
<b>Revenues:</b>		
Defense Solutions	\$ 1,294	\$ 780
Civil	842	361
Health	443	171
Corporate	1	—
<b>Total revenues</b>	<b>\$ 2,580</b>	<b>\$ 1,312</b>
<b>Operating income (loss):</b>		
Defense Solutions	\$ 79	\$ 71
Civil	54	22
Health	47	16
Corporate	(39)	(20)
<b>Total operating income</b>	<b>\$ 141</b>	<b>\$ 89</b>

Asset information by segment is not a key measure of performance used by the chief operating decision maker, currently the chairman and chief executive officer. "Other income, net," "Interest income," "Interest expense" and "Income tax expense," as reported in the condensed consolidated financial statements, are not part of operating income and are primarily recorded within the Corporate segment. Under U.S. Government Cost Accounting Standards, indirect costs including depreciation expense are collected in numerous indirect cost pools, which are then collectively allocated out to the Company's reportable segments based on a representative causal or beneficial relationship of the costs in the pool to the costs in the base.

**Note 15—Contingencies**

***Legal Proceedings***

*MSA Venture*

On November 10, 2015, Mission Support Alliance, LLC ("MSA"), a joint venture with Jacobs Engineering Group, Inc. and Centerra Group, LLC, received a final decision of the Department of Energy ("DoE") contracting officer for the Mission Support Contract concluding that certain payments to MSA by 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 the Federal Acquisition Regulation (the "FAR"). Lockheed Martin Integrated Technology LLC (now known as Leidos Integrated Technology LLC) is a member entity of MSA. At the same time, the contracting officer advised MSA that he would not approve certain provisional fee payments to MSA pending resolution of the matters set forth in his decision. 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, and each of MSA, LMSI and Lockheed Martin Corporation have produced information in response to Civil Investigative Demands from the U.S. Attorney's Office. In addition, the U.S. Attorney's office has advised that a parallel criminal investigation is open, although no subjects or targets of the investigation have been identified.

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

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 and that appeal is pending, but has been stayed pending resolution of the False Claims Act investigation. 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 that demand, pending resolution of the appeal, but to date the demand has not been rescinded. MSA and the other members of MSA have indicated they believe if MSA incurs a liability in this matter, then Leidos Integrated Technology, LLC is responsible to MSA for the loss. Under the terms of the Separation Agreement, Lockheed Martin has agreed to indemnify the Company 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. At March 31, 2017, the Company has a liability of \$39 million and an indemnification asset of \$1 million recorded in the condensed consolidated balance sheets.

*Data Privacy Litigation*

The Company was previously a defendant in a putative class action, *In Re: Science Applications International Corporation ("SAIC") Backup Tape Data Theft Litigation*, which was a Multidistrict Litigation ("MDL") action in the U.S. District Court for the District of Columbia relating to the theft of computer backup tapes from a vehicle of a company employee. In May 2014, the District Court dismissed all but two plaintiffs from the MDL action. In June 2014, Leidos and its co-defendant, TRICARE, entered into settlement agreements with the remaining two plaintiffs who subsequently dismissed their claims with prejudice.

On September 20, 2014, the Company was named as a defendant in a putative class action, *Martin Fernandez, on Behalf Of Himself And All Other Similarly Situated v. Leidos, Inc.* in the Eastern District Court of California, related to the same theft of computer backup tapes. The recent complaint includes allegations of violations of the California Confidentiality of Medical Information Act, the California Unfair Competition Law and other claims. On August 28, 2015, the Court dismissed all claims brought by the Plaintiff against the Company. Plaintiff filed a notice of appeal of this dismissal on November 17, 2015, to the United States Court of Appeals for the Ninth Circuit. On March 31, 2017, the parties agreed to a settlement and release of all outstanding claims and the case was dismissed with prejudice on April 5, 2017.

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

*Securities Litigation*

Between February and April 2012, alleged stockholders filed three putative securities class actions. One case was withdrawn and two cases were consolidated in the U.S. District Court for the Southern District of New York in *In Re: SAIC, Inc. Securities Litigation*. The consolidated securities complaint named as defendants the Company, a former chief financial officer, two former chief executive officers, a former group president and the former program manager on the Company's contract to develop and implement an automated time and attendance and workforce management system for certain agencies of the City of New York ("CityTime") and was filed purportedly on behalf of all purchasers of the Company's common stock from April 11, 2007, through September 1, 2011. The consolidated securities complaint asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based on allegations that the Company and individual defendants made misleading statements or omissions about the Company's revenues, operating income and internal controls in connection with disclosures relating to the CityTime project. The plaintiffs sought to recover from the Company and the individual defendants an unspecified amount of damages class members allegedly incurred by buying Leidos' stock at an inflated price. On October 1, 2013, the District Court dismissed many claims in the complaint with prejudice and on January 30, 2014, the District Court entered an order dismissing all remaining claims with prejudice and without leave to replead. The plaintiffs then appealed to the United States Court of Appeals for the Second Circuit. On March 29, 2016, the Second Circuit issued an opinion affirming in part, and vacating in part, the District Court's ruling. In particular, the Second Circuit held that the plaintiffs should be permitted to pursue omissions claims against the Company with respect to the annual report the Company filed on Form 10-K on March 25, 2011; the Second Circuit affirmed dismissal of all other claims, including all the claims against the individual defendants, and the case was remanded to the District Court. On September 23, 2016, the District Court issued an order clarifying that the applicable class period relating to the March 2011 Form 10-K ends on June 2, 2011, not September 1, 2011, as plaintiffs argued. The Company filed a petition for a writ of certiorari in the U.S. Supreme Court, which was granted on March 27, 2017. Any potential loss relating to this matter is not reasonably estimable due to unresolved questions of fact and law. However, the Company does not expect any ultimate liability to have a material effect on the Company's financial position, liquidity or capital resources.

*Greek Government Contract*

In May 2003, the Company entered into a firm-fixed-price contract with the Hellenic Republic of Greece (the "Customer") to provide a Command, Control, Communications, Coordination and Integration System (the "System") to support the 2004 Athens Summer Olympic Games (the "Olympics") and to serve as the security system for the Customer's public order departments following completion of the Olympics.

In November 2008, the Customer accepted the System in writing pursuant to the requirements of the contract. At the time, the Customer determined that the System substantially complied with the terms of the contract and accepted the System with certain alleged minor omissions and deviations. Upon System acceptance, the Company invoiced the Customer for \$15 million, representing the undisputed portion of the contract balance owed to the Company. The Customer has not paid this final invoice.

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

In June 2009, the Company initiated arbitration before the International Chamber of Commerce against the Customer seeking damages for breaches of contract by the Customer. In July 2013, the Company received an arbitral award for \$42 million. The Customer has yet to satisfy the arbitral award. The Company is pursuing an enforcement action in U.S. District Court for the District of Columbia. In September 2013, the Customer filed a petition in a Greek court seeking to nullify the arbitral award and to stay enforcement of the award in Greece. A hearing on the Customer's nullification request was held in Greece in April 2014. The parties agreed to a stay of the Company's enforcement action in U.S. District Court until the Greek court issued a ruling on the Customer's nullification request. In June 2014, the Athens Court of Appeals annulled the arbitral award. The Company appealed the annulment decision to the Supreme Court of Greece in January 2015 to have the arbitral award reinstated. On September 22, 2016, the Supreme Court of Greece issued a written decision upholding the Company's appeal and remanding the case back to the appeals court for further proceedings consistent with the Supreme Court's decision. The court of appeals initially scheduled a hearing on this matter for November 16, 2017. However, in response to a request from the Greek government, the appeals court moved that hearing date up to May 25, 2017. Meanwhile, the Company continues to pursue enforcement of the award in the U.S. District Court as is still its right under U.S. and international law. On January 5, 2017, the U.S. District Court entered an order granting the Company's petition to enforce the arbitration award and entering judgment in the Company's favor. On April 13, 2017, the presiding federal judge increased the award to \$63 million to include interest, arbitration fees and the conversion of the total amount of the judgment from Euros to U.S. dollars.

As a result of the significant uncertainties on this contract, the Company converted to the completed-contract method of accounting and ceased recognizing revenues for the System development portion of this contract in fiscal 2006. No profits or losses were recorded on the Greek contract for the quarter ended March 31, 2017, and April 1, 2016. As of March 31, 2017, the Company has recorded \$123 million of losses under the Greek contract, reflecting the Company's estimated total cost to complete the System, assuming the Greek contract value was limited to the cash received to date. Based on the complex nature of this contractual situation and the difficulties encountered to date, significant uncertainties exist and the Company is unable to reliably estimate the ultimate outcome. The Company may reverse a portion of the losses from the Greek contract if it receives payments as provided in the arbitral award. As of March 31, 2017, the Company's net balance sheet exposure for the Greek contract was immaterial.

The Company has \$27 million for value added tax ("VAT") included in the arbitration claim of which this amount was substantially awarded in the arbitral award. The Company has paid a certain amount of VAT and believes it is entitled to recover either as a payment from the arbitral award or as a refund from the taxing authorities. This amount paid is recorded as a receivable as of March 31, 2017, and is part of the net balance sheet exposure. If the Customer fails to pay the outstanding VAT amounts through the arbitral award or the Company is unable to recover these amounts as a refund from the taxing authorities, the Company's total losses on the Greek contract could increase.

The Company has met certain advance payment and performance bonding requirements through the issuance of euro-denominated standby letters of credit. As of March 31, 2017, there were \$4 million in standby letters of credit outstanding relating to the support and maintenance of the System. In the arbitration, the Company was awarded but has not received \$20 million representing the amounts drawn by the Customer in fiscal 2011 on certain standby letters of credit as well as damages. The principal subcontractor has provided to the Company euro-denominated standby letters of credit in the amount of \$18 million as of March 31, 2017, of which \$16 million relates to the delivery of the System. The Company may draw on the subcontractor's standby letters of credit under certain circumstances by providing a statement to the responsible bank that the subcontractor has not fulfilled its obligations under the subcontract.

*Other*

The Company is also involved in various claims and lawsuits arising in the normal conduct of its business, none of which, in the opinion of the Company's management, based upon current information, will likely have a material adverse effect on the Company's condensed consolidated financial position, results of operations, or cash flows.

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

**Other Contingencies**

*VirnetX, Inc.*

In fiscal 2007, the Company transferred several patents to VirnetX Inc., a subsidiary of VirnetX Holding Corp. In consideration of this transfer, the Company received certain license rights and the right to receive a percentage of the consideration received in patent infringement or enforcement claims against third parties. In November 2012, a jury found that Apple Corporation infringed two of the patents that the Company previously transferred to VirnetX and awarded \$368 million to VirnetX, but the United States Court of Appeals for the Federal Circuit vacated this award. Although VirnetX petitioned the appeals court for an en banc review, this request was denied and the case was remanded to the Federal District Court for further proceedings, including a new jury trial which began on January 25, 2016.

