UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 30, 2016
or
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 001-33072

Leidos Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-3562868**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11951 Freedom Drive, Reston, Virginia	**20190**
(Address of principal executive office)	(Zip Code)

(571) 526-6000

(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Leidos Holdings, Inc. Common Stock, Par Value $.0001 Per Share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

As of July 1, 2016, which was the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of Leidos Holdings, Inc. common stock (based upon the closing price of the stock on the New York Stock Exchange) held by non-affiliates of the registrant was $3,457,775,161.

The number of shares issued and outstanding of the registrant's class of common stock as of February 14, 2017 was 150,352,251 shares ($.0001 par value per share).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Leidos Holdings, Inc.'s definitive Proxy Statement for the 2017 Annual Meeting of Stockholders ("2017 Proxy Statement") are incorporated by reference in Part III of this Annual Report on Form 10-K.

LEIDOS HOLDINGS, INC.
FORM 10-K
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PART I

Item 1. *Business*

Our Company

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 was formed in 1969 by a small group of scientists led by physicist Dr. Robert Beyster. Since our founding 48 years ago, we have applied our expertise in science, research and engineering in rapidly evolving technologies and markets to solve complex problems of national concern. On August 16, 2016, Leidos acquired Lockheed Martin's Information Systems & Global Solutions business (the "IS&GS Business") in a Reverse Morris Trust transaction (see "Our Business Segments" for a description of the transaction and the IS&GS business).

Leidos is 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. Applying our technically advanced solutions to help solve our customers' most difficult problems has enabled us to build strong relationships with our key customers. Our domestic customers include agencies of 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, other 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. With a focus on delivering mission-critical solutions, Leidos generated 81% of our total revenues from U.S. Government contracts for fiscal 2016.

Building on our foundation in offering innovative services and solutions to U.S. Government customers, Leidos is expanding into international government and broader commercial markets. By leveraging expertise in multiple disciplines, tailoring our services and solutions to the particular needs of our targeted markets and using advanced analytics, we work to securely deliver services and solutions that not only meet customers' current goals, but also support their future endeavors.

For additional discussion and analysis related to recent business developments, see "Business Environment and Trends" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of this Annual Report on Form 10-K.

We use the terms "Company," "we," "us," and "our" to refer collectively to Leidos Holdings, Inc. and its consolidated subsidiaries.

On March 20, 2015, the Board of Directors approved the amendment and restatement of the bylaws of Leidos to change Leidos' year end from the Friday nearest the end of January to the Friday nearest the end of December. As a result of this change, the Company filed a Transition Report on Form 10-K for the 11-month period which began on January 31, 2015, and ended on January 1, 2016. This change did not impact the Company's prior reported fiscal years (each covering a 12-month period), each of which ended on the Friday closest to January 31. For example, fiscal 2015 began on February 1, 2014, and ended on January 30, 2015.

This Annual Report on Form 10-K is for fiscal 2016, which covers a 12-month period that began on January 2, 2016, and ended on December 30, 2016.

PART I

Our Business Segments

At December 30, 2016, our business is aligned into four reportable segments: National Security Solutions ("NSS"), Information Systems & Global Solutions ("IS&GS"), Health and Infrastructure ("HIS") and Corporate and Other. While each reportable segment is organized around the markets served and the nature of the products and services provided to customers in those markets, the IS&GS reportable segment comprises the IS&GS business acquired on August 16, 2016. We provide a wide array of scientific, engineering and technical services and solutions across these reportable segments. The majority of our revenues and tangible long-lived assets are generated by or owned by entities located in the United States.

National Security Solutions

National Security Solutions is focused on rapidly deploying agile, cost-effective solutions to meet the ever-changing missions of our customers in the areas of intelligence surveillance and reconnaissance, integrated systems and cybersecurity and global services. We provide a diverse portfolio of national security solutions and systems for air, land, sea, space and cyberspace for the U.S. Intelligence Community, the DoD, military services, DHS, government agencies of U.S. allies abroad and other federal, civilian and commercial customers in the national security industry. Our solutions deliver innovative technology, large-scale intelligence systems, command and control, data analytics, logistics and cybersecurity solutions, as well as intelligence analysis and operations support to critical missions around the world. National Security Solutions represented 51%, 68% and 71% of total revenues for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015, respectively.

Our national security business offers broad technology, development and integration capabilities and is responsible for leading our efforts in surveillance and reconnaissance, integrated systems solutions and global services for the U.S. Intelligence Community, military commands and other government and commercial customers.

- *Surveillance and Reconnaissance* - We offer a wide range of technologies in multiple domains that address the nation’s most critical threats and deliver solutions to the U.S. Intelligence Community, DoD and military services. A primary focus is on the DoD’s technology organizations, which include the Defense Advanced Research Projects Agency, Army Research Lab, Air Force Research Lab and Navy Research Lab. Our market concentration is on airborne, maritime and command and control. We provide multi-spectral, airborne, ground and maritime intelligence surveillance and reconnaissance ("ISR") collection and processing systems, advanced sensor design, command and control solutions and training systems.
- *Integrated Systems* - We offer extensive software development capabilities for intelligence and information systems and deliver solutions to the U.S. Intelligence Community, DoD, military services, DHS and the U.K. Ministry of Defense ("U.K. MoD"). Our markets include cybersecurity, data analytics and logistics. Our cybersecurity solutions detect and manage the most sophisticated cyber threats. We are highly skilled in data analytics, and we design, develop, deploy and support information-centric software systems for complex, data-driven national security challenges. Our logistics offerings include enterprise platforms that speed the supply chain of highly complex systems.
- *Global Services* - We provide high-end services to the U.S. Intelligence Community, DoD and federal civilian agencies. Operating around the world daily, we provide intelligence analysis, operational support, security, linguistics and training. In addition, we deliver tailored IT services and solutions to our customers across the globe.

Information Systems & Global Solutions

On January 26, 2016, we announced that we had entered into a definitive agreement (as amended, the "Merger Agreement") with Lockheed Martin Corporation ("Lockheed Martin"); Abacus Innovations Corporation, a Delaware corporation and a wholly owned subsidiary of Lockheed Martin ("Splitco"); and Lion Merger Co., a Delaware corporation and, at the time of announcement, a wholly owned subsidiary of Leidos ("Merger Sub"), pursuant to which we would combine with Lockheed Martin’s realigned Information Systems & Global Solutions business (the "IS&GS Business") in a Reverse Morris Trust transaction. In connection with the Merger Agreement, Lockheed Martin and Splitco entered into a Separation Agreement dated January 26, 2016 (as amended, the "Separation Agreement"), pursuant to which Lockheed Martin would separate the IS&GS Business from Lockheed Martin and transfer the IS&GS Business to Splitco. The transactions contemplated by the Merger Agreement and the Separation Agreement are referred to herein as the “Transactions.” On August 16, 2016, the acquisition date, the Company completed the Transactions.

Our IS&GS business focuses on being a leading provider of information technology ("IT"), management and engineering services to civil, defense and intelligence agencies of the U.S. Government. IS&GS's major customers include the DHS, the Department of the Treasury, DoD and the branches of the U.S. military. IS&GS also has certain international customers who are primarily located in the United Kingdom, the Middle East and Australia. Since being acquired on August 16, 2016, IS&GS represented 28% of total revenues for fiscal 2016.

Our IS&GS business also provides data analytics, systems engineering, large-scale agile software development, network-enabled situational awareness solutions, communications and command and control capability and global systems integration, to help customers gather, analyze and securely distribute intelligence data to address complex and pressing challenges, such as combating global terrorism, cybersecurity, air traffic management, energy demand management and transforming the healthcare system. Our business is also responsible for various classified systems and services in support of vital national security systems.

- *Enterprise IT Services* - We deliver enterprise operations; network services and communications; application management and optimization; data center operations, migration and consolidation; and data storage. We apply these solutions to physical, virtualized cloud, and hybrid form networks and provide the services and oversight clients require for IT infrastructure transformation, implementation and operations.
- *Software Development and Integrated Systems* - We offer extensive software development capabilities for intelligence and information systems and deliver solutions to the U.S. Intelligence Community, DoD, military services, DHS and the U.K. MoD. Software and integrated systems offerings include development of small and large scale information technology applications, embedded systems, and mobile applications. We deliver expertise across an extensive list of programming languages applicable to traditional, cloud, mobile and embedded applications and employ additional and agile development methods depending on the application.
- *Cybersecurity* - We provide cybersecurity solutions with deep technical, analytic, and cyber mission experience that help clients anticipate threats to their networks and their data, ensure their cyber approach is executed with established best practices and enable them to respond to cyber events. Our cybersecurity solutions detect and manage the most sophisticated cyber threats. We design, develop, deploy and support information-centric software systems for complex, data-driven national security challenges and have a significant cybersecurity business based on its military and intelligence work with the federal government.
- *Data Analytics* - Our data analytics services provide clients with the resources to make informed decisions to maximize performance by leveraging a wide range of problem-solving techniques including simulation, mathematical optimization, queuing theory, and machine learning to improve decision-making and efficiency.
- *Air Traffic Management* - We deliver air traffic management systems and expertise and deploy some of the world's most advanced and cost-effective systems to provide air traffic management solutions to U.S. and international customers. Solutions include the En Route Automation Modernization system for the Federal Aviation Administration's Next Generation Air Transportation System; air traffic optimization, including Time Based Flow Management, enabling air traffic controllers to manage aircraft in congested airspace more efficiently; and Flight Services supporting pre-flight, inflight, operational and special services, en route communications, search and rescue services and aeronautical and meteorological information analytics.
- *Health Management Services* - We manage critical data and infrastructure for some of the largest federal agencies in the U.S. healthcare system. We provide customers with the ability to integrate technology, people and processes into efficient, secure and scalable operations to secure patient information and support better healthcare outcomes through data management; security; interoperability capabilities for next generation data centers; health IT system modernization; and big data analytics.
- *Energy Management and Operations* - We provide environmental services and solutions to the U.S. Government and commercial customers both directly and through joint ventures that perform management and operations ("M&O") services at U.S. Government sites. These services and solutions include M&O services at the U.S. Government's former nuclear fuel production site in Hanford, Washington and M&O services at the Y-12 national security site in Oak Ridge, Tennessee and the Pantex site in Amarillo, Texas; critical infrastructure for nuclear operations and national nuclear materials tracking, engineering systems; and national environmental emergency response.

- *Acquisition, Program Management and Logistics* - Our acquisition, program management, and logistics capabilities help clients design, implement and deliver a wide range of operational programs, including those related to acquisition and contracts, supplier and budget management. Services delivered include strategy development, policy support, logistics management, staff development and deployment, modeling and simulation, testing and validation, information assurance and data management. Solutions include mission critical 24x7 M&O services, development and engineering support, complex logistics and infrastructure support in some of the harshest environments in the world; and human capital and training solutions.

Health and Infrastructure

Our Health and Infrastructure businesses capitalize on our knowledge and experience in technology and innovation. Major customers of Health and Infrastructure primarily include the U.S. federal government, state and local governmental agencies, foreign governments, healthcare providers and commercial enterprises in various industries. Health and Infrastructure represented 21%, 32% and 29% of total revenues for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015, respectively.

Our Health business provides services and solutions to commercial hospitals, the DoD and other U.S. Government agencies focused on information technology and behavioral health and life sciences offerings. Our healthcare business is focused on the overall availability and quality of electronic health data, clinical care optimization and life sciences research and development that ultimately improves the quality of care while lowering cost for our customers.

- *Federal Health* - We developed, fielded and currently maintain a full end-to-end Electronic Health Record ("EHR") system for the DoD. We are currently working on developing the next generation EHR system that will be deployed to DoD hospitals and other sites worldwide. We provide information technology solutions, scientific support and behavioral health services to the Veterans Administration, National Institutes of Health, DoD and other government customers. Within the DoD, we serve the Defense Health Agency, which provides healthcare to active duty and retired military personnel and their dependents. We strive to improve the availability, quality and cost effectiveness of healthcare for our military service members and their families.
- *Commercial Health* - We implement and optimize EHR systems at commercial hospitals. In addition, we provide consulting services and operational support focused on addressing health care legislation for Meaningful Use and ICD-10 transition, IT strategy, revenue cycle management, accountable care transformation, risk management, technology infrastructure and project management. Our teams are staffed with clinical subject matter experts who draw upon their deep experience and knowledge of healthcare and IT systems.

  Life Sciences - We provide life science research and development support to the National Institutes of Health, Center for Disease Control, Army Medical Research community, commercial biotech companies and the Frederick National Laboratory for Cancer Research, where we employ about 2,100 scientists, technicians, administrators and support staff. Our professionals operate a wide range of leading-edge research and development laboratories in the areas of genetics and genomics, proteins and proteomics, advanced biomedical computing and information technology, biopharmaceutical development and manufacturing, nanotechnology characterization and clinical trials management.

Our Infrastructure business is focused on seamlessly integrating and protecting physical, digital and data domains. By applying leading science, effective technologies and business acumen, our forward thinkers are helping customers maximize their performance and take on the connected world with data-driven insights, improved efficiencies and technological advantages. We carry out our engineering business in four key areas of expertise:

- *Security Products* - We provide security products, services and solutions that leverage our design, integration and process engineering technologies to build small footprint, minimally-intrusive secure commerce systems for our customers. Our Vehicle and Cargo Inspection System ("VACIS") systems enable the rapid scanning of vehicles and cargo using patented technology that produces a high-quality image using a low radiation dose while using less space and processing higher volumes of cars and trucks than other scanning systems. Our Reveal line of explosive detection systems for checked airline baggage pioneered the “reduced size” segment of this market with small, flexible systems that can be installed at airport check-in counters. We also have a line of radiation detection systems, which are used today at ports, border crossings and industrial facilities around the world - including most ports and border crossings in the United States.
- *Power Grid Engineering* - We provide power grid engineering services and solutions to a broad customer set and have unique offerings including a Smart Grid as a Service ("SGS") solution. We are working with energy companies to develop analytical products that fully exploit the data enabled by smart grid technology. We provide engineering and consulting to electric utilities and transmission companies. Our focus is on engineering design of the grid from distribution through transmission and significant substation design and upgrade work. We provide physical and cybersecurity for our utility customers as part of our substantive offerings. We also administer energy efficiency programs for states and utilities and provide an array of consulting services for utilities.
- *Federal Environmental and Engineering* - We provide environmental consulting and engineering services, primarily for the DoD. We support the requirements of the National Environmental Policy Act ("NEPA") as well as other supporting activities. We also have specialty consulting services associated with specific environmental issues, such as underwater environmental issues, radiologic clean up, risk assessment training ranges and other specific needs. We support site cleanup and remediation efforts.
- *Transaction and Valuation Consulting* - We provide transaction and asset valuation services for the power industry. Our primary customers are the large lending institutions that require a comprehensive assessment of proposed projects for financing. Our analysts study technologies, designs, operational plans, fuel needs and financial trends in power markets to evaluate the viability of projects. We also provide oversight work at project sites on behalf of lenders or owners.

Corporate and Other

The Corporate and Other business segment includes the operations of various corporate activities, certain expense items that are not reimbursed by our U.S. Government customers and certain other revenue and expense items excluded from a reportable segment’s performance. Corporate and Other represented an immaterial percentage of revenue for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015.

Acquisitions and Divestitures

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 acquired IS&GS Business was renamed Leidos Innovations Corporation. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations–Lockheed Martin Transaction" and "Note 2–Acquisitions" for a further description of the Lockheed Martin Transaction.

During fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015, we divested six businesses. Three of these non-strategic divestitures were reclassified as discontinued operations on a retrospective basis. For further information, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations–Divestitures" and "Note 3–Divestitures."

Key Customers

The majority of our revenues are generated in the United States. Our total revenues are largely attributable to prime contracts or to subcontracts with other contractors engaged in work for the U.S. Government, with the remaining attributable to international customers, including the U.K. MoD, and customers across a variety of commercial markets. Within the U.S. Government, our revenues are diversified across many agencies, including various intelligence agencies, the U.S. Army, Navy and Air Force, DHS, FAA, the Transportation Security Agency, the Defense Health Agency, the National Aeronautics and Space Administration ("NASA") and research agencies like the Defense Advanced Research Projects Agency ("DARPA").

The percentage of total revenues for the U.S. Government, its agencies and other customers comprising more than 10% of total revenues in any of the years for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015, were as follows:

	12 Months Ended	11 Months Ended	12 Months Ended
	December 30, 2016	January 1, 2016	January 30, 2015
U.S. Government	**81%**	76%	79%
U.S. DoD	**56%**	64%	67%
U.S. Army	**14%**	14%	16%
Maryland Procurement Office	**7%**	10%	10%

These customers have a number of subsidiary agencies that have separate budgets and procurement functions. Our contracts may be with the highest level of these agencies or with the subsidiary agencies of these customers.

Employees

As part of our acquisition of the IS&GS Business, we gained approximately 15,000 additional employees. As of December 30, 2016, we employed approximately 32,000 full and part-time employees in 26 countries worldwide. The experience and expertise of our employees makes Leidos capable of solving our customers' most challenging technical problems. Approximately 42% of our employees have degrees in Science, Technology, Engineering or Mathematics fields, over 1,000 employees have doctoral degrees, nearly 40% of our employees possess security clearances and approximately 20% of our employees are military veterans.

Research and Development

We conduct research and development activities under customer-funded contracts and with company-funded internal research and development ("IR&D") funds. IR&D efforts consist of projects involving basic research, applied research, development and systems and other concept formulation studies. IR&D expenses are included in selling, general and administrative expenses and are generally allocated to U.S. Government contracts. For fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015, our company-funded IR&D expense was $44 million, $29 million and $37 million, respectively, which as a percentage of sales was 0.6%, 0.6% and 0.7%, respectively. We charge expenses for research and development activities performed under customer contracts directly to cost of revenues for those contracts.

Intellectual Property Rights

Our technical services and products are not generally dependent upon patent protection, although we do selectively seek patent protection. We claim a proprietary interest in certain of our products, software programs, methodologies and know-how. This proprietary information is protected in confidence as trade secrets, using non-disclosure agreements, contracts and other definitive agreements. We selectively pursue opportunities to license or transfer our technologies to third parties.