On February 3, 2016, the jury in the United States Court for the Eastern District of Texas, Tyler Division, awarded VirnetX \$626 million in a verdict against Apple for willful infringement of four VirnetX patents. However, on July 29, 2016, the court issued a new order in the pending litigation against Apple, Case No. 6:10-cv-417 ("Apple I") and Case No. 6:12-cv-855 ("Apple II"), vacating its previous order consolidating the two cases and ordering the parties to retry them as separate cases. On September 30, 2016, a jury in the United States Court for the Eastern District of Texas, Tyler Division, in the Apple I case, awarded VirnetX \$302 million in a verdict against Apple for infringing four VirnetX patents. A jury trial in the Apple II case is expected to be scheduled by the court shortly after the conclusion of the Apple I case. Under its agreements with VirnetX, Leidos would receive 25% of the proceeds obtained by VirnetX after reduction for attorneys' fees and costs. However, it is expected that Apple will appeal the verdict and no assurances can be given when or if the Company will receive any proceeds in connection with this jury award. In addition, if the Company receives any proceeds, the Company is required to pay a royalty to the customer who paid for the development of the technology.

The Company does not have any assets or liabilities recorded in connection with this matter as of March 31, 2017.

*Government Investigations and Reviews*

The Company is routinely subject to investigations and reviews relating to compliance with various laws and regulations with respect to its 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 adverse effect on the Company's business, financial position, results of operations and cash flows due to its reliance on government contracts.

Indirect cost audits by the Defense Contract Audit Agency remain open for fiscal 2012 and subsequent years for Leidos, Inc., and fiscal 2010 and subsequent years for Leidos Innovations. Although the Company has recorded contract revenues upon an estimate of costs that the Company believes will be approved upon final audit or review, the Company cannot predict the outcome of any ongoing or future audits or reviews and adjustments, and if future adjustments exceed the Company's estimates, its profitability would be adversely affected.

As of March 31, 2017, the Company believes it has adequately reserved for potential adjustments from audits or reviews of contract costs.

**Note 16—Commitments**

The Company has outstanding letters of credit of \$79 million as of March 31, 2017, principally related to guarantees on contracts. The Company also has outstanding surety bonds in the amount of \$131 million, principally related to performance and subcontractor payment bonds on the Company's contracts. The outstanding letters of credit and surety bonds have various terms with the majority of the letters of credit and bonds expiring over the next four fiscal years.

Additionally, the Company has outstanding performance guarantees and cross-indemnity agreements in connection with certain aspects of its business. As of March 31, 2017, the Company is not aware of any existing event of default that would require it to satisfy any of these guarantees.



**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 disclosures about market risk 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, government budgets and spending, the impact of competition and the performance and carrying value of our assets. Such statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. Some of these factors include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K, as updated periodically through our subsequent quarterly reports on Form 10-Q. 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 the "Company," "we," "us" and "our" refer collectively to Leidos and its consolidated subsidiaries.*

**Overview**

We are a global science and technology company that provides technology and engineering services and solutions in the defense, intelligence, civil and health markets. We bring domain-specific capability and cross-market innovations to customers in each of these markets by leveraging seven core capabilities: command, control, computing, communications and intelligence surveillance and reconnaissance ("C4ISR"); cybersecurity; systems engineering; large-scale agile software development; data analytics; enterprise IT modernization; and operations and sustainment. Our domestic customers include the U.S. Department of Defense ("DoD"), the U.S. Intelligence Community, the U.S. Department of Homeland Security ("DHS"), the Federal Aviation Administration ("FAA"), the Department of Health and Human Services ("HHS"), U.S. Government civil agencies and state and local government agencies. Our international customers include foreign governments and their agencies, primarily located in the United Kingdom, the Middle East and Australia.

During the quarter ended March 31, 2017, we completed our business reorganization, which resulted in identification of new reportable segments. We commenced operating and reporting under the new organizational structure effective the beginning of fiscal 2017. As a result of this change, prior year segment results and disclosures have been recast to reflect the new reportable segments. We now operate in the following segments: Defense Solutions, Civil, Health and Corporate (see "Note 14—Business Segments").

**Business Environment and Trends**

*U.S. Government Markets*

For fiscal 2016, we generated approximately 81% 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.

The following are updates based on events that have occurred in the political and economic environment since the filing of our Annual Report on Form 10-K.

As Congress had enacted only one of its 12 appropriations bills for the current government fiscal year ("GFY 2017"), a continuing resolution ("CR") was enacted allowing the government to operate under the previous year's spending levels, with some exceptions, until April 28, 2017. Prior to the expiration of the April 28th CR, Congress passed another short term CR which will expire on May 5, 2017. The second short-term CR was necessary to allow Congress the time to complete action on a GFY 2017 Omnibus Appropriation bill which will fund the entire government through October 1, 2017. It is highly likely that this bill will be enacted before the May 5th deadline. Congress will then turn its attention to consideration of the GFY 2018 budget. Although the Administration has not submitted a detailed budget at this time, hearings have been ongoing and will continue throughout the spring and early summer. A formal budget is expected to be delivered to Capitol Hill during May 2017.

LEIDOS HOLDINGS, INC.

*International Markets*

Sales to customers in international markets represented 9% of total revenues for fiscal 2016. Our acquisition of the IS&GS Business has increased the relative contribution from international business, particularly in the United Kingdom ("U.K.") and Australia, and has therefore increased our exposure to international markets and the associated international regulatory and geopolitical risks.

**Lockheed Martin Transaction**

On August 16, 2016, a wholly-owned subsidiary of Leidos Holdings, Inc. merged with the Information Systems & Global Solutions business (the "IS&GS Business") of Lockheed Martin Corporation in a Reverse Morris Trust transaction (the "Transactions"). The acquired IS&GS Business was renamed Leidos Innovations Corporation.

We incurred \$19 million and \$9 million of acquisition and integration costs during the three months ended March 31, 2017, and April 1, 2016, respectively, and expect to incur additional acquisition and integration costs in connection with the Transactions through fiscal 2019.

**Key Performance Measures**

The primary financial performance measures we use to manage our business and monitor results of operations are revenue, operating income, cash flows from operations and diluted EPS. We also believe that bookings and backlog are useful measures for management and investors to evaluate our performance and potential future revenues.

**Results of Operations**

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

	Three Months Ended			
	March 31, 2017	April 1, 2016	Dollar change	Percent change
	(dollars in millions)			
Revenues	\$ 2,580	\$ 1,312	\$ 1,268	96.6%
Operating income	141	89	52	58.4%
Non-operating expense, net	(33)	(11)	(22)	200.0%
Income from continuing operations before income taxes	108	78	30	38.5%
Income tax expense	(34)	(25)	(9)	36.0%
Net income	74	53	21	39.6%
Less: net income attributable to non-controlling interest, net of taxes	2	—	2	NM
Net income attributable to Leidos common stockholders	\$ 72	\$ 53	\$ 19	35.8%
Operating margin	5.5%	6.8%		

NM - Not meaningful

The revenue increase in constant currency<sup>(1)</sup> for the three months ended March 31, 2017, was 97.4% as compared to an overall increase of 96.6%. The adverse foreign currency impact was attributable to our U.K. business in the Civil segment.

<sup>(1)</sup> The non-GAAP measure of constant currency revenues is used to assess the performance of revenue activity without the effect of foreign currency exchange rate fluctuations. We calculate revenues on a constant currency basis by translating current period revenue using the comparable period's foreign currency exchange rates. This calculation is performed for all subsidiaries where the functional currency is not the U.S. dollar.

LEIDOS HOLDINGS, INC.

Segment Results

Defense Solutions	Three Months Ended			
	March 31, 2017	April 1, 2016	Dollar change	Percent change
	(dollars in millions)			
Revenues	\$ 1,294	\$ 780	\$ 514	65.9%
Operating income	79	71	8	11.3%
Operating income margin	6.1%	9.1%		

Defense Solutions revenues increased \$514 million, or 65.9%, for the three months ended March 31, 2017, as compared to the three months ended April 1, 2016. The revenue increase is primarily attributable to contracts acquired through the acquisition of the IS&GS Business of \$525 million, and growth in airborne programs, partially offset by reduced scope and completion of certain contracts.

Defense Solutions operating income increased \$8 million, or 11.3%, for the three months ended March 31, 2017, as compared to the three months ended April 1, 2016. The increase in operating income was primarily due to operating income from the acquired IS&GS Business of \$18 million, partially offset by reduced scope and completion of certain contracts.

Civil	Three Months Ended			
	March 31, 2017	April 1, 2016	Dollar change	Percent change
	(dollars in millions)			
Revenues	\$ 842	\$ 361	\$ 481	133.2%
Operating income	54	22	32	145.5%
Operating income margin	6.4%	6.1%		

Civil revenues for the three months ended March 31, 2017, increased \$481 million, or 133.2%, as compared to the three months ended April 1, 2016. The revenue increase is primarily attributable to contracts acquired through the acquisition of the IS&GS Business of \$586 million, partially offset by the divestiture of the heavy construction business in fiscal 2016 of \$86 million and a decrease in the commercial energy services business.

The adverse impact of foreign currency was primarily due to the movement of the exchange rate between the U.S. dollar and the British pound.

Civil operating income increased \$32 million, or 145.5%, for the three months ended March 31, 2017, as compared to the three months ended April 1, 2016. The increase in operating income was primarily due to net operating income from the acquired IS&GS Business of \$31 million.

Health	Three Months Ended			
	March 31, 2017	April 1, 2016	Dollar change	Percent change
	(dollars in millions)			
Revenues	\$ 443	\$ 171	\$ 272	159.1%
Operating income	47	16	31	193.8%
Operating income margin	10.6%	9.4%		

Health revenues for the three months ended March 31, 2017, increased \$272 million, or 159.1%, as compared to the three months ended April 1, 2016. The revenue increase is primarily attributable to contracts acquired through the acquisition of the IS&GS Business of \$253 million and growth in our federal health business, partially offset by lower revenues from our commercial health business.

Health operating income increased \$31 million, or 193.8%, for the three months ended March 31, 2017, as compared to the three months ended April 1, 2016. The increase in operating income was primarily due to operating income from the acquired IS&GS Business of \$32 million.

## LEIDOS HOLDINGS, INC.

Corporate	Three Months Ended			
	March 31, 2017	April 1, 2016	Dollar change	Percent change
	(dollars in millions)			
Revenues	\$ 1	\$ —	\$ 1	NM
Operating loss	(39)	(20)	(19)	95.0%

*NM - Not meaningful*

Corporate operating loss increased \$19 million for the three months ended March 31, 2017, as compared to the three months ended April 1, 2016. The increase in operating loss was primarily driven by an increase of \$13 million of restructuring expenses, and an increase of \$10 million of acquisition and integration costs related to the acquisition of the IS&GS Business.

Restructuring expenses include costs associated with optimization of our real estate portfolio and severance costs associated with reducing headcount. We anticipate this restructuring program to last through fiscal 2019, and expect to incur a total of approximately \$166 million in connection with these restructuring activities.

*Non-Operating Expense, net*

Non-operating expense, net for the three months ended March 31, 2017, increased \$22 million as compared to the three months ended April 1, 2016, primarily due to interest expense associated with our term loans secured in connection with the Transactions.