In connection with the performance of services and solutions, the U.S. Government has certain rights to inventions, data, software codes and related material that we develop under U.S. Government-funded contracts and subcontracts. Generally, the U.S. Government may disclose or license such information to third parties, including, in some instances, our competitors. In the case of some subcontracts that we perform, the prime contractor generally obtains rights to use the programs and products that we deliver under the subcontract to perform its prime contract obligations.

Competition

Competition for contracts is intense, and we often compete against a large number of established multinational corporations that may have greater name and brand recognition. We also compete against smaller, more specialized companies that concentrate their resources on particular areas, as well as the U.S. Government's own capabilities and federal non-profit contract research centers. As a result of the diverse requirements of the U.S. Government and our commercial customers, we frequently collaborate with other companies to compete for large contracts and bid against these same companies in other situations. We believe that our principal competitors currently include the following companies:

- the engineering and technical services divisions of large defense contractors that provide U.S. Government IT services in addition to other hardware systems and products, including companies such as The Boeing Company, General Dynamics Corporation, Lockheed Martin Corporation, Northrop Grumman Corporation, BAE Systems plc, L-3 Communications Corporation and Raytheon Company;
- contractors focused principally on technical services, including U.S. Government IT services, such as Booz Allen Hamilton Inc., Engility Holdings, Inc., CACI International Inc., ManTech International Corporation, SAIC, Vencore and KeyW;
- diversified commercial and U.S. Government IT providers, such as Accenture plc, CSRA, Inc., HP Enterprise Services, International Business Machines Corporation ("IBM"), Dell, Amazon Web Services, AT&T, RSA, Verizon and Unisys Corporation;
- contractors focused on supplying homeland security product solutions, including OSI Systems, Inc., L-3 Communications Corporation, Morpho (Safran) and Smiths Group plc;
- contractors providing supply chain management and other logistics services, including Agility Logistics Corp., PAE and Vectrus; and
- companies focused on providing health solutions and services to the U.S. Government and hospitals, including Accenture plc, IBM, CSRA, Inc., LHI, Maximus, Epic Systems and Medical Information Technology, Inc. ("Meditech").

We compete on various factors, including our technical expertise and qualified professional and/or security-cleared personnel; our ability to deliver innovative cost-effective solutions in a timely manner; successful program execution; our reputation and standing with customers; pricing; and the size and geographic presence of our company.

The U.S. Government has indicated that it intends to increase competition for future procurement of products and services, which has led to fewer sole source awards and more emphasis on cost-competitiveness and affordability. The U.S. Government is also committed to maintaining a socioeconomically diverse base of suppliers, which may lead to contracts being set aside for smaller businesses. In addition, procurement initiatives to improve efficiency, refocus priorities and enhance best practices could result in fewer new opportunities for our industry as a whole, which would intensify competition within the industry as companies compete for a more limited set of new programs.

Contract Procurement

Our business is heavily regulated and we must comply with and are affected by laws and regulations relating to the formation, administration and performance of U.S. Government and other contracts. The U.S. Government procurement environment has evolved due to statutory and regulatory procurement reform initiatives. Today, U.S. Government customers employ several contracting methods to purchase services and products. Budgetary pressures and reforms in the procurement process have caused many U.S. Government customers to increasingly purchase services and products using contracting methods that give them the ability to select multiple contract winners or pre-qualify certain contractors to provide services or products on established general terms and conditions rather than through single award contracts. The predominant contracting methods through which U.S. Government agencies procure services and products include the following:

- Definitive Award Contracts. U.S. Government agencies may procure services and products through single definitive award contracts which specify the scope of services or products purchased and identify the contractor that will provide the specified services or products. When an agency has a requirement, the agency will issue a solicitation or request for proposal to which interested contractors can submit a proposal. The bidding and selection process can take a year or more to complete. For the contractor, this method of contracting may provide greater certainty of the timing and amounts to be received at the time of contract award because it generally results in the customer contracting for a specific scope of services or products from the single definitive successful awardee.
- Indefinite Delivery/Indefinite Quantity ("IDIQ") Contracts. The U.S. Government uses IDIQ contracts to obtain commitments from contractors to provide certain services or products on pre-established terms and conditions. The U.S. Government then issues task orders under the IDIQ contracts to purchase the specific services or products it needs. IDIQ contracts are awarded to one or more contractors following a competitive procurement process. Under a single-award IDIQ contract, all task orders under that contract are awarded to one pre-established contractor. Under a multiple-award IDIQ contract, task orders can be awarded to any of the pre-established contractors, which can result in further limited competition for the award of task orders. Multiple-award IDIQ contracts that are open for any government agency to use for procurement are commonly referred to as “government-wide acquisition contracts.” IDIQ contracts often have multi-year terms and unfunded ceiling amounts, therefore enabling, but not committing, the U.S. Government to purchase substantial amounts of services or products from one or more contractors. At the time an IDIQ contract is awarded (prior to the award of any task orders), a contractor may have limited or no visibility as to the ultimate amount of services or products that the U.S. Government will purchase under the contract, and in the case of a multiple-award IDIQ, the contractor from which such purchases may be made.
- U.S. General Services Administration ("GSA") Schedule Contracts. The GSA maintains listings of approved suppliers of services and products with agreed-upon prices for use throughout the U.S. Government. In order for a company to provide services under a GSA Schedule contract, a company must be pre-qualified and awarded a contract by the GSA. When an agency uses a GSA Schedule contract to meet its requirements, the agency, or the GSA on behalf of the agency, conducts the procurement. The user agency, or the GSA on its behalf, evaluates the user agency’s requirements and initiates a competition limited to GSA Schedule qualified contractors. GSA Schedule contracts are designed to provide the user agency with reduced procurement time and lower procurement costs. Similar to IDIQ contracts, at the time a GSA Schedule contract is awarded, a contractor may have limited or no visibility as to the ultimate amount of services or products that the U.S. Government will purchase under the contract.

We often partner with other companies, including our competitors, to submit bids for large U.S. Government procurements or other opportunities where we believe that the combination of services and products that we can provide as a team will help us win and perform the contract. Our relationships with our partners, including whether we serve as the prime contractor or as a subcontractor, vary with each contract opportunity and typically depend on the program, contract or customer requirements, as well as the relative size, qualifications, capabilities, customer relationships and experience of our company and our partners.

Contracting with the U.S. Government also subjects us to substantial regulation and unique risks, including the U.S. Government’s ability to cancel any contract at any time through a termination for the convenience of the U.S. Government. Most of our contracts have cancellation terms that would permit us to recover all or a portion of our incurred costs and fees for work performed where the U.S. Government issues a termination for convenience. These regulations and risks are described in more detail below under “Business–Regulation” and “Risk Factors” in this Annual Report on Form 10-K.

Contract Types

Generally, the type of contract for our services and products is determined by or negotiated with the U.S. Government and may depend on certain factors, including the type and complexity of the work to be performed, degree and timing of the responsibility to be assumed by the contractor for the costs of performance, the extent of price competition and the amount and nature of the profit incentive offered to the contractor for achieving or exceeding specified standards or goals. We generate revenues under several types of contracts, including the following:

- Cost-reimbursement contracts include cost-plus-fixed-fee, award-fee and incentive-fee contracts. These contracts provide for reimbursement of our direct contract costs and allocable indirect costs, plus a fee. These contracts are generally used when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use a fixed-price contract. Cost-reimbursement contracts generally subject us to lower risk but generally require us to use our best efforts to accomplish the scope of the work within a specified time and budget. Award and incentive fees are generally based on performance criteria such as cost, schedule, quality and/or technical performance. Award fees are determined and earned based on customer evaluation of the company's performance against contractual criteria. Incentive fees that are based on cost provide for an initially negotiated fee to be adjusted later, typically using a formula to measure performance against the associated criteria, based on the relationship of total allowable costs to total target costs.
- Fixed-price-incentive fee (“FP-IF”) contracts are substantially similar to cost plus incentive fee contracts except they require specified targets for cost and profit, price ceiling (but not a profit ceiling or floor) and profit adjustment formula. Under a FP-IF contract, the allowable costs incurred are eligible for reimbursement but are subject to a cost-share arrangement, which affects profitability. Generally, if our costs exceed the contract target cost or are not allowable under the applicable regulations, we may not be able to obtain reimbursement for all costs and may have our fees reduced or eliminated.
- Time-and-materials ("T&M") contracts typically provide for negotiated fixed hourly rates for specified categories of direct labor plus reimbursement of other direct costs. This type of contract is generally used when there is uncertainty about the extent or duration of the work to be performed by the contractor at the time of contract award or it is not possible to anticipate costs with any reasonable degree of confidence. On T&M contracts, we assume the risk of providing appropriately qualified staff to perform these contracts at the hourly rates set forth in the contracts over the period of performance of the contracts.
- Fixed-price-level-of-effort ("FP-LOE") contracts are substantially similar to T&M contracts except they require a specified level of effort over a stated period of time on work that can be stated only in general terms. This type of contract is generally used when the contractor is required to perform an investigation or study in a specific research and development area and to provide a report showing the results achieved based on the level of effort. Payment is based on the effort expended rather than the results achieved.
- Firm-fixed-price ("FFP") contracts provide for a fixed price for specified products, systems and/or services. This type of contract is generally used when the government acquires products and services on the basis of reasonably definitive specifications and which have a determinable fair and reasonable price. These contracts offer us potential increased profits if we can complete the work at lower costs than planned. While FFP contracts allow us to benefit from cost savings, these contracts also increase our exposure to the risk of cost overruns.