*Provision for Income Taxes*

For the three months ended March 31, 2017, our effective tax rate was 31.5% compared to 32.1% for the three months ended April 1, 2016. The 0.6% decrease was primarily related to the impact of foreign and stated related items, partially offset by the settlement of share based awards in accordance with ASU 2016-09 and changes to the valuation allowance.

*Non-controlling Interest*

Net income attributable to non-controlling interest of \$2 million for the three months ended March 31, 2017, relates to our interest in Mission Support Alliance, LLC ("MSA"), a joint venture with Jacobs Engineering Group, Inc. and Centerra Group, LLC., acquired through the Transactions.

**Bookings and Backlog**

We received net bookings worth an estimated \$1.7 billion during the three months ended March 31, 2017, compared to \$1.2 billion for the three months ended April 1, 2016, respectively.

## LEIDOS HOLDINGS, INC.

Backlog estimates are subject to change and may be affected by factors including modifications of contracts and foreign currency movements. The estimated value of our total backlog was as follows:

	March 31, 2017	December 30, 2016
	(in millions)	
<b>Defense Solutions:</b>		
Funded backlog	\$ 2,572	\$ 3,171
Negotiated unfunded backlog	5,005	4,936
Total Defense Solutions backlog	<u>\$ 7,577</u>	<u>\$ 8,107</u>
<b>Civil:</b>		
Funded backlog	\$ 1,596	\$ 1,950
Negotiated unfunded backlog	5,466	5,250
Total Civil backlog	<u>\$ 7,062</u>	<u>\$ 7,200</u>
<b>Health:</b>		
Funded backlog	\$ 684	\$ 854
Negotiated unfunded backlog	1,566	1,575
Total Health backlog	<u>\$ 2,250</u>	<u>\$ 2,429</u>
<b>Total:</b>		
Funded backlog	\$ 4,852	\$ 5,975
Negotiated unfunded backlog	12,037	11,761
Total backlog	<u>\$ 16,889</u>	<u>\$ 17,736</u>

Total backlog at March 31, 2017 included \$34 million of benefit due to the impact of foreign currency movement between the U.S. dollar and the British pound.

**Liquidity and Capital Resources***Overview*

As of March 31, 2017, we had \$206 million in cash and cash equivalents. In addition, we have a secured revolving credit facility which can provide up to \$750 million in secured borrowing capacity, if required. During the three months ended March 31, 2017, there were no borrowings outstanding under the credit facility and we were in compliance with related financial covenants.

At March 31, 2017, and December 30, 2016, we had outstanding debt of \$3.3 billion. The notes outstanding as of March 31, 2017, contain financial covenants and customary restrictive covenants. We were in compliance with all covenants as of March 31, 2017.

During the three months ended March 31, 2017, and April 1, 2016, we paid dividends of \$50 million and \$23 million, respectively.

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 and, if needed, borrowings from our revolving credit facility.

*Summary of Cash Flows*

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

	Three Months Ended	
	March 31, 2017	April 1, 2016
	(in millions)	
Cash used in operating activities of continuing operations	\$ (88)	\$ (14)
Cash used in investing activities of continuing operations	(5)	(1)
Cash used in financing activities of continuing operations	(77)	(31)
Decrease in cash and cash equivalents from continuing operations	(170)	(46)
Decrease in cash and cash equivalents from discontinued operations	—	(1)
Total decrease in cash and cash equivalents	<u>\$ (170)</u>	<u>\$ (47)</u>

*Cash Used In Operating Activities:* Cash used in operating activities of continuing operations increased \$74 million for the three months ended March 31, 2017, when compared to the prior year, primarily due to the timing of billing and collections activities, as well as higher payments for restructuring, integration and interest expenses, partially offset by lower tax payments.

*Cash Used In Investing Activities:* Cash used in investing activities of continuing operations increased by \$4 million for the three months ended March 31, 2017, when compared to the prior year, primarily due to increased payments for property, plant and equipment.

*Cash Used in Financing Activities:* Cash used in financing activities of continuing operations increased \$46 million for the three months ended March 31, 2017, when compared to the prior year, primarily due to increased dividend payments of \$27 million and increased payments of long-term debt of \$21 million.

**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 guarantees on contracts with foreign government customers and surety bonds outstanding principally related to performance and payment bonds as described in "Note 16—Commitments" 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.

**Commitments and Contingencies**

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 15—Contingencies" and "Note 16—Commitments" 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 that occurred in the quarterly period covered by this report from those discussed in our Annual Report on Form 10-K for the year ended December 30, 2016.

**Recently Adopted and Issued Accounting Pronouncements**

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.**

During the three months ended March 31, 2017, there were no material changes in our market risk exposure. For a discussion of our market risk associated with interest rate risk and foreign currency risk as of December 30, 2016, see "Quantitative and Qualitative Disclosures about Market Risk" in Part II of our Annual Report on Form 10-K for the year ended December 30, 2016.

**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 Leidos' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) as of March 31, 2017. 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**

As part of our integration of the IS&GS Business, we continue to integrate controls and related procedures with respect to the acquired operations. Other than incorporating the IS&GS Business controls, there have been no other changes in Leidos' 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, Leidos' internal control over financial reporting.

## LEIDOS HOLDINGS, INC.

## 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 15—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 from the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 30, 2016.

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

(a) None

(b) None

(c) Purchases of Equity Securities by the Company

In December 2013, our Board of Directors authorized a stock repurchase program ("2013 Stock Repurchase Program") under which we may repurchase up to 20 million shares of Leidos common stock. Stock repurchases may be made on the open market or in privately negotiated transactions with third parties including through accelerated share repurchase agreements. The timing and number of share repurchases 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. Pursuant to the Tax Matters Agreement entered into in connection with the Transactions, we are generally restricted from repurchasing our stock for a two-year period following the closing date of the Transactions.

The following table presents repurchases of Leidos common stock during the quarter ended March 31, 2017:

Period	Total Number of Shares (or Units) Purchased <sup>(1)</sup>	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
December 31, 2016	—	\$ —	—	5,718,172
January 1, 2017 - January 31, 2017	20,029	50.77	—	5,718,172
February 1, 2017 - February 28, 2017	6,112	48.76	—	5,718,172
March 1, 2017 - March 31, 2017	10,775	53.21	—	5,718,172
<b>Total</b>	<b>36,916</b>	<b>51.15</b>	<b>—</b>	

<sup>(1)</sup> The total number of shares purchased includes: (i) shares surrendered to satisfy statutory tax withholdings obligations related to vesting of restricted stock units; and (ii) shares purchased upon surrender by stockholders of previously owned shares in payment of the exercise price of non-qualified stock options and/or to satisfy statutory tax withholdings obligations.

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

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.



## LEIDOS HOLDINGS, INC.

**Item 6. Exhibits.**

Exhibit Number	Description of Exhibit
10.1	Notice of Separation and Release of Claims dated January 19, 2017. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on January 20, 2017.
10.2	First Amendment, dated February 16, 2017, to the Credit Agreement dated as of August 16, 2016, by and among Leidos Innovations (f/k/a Abacus Innovations Corporation), as borrower, Leidos Holdings, Inc., Citibank, N.A., as administrative agent and the other lending institutions party to the amendment. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on February 21, 2017.
10.3	Form of Restricted Stock Unit Award Agreement of Leidos Holdings, Inc.'s 2006 Equity Incentive Plan.
10.4	Form of Nonstatutory Stock Option Agreement of Leidos Holdings, Inc.'s 2006 Equity Incentive Plan.
10.5	Form of Performance Share Award Agreement of Leidos Holdings, Inc.'s 2006 Equity Incentive Plan.
31.1	Certification of Chairman and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of 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 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.

**LEIDOS HOLDINGS, INC.**

**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: May 5, 2017

Leidos Holdings, Inc.

/s/ James C. Reagan

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**James C. Reagan**  
**Executive Vice President and Chief Financial Officer and**  
**as a duly authorized officer**



**2006 EQUITY INCENTIVE PLAN  
RESTRICTED STOCK UNIT AWARD AGREEMENT**

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**BY ACCEPTING THIS AWARD, YOU VOLUNTARILY AGREE TO ALL OF THE TERMS AND CONDITIONS SET FORTH IN THIS AGREEMENT AND IN THE PLAN.**

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Leidos Holdings, Inc., a Delaware corporation (the “**Company**”), hereby grants to the participant named in the Grant Summary (as defined below) (“**Recipient**”), who is affiliated with the Company or an Affiliate as an employee, director or consultant, restricted stock units (“**RSUs**”) representing the right to receive one share of its Common Stock, \$0.0001 par value per share (“**Common Stock**”) for each RSU. Certain specific details of this award, including the number of RSUs and the Grant Date, may be found in the Grant Summary and are hereby incorporated by reference into this Agreement. The terms and conditions of the grant of RSUs (this “**Award**”) are set forth in this Agreement and in the Company’s 2006 Equity Incentive Plan, as amended (the “**Plan**”).

1. **DEFINITIONS.** The following terms shall have the meanings as defined below. Capitalized terms used herein and not defined shall have the meanings attributed to them in the Plan.

“**Affiliate**” shall mean a “parent” or “subsidiary” (as each is defined in Section 424 of the Code) of the Company and any other entity that the Board or Committee designates as an “Affiliate” for purposes of this Plan.

“**Committee**” shall have the meaning as defined in the Plan.

“**Executive Officer**” shall mean an officer of the Company designated as such for purposes of Section 16 of the Securities Exchange Act of 1934, as amended.

“**Grant Date**” shall mean the date of the award of the RSUs as set forth in the Grant Summary.

“**Grant Summary**” shall mean the summary of this award as reflected in the electronic stock plan award administration system maintained by the Company or its designee that contains a link to this Agreement (which summary information is set forth in the appropriate records of the Company authorizing such award).

“**Permanent Disability**” shall mean the status of disability determined conclusively by the Committee based upon certification of disability by the Social Security Administration or, to the extent compliant with Section 409A, upon such other proof as the Committee may require, effective upon receipt of such certification or other proof by the Committee.

“**Special Retirement**” shall mean: (i) retirement by the Recipient after reaching age 59½ with at least ten (10) years of service with the Company or an Affiliate; or (ii) retirement by the Recipient after reaching age 59½ and Recipient’s age plus years of service with the Company or an Affiliate equals at least 70; or (iii) if Recipient is an Executive Officer at the time of retirement, retirement after reaching the applicable mandatory retirement age, regardless of years of service with the Company or (iv) if the Recipient is a director of the Company, retirement either (A) after reaching the applicable mandatory retirement age at retirement or (B) at the end of a term of office if Recipient is not nominated for a successive term of office on account of the fact that Recipient would have reached the applicable mandatory retirement age during such successive term of office, regardless of years of service with the Company. For Special Retirement purposes, years of service shall mean the period of service determined conclusively by the Committee.

## 2. RIGHTS OF THE RECIPIENT WITH RESPECT TO THE RSUs.

a) **No Stockholder Rights.** The RSUs granted pursuant to this Award do not and shall not entitle Recipient to any rights of a stockholder. The rights of Recipient with respect to the RSUs shall remain forfeitable at all times prior to the date on which such rights become vested, and the restrictions with respect to the RSUs lapse, in accordance with Section 3, 4 or 5.

b) **Accrued Dividends.** If the Company pays any cash dividends on its common stock, Recipient will be entitled to receive an amount in cash (less any required withholding for taxes) equal to the value of such cash dividends that would have been paid on Shares earned and vested under this Agreement if such Shares had been outstanding as of the record date for such dividends declared on or after the Grant Date and prior to the issuance date of the Shares (“Accrued Dividends”). Such Accrued Dividends will be retained by the Company (without interest) and paid in cash when, and if, and to the extent that Shares are earned and vested. To the extent that Recipient has elected to defer receipt of the Shares in accordance with the terms of the applicable non-qualified deferral plan, payment of Accrued Dividends with respect to such Shares will be subject to the terms and conditions of such plan. The right to Accrued Dividends will cease and be forfeited upon the forfeiture and cancellation of this Restricted Stock Unit Award.

c) **Conversion of RSUs; Issuance of Common Stock.** No shares of Common Stock shall be issued to Recipient prior to the date on which the RSUs vest in accordance with Section 3, 4 or 5. On the date that any RSUs vest pursuant to Section 3, 4 or 5 (or as promptly as administratively practicable thereafter), the Company shall cause to be issued in book-entry form, registered in Recipient’s name or in the name of Recipient’s legal representatives, beneficiaries or heirs, as the case may be, the underlying shares in payment of such vested whole RSUs (excluding Accrued Dividends), unless such payment is deferred in accordance with the terms and conditions of the Company’s non-qualified compensation deferral plans.

**3. VESTING SCHEDULE; RSUs SUBJECT TO FORFEITURE.**

- a) Subject to the terms and conditions of this Award, the RSUs shall vest in accordance with the following vesting schedule:
- 1) On the first-year anniversary of the Grant Date, 25% of the RSUs shall vest.
  - 2) On the second-year anniversary of the Grant Date, an additional 25% of the RSUs shall vest.
  - 3) On the third-year anniversary of the Grant Date, an additional 25% of the RSUs shall vest.
  - 4) On the fourth-year anniversary of the Grant Date, the remaining 25% of the RSUs shall vest.

If the application of the foregoing vesting schedule results in a fraction of a RSU being vested, such fractional RSU shall be deemed not to be vested and shall continue to be subject to forfeiture, as described below. Notwithstanding the foregoing, Accrued Dividends credited to Recipient shall vest on the same vesting schedule as the RSUs to which such Accrued Dividend relate. Recipient shall not sell, transfer, assign, hypothecate, pledge, grant a security interest in, or in any other way alienate, any of the RSUs, or any interest or right therein.

c) Except in the event of death, Permanent Disability or Special Retirement or as set forth below, any unvested RSUs automatically shall be immediately and irrevocably forfeited without compensation on the date that Recipient's affiliation with the Company or any Affiliate as an employee, director or consultant terminates, or if Recipient is an employee or director of an Affiliate and such entity ceases to be an Affiliate, whether by Committee action or otherwise, on the date such entity ceases to be an Affiliate.

**4 . ACCELERATION OF VESTING UPON DEATH,PERMANENT DISABILITY, OR INVOLUNTARY TERMINATION.**

a) If Recipient is an employee, director or consultant of the Company or an Affiliate and ceases to be affiliated with the Company or any Affiliate as a result of Recipient's death or Permanent Disability, or if Recipient's death or Permanent Disability occurs following a Special Retirement, all of the RSUs shall become fully vested.

b) If Recipient is an employee, director or consultant of the Company or an Affiliate and ceases to be affiliated with the Company or any Affiliate as a result of an Involuntary Termination occurring at least six months after the Grant Date, a prorated portion of any unearned RSUs shall become immediately earned and vested as of the date of such Involuntary Termination. Such prorated vesting shall be determined as follows: (A) the total number of RSUs granted shall be multiplied by a fraction, the numerator of which is the number of days from the Grant Date through the date of Involuntary Termination, and the denominator of which is the number of days from the Grant Date through the last vesting date, rounded up to the next whole number, and (B) such resulting amount shall be reduced by the number of RSUs (if any) that previously vested. Notwithstanding the foregoing, if the Recipient is eligible for Special Retirement as of the date of such Involuntary Termination, the separation from service will be treated as Special Retirement and not Involuntary Termination.

#### 5. CONTINUATION OF VESTING UPON SPECIAL RETIREMENT.

a) If Recipient is an Executive Officer and Recipient's affiliation with the Company or any Affiliate terminates as a result of Recipient's Special Retirement in accordance with the provisions of subsection (iii) of the definition of the term "Special Retirement" in Section 1 above, or if Recipient is a director of the Company and Recipient's affiliation with the Company or any Affiliate terminates as a result of Recipient's Special Retirement in accordance with the provisions of subsection (iv) of the definition of the term "Special Retirement" in Section 1 above, any unvested RSUs shall continue to vest in accordance with the vesting schedule set forth in Section 3 above.

b) If, after the first anniversary of the Grant Date, Recipient's affiliation with the Company or an Affiliate terminates as a result of Recipient's Special Retirement in accordance with the provisions of subsection (i) or (ii) of the definition of the term "Special Retirement" in Section 1 above, the remaining unvested RSUs shall continue to vest in accordance with the vesting schedule set forth in Section 3 above.

c) Notwithstanding the foregoing clauses (a) and (b), all unvested RSUs shall be immediately and irrevocably forfeited in the event that Recipient violates the terms of his or her inventions, copyright and confidentiality agreement with the Company or an Affiliate or breaches his or her other contractual or legal obligations to the Company or an Affiliate, including the non-solicitation obligations set forth in Section 13 of this Agreement.

d) If Recipient is eligible for Special Retirement at the time of a Fundamental Transaction or is continuing to vest following Special Retirement under the foregoing clause (a) or (b), any unvested RSUs shall be treated as provided in the Plan, but the resulting consideration shall only be paid on the date the RSUs would have vested if a Fundamental Transaction had not occurred, unless the RSUs are terminated in a manner compliant with Section 409A.

## 6. TAX MATTERS

a) **Tax Withholding.** If the Company or an Affiliate is required to withhold any federal, state, local or other taxes upon the vesting or any acceleration of vesting of the RSUs, or any issuance of Common Stock or otherwise under this Agreement, Recipient authorizes the Company to withhold a sufficient number of shares of Common Stock issuable upon settlement of the RSUs at the then current Fair Market Value (as defined in the Plan) to meet the withholding obligation based on no more than the maximum rates as required and/or permitted by law. Recipient further authorizes the Company, in the Company's sole discretion, to sell a sufficient number of shares of Common Stock on behalf of Recipient to satisfy such obligations, accept payment to satisfy such obligations in the form of cash or delivery to the Company of shares of Company stock already owned by Recipient, withhold amounts from Recipient's compensation, or any combination of the foregoing or other actions as may be necessary or appropriate to satisfy any such tax withholding obligations as permitted by law. If any tax withholding is required with respect to any unvested RSUs (including with respect to associated Accrued Dividends), the Company generally shall accelerate vesting on a number of Shares and/or Accrued Dividends with a value equal to the tax withholding obligation, the vested Shares and/or vested Accrued Dividends will be used to satisfy the tax withholding obligation, and this Award will be reduced accordingly by the number of Shares and/or Accrued that are accelerated.

b) **Section 409A.**

(i) This Award is intended to qualify for the short-term deferral exception to Section 409A of the Code ("**Section 409A**") described in the regulations promulgated under Section 409A to the maximum extent possible. To the extent Section 409A is applicable to this Award, this Award is intended to comply with Section 409A and to be interpreted and construed consistent with such intent.

(ii) With respect to any Recipient who is eligible for Special Retirement, this Award is intended to be paid on fixed payment dates under Sections 3 and 5 of this Agreement and such payments may not be accelerated except as set forth in Section 5(b) hereof or otherwise to the extent permitted under Section 409A.

(iii) Without limiting the generality of the foregoing, if Recipient is a "specified employee" within the meaning of Section 409A, as determined under the Company's established methodology for determining specified employees, on the date of Recipient's termination of service at a time when this Award pursuant its terms would be settled, then to the extent required in order to comply with Section 409A, shares of Common Stock that would be issued under this Award (or any other amount due hereunder) at such termination of service shall not be issued before the earlier of (x) the date that is six months following the Recipient's termination of employment and (y) the date of the Recipient's death.

(iii) For purposes of this Agreement, the terms "terminate," "terminated" and "termination" mean a termination of the Recipient's employment that constitutes a "separation from service" within the meaning of the default rules of Section 409A.

7. **RIGHTS, RESTRICTIONS AND LIMITATIONS.** All shares of Common Stock issued to Recipient pursuant to this Agreement are subject to the rights, restrictions and limitations set forth in the Company's Restated Certificate of Incorporation. Recipient shall not have the rights of a stockholder until Shares, if any, are issued on or following the applicable vesting date.

8. **RESTRICTIONS UNDER SECURITIES LAW.** The issuance of RSUs and the shares of Common Stock covered by this Agreement are subject to any restrictions which may be imposed under applicable state and federal securities laws and are subject to obtaining all necessary consents which may be required by, or any condition which may be imposed in accordance with, applicable state and federal securities laws or regulations.

9. **EMPLOYMENT AT WILL.**

a) If Recipient is an employee or consultant of the Company or an Affiliate, such employment or affiliation is not for any specified term and may be terminated by employee or by the Company or an Affiliate at any time, for any reason, with or without cause and with or without notice. Nothing in this Agreement (including, but not limited to, the vesting of the RSUs pursuant to the schedule set forth in Section 3 herein), the Plan or any covenant of good faith and fair dealing that may be found implicit in this Agreement or the Plan shall: (i) confer upon Recipient any right to continue in the employ of, or affiliation with, the Company or an Affiliate; (ii) constitute any promise or commitment by the Company or an Affiliate regarding the fact or nature of future positions, future work assignments, future compensation or any other term or condition of employment or affiliation; (iii) confer any right or benefit under this Agreement or the Plan unless such right or benefit has specifically accrued under the terms of this Agreement or Plan; or (iv) deprive the Company of the right to terminate Recipient at will and without regard to any future vesting opportunity that Recipient may have.

b) Recipient acknowledges and agrees that the right to continue vesting in the RSUs pursuant to the schedule set forth in Section 3 is earned only by continuing as an employee or consultant at the will of the Company or as a director (not through the act of being hired, being granted RSUs or any other award or benefit) and that the Company has the right to reorganize, sell, spin-out or otherwise restructure one or more of its businesses or Affiliates at any time or from time to time, as it deems appropriate (a "reorganization"). Recipient acknowledges and agrees that such a reorganization could result in the termination of Recipient's relationship as an employee or consultant to the Company or an Affiliate, or the termination of Affiliate status of Recipient's employer and the loss of benefits available to Recipient under this Agreement, including but not limited to, the termination of the right to continue vesting the RSUs under this Agreement.