Our earnings and profitability may vary materially depending on changes in the proportionate amount of revenues derived from each type of contract, the nature of services or products provided, as well as the achievement of performance objectives and the stage of performance at which the right to receive fees, particularly under incentive and award fee contracts, is finally determined. Cost-reimbursement and T&M contracts generally have lower profitability than FFP contracts.

PART I

Backlog

Backlog represents the estimated amount of future revenues to be recognized under negotiated contracts as work is performed. Our backlog consists of funded backlog and negotiated unfunded backlog, each of which are described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II of this Annual Report on Form 10-K. We expect to recognize a substantial portion of our funded backlog from U.S. Government customers as revenues within the next 12 months. However, the U.S. Government may cancel any contract at any time through a termination for the convenience of the U.S. Government. In addition, certain contracts with commercial or non-U.S. Federal Government customers included in funded backlog may include provisions that allow the customer to cancel at any time. Many of our contracts have cancellation terms that would permit us to recover all or a portion of our incurred costs and fees for work performed. For additional discussion and analysis of backlog, see "Results of Operations—Bookings and Backlog” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II of this Annual Report on Form 10-K.

Seasonality

The U.S. Government's fiscal year ends on September 30 of each year. While not certain, it is not uncommon for U.S. Government agencies to award extra tasks or complete other contract actions in the timeframe leading up to the end of its fiscal year in order to avoid the loss of unexpended fiscal year funds, which may favorably impact our third fiscal quarter. In addition, our quarterly results may be impacted by the number of working days in a given quarter. We tend to generate less revenue from our labor services during the fourth quarter as a result of the holiday season. For selected quarterly financial data, see "Note 22–Selected Quarterly Financial Data" of the notes to consolidated financial statements contained within this Annual Report on Form 10-K.

Regulation

We are heavily regulated in most of the fields in which we operate. We provide services and products to numerous U.S. Government agencies and entities, including to the DoD, the U.S. Intelligence Community and the DHS. When working with these and other U.S. Government agencies and entities, we must comply with various laws and regulations relating to the formation, administration and performance of contracts. U.S. Government contracts generally are subject to the Federal Acquisition Regulation ("FAR"), which sets forth policies, procedures and requirements for the acquisition of goods and services by the U.S. Government, agency-specific regulations that implement or supplement the FAR, such as Department of Defense Federal Acquisition Regulation Supplement ("DFARS") and other applicable laws and regulations. These regulations impose a broad range of requirements, many of which are unique to government contracting, including various procurement, import and export, security, contract pricing and cost, contract termination and adjustment and audit requirements. Among other things, these laws and regulations:

- require certification and disclosure of all cost and pricing data in connection with certain contract negotiations;
- define allowable and unallowable costs and otherwise govern our right to reimbursement under various cost-type U.S. Government contracts;
- require compliance with U.S. Government Cost Accounting Standards ("CAS");
- require reviews by the Defense Contract Audit Agency ("DCAA"), Defense Contract Management Agency ("DCMA") and other U.S. Government agencies of compliance with government requirements for a contractor’s business systems;
- restrict the use and dissemination of unclassified contract-related information and information classified for national security purposes and the export of certain products and technical data; and
- require us not to compete for work if an actual or potential organizational conflict of interest, as defined by these laws and regulations, related to such work exists and/or cannot be appropriately mitigated, neutralized or avoided.

The U.S. Government may revise its procurement practices or adopt new contract rules and regulations at any time. In order to help ensure compliance with these complex laws and regulations, all of our employees are required to complete ethics and other compliance trainings relevant to their position.

Some of our operations and service offerings involve access to and use by us of personally identifiable information and/or protected health information. These activities are regulated by extensive federal and state privacy and data security laws requiring organizations to provide certain privacy protections and security safeguards for such information.

Environmental Matters

Our operations are subject to various foreign, federal, state and local environmental protection and health and safety laws and regulations. In addition, our operations may become subject to future laws and regulations, including those related to climate change and environmental sustainability. See "Item 1A. Risk Factors" for further details. Although we do not currently anticipate that the costs of complying with, or the liabilities associated with, environmental laws will materially and adversely affect us, we cannot ensure that we will not incur material costs or liabilities in the future.

Company Website and Information

Our website can be accessed at *www.leidos.com*. The website contains information about our company and operations. Through a link on the Investor Relations section of our website, copies of each of our filings with the U.S. Securities and Exchange Commission ("SEC") on Form 10-K, Form 10-Q and Form 8-K, and all amendments to those reports, can be viewed and downloaded free of charge as soon as reasonably practicable after the reports and amendments are electronically filed with or furnished to the SEC. The information on our website is not incorporated by reference into and is not a part of this Annual Report on Form 10-K.

You may request a copy of the materials identified in the preceding paragraph, at no cost, by writing or telephoning us at our corporate headquarters at the following:

Leidos Holdings, Inc.
11951 Freedom Drive
Reston, VA 20190
Attention: Corporate Secretary
Telephone: (571) 526-6000

PART I

Item 1A. *Risk Factors*

In your evaluation of our company and business, you should carefully consider the risks and uncertainties described below, together with information included elsewhere in this Annual Report on Form 10-K and other documents we file with the SEC. The risks and uncertainties described below are those that we have identified as material but are not the only risks and uncertainties facing us. If any of these risks or uncertainties actually occurs, our business, financial condition or operating results could be materially harmed and the price of our stock could decline. Our business is also subject to general risks and uncertainties that affect many other companies, such as our ability to collect receivables, overall U.S. and global economic and industry conditions, geopolitical events, changes in laws or accounting rules, fluctuations in interest and exchange rates, terrorism, international conflicts, major health concerns, climate change or other disruptions of expected economic and business conditions. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may materially harm our business, financial condition or operating results and result in a decline in the price of our stock.

Risks Relating to Our Business

We depend on government agencies as our primary customer and if our reputation or relationships with these agencies were harmed, our future revenues and growth prospects would be adversely affected.

We generated 81%, 76% and 79% of our total revenues during fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015, respectively, from contracts with the U.S. Government (including all branches of the U.S. military), either as a prime contractor or a subcontractor to other contractors engaged in work for the U.S. Government. We generated more than 10% of our total revenues during fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015 from the U.S. Army. We expect to continue to derive most of our revenues from work performed under U.S. Government contracts. Our reputation and relationship with the U.S. Government, and in particular with the agencies of the DoD and the U.S. Intelligence Community, are key factors in maintaining and growing our revenues. Negative press reports or publicity, which could pertain to employee or subcontractor misconduct, conflicts of interest, poor contract performance, deficiencies in services, reports, products or other deliverables, information security breaches or other aspects of our business, regardless of accuracy, could harm our reputation, particularly with these agencies. If our reputation is negatively affected, or if we are suspended or debarred from contracting with government agencies for any reason, the amount of business with government and other customers would decrease and our future revenues and growth prospects would be adversely affected.

A decline in the U.S. Government budget, changes in spending or budgetary priorities or delays in contract awards may significantly and adversely affect our future revenues and limit our growth prospects.

Revenues under contracts with the DoD, either as a prime contractor or subcontractor to other contractors, represented approximately 56% of our total revenues for fiscal 2016. Levels of DoD spending are difficult to predict and subject to significant risk. Our operating results could be adversely affected by spending caps or changes in the budgetary priorities of the U.S. Government or the DoD, as well as delays in program starts or the award of contracts or task orders under contracts. Current U.S. Government spending levels for defense-related programs may not be sustained and future spending and program authorizations may not increase or may decrease or shift to programs in areas in which we do not provide services or are less likely to be awarded contracts. Such changes in spending authorizations and budgetary priorities may occur as a result of uncertainty surrounding the federal budget, increasing political pressure and legislation, shifts in spending priorities from defense-related programs as a result of competing demands for federal funds, the number and intensity of military conflicts or other factors.

The U.S. Government also conducts periodic reviews of U.S. defense strategies and priorities, which may shift DoD budgetary priorities, reduce overall U.S. Government spending or delay contract or task order awards for defense-related programs, including programs from which we expect to derive a significant portion of our future revenues. In addition, changes to the DoD acquisition system and contracting models could affect whether and how we pursue certain opportunities and the terms under which we are able to do so. A significant decline in overall U.S. Government spending, including in the areas of national security, intelligence and homeland security, a significant shift in its spending priorities, the substantial reduction or elimination of particular defense-related programs or significant delays in contract or task order awards for large programs could adversely affect our future revenues and limit our growth prospects.

Because we depend on U.S. Government contracts, a delay in the completion of the U.S. Government's budget process could delay procurement of the products, services and solutions we provide and have an adverse effect on our future revenues.