10. **INCORPORATION OF PLAN.** The RSUs granted hereby are granted pursuant to the Plan, all the terms and conditions of which are hereby made a part hereof and are incorporated herein by reference. In the event of any inconsistency between the terms and conditions contained herein and those set forth in the Plan, the terms and conditions of the Plan shall prevail.



11. **RECOUPMENT OF AWARDS.** The Human Resources and Compensation Committee of the Company's Board of Directors adopted a recoupment policy on June 18, 2009 (the "**Policy**"), that may require members of senior management to return incentive compensation if there is a material restatement of the financial results upon which the compensation was originally based. The Policy also provides for recovery of incentive compensation from any employee involved in fraud or intentional misconduct, whether or not it results in a restatement of the Company's financial results. Recipient acknowledges and agrees that the Policy applies to RSUs and that any payments or issuances of Common Stock with respect to RSUs are subject to recoupment pursuant to the Policy, including any amendments to the Policy and any recoupment obligations imposed by applicable law or regulation. This Agreement shall be deemed to include the restrictions imposed by the Policy.

12. **COPIES OF PLAN AND OTHER MATERIALS.** Recipient acknowledges that Recipient has received copies of the Plan and the Plan prospectus from the Company and agrees to receive stockholder information, including copies of any annual report, proxy statement and periodic report, electronically from the Company. Recipient acknowledges that copies of the Plan, Plan prospectus, Plan information and stockholder information are also available upon written or telephonic request to the Company. Recipient acknowledges that a copy of the Policy referenced in Section 11 is available on the Company's intranet, and is also available upon written or telephonic request to the Company.

13. **NON-SOLICITATION.**

a) **Solicitation of Employees.** Recipient agrees that, both while employed by the Company or an Affiliate and for one year afterward, Recipient will not solicit or attempt to solicit any employee of the Company or an Affiliate to leave his or her employment or to violate the terms of any agreement or understanding that employee may have with the Company or an Affiliate. The foregoing obligations apply to both the Recipient's direct and indirect actions, and apply to actions intended to benefit Recipient or any other person, business or entity.

b) **Solicitation of Customers.** Recipient agrees that, for one year after termination of employment with the Company or an Affiliate, Recipient will not participate in any solicitation of any customer or prospective customer of the Company or an Affiliate concerning any business that:

(i) involves the same programs or projects for that customer in which Recipient was personally and substantially involved during the 12 months prior to termination of employment; or

(ii) has been, at any time during the 12 months prior to termination of employment, the subject of any bid, offer or proposal activity by the Company or an Affiliate in respect of that customer or prospective customer, or any negotiations or discussions about the possible performance of services by the Company or an Affiliate to that customer or potential customer, in which Recipient was personally and substantially involved.

In the case of a governmental, regulatory or administrative agency, commission, department or other governmental authority, the customer or prospective customer will be determined by reference to the specific program offices or activities for which the Company or an Affiliate provides (or may reasonably provide) goods or services.

c ) **Remedies.** Recipient acknowledges and agrees that a breach of any of the promises or agreements contained in this Section 13 will result in immediate, irreparable and continuing damage to the Company for which there is no adequate remedy at law, and the Company or an Affiliate will be entitled to injunctive relief, a decree for specific performance, and other relief as may be proper, including money damages.

14. **MISCELLANEOUS.** This Agreement contains the entire agreement of the parties with respect to its subject matter, provided, however, that if Recipient and the Company are parties to an existing written agreement addressing the subject matter of Section 13, such agreement shall control with respect to such subject matter until the termination thereof, at which time Section 13 shall control. This Agreement shall be binding upon and shall inure to the benefit of the respective parties, the successors and assigns of the Company, and the heirs, legatees and personal representatives of Recipient. The parties hereby agree that should any portion of this Agreement be judicially held to be invalid, unenforceable, or void, such portion shall be construed by limiting and reducing it, so as to be enforceable to the maximum extent compatible with the applicable law as is then in effect.

15. **GOVERNING LAW.** This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Delaware without reference to such state's principles of conflict of laws.

16. **NOTICE OF RESTRICTION.** The parties agree that any book entry representing the RSUs granted hereunder may contain a legend, or notation as the case may be, indicating that such RSUs are subject to the restrictions of this Agreement.

17. **ACKNOWLEDGMENT.** Recipient acknowledges that the RSUs constitute full and adequate consideration for Recipient's obligations under this Agreement, the acceptance of the RSUs constitutes an unequivocal acceptance of this Agreement and any attempted modification or deletion will have no force or effect on the Company's right to enforce the terms and conditions stated herein.

***By accepting the RSUs, you agree to all of the terms and conditions set forth above and in the Plan.***



**2006 EQUITY INCENTIVE PLAN  
NONSTATUTORY STOCK OPTION AGREEMENT**

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**BY ACCEPTING THE OPTION DESCRIBED IN THIS AGREEMENT, YOU VOLUNTARILY AGREE TO ALL OF THE TERMS AND CONDITIONS SET FORTH IN THIS AGREEMENT AND IN THE PLAN.**

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Leidos Holdings, Inc., a Delaware corporation (the “**Company**”), hereby grants an option (the “**Option**”) to purchase shares of its Common Stock, \$0.0001 par value per share, (“**Stock**”), to the participant named in the Grant Summary (as defined below) (“**Optionee**”). Certain specific details of the award of this Option, including Option Shares, Option Price and Grant Date, may be found in the Grant Summary and are hereby incorporated by reference into this Agreement. The terms and conditions of the Option are set forth in this Agreement and in the Company’s 2006 Equity Incentive Plan, as amended (the “**Plan**”).

1. **DEFINITIONS.** The following terms shall have the meanings as defined below. Capitalized terms used herein and not defined shall have the meanings attributed to them in the Plan.

“**Administrator**” shall have the meaning as defined in the Plan.

“**Affiliate**” shall mean a “parent” or “subsidiary” (as each is defined in Section 424 of the Code) of the Company and any other entity that the Board or Committee designates as an “Affiliate” for purposes of this Plan.

“**Cause**” shall have the meaning as defined in the Plan.

“**Committee**” shall have the meaning as defined in the Plan.

“**Executive Officer**” shall mean an officer of the Company designated as such for purposes of Section 16 of the Securities Exchange Act of 1934, as amended.

“**Expiration Date**” shall have the meaning as defined in Section 3 below.

“**Fair Market Value**” shall have the meaning as defined in the Plan.

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“**Grant Date**” shall mean the date of the award of this Option as set forth in the Grant Summary.

“**Grant Summary**” shall mean the summary of this award as reflected in the electronic stock plan award administration system maintained by the Company or its designee that contains a link to this Agreement (which summary information is set forth in the appropriate records of the Company authorizing such award).

“**Option Price**” shall mean the exercise price per Option Share applicable to this Option set forth in the Grant Summary.

“**Option Shares**” shall mean the number of shares of Stock issuable upon exercise of the Option as set forth in the Grant Summary.

“**Permanent Disability**” shall mean the status of disability determined conclusively by the Committee based upon certification of disability by the Social Security Administration or upon such other proof as the Committee may require, effective upon receipt of such certification or other proof by the Committee.

“**Special Retirement**” shall mean: (i) retirement by the Optionee after reaching age 59½ with at least ten (10) years of service with the Company or an Affiliate; or (ii) retirement by the Optionee after reaching age 59½ and Optionee’s age plus years of service with the Company or an Affiliate equals at least 70; or (iii) if Optionee is an Executive Officer at the time of retirement, retirement after reaching the applicable mandatory retirement age by the Optionee, regardless of years of service with the Company or (iv) if the Optionee is a director of the Company, retirement by the Optionee either (A) after reaching the applicable mandatory retirement age at retirement or (B) at the end of a term of office if Optionee is not nominated for a successive term of office on account of the fact that Optionee would have reached the applicable mandatory retirement age during such successive term of office, regardless of years of service with the Company. For Special Retirement purposes, years of service shall mean the period of service determined conclusively by the Committee.

2. **GRANT OF OPTION; NUMBER OF SHARES; OPTION PRICE.** The Company hereby grants to Optionee an Option to purchase all or any part of the Option Shares at the Option Price.

3. **TERM OF OPTION.** This Option shall terminate upon the earlier to occur of: (i) seven (7) years from the Grant Date (the “**Expiration Date**”); or (ii) the expiration of the applicable period following the occurrence of any of the events specified in Section 5 hereof. The Company shall have no obligation to provide Optionee with notice of termination or expiration of this Option.

#### 4. EXERCISE OF OPTION.

4.1 **General Schedule of Vesting and Exercisability.** Subject to the terms of the Plan and this Agreement, this Option shall vest and become exercisable in accordance with the following schedule:

- a) The Option may not be exercised in whole or in part at any time prior to the first- year anniversary of the Grant Date.
- b) The Option may be exercised as to 25% of the Option Shares after the first-year anniversary of the Grant Date.
- c) The Option may be exercised as to an additional 25% of the Option Shares after the second-year anniversary of the Grant Date.
- d) The Option may be exercised as to an additional 25% of the Option Shares after the third-year anniversary of the Grant Date.
- e) The Option may be exercised as to the remaining 25% of the Option Shares after the fourth-year anniversary of the Grant Date.

If the application of the foregoing vesting schedule results in a fraction of an Option Share becoming exercisable, such fractional share shall be deemed not to be exercisable. However, the rights to exercise the Option, as specified in the preceding schedule, shall be cumulative so that 25% of the Option Shares shall be exercisable after the first-year anniversary of the Grant Date; 50% of the Option Shares shall be exercisable after the second-year anniversary of the Grant Date; 75% of the Option Shares shall be exercisable after the third-year anniversary of the Grant Date; and 100% of the Option Shares shall be exercisable after the fourth-year anniversary of the Grant Date. Optionee may purchase all, or from time to time, any part of the maximum number of Option Shares which are then exercisable. Except as set forth in Section 4.4 below, this Option shall be exercisable only by Optionee.

4.2 **General Terms of Exercise.** Subject to the terms of the Plan and this Agreement, the Option shall be exercised pursuant to procedures established by the Committee, which may include electronic or voice procedures as may be specified by the Committee and which may include a requirement to acknowledge this Agreement prior to exercise. Acceptable forms and methods of payment to exercise the Option may include (i) by cashier's check, money order or wire transfer; (ii) by a cashless exercise procedure; or (iii) by tendering shares of Common Stock of the Company acceptable to the Committee valued at their Fair Market Value as of the date of exercise.

#### 4.3 **Treatment of Special Retirement.**

- a) If Optionee is an Executive Officer and has met the provisions of subsection (iii) of the definition of the term “Special Retirement” in Section 1 above, or if Optionee is a director of the Company and has met the provisions of subsection (iv) of the definition of the term “Special Retirement” in Section 1 above, the right to exercise this Option shall continue to vest and be exercisable in accordance with the schedule set forth in Section 4.1 above.
- b) If Optionee has met the provisions of subsection (i) or (ii) of the definition of the term “Special Retirement” in Section 1 above, the right to exercise this Option shall continue to vest and be exercisable in accordance with the schedule set forth in Section 4.1 above, but only if Optionee has held this Option at least twelve (12) months prior to the date of such Special Retirement.

4.4 **Treatment of Death, Permanent Disability or Involuntary Termination.** Notwithstanding anything to the contrary herein, if Optionee is an employee, director or consultant of the Company or an Affiliate and ceases to be affiliated with the Company or any Affiliate as a result of Optionee’s death or Permanent Disability, or if Optionee’s death or Permanent Disability occurs following a Special Retirement, any unvested portion of this Option shall accelerate and become fully exercisable. Following Optionee’s death, this Option may be exercised only by the executor or administrator of the Optionee’s estate or, if there is none, the person entitled to exercise the Option under Optionee’s will or the laws of descent and distribution. Following Optionee’s termination of affiliation as a result of Optionee’s Permanent Disability, if a guardian or conservator has been appointed to act for Optionee and been granted this authority as part of that appointment, that guardian or conservator may exercise this Option on behalf of Optionee. If an Optionee’s termination of affiliation is a result of an Involuntary Termination occurring at least six months after the Grant Date, a prorated portion of any unvested Option Shares shall become immediately vested as of the date of such Involuntary Termination. Such prorated vesting shall be determined as follows: (A) the total number of Option Shares granted shall be multiplied by a fraction, the numerator of which is the number of days from the Grant Date through the date of Involuntary Termination, and the denominator of which is the number of days from the Grant Date through the last vesting date, rounded up to the next whole number, and (B) such resulting amount shall be reduced by the number of Option Shares (if any) that previously vested. Notwithstanding the foregoing, if the Optionee is eligible for Special Retirement as of the date of such Involuntary Termination, the separation from service will be treated as Special Retirement and not Involuntary Termination.

4.5 **Treatment of Leave of Absence.** If Optionee is an employee of the Company or an Affiliate and is on a leave of absence pursuant to the terms of the Company's Administrative Policy No. SH-1 "Working Hours and Absences" or similar policy maintained by an Affiliate, as such policies may be revised from time to time, Optionee shall not, during the period of such absence be deemed, by virtue of such absence alone, to have terminated Optionee's employment. Optionee shall continue to vest in this Option during any approved medical or military leave of absence. Medical leave shall include family or medical leaves, workers' compensation leave, or pregnancy disability leave. For all other leaves of absence, this Option will vest only during active employment and shall not vest during a leave of absence, unless required under local law. However, if Optionee returns to active employment with the Company or an Affiliate following such a leave, this Option will be construed to vest as if there had been no break in active employment. During any leave of absence, Optionee shall have the right to exercise the vested portion of this Option provided that such exercise occurs prior to the Expiration Date.

5. **TERMINATION OF OPTION; EVENTS IMPACTING ABILITY TO EXERCISE OPTION.**

5.1 **Termination of Affiliation.** If Optionee is an employee, director or consultant of the Company or an Affiliate and ceases to be affiliated with the Company or an Affiliate for any reason other than death, Special Retirement, Permanent Disability or Cause, Optionee may exercise this Option within the ninety (90) day period following such cessation of affiliation, but only to the extent that this Option was exercisable at the date of such cessation of affiliation and Optionee's rights to exercise the Option have not been suspended as of the date of such cessation of affiliation. This Option shall terminate on the earlier to occur of the expiration of such ninety (90) day period or the Expiration Date.

5.2 **Termination for Cause.** If Optionee is an employee, director or consultant of the Company or an Affiliate and is terminated for Cause as determined by the Administrator of the Plan, this Option and all of Optionee's rights with respect thereto shall immediately terminate on the date of such termination.

5.3 **Termination for Breach of Obligation.** Notwithstanding the right of Optionee to continued vesting upon Special Retirement under Section 4.3 above, the Company shall have the right to terminate the unvested portion of this Option at any time if Optionee violates the terms of his or her inventions, copyright and confidentiality agreement with the Company or an Affiliate or breaches his or her other contractual or legal obligations to the Company or an Affiliate, including the non-solicitation obligations set forth in Section 12 of this Agreement ("**Breach of Obligation**"). If the Company terminates the unvested portion of this Option during Special Retirement as a result of Optionee's Breach of Obligation, Optionee may exercise this Option within the earlier of the ninety (90) day period following such termination or the Expiration Date, but only to the extent that this Option was exercisable at the date of such termination.

5.4 **Termination of Unexercised Options.** If any portion of the Option is not exercised by the earlier of: (i) the end of the applicable period specified in Sections 5.1, 5.2 or 5.3 or (ii) the Expiration Date, any such unexercised portion and all of Optionee's rights with respect thereto shall terminate.

6. **TAX WITHHOLDING.** If the Company or any Affiliate is required to withhold any federal, state, local or other taxes upon the exercise of this Option, Optionee shall remit an amount sufficient to satisfy any applicable tax withholding requirement in a form of payment satisfactory to the Administrator or the Committee, which may include by cashier's check, money order or wire transfer or by the Company's withholding Stock issued upon exercise of this Option to pay the required withholding. If the Company withholds Stock, the Fair Market Value of the Stock withheld, as determined as of the date of withholding, shall not exceed the minimum rates required by law.

7. **RESTRICTIONS UNDER SECURITIES LAW.** All shares of Stock covered by this Agreement are subject to any restrictions which may be imposed under applicable state and federal securities laws and are subject to obtaining all necessary consents which may be required by, or any condition which may be imposed in accordance with, applicable state and federal securities laws or regulations.

8. **INCORPORATION OF PLAN.** The Option granted hereby is granted pursuant to the Plan, all the terms and conditions of which are hereby made a part hereof and are incorporated herein by reference. In the event of any inconsistency between the terms and conditions contained herein and those set forth in the Plan, the terms and conditions of the Plan shall prevail.

9. **RECOUPMENT OF AWARDS.** The Human Resources and Compensation Committee of the Company's Board of Directors adopted a recoupment policy on June 18, 2009 (the "**Policy**"), that may require members of senior management to return incentive compensation if there is a material restatement of the financial results upon which the compensation was originally based. The Policy also provides for recovery of incentive compensation from any employee involved in fraud or intentional misconduct, whether or not it results in a restatement of the Company's financial results. Optionee acknowledges and agrees that the Policy applies to the Option and that any payments or issuances of Stock with respect to the Option are subject to recoupment pursuant to the Policy. This Agreement shall be deemed to include the restrictions imposed by the Policy.



## 10. EMPLOYMENT AT WILL.

10.1 If Optionee is an employee or consultant of the Company or an Affiliate, such employment or affiliation is not for any specified term and may be terminated by employee or by the Company or an Affiliate at any time, for any reason, with or without cause and with or without notice. Nothing in this Agreement (including, but not limited to, the right to exercise this Option pursuant to the schedule set forth in Section 4 herein), the Plan or any covenant of good faith and fair dealing that may be found implicit in this Agreement or the Plan shall (i) confer upon Optionee any right to continue in the employ of, or affiliation with, the Company or an Affiliate, (ii) constitute any promise or commitment by the Company or an Affiliate regarding the fact or nature of future positions, future work assignments, future compensation or any other term or condition of employment or affiliation, (iii) confer any right or benefit under this Agreement or the Plan unless such right or benefit has specifically accrued under the terms of this Agreement or Plan or (iv) deprive the Company of the right to terminate Optionee at will and without regard to any future vesting opportunity that Optionee may have.

10.2 Optionee acknowledges and agrees that the right to exercise this Option pursuant to the schedule set forth in Section 4 is earned only by continuing as an employee or consultant at the will of the Company or as a director (not through the act of being hired, being granted this Option or any other Option, award or benefit or acquiring shares hereunder) and that the Company has the right to reorganize, sell, spin-out or otherwise restructure one or more of its businesses or Affiliates at any time or from time to time, as it deems appropriate (a "reorganization"). Optionee acknowledges and agrees that such a reorganization could result in the termination of Optionee's relationship as an employee or consultant to the Company or an Affiliate, or the termination of Affiliate status of Optionee's employer and the loss of benefits available to Optionee under this Agreement, including but not limited to, the termination of the right to exercise the Options under this Agreement.

11. **COPIES OF PLAN AND OTHER MATERIALS.** Optionee acknowledges that Optionee has received copies of the Plan and the Plan prospectus from the Company and agrees to receive stockholder information, including copies of any annual report, proxy statement and periodic report, electronically from the Company. Optionee acknowledges that copies of the Plan, Plan prospectus, Plan information and stockholder information are also available upon written or telephonic request to the Company. Optionee acknowledges that copies of the Company's policies referenced in this Agreement, including the Policy, are available on the Company's intranet, and are also available upon written or telephonic request to the Company.

## 12. NON-SOLICITATION.

12.1 **Solicitation of Employees.** Optionee agrees that, both while employed by the Company or an Affiliate and for one year afterward, Optionee will not solicit or attempt to solicit any employee of the Company or an Affiliate to leave his or her employment or to violate the terms of any agreement or understanding that employee may have with the Company or an Affiliate. The foregoing obligations apply to both the Optionee's direct and indirect actions, and apply to actions intended to benefit Optionee or any other person, business or entity.

12.2 **Solicitation of Customers.** Optionee agrees that, for one year after termination of employment with the Company or an Affiliate, Optionee will not participate in any solicitation of any customer or prospective customer of the Company or an Affiliate concerning any business that:

- a) involves the same programs or projects for that customer in which Optionee was personally and substantially involved during the 12 months prior to termination of employment; or
- b) has been, at any time during the 12 months prior to termination of employment, the subject of any bid, offer or proposal activity by the Company or an Affiliate in respect of that customer or prospective customer, or any negotiations or discussions about the possible performance of services by the Company or an Affiliate to that customer or potential customer, in which Optionee was personally and substantially involved.

In the case of a governmental, regulatory or administrative agency, commission, department or other governmental authority, the customer or prospective customer will be determined by reference to the specific program offices or activities for which the Company or an Affiliate provides (or may reasonably provide) goods or services.

12.3 **Remedies.** Optionee acknowledges and agrees that a breach of any of the promises or agreements contained in this Section 12 will result in immediate, irreparable and continuing damage to the Company for which there is no adequate remedy at law, and the Company or an Affiliate will be entitled to injunctive relief, a decree for specific performance, and other relief as may be proper, including money damages.

13. **MISCELLANEOUS.** This Agreement contains the entire agreement between the parties with respect to its subject matter, provided, however, that if Optionee and the Company are parties to an existing written agreement addressing the subject matter of Section 12, such agreement shall control with respect to such subject matter until the termination thereof, at which time Section 12 shall control. This Agreement shall be binding upon and shall inure to the benefit of the respective parties, the successors and assigns of the Company, and the heirs, legatees, and personal representatives of Optionee. The parties hereby agree that should any portion of this Agreement be judicially held to be invalid, unenforceable, or void, such portion shall be construed by limiting and reducing it, so as to be enforceable to the maximum extent compatible with the applicable law as is then in effect.

14. **ACKNOWLEDGMENT.** Optionee acknowledges that the Option constitutes full and adequate consideration for Optionee's obligations under this Agreement, accepting the Option constitutes an unequivocal acceptance of this Agreement and any attempted modifications or deletions will have no force or effect upon the Company's right to enforce the terms and conditions stated herein.