The funding of U.S. Government programs is subject to an annual congressional budget authorization and appropriation process. In years when the U.S. Government does not complete its budget process before the end of its fiscal year on September 30, government operations are typically funded pursuant to a "continuing resolution," which allows federal government agencies to operate at spending levels approved in the previous budget cycle, but does not authorize new spending initiatives. When the U.S. Government operates under a continuing resolution, delays can occur in the procurement of the products, services and solutions that we provide and may result in new initiatives being canceled. We have from time to time experienced a decline in revenues in our fourth quarter as a result of this annual budget cycle, and we could experience similar declines in revenues from future delays in the budget process. In years when the U.S. Government fails to complete its budget process or to provide for a continuing resolution, a federal government shutdown may result. A federal government shutdown could, in turn, result in our incurrence of substantial labor or other costs without reimbursement under customer contracts, or the delay or cancellation of key programs, which could have a negative effect on our cash flows and adversely affect our future results. In addition, when supplemental appropriations are required to operate the U.S. Government or fund specific programs and passage of legislation needed to approve any supplemental appropriation bill is delayed, the overall funding environment for our business could be adversely affected.

Our failure to comply with a variety of complex procurement rules and regulations could result in our being liable for penalties, including termination of our U.S. Government contracts, disqualification from bidding on future U.S. Government contracts and suspension or debarment from U.S. Government contracting.

We must comply with laws and regulations relating to the formation, administration and performance of U.S. Government contracts, which affect how we do business with our customers and may impose added costs on our business. Some significant statutes and regulations that affect us include:

- the FAR and supplements, which regulate the formation, administration and performance of U.S. Government contracts;
- the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with certain contract negotiations;
- the Procurement Integrity Act, which regulates access to competitor bid and proposal information and government source selection information and our ability to provide compensation to certain former government officials;
- the Civil False Claims Act, which provides for substantial civil penalties for violations, including for submission of a false or fraudulent claim to the U.S. Government for payment or approval; and
- the U.S. Government Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under certain cost-based U.S. Government contracts.

The FAR and many of our U.S. Government contracts contain organizational conflict of interest clauses that may limit our ability to compete for or perform certain other contracts or other types of services for particular customers. Organizational conflicts of interest arise when we engage in activities that may make us unable to render impartial assistance or advice to the U.S. Government, impair our objectivity in performing contract work or provide us with an unfair competitive advantage. A conflict of interest issue that precludes our competition for or performance on a significant program or contract could harm our prospects.

The U.S. Government may adopt new contract rules and regulations or revise its procurement practices in a manner adverse to us at any time.

Our industry has experienced, and we expect it will continue to experience, significant changes to business practices as a result of an increased focus on affordability, efficiencies and recovery of costs, among other items. U.S. Government agencies may face restrictions or pressure regarding the type and amount of services that they may obtain from private contractors. Legislation, regulations and initiatives dealing with procurement reform, mitigation of potential conflicts of interest and environmental responsibility or sustainability, as well as any resulting shifts in the buying practices of U.S. Government agencies, such as increased usage of fixed price contracts, multiple award contracts and small business set-aside contracts, could have adverse effects on government contractors, including us. Any of these changes could impair our ability to obtain new contracts or renew our existing contracts when those contracts are recompeted. Any new contracting requirements or procurement methods could be costly or administratively difficult for us to implement and could adversely affect our future revenues, profitability and prospects.

Our business is subject to reviews, audits and cost adjustments by the U.S. Government, which, if resolved unfavorably to us, could adversely affect our profitability, cash position or growth prospects.

U.S. Government agencies, including the DCAA, DCMA and others, routinely audit and review a contractor's performance on government contracts, indirect rates and pricing practices and compliance with applicable contracting and procurement laws, regulations and standards. They also review the adequacy of the contractor's compliance with government standards for its business systems, including; a contractor's accounting system, earned value management system, estimating system, materials management and accounting system, property management system and purchasing system.

Both contractors and the U.S. Government agencies conducting these audits and reviews have come under increased scrutiny. As a result, the current audits and reviews have become more rigorous and the standards to which we are held are being more strictly interpreted, increasing the likelihood of an audit or review resulting in an adverse outcome. During the course of its current audits, the DCAA is closely examining and questioning several of our long established and disclosed practices that it had previously audited and accepted, increasing the uncertainty as to the ultimate conclusion that will be reached.

A finding of significant control deficiencies in our system audits or other reviews can result in decremented billing rates to our U.S. Government customers until the control deficiencies are corrected and our remediations are accepted by DCMA. Government audits and reviews may conclude that our practices are not consistent with applicable laws and regulations and result in adjustments to contract costs and mandatory customer refunds. Such adjustments can be applied retroactively, which could result in significant customer refunds. Our receipt of adverse audit findings or the failure to obtain an "approved" determination of our various business systems from the responsible U.S. Government agency could significantly and adversely affect our business, including our ability to bid on new contracts and our competitive position in the bidding process. A determination of non-compliance with applicable contracting and procurement laws, regulations and standards could also result in the U.S. Government imposing penalties and sanctions against us, including withholding of payments, suspension of payments and increased government scrutiny that could delay or adversely affect our ability to invoice and receive timely payment on contracts, perform contracts or compete for contracts with the U.S. Government.

Leidos, Inc.'s indirect cost audits by the DCAA remain open for fiscal 2012 and subsequent fiscal years. Although we have recorded contract revenues subsequent to and including fiscal 2012 based upon our estimate of costs that we believe will be approved upon final audit or review, we do not know the outcome of any ongoing or future audits or reviews and adjustments and, if future adjustments exceed our estimates, our profitability would be adversely affected.

Leidos Innovations Corporation's indirect cost audits by the DCAA remain open for fiscal 2009 and subsequent fiscal years. Based upon our estimate of costs that we believe will be approved upon final audit or review, we do not know the outcome of any ongoing or future audits or reviews and adjustments and, if future adjustments exceed our estimates, our profitability would be adversely affected.

Our business is subject to governmental review and investigation which could adversely affect our financial position, operating results and growth prospects.

We are routinely subject to governmental investigations relating to compliance with various laws and regulations with respect to our role as a contractor to federal, state and local government customers and in connection with performing services in countries outside the United States. If a review or investigation identifies improper or illegal activities, we may be subject to civil or criminal penalties or administrative sanctions, including the termination of contracts, forfeiture of profits, the triggering of price reduction clauses, suspension of payments, fines and suspension or debarment from doing business with governmental agencies. We may suffer harm to our reputation if allegations of impropriety are made against us, which would impair our ability to win new contract awards or receive contract renewals. Penalties and sanctions are not uncommon in our industry. If we incur a material penalty or administrative sanction or otherwise suffer harm to our reputation, our revenues, profitability, cash position and future prospects could be adversely affected. More generally, increases in scrutiny and investigations from government organizations, legislative bodies or agencies into business practices and into major programs supported by contractors may lead to increased legal costs and may harm our reputation, revenues, profitability and growth prospects.

Misconduct of employees, subcontractors, agents and business partners could cause us to lose existing contracts or customers and adversely affect our ability to obtain new contracts and customers and could have a significant adverse impact on our business and reputation.

Misconduct could include fraud or other improper activities such as falsifying time or other records and violations of laws, including the Anti-Kickback Act. Other examples could include the failure to comply with our policies and procedures or with federal, state or local government procurement regulations, regulations regarding the use and safeguarding of classified or other protected information, legislation regarding the pricing of labor and other costs in government contracts, laws and regulations relating to environmental, health or safety matters, bribery of foreign government officials, import-export control, lobbying or similar activities and any other applicable laws or regulations. Any data loss or information security lapses resulting in the compromise of personal information or the improper use or disclosure of sensitive or classified information could result in claims, remediation costs, regulatory sanctions against us, loss of current and future contracts and serious harm to our reputation. Although we have implemented policies, procedures and controls to prevent and detect these activities, these precautions may not prevent all misconduct, and as a result, we could face unknown risks or losses. Our failure to comply with applicable laws or regulations or misconduct by any of our employees, subcontractors, agents or business partners could damage our reputation and subject us to fines and penalties, restitution or other damages, loss of security clearance, loss of current and future customer contracts and suspension or debarment from contracting with federal, state or local government agencies, any of which would adversely affect our business, reputation and our future results.

Due to the competitive process to obtain contracts and the likelihood of bid protests, we may be unable to achieve or sustain revenue growth and profitability.

We expect that a majority of the business that we seek in the foreseeable future will be awarded through a competitive bidding process. The U.S. Government has increasingly relied on contracts that are subject to a competitive bidding process, including IDIQ, GSA Schedule and other multi-award contracts, which has resulted in greater competition and increased pricing pressure. The competitive bidding process involves substantial costs and a number of risks, including significant cost and managerial time to prepare bids and proposals for contracts that may not be awarded to us, or that may be awarded but for which we do not receive meaningful task orders, and to the risk of inaccurately estimating the resources and costs that will be required to fulfill any contract we win. Following contract award, we may encounter significant expense, delay, contract modifications or even contract loss as a result of our competitors protesting the award of contracts to us in competitive bidding. Any resulting loss or delay of start-up and funding of work under protested contract awards may adversely affect our revenues and/or profitability. In addition, multi-award contracts require that we make sustained post-award efforts to obtain task orders under the contract. As a result, we may not be able to obtain these task orders or recognize revenues under these multi-award contracts. Our failure to compete effectively in this procurement environment would adversely affect our revenues and/or profitability.

The U.S. Government may terminate, cancel, modify or curtail our contracts at any time prior to their completion and, if we do not replace them, this may adversely affect our future revenues and profitability.

Many of the U.S. Government programs in which we participate as a contractor or subcontractor extend for several years and include one or more base years and one or more option years. These programs are normally funded on an annual basis. Under our contracts, the U.S. Government generally has the right to not exercise options to extend or expand our contracts and may otherwise terminate, cancel, modify or curtail our contracts at its convenience. Any decisions by the U.S. Government to not exercise contract options or to terminate, cancel, modify or curtail our major programs or contracts would adversely affect our revenues, revenue growth and profitability.

We have experienced and continue to experience periodic performance issues under certain of our contracts. Some of our contracts involve the development of complex systems and products to achieve challenging customer goals in a competitive procurement environment. As a result, we sometimes experience technological or other performance difficulties, which have in the past and may in the future result in delays, cost overruns and failures in our performance of these contracts. If a government customer terminates a contract for default, we may be exposed to liability, including for excess costs incurred by the customer in procuring undelivered services and products from another source. Depending on the nature and value of the contract, a performance issue or termination for default could cause our actual results to differ from those anticipated and could harm our reputation.

We face aggressive competition that can impact our ability to obtain contracts and therefore affect our future revenues and growth prospects.

Our business is highly competitive and we compete with larger companies that have greater name recognition, financial resources and a larger technical staff. We also compete with smaller, more specialized companies that are able to concentrate their resources on particular areas. Additionally, we compete with the U.S. Government’s own capabilities and federal non-profit contract research centers.

The markets in which we operate are characterized by rapidly changing technology and the needs of our customers change and evolve regularly. Accordingly, our success depends on our ability to develop services and products that address these changing needs and to provide people and technology needed to deliver these services and products. To remain competitive, we must consistently provide superior service, technology and performance on a cost-effective basis to our customers. Our competitors may be able to provide our customers with different or greater capabilities or technologies or better contract terms than we can provide, including technical qualifications, past contract experience, geographic presence, price and the availability of qualified professional personnel. In addition, our competitors may consolidate or establish teaming or other relationships among themselves or with third parties to increase their ability to address customers’ needs. Accordingly, we anticipate that larger or new competitors or alliances among competitors may emerge, which may adversely affect our ability to compete.

A failure to attract, train and retain skilled employees, including our management team, would adversely affect our ability to execute our strategy and may disrupt our operations.

Our business involves the development of tailored services and solutions for our customers, a process that relies heavily upon the expertise and services of our employees. Our continued success depends on our ability to recruit and retain highly trained and skilled engineering, technical and professional personnel. Competition for skilled personnel is intense and competitors aggressively recruit key employees. In addition, many U.S. Government programs require contractors to have security clearances. Depending on the level of required clearance, security clearances can be difficult and time-consuming to obtain and personnel with security clearances are in great demand. Particularly in highly specialized areas, it has become more difficult to retain employees and meet all of our needs for employees in a timely manner, which may affect our growth. Although we intend to continue to devote significant resources to recruit, train and retain qualified employees, we may not be able to attract, effectively train and retain these employees. Any failure to do so could impair our ability to perform our contractual obligations efficiently and timely meet our customers’ needs and win new business, which could adversely affect our future results.

In addition to attracting and retaining qualified engineering, technical and professional personnel, we believe that our success will also depend on the continued employment of a highly qualified and experienced senior management team and its ability to retain existing business and generate new business. Our senior management team is important to our business because personal reputations and individual business relationships are a critical element of retaining and obtaining customer contracts in our industry, particularly with agencies performing classified operations. An inability to retain appropriately qualified and experienced senior executives could cause us to lose customers or new business opportunities.

We may not realize as revenues the full amounts reflected in our backlog, which could adversely affect our expected future revenues and growth prospects.

As of December 30, 2016, our total backlog was $17.7 billion, including $6.0 billion in funded backlog. Due to the U.S. Government's ability to not exercise contract options or to terminate, modify or curtail our programs or contracts and the rights of our non-U.S. Government customers to cancel contracts and purchase orders in certain circumstances, we may realize less than expected or may never realize revenues from some of the contracts that are included in our backlog. Our unfunded backlog, in particular, contains management's estimate of amounts expected to be realized on unfunded contract work that may never be realized as revenues. If we fail to realize as revenues amounts included in our backlog, our future revenues, profitability and growth prospects could be adversely affected.

Our earnings and profitability may vary based on the mix of our contracts and may be adversely affected by our failure to accurately estimate and manage costs, time and resources.

We generate revenues under various types of contracts, which include cost-reimbursement, FP-IF, T&M, FP-LOE and FFP contracts. Our earnings and profitability may vary materially depending on changes in the proportionate amount of revenues derived from each type of contract, the nature of services or products provided, as well as the achievement of performance objectives and the stage of performance at which the right to receive fees, particularly under incentive and award fee contracts, is finally determined. Cost-reimbursement and T&M contracts are generally less profitable than FFP contracts. Our operating results in any period may also be affected, positively or negatively, by customers' variable purchasing patterns of our more profitable proprietary products.

Our profitability is adversely affected when we incur contract costs that we cannot bill to our customers. To varying degrees, each of our contract types involves some risk that we could underestimate the costs and resources necessary to fulfill the contract. While FFP contracts allow us to benefit from cost savings, these contracts also increase our exposure to the risk of cost overruns. Revenues from FFP contracts represented approximately 30% of our total revenues for fiscal 2016. When making proposals on these types of contracts, we rely heavily on our estimates of costs and timing to complete the associated projects, as well as assumptions regarding technical issues. In each case, our failure to accurately estimate costs or the resources and technology needed to perform our contracts or to effectively manage and control our costs during performance could result, and in some instances has resulted, in reduced profits or in losses. More generally, any increased or unexpected costs or unanticipated delays in the performance of our contracts, including costs and delays caused by contractual disputes or other factors outside of our control, such as performance failures of our subcontractors, natural disasters or other force majeure events, could make our contracts less profitable than expected or unprofitable.

We use estimates in recognizing revenues, and if we make changes to estimates used in recognizing revenues, our profitability may be adversely affected.

Revenues from our contracts are primarily recognized using the percentage-of-completion method or on the basis of partial performance towards completion. These methodologies require estimates of total costs at completion, fees earned on the contract, or both. This estimation process, particularly due to the technical nature of the services performed and the long-term nature of certain contracts, is complex and involves significant judgment. Adjustments to original estimates are often required as work progresses, experience is gained and additional information becomes known, even though the scope of the work required under the contract may not change. Any adjustment as a result of a change in estimate is recognized as events become known. Changes in the underlying assumptions, circumstances or estimates could result in adjustments that may adversely affect our future financial results.

Legal disputes could require us to pay potentially large damage awards and could be costly to defend, which would adversely affect our cash balances and profitability, and could damage our reputation.

We are subject to a number of lawsuits and claims described in “Legal Proceedings” in Part I of this Annual Report on Form 10-K, as may be updated in our future filings with the SEC, including our Quarterly Reports on Form 10-Q. We are also subject to, and may become a party to, a variety of other litigation or claims and suits that arise from time to time in the ordinary course of our business. Adverse judgments or settlements in some or all of these legal disputes may result in significant monetary damages, penalties or injunctive relief against us. Any claims or litigation could be costly to defend, and even if we are successful or if fully indemnified or insured, could damage our reputation and make it more difficult to compete effectively or obtain adequate insurance in the future. Litigation and other claims, including those described in “Legal Proceedings,” are subject to inherent uncertainties and management’s view of these matters may change in the future.

Our business and operations expose us to numerous legal and regulatory requirements, and any violation of these requirements could harm our business.

We are subject to numerous federal, state and foreign legal requirements on matters as diverse as data privacy and protection, employment and labor relations, immigration, taxation, anticorruption, import/export controls, trade restrictions, internal and disclosure control obligations, securities regulation and anti-competition. Compliance with diverse and changing legal requirements is costly, time-consuming and requires significant resources. We also conduct business in certain identified growth areas, such as health information technology, energy and environmental services, which are highly regulated and may expose us to increased compliance risk. Violations of one or more of these diverse legal requirements in the conduct of our business could result in significant fines and other damages, criminal sanctions against us or our officers, prohibitions on doing business and damage to our reputation. Violations of these regulations or contractual obligations related to regulatory compliance in connection with the performance of customer contracts could also result in liability for significant monetary damages, fines and/or criminal prosecution, unfavorable publicity and other reputational damage, restrictions on our ability to compete for certain work and allegations by our customers that we have not performed our contractual obligations.

Our business and financial results could be negatively affected by cyber or other security threats.