15. **GOVERNING LAW.** This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Delaware without reference to such state's principles of conflict of laws.

*By accepting the Option, you agree to all of the terms and conditions set forth above and in the Plan.*



*LEIDOS HOLDINGS, INC.*

**2006 EQUITY INCENTIVE PLAN  
PERFORMANCE SHARE AWARD AGREEMENT**

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**BY ACCEPTING THE AWARD DESCRIBED IN THIS AGREEMENT, YOU VOLUNTARILY AGREE TO ALL OF THE TERMS AND CONDITIONS SET FORTH IN THIS AGREEMENT, THE AWARD GRANT NOTICE AND IN THE PLAN.**

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This Performance Share Award Agreement (this “**Agreement**”), effective as of the Grant Date (as defined below), is between Leidos Holdings, Inc., Inc., a Delaware corporation (the “**Company**”), and Recipient (as defined below).

This Agreement sets forth the terms and conditions applicable to the award granted to Recipient pursuant to the Award Grant Notice (as defined below) representing a right to receive a number of shares of the Company’s Common Stock (the “**Shares**”) based on the extent, if any, to which the applicable Performance Goals (as defined below) have been achieved for the Performance Period (as defined below) (the “**Performance Share Award**”).

1. **DEFINITIONS.** The following terms shall have the meanings as defined below. Capitalized terms used herein and not defined shall have the meanings attributed to them in the Company’s 2006 Equity Incentive Plan (as may be amended from time to time, the “**Plan**”).

“**Award Grant Notice**” means the notice delivered to Recipient concurrently with this Agreement setting forth the Performance Goals and which is hereby made a part hereof and incorporated by reference into this Agreement.

“**Determination Date**” means the date following the end of the Performance Period (and within two and one-half months following the end of the Performance Period) on which the Committee makes a final determination of whether and to what extent the Performance Goals set forth in the Award Grant Notice have been achieved for the entire Performance Period, as described in Section 3 hereof.

“**Executive Officer**” means an officer of the Company designated as such for purposes of Section 16 of the Securities Exchange Act of 1934, as amended.

“**Grant Date**” means the effective date of the grant of the Performance Share Award as set forth in the Award Grant Notice.

**“Involuntary Termination Without Cause”** means a termination of the Recipient’s employment initiated by the Company for reasons other than conduct that is in violation of the Company’s policies or ethical standards.

**“Performance Goals”** means the goals approved by the Committee for the Performance Period to be set forth in the Award Grant Notice, which shall be used to determine whether, and to what extent, the Performance Share Award shall be earned and therefore Shares shall be issued to Recipient after the Determination Date pursuant to this Agreement.

**“Performance Period”** means the period of three fiscal years from 2017 through 2019, inclusive, based on the Company’s audited annual financial statements.

**“Permanent Disability”** means the status of disability determined conclusively by the Committee based upon certification of disability by the Social Security Administration or upon such other proof as the Committee may require, effective upon receipt of such certification or other proof by the Committee.

**“Recipient”** means the person granted a Performance Share Award as named in the Award Grant Notice who is affiliated with the Company or an Affiliate as an employee.

**“Section 409A”** means Section 409A of the Code together with the regulations promulgated thereunder.

**“Target Shares”** means the target number of Shares as set forth in the Award Grant Notice.

**“Special Retirement”** means: (i) retirement by the Recipient after reaching age 59½ with at least ten (10) years of service with the Company or an Affiliate; (ii) retirement by the Recipient after reaching age 59½ and Recipient’s age plus years of service with the Company or an Affiliate equals at least 70; or (iii) if the Recipient is an Executive Officer at the time of retirement, retirement after reaching age 65 by the Recipient, regardless of years of service with the Company. For Special Retirement purposes, years of service shall mean the period of service determined conclusively by the Committee.

**2. PERFORMANCE SHARE AWARD SUBJECT TO TERMINATION.** Except in the event of death, Permanent Disability, Special Retirement or Involuntary Termination Without Cause as set forth below, the Performance Share Award shall be terminated automatically without compensation and no Shares shall be issued to Recipient pursuant to this Agreement if, prior to the end of the Performance Period, Recipient’s employment with the Company or any Affiliate terminates, or if Recipient is an employee of an Affiliate and such entity ceases to be an Affiliate, whether by Committee action or otherwise, on the date such entity ceases to be an Affiliate.

### 3. PERFORMANCE REQUIREMENTS.

- a) **Performance Goals.** Following the end of the Performance Period, the Committee shall determine whether and the extent to which each of the Performance Goals have been achieved for the entire Performance Period and shall determine the number of Shares, if any, issuable to Recipient with respect to the level of achievement of each individual Performance Goal; *provided* that with respect to any Performance Share Award to a “covered employee” within the meaning of Section 162(m) of the Code, the Committee shall have certified the achievement of the Performance Goals. The aggregate number of Shares potentially issuable to Recipient with respect to all Performance Goals shall be between 0% and 150% of the number of Target Shares. If applicable, the Committee’s determinations with respect to the achievement of Performance Goals shall be based on the Company’s financial results reported in its annual report on Form 10-K as filed with the SEC, subject to any adjustments made by the Committee in accordance with Section 3 (c) below.
- b) **Committee Discretion to Reduce Performance Share Award.** Notwithstanding satisfaction, achievement or completion of the Performance Goals set forth in the Award Grant Notice (or any adjustments thereto as provided below), the number of Shares issuable hereunder may be reduced by the Committee on the basis of such further considerations as the Committee in its sole discretion shall determine.
- c) **Adjustment of Performance Goals.** To the extent it is intended that this Performance Share Award comply with the performance-based exception to Section 162(m) of the Code, the Committee shall make no adjustment to the Performance Goals set forth in the Award Grant Notice with respect to a “covered employee” within the meaning of Section 162(m) of the Code, including the performance targets or the method of calculating the actual performance achieved relative to the Performance Goals, except to exclude the impact of (i) changes in accounting standards or adoption of any new accounting standards in accordance with generally accepted accounting principles in the United States, (ii) changes in federal statutory corporate tax rates, and (iii) extraordinary or unusual gains or losses, events or circumstances over which the Company has no or limited control, including the occurrence of any disaster, act of God or any other force majeure event.
- d) **Section 162(m).** To the extent the Committee has determined that this Performance Share Award is intended to comply with the performance-based exception to Section 162(m) of the Code and the Recipient is a “covered employee” within the meaning of Section 162(m) of the Code, all actions taken hereunder (including without limitation any adjustments of Performance Goals or determination of whether a Fundamental Transaction has occurred) shall be made in a manner which would comply with Section 162(m) of the Code.

#### 4. ISSUANCE OF SHARES.

- a) **Shares.** Shares shall be issued, if and to the extent earned based on the achievement of the Performance Goals as determined by the Committee, on (or as promptly as administratively practicable following) the Determination Date, and in no event later than ninety (90) days following the end of the Performance Period.
- b) **Accrued Dividends.** If the Company pays any cash dividends on its common stock, Recipient will be entitled to receive an amount in cash (less any required withholding for taxes) equal in value to the cash dividends that would have been paid on Shares earned and issued under this Agreement assuming that such Shares had been outstanding as of the record date for such dividends declared on or after the Grant Date and prior to the issuance date of the Shares (“Accrued Dividends”). Such Accrued Dividends will be retained by the Company (without interest) and paid in cash when, and if, and to the extent that Shares are earned and issued based on the achievement of the Performance Goals. To the extent that Recipient has elected to defer receipt of the Shares in accordance with the terms of the applicable non-qualified deferral plan, payment of Accrued Dividends with respect to such Shares will be subject to the terms and conditions of such plan. The right to receive Dividend will cease and be forfeited upon the forfeiture and cancellation of this Performance Share Award.
- c) **Taxes, Deferrals and Other Matters.** As a condition to the issuance of Shares hereunder, Recipient must have satisfied his or her tax withholding obligations as specified in this Agreement and must have completed, signed and returned any documents and taken any additional action that the Company deems appropriate to enable it to accomplish the delivery of the Shares. In no event will the Company be obligated to issue a fractional share. Notwithstanding the foregoing, (i) the Company shall not be obligated to deliver any Shares during any period when the Company determines that the issuance or the delivery of Shares hereunder would violate any federal, state or other applicable laws and/or may issue Shares subject to any restrictive legends that, as determined by the Company, is necessary to comply with securities or other regulatory requirements, and (ii) the date on which Shares are issued may include a delay (but not later than the next December 31<sup>st</sup> after the end of the Performance Period) in order to provide the Company such time as it determines appropriate to address tax withholding and other administrative matters. If eligible, Recipient shall be given the opportunity to elect to defer receipt of the Shares. Such deferral election shall be in accordance with the terms of the applicable non-qualified deferral plan of the Company or an Affiliate and the requirements of Section 409A and subject to such additional terms and conditions as are set by the Committee.

## 5. PARTIAL PAYMENT ON CERTAIN EVENTS.

### a) **Disability, Special Retirement or Involuntary Termination Without Cause.**

(i) If Recipient ceases to be employed by the Company or an Affiliate as a result of Recipient's Permanent Disability, Special Retirement or Involuntary Termination Without Cause, Recipient shall remain eligible to receive, on (or as promptly as administratively practicable following) the Determination Date, a prorated portion of the Shares that would otherwise be issuable to Recipient under the Performance Share Award in the absence of such employment termination based on the actual achievement of the Performance Goals for the Performance Period; *provided* that the prorated amount shall be determined based on the ratio of (x) the number of days elapsed from the beginning of the Performance Period to the employment termination date over (y) the number of days in the entire Performance Period (and not reflecting any shortening of the Performance Period as a result of a Fundamental Transaction as described below).

(ii) Notwithstanding the foregoing, Recipient shall not be entitled to any Shares under the Performance Share Award if Recipient: (i) fails to execute and deliver, no later than ninety (90) days following the end of the Performance Period, a general release of claims if requested by, and in a form satisfactory to, the Company or an Affiliate, (ii) violates the terms of his or her inventions, copyright and confidentiality agreement with the Company or an Affiliate, or (iii) breaches his or her other contractual or legal obligations to the Company or an Affiliate, including the non-solicitation obligations set forth in Section 13 of this Agreement.

b) **Death.** If Recipient's employment with the Company and its Affiliates terminates due to the death of Recipient, then Recipient's estate shall receive, promptly after the date of death, a prorated portion of the Shares that Recipient would have been issued pursuant to the Performance Share Award based on the formula set forth in subsection (c) below as if a Fundamental Transaction had occurred on such date of death.

c) **Change in Control of Company.** If a Fundamental Transaction (as defined in the Plan) occurs prior to the end of the Performance Period while Recipient is employed by the Company or an Affiliate or remains entitled to receive Shares pursuant to Section 5(a) above, the Performance Period shall be terminated and Recipient shall be entitled to receive, immediately prior to the consummation of such Fundamental Transaction, the following number of Shares (the "**CIC Earned Shares**"):



- (i) If the Fundamental Transaction occurs on or prior to 50% of the Performance Period elapsing, a prorated number of Target Shares based on the portion of the Performance Period that has elapsed; plus
- (ii) If the Fundamental Transaction occurs following at least 50% of the Performance Period elapsing, a number of Shares based on the achievement of the Performance Goals at the time of consummation of the Fundamental Transaction as determined by the Committee and prorated to reflect the portion of the Performance Period that has elapsed through the date of consummation of the Fundamental Transaction.