As a U.S. Government contractor and a provider of information technology services operating in multiple regulated industries and geographies, we handle sensitive information. Therefore, we are continuously exposed to cyber attacks and other security threats, including physical break-ins. Any electronic or physical break-in or other security breach or compromise may jeopardize security of information stored or transmitted through our information technology systems and networks. This could lead to disruptions in mission-critical systems, unauthorized release of confidential or otherwise protected information and corruption of data. Although we have implemented policies, procedures and controls to protect against, detect and mitigate these threats, we face advanced and persistent attacks on our information systems and attempts by others to gain unauthorized access to our information technology systems are becoming more sophisticated. These attempts include covertly introducing malware to our computers and networks and impersonating authorized users, among others, and may be perpetrated by well-funded organized crime or state sponsored efforts. We seek to detect and investigate all security incidents and to prevent their occurrence or recurrence. We continue to invest in and improve our threat protection, detection and mitigation policies, procedures and controls. In addition, we work with other companies in the industry and government participants on increased awareness and enhanced protections against cybersecurity threats. However, because of the evolving nature and sophistication of these security threats, which can be difficult to detect, there can be no assurance that our policies, procedures and controls have or will detect or prevent any of these threats and we cannot predict the full impact of any such past or future incident. We may experience similar security threats to the information technology systems that we develop, install or maintain under customer contracts. Although we work cooperatively with our customers and other business partners to seek to minimize the impact of cyber and other security threats, we must rely on the safeguards put in place by those entities. Any remedial costs or other liabilities related to cyber or other security threats may not be fully insured or indemnified by other means. Occurrence of any of these security threats could expose us to claims, contract terminations and damages and could adversely affect our reputation, ability to work on sensitive U.S. Government contracts, business operations and financial results.

Internal system or service failures could disrupt our business and impair our ability to effectively provide our services and products to our customers, which could damage our reputation and adversely affect our revenues and profitability.

Any system or service disruptions, including those caused by ongoing projects to improve our information technology systems and the delivery of services, whether through our shared services organization or outsourced services, if not anticipated and appropriately mitigated, could have a material adverse effect on our business including, among other things, an adverse effect on our ability to bill our customers for work performed on our contracts, collect the amounts that have been billed and produce accurate financial statements in a timely manner. We are also subject to systems failures, including network, software or hardware failures, whether caused by us, third-party service providers, cybersecurity threats, natural disasters, power shortages, terrorist attacks or other events, which could cause loss of data and interruptions or delays in our business, cause us to incur remediation costs, subject us to claims and damage our reputation. In addition, the failure or disruption of our communications could cause us to interrupt or suspend our operations or otherwise adversely affect our business. Our property and business interruption insurance may be inadequate to compensate us for all losses that may occur as a result of any system or operational failure or disruption and, as a result, our future results could be adversely affected.

Customer systems failures could damage our reputation and adversely affect our revenues and profitability.

Many of the systems and networks that we develop, install and maintain for our customers involve managing and protecting personal information and information relating to national security and other sensitive government functions. While we have programs designed to comply with relevant privacy and security laws and restrictions, if a system or network that we develop, install or maintain were to fail or experience a security breach or service interruption, whether caused by us, third-party service providers, cybersecurity threats or other events, we may experience loss of revenue, remediation costs or face claims for damages or contract termination. Any such event could cause serious harm to our reputation and prevent us from having access to or being eligible for further work on such systems and networks. Our errors and omissions liability insurance may be inadequate to compensate us for all of the damages that we may incur and, as a result, our future results could be adversely affected.

Many of our contracts contain performance obligations that require innovative design capabilities, are technologically complex, or are dependent upon factors not wholly within our control. Failure to meet these obligations could adversely affect our profitability and future prospects.

We design and develop technologically advanced and innovative products and services applied by our customers in a variety of environments. Problems and delays in development or delivery as a result of issues with respect to design, technology, licensing and patent rights, labor, learning curve assumptions or materials and components could prevent us from achieving contractual requirements.

In addition, our offerings cannot be tested and proven in all situations and are otherwise subject to unforeseen problems that could negatively affect revenue and profitability such as problems with quality and workmanship, country of origin, delivery of subcontractor components or services and unplanned degradation of product performance. Among the factors that may affect revenue and profits could be unforeseen costs and expenses not covered by insurance or indemnification from the customer, diversion of management focus in responding to unforeseen problems, loss of follow-on work, and, in the case of certain contracts, repayment to the government customer of contract cost and fee payments we previously received.

We have contracts with the U.S. Government that are classified, which may limit investor insight into portions of our business.

We derive a portion of our revenues from programs with the U.S. Government that are subject to security restrictions (classified programs), which preclude the dissemination of information that is classified for national security purposes. We are limited in our ability to provide information about these classified programs, their risks or any disputes or claims relating to such programs. As a result, investors have less insight into our classified programs than our other businesses and therefore less ability to fully evaluate the risks related to our classified business.

We have made and continue to make acquisitions, investments, joint ventures and divestitures that involve numerous risks and uncertainties.

We selectively pursue strategic acquisitions, investments and joint ventures. These transactions require significant investment of time and resources and may disrupt our business and distract our management from other responsibilities. Even if successful, these transactions could reduce earnings for a number of reasons, including the amortization of intangible assets, impairment charges, acquired operations that are not yet profitable or the payment of additional consideration under earn-out arrangements if an acquisition performs better than expected. Acquisitions, investments and joint ventures pose many other risks that could adversely affect our reputation, operations or financial results, including:

- we may not be able to identify, compete effectively for or complete suitable acquisitions and investments at prices we consider attractive;
- we may not be able to accurately estimate the financial effect of acquisitions and investments on our business, and we may not realize anticipated synergies or acquisitions may not result in improved operating performance;
- we may encounter performance problems with acquired technologies, capabilities and products, particularly with respect to those that are still in development when acquired;
- we may have trouble retaining key employees and customers of an acquired business or otherwise integrating such businesses, such as incompatible accounting, information management, or other control systems, which could result in unforeseen difficulties;
- we may assume material liabilities that were not identified as part of our due diligence or for which we are unable to receive a purchase price adjustment or reimbursement through indemnification;
- we may assume legal or regulatory risks, particularly with respect to smaller businesses that have immature business processes and compliance programs;
- acquired entities or joint ventures may not operate profitably, which could adversely affect our operating income or operating margins, and we may be unable to recover investments in any such acquisitions;

- acquisitions, investments and joint ventures may require us to spend a significant amount of cash or to issue capital stock, resulting in dilution of ownership; and
- we may not be able to effectively influence the operations of our joint ventures, or we may be exposed to certain liabilities if our joint venture partners do not fulfill their obligations.

If our acquisitions, investments or joint ventures fail, perform poorly or their value is otherwise impaired for any reason, including contractions in credit markets and global economic conditions, our business and financial results could be adversely affected.

In addition, we periodically divest businesses, including businesses that are no longer a part of our ongoing strategic plan. These divestitures similarly require significant investment of time and resources, may disrupt our business, distract management from other responsibilities and may result in losses on disposal or continued financial involvement in the divested business, including through indemnification, guarantee or other financial arrangements, for a period of time following the transaction, which would adversely affect our financial results.

Goodwill and other intangible assets represent approximately 68% of our total assets and any impairment of these assets could negatively impact our results of operations.

Intangible assets with indefinite lives, including goodwill, are tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets with finite lives are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Examples of events or changes in circumstances indicating that the carrying value of intangible assets may not be recoverable could include a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, loss of key personnel, or a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed. We face continued uncertainty in our business environment due to the substantial fiscal and economic challenges facing the U.S. Government, our primary customer, as well as challenges in the commercial healthcare industry, compounded by lower levels of U.S. Government reimbursements, including reductions in Medicare reimbursements which in turn impact hospital IT spending. Adverse changes in fiscal and economic conditions, such as the manner in which the budget cuts are implemented, including sequestration, and issues related to the nation’s debt ceiling, could adversely impact our future revenues and profitability. These circumstances could result in an impairment of goodwill and/or other intangibles. Also, adverse equity market conditions that result in a decline in market multiples and our stock price could result in an impairment of goodwill and/or other intangibles. Any future impairment of goodwill or other intangible assets would have a negative impact on our profitability and financial results.

We depend on our teaming arrangements and relationships with other contractors and subcontractors. If we are not able to maintain these relationships, or if these parties fail to satisfy their obligations to us or the customer, our revenues, profitability and growth prospects could be adversely affected.

We rely on our teaming relationships with other prime contractors and subcontractors in order to submit bids for large procurements or other opportunities where we believe the combination of services and products provided by us and the other companies will help us to win and perform the contract. Our future revenues and growth prospects could be adversely affected if other contractors eliminate or reduce their contract relationships with us, or if the U.S. Government terminates or reduces these other contractors’ programs, does not award them new contracts or refuses to pay under a contract. Companies that do not have access to U.S. Government contracts may perform services as our subcontractor and that exposure could enhance such companies’ prospect of securing a future position as a prime U.S. Government contractor which could increase competition for future contracts and impair our ability to perform on contracts.

We may have disputes with our subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractor, customer concerns about the subcontractor, our failure to extend existing task orders or issue new task orders under a subcontract, our hiring of a subcontractor's personnel or the subcontractor's failure to comply with applicable law. Uncertain economic conditions heighten the risk of financial stress of our subcontractors, which could adversely impact their ability to meet their contractual requirements to us. If any of our subcontractors fail to timely meet their contractual obligations or have regulatory compliance or other problems, our ability to fulfill our obligations as a prime contractor or higher tier subcontractor may be jeopardized. Significant losses could arise in future periods and subcontractor performance deficiencies could result in our termination for default. A termination for default could eliminate a revenue source, expose us to liability and have an adverse effect on our ability to compete for future contracts and task orders, especially if the customer is an agency of the U.S. Government.