Notwithstanding the foregoing, if the Company determines that this Performance Share Award is “deferred compensation” for purposes of Section 409A and is not eligible for any exemption from or exception to Section 409A, and that the Fundamental Transaction is not also a “change in ownership”, “change in effective control” or a “change in the ownership of a substantial portion of the assets” of the Company under Section 409A, then the CIC Earned Shares (or a comparable amount of cash or acquiring company stock, depending on the consideration received by Company stockholders on such Fundamental Transaction) shall only be issued to Recipient on the date such Shares would have been issued pursuant to Section 4 if a Fundamental Transaction had not occurred), unless this Performance Share Award is terminated in a manner compliant with Section 409A.

## 6. TAX MATTERS.

- a) **Tax Withholding.** If the Company or an Affiliate is required to withhold any federal, state, local or other taxes upon the vesting or any acceleration of vesting of the RSUs, or any issuance of Common Stock or otherwise under this Agreement, Recipient authorizes the Company to withhold a sufficient number of shares of Common Stock issuable upon settlement of the RSUs at the then current Fair Market Value (as defined in the Plan) to meet the withholding obligation based on the minimum rates as required and/or permitted by law. Recipient further authorizes the Company, in the Company’s sole discretion, to sell a sufficient number of shares of Common Stock on behalf of Recipient to satisfy such obligations, accept payment to satisfy such obligations in the form of cash or delivery to the Company of shares of Company stock already owned by Recipient, withhold amounts from Recipient’s compensation, or any combination of the foregoing or other actions as may be necessary or appropriate to satisfy any such tax withholding obligations as permitted by law.
- b) **Section 409A.**
  - (i) This Performance Share Award is intended to qualify for the short-term deferral exception to Section 409A of the Code (“**Section 409A**”) described in the regulations promulgated under Section 409A to the maximum extent possible, and for the Determination Date (and issuance of Shares hereunder) to be within 2 and ½ months following the end of the Performance Period.

(ii) To the extent Section 409A is applicable to this Performance Share Award, this Performance Share Award is intended to comply with Section 409A and to be interpreted and construed consistent with such intent.

(iii) With respect to any Recipient who is eligible for Special Retirement, this Performance Share Award is intended to be paid on fixed payment dates under Sections 4(a) and 5 of this Agreement and such payments may not be accelerated except as set forth in Section 5(b) hereof or otherwise to the extent permitted under Section 409A.

(iv) Without limiting the generality of the foregoing, if Recipient is a “specified employee” within the meaning of Section 409A, as determined under the Company’s established methodology for determining specified employees, on the date of Recipient’s termination of service at a time when this Performance Share Award pursuant its terms would be settled, then to the extent required in order to comply with Section 409A, shares of Common Stock that would be issued under this Performance Share Award (or any other amount due hereunder) at such termination of service shall not be issued before the first business day following the earlier of (x) the date that is six months following Recipient’s termination of employment and (y) the date of Recipient’s death.

(v) For purposes of this Agreement, the terms “terminate,” “terminated”, “termination” and “ceases to employed” and similar terms mean a termination of the Recipient’s employment that constitutes a “separation from service” within the meaning of the default rules of Section 409A.

**7. RIGHTS, RESTRICTIONS AND LIMITATIONS.** Any Shares issued to Recipient pursuant to this Agreement are subject to the rights, restrictions and limitations set forth in the Company’s Restated Certificate of Incorporation. Recipient shall not have the rights of a stockholder until Shares, if any, are issued following the Determination Date. The Performance Share Award and rights under this Agreement may be not transferred by Recipient.

**8. RESTRICTIONS UNDER SECURITIES LAW.** The Performance Share Award and Shares potentially issuable pursuant this Agreement are subject to any restrictions which may be imposed under applicable state and federal securities laws and are subject to obtaining all necessary consents which may be required by, or any condition which may be imposed in accordance with, applicable state and federal securities laws or regulations.

**9. EMPLOYMENT AT WILL.**

- a) Recipient's employment or affiliation with the Company or an Affiliate is not for any specified term and may be terminated by Recipient or by the Company or an Affiliate at any time, for any reason, with or without cause and with or without notice. Nothing in this Agreement, the Plan or any covenant of good faith and fair dealing that may be found implicit in this Agreement or the Plan shall: (i) confer upon Recipient any right to continue in the employ of, or affiliation with, the Company or an Affiliate; (ii) constitute any promise or commitment by the Company or an Affiliate regarding the fact or nature of future positions, future work assignments, future compensation or any other term or condition of employment or affiliation; (iii) confer any right or benefit under this Agreement or the Plan unless such right or benefit has specifically accrued under the terms of this Agreement or Plan; or (iv) deprive the Company of the right to terminate Recipient at will and without regard to any future vesting opportunity that Recipient may have.
- b) Recipient acknowledges and agrees that the right to receive Shares pursuant to this Agreement is earned, among other requirements, only by continuing as an employee at the will of the Company (not through the act of being hired, being granted the Performance Share Award or any other award or benefit) and that the Company has the right to reorganize, sell, spin-out or otherwise restructure one or more of its businesses or Affiliates at any time or from time to time, as it deems appropriate (a "reorganization"). Recipient acknowledges and agrees that such a reorganization could result in the termination of Recipient's relationship as an employee to the Company or an Affiliate, or the termination of Affiliate status of Recipient's employer and the loss of benefits available to Recipient under this Agreement, including but not limited to, the termination of the right to receive Shares under this Agreement. Recipient further acknowledges that if the Performance Goals are not met, it is possible that no Shares will be issued hereunder.

**10. INCORPORATION OF PLAN.** The Performance Share Award is granted pursuant to the Plan, all the terms and conditions of which are hereby made a part hereof and are incorporated herein by reference. In the event of any inconsistency between the terms and conditions contained herein and those set forth in the Plan, the terms and conditions of the Plan shall prevail.

**11. RECOUPMENT OF AWARDS.** The Human Resources and Compensation Committee of the Company's Board of Directors adopted a recoupment policy on June 18, 2009 (the "Policy"), that may require members of senior management to return incentive compensation if there is a material restatement of the financial results upon which the compensation was originally based. The Policy also provides for recovery of incentive compensation from any employee involved in fraud or intentional misconduct, whether or not it results in a restatement of the Company's financial results. Recipient acknowledges and agrees that the Policy applies to the Performance Share Award and that any payments or issuances of Shares are subject to recoupment pursuant to the Policy, including any amendments to the Policy and any recoupment obligations imposed by applicable law or regulation. This Agreement shall be deemed to include the restrictions imposed by the Policy.

12. **COPIES OF PLAN AND OTHER MATERIALS.** Recipient acknowledges that Recipient has received copies of the Plan and the Plan prospectus from the Company and agrees to receive stockholder information, including copies of any annual report, proxy statement and periodic report, electronically from the Company. Recipient acknowledges that copies of the Plan, Plan prospectus, Plan information and stockholder information are also available upon written or telephonic request to the Company. Recipient acknowledges that a copy of the Policy referenced in Section 11 is available on the Company's intranet, and is also available upon written or telephonic request to the Company.

13. **NON-SOLICITATION.**

- a) **Solicitation of Employees.** Recipient agrees that, both while employed by the Company or an Affiliate and for one year afterward, Recipient will not solicit or attempt to solicit any employee of the Company or an Affiliate to leave his or her employment or to violate the terms of any agreement or understanding that employee may have with the Company or an Affiliate. The foregoing obligations apply to both the Recipient's direct and indirect actions, and apply to actions intended to benefit Recipient or any other person, business or entity.
- b) **Solicitation of Customers.** Recipient agrees that, for one year after termination of employment with the Company or an Affiliate, Recipient will not participate in any solicitation of any customer or prospective customer of the Company or an Affiliate concerning any business that:
  - (i) involves the same programs or projects for that customer in which Recipient was personally and substantially involved during the 12 months prior to termination of employment; or
  - (ii) has been, at any time during the 12 months prior to termination of employment, the subject of any bid, offer or proposal activity by the Company or an Affiliate in respect of that customer or prospective customer, or any negotiations or discussions about the possible performance of services by the Company or an Affiliate to that customer or potential customer, in which Recipient was personally and substantially involved.

In the case of a governmental, regulatory or administrative agency, commission, department or other governmental authority, the customer or prospective customer will be determined by reference to the specific program offices or activities for which the Company or an Affiliate provides (or may reasonably provide) goods or services.

- c) **Remedies.** Recipient acknowledges and agrees that a breach of any of the promises or agreements contained in this Section 13 will result in immediate, irreparable and continuing damage to the Company for which there is no adequate remedy at law, and the Company or an Affiliate will be entitled to injunctive relief, a decree for specific performance, and other relief as may be proper, including money damages.

14. **MISCELLANEOUS.** This Agreement (together with the Award Grant Notice) contains the entire agreement of the parties with respect to its subject matter, provided, however, that if Recipient and the Company are parties to an existing written agreement addressing the subject matter of Section 13, such agreement shall control with respect to such subject matter until the termination thereof, at which time Section 13 shall control. This Agreement shall be binding upon and shall inure to the benefit of the respective parties, the successors and assigns of the Company, and the heirs, legatees and personal representatives of Recipient. The parties hereby agree that should any portion of this Agreement be judicially held to be invalid, unenforceable, or void, such portion shall be construed by limiting and reducing it, so as to be enforceable to the maximum extent compatible with the applicable law as is then in effect.

15. **GOVERNING LAW.** This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Delaware without reference to such state's principles of conflict of laws.

16. **ACKNOWLEDGMENT.** Recipient acknowledges that the Performance Share Award constitutes full and adequate consideration for Recipient's obligations under this Agreement, the acceptance of the Performance Share Award constitutes an unequivocal acceptance of this Agreement and any attempted modification or deletion will have no force or effect on the Company's right to enforce the terms and conditions stated herein.

*By accepting the Performance Share Award, you agree to all of the terms and conditions set forth herein and in the Plan.*

**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 March 31, 2017, 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: May 5, 2017

/s/ Roger A. Krone

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**Roger A. Krone**  
**Chairman and Chief Executive Officer**

**LEIDOS HOLDINGS, INC.**  
**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO**  
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James C. Reagan, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2017, 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: May 5, 2017

/s/ James C. Reagan

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**James C. Reagan**  
**Chief Financial Officer**

**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 March 31, 2017, 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: May 5, 2017

/s/ Roger A. Krone

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**Roger A. Krone**  
**Chairman and Chief Executive Officer**



**LEIDOS HOLDINGS, INC.**  
**CERTIFICATION OF 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 March, 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James C. Reagan, 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: May 5, 2017

/s/ James C. Reagan

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**James C. Reagan**  
Chief Financial Officer