We provide professional engineering and other services, including engineering-procurement-construction, design build, project delivery and commissioning, in connection with complex projects that involve significant risks and may require long-term capital.

In connection with certain projects, we may commit to a specific completion date or performance standards, which may expose us to significant additional costs and reputational damage if we miss the completion date or fail to achieve the performance standards, including agreed upon financial damages. Project performance can be affected by a number of factors beyond our control, including delays from governmental inaction, public opposition, inability to obtain financing, weather, unavailability or increased price of materials, changes in project scope, accidents, environmental hazards, labor disruptions and other factors. If we assume risks related to these events, such risks may not be insurable or may only be insurable on unacceptable terms. If these events occur, the total project costs could exceed our estimates and we could experience reduced profits or, in some cases, incur a loss on a project, which may reduce or eliminate overall profitability and have an adverse effect on our financial position and cash flows.

We sold our biomass-powered generating facility in Plainfield, Connecticut with consideration consisting of a secured promissory note. A default on the note by the buyer could result in a write-off of a portion or entire value of the note and may adversely affect our profitability.

On July 24, 2015, we completed the sale of our Plainfield Renewable Energy biomass-powered generating facility, with consideration received at closing that included a secured promissory note for $73 million, net of discount (the "Note"). Even though we have no reason to believe a credit risk currently exists, there is a possibility that the buyer could default. In the event of a default, we may need to write off up to the full value of the Note, which could have an adverse effect on our consolidated financial position, results of operations or cash flows.

Our services and operations sometimes involve using, handling or disposing of hazardous substances, which could expose us to potentially significant liabilities.

Some of our services and operations involve the assessment or remediation of environmental hazards, as well as the use, handling or disposal of hazardous substances. These activities and our operations generally subject us to extensive foreign, federal, state and local environmental protection and health and safety laws and regulations, which, among other things, require us to incur costs to comply with these regulations and could impose liability on us for handling or disposing of hazardous substances. Furthermore, failure to comply with these environmental protection and health and safety laws and regulations could result in civil, criminal, regulatory, administrative or contractual sanctions, including fines, penalties or suspension or debarment from contracting with the U.S. Government. Our current and previous ownership and operation of real property also subjects us to environmental protection laws, some of which hold current or previous owners or operators of businesses and real property liable for hazardous substance releases, even if they did not know of and were not responsible for the releases. If we have any violations of, or incur liabilities pursuant to these laws or regulations, our financial condition and operating results could be adversely affected.

We could incur significant liabilities and suffer negative publicity if our inspection or detection systems fail to detect bombs, explosives, weapons, contraband or other threats.

We design, develop, manufacture, sell, service and maintain various inspection systems that are designed to assist in the detection of bombs, explosives, weapons, contraband or other threats. In some instances, we also train operators of such systems. Many of these systems utilize software algorithms that are probabilistic in nature and subject to significant technical limitations. Many of these systems are also dependent on the performance of their operators. There are many factors, some of which are beyond our control, which could result in the failure of our products to help detect the presence of bombs, explosives, weapons, contraband or other threats. Some of these factors could include operator error, inherent limitations in our systems, and misuse or malfunction of our systems. The failure of our systems to help detect the presence of any of these dangerous materials could lead to injury, death and extensive property damage and may lead to product liability, professional liability, or other claims against us. Further, if our systems fail to, or are perceived to have failed to help detect a threat, the negative publicity from such incident could have a material adverse effect on our business.

Our insurance may be insufficient to protect us from product and other liability claims or losses.

We maintain insurance coverage with third-party insurers as part of our overall risk management strategy and because some of our contracts require us to maintain specific insurance coverage limits. However, not every risk or liability is or can be protected by insurance, and, for those risks we insure, the limits of coverage we purchase or that are reasonably obtainable in the market may not be sufficient to cover all actual losses or liabilities incurred. If any of our third-party insurers fail, cancel our coverage or otherwise are unable to provide us with adequate insurance coverage, then our overall risk exposure and our operational expenses would increase and the management of our business operations would be disrupted. Our insurance may be insufficient to protect us from significant product and other liability claims or losses. Moreover, there is a risk that commercially available liability insurance will not continue to be available to us at a reasonable cost, if at all. If liability claims or losses exceed our current or available insurance coverage, our business, financial position, operating results and prospects may be harmed. Regardless of the adequacy of our liability insurance coverages, any significant claim may have an adverse effect on our industry and market reputation, leading to a substantial decrease in demand for our products and services and reduced revenues.

We face risks associated with our international business.

Our international business operations may be subject to additional and different risks than our U.S. business. Failure to comply with U.S. Government laws and regulations applicable to international business, such as the Foreign Corrupt Practices Act or U.S. export control regulations, could have an adverse impact on our business with the U.S. Government and could expose us to administrative, civil or criminal penalties. Additionally, these risks relating to international operations may expose us to potentially significant contract losses.

In some countries, there is an increased chance for economic, legal or political changes that may adversely affect the performance of our services, sale of our products or repatriation of our profits. International transactions can also involve increased financial and legal risks arising from foreign exchange rate variability, imposition of tariffs or additional taxes, restrictive trade policies, any delay or failure to collect amounts due to us and differing legal systems. We provide services and products in support of U.S. Government customers in countries with governments that may be or may become unstable, which increases the risk of an incident resulting in injury or loss of life, or damage or destruction of property or inability to meet our contractual obligations. Although our international operations have historically generated a small proportion of our revenues, we are seeking to grow our international business, in which case these regulatory, geopolitical and other factors may have a greater impact on our business in the future and could adversely affect our business.

We have only a limited ability to protect our intellectual property rights, which are important to our success. Our failure to adequately protect our proprietary information and intellectual property rights could adversely affect our competitive position.

We rely principally on trade secrets to protect much of our intellectual property in cases where we do not believe that patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. Although our employees are subject to confidentiality obligations, this protection may be inadequate to deter or prevent misappropriation of our confidential information. We may be unable to detect unauthorized use of our intellectual property or otherwise take appropriate steps to enforce our rights. Failure to obtain or maintain trade secret protection could adversely affect our competitive business position. If we are unable to prevent third parties from infringing or misappropriating our copyrights, trademarks or other proprietary information, our competitive position could be adversely affected. In addition, in connection with the performance of services, the U.S. Government has certain rights to inventions, data, software codes and related material that we develop under government-funded contracts and subcontracts, which means that U.S. Government may disclose or license our information to third parties, including, in some instances, our competitors.

In the course of conducting our business, we may inadvertently infringe the intellectual property rights of others, resulting in claims against us or our customers. Our contracts generally indemnify our customers for third-party claims for intellectual property infringement by the services and products we provide. The expense of defending these claims may adversely affect our financial results.

Our financial results may vary significantly from period-to-period.

Our financial results may fluctuate as a result of a number of factors, many of which are outside of our control. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our financial results may be negatively affected by any of the risk factors listed in this “Risk Factors” section and other matters described elsewhere in this Annual Report on Form 10-K.

We use estimates in accounting for many of our programs and changes in our estimates could adversely affect our future financial results.

Accounting for many of our programs requires judgment relative to assessing risks, including risks associated with estimating directed delays and reductions in scheduled deliveries, unfavorable resolutions of claims and contractual matters, judgments associated with estimating contract revenues and costs, and assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenues and cost at completion is complicated and subject to many variables. For example, we must make assumptions regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials, consider whether the intent of entering into multiple contracts was effectively to enter into a single project in order to determine whether such contracts should be combined or segmented, consider incentives or penalties related to performance on contracts in estimating revenue and profit rates, and record them when there is sufficient information for us to assess anticipated performance; and use estimates of award fees in estimating revenue and profit rates based on actual and anticipated awards. Because of the significance of the judgments and estimation processes involved in accounting for construction and production type contracts, materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect our future results of operations and financial condition.

The integration of Leidos and Splitco may not be successful or the anticipated benefits from the Transactions may not be realized.

As a result of the Transactions, we have significantly more sales, assets and employees than we did prior to the consummation of the Transactions. During the period in which transition services are provided to us by Lockheed Martin, Splitco has a continued dependence on the provision of services from Lockheed Martin, including with respect to information technology infrastructure. The integration process requires us to expend capital and significantly expand the scope of our operations. Our management is required to devote a significant amount of time and attention to the process of integrating the operations of our business and the Splitco Business. There is a significant degree of difficulty and management involvement inherent in that process. These difficulties include, but are not limited to:

- integrating the Splitco Business while carrying on the ongoing operations of our business;
- managing a significantly larger company than before the consummation of the Transactions;
- the possibility of faulty assumptions underlying our expectations regarding the integration process;
- coordinating a greater number of diverse businesses located in a greater number of geographic locations;
- operating in geographic markets or industry sectors in which we may have little or no experience;
- complying with laws of new jurisdictions in which we have not previously operated;
- integrating business systems and models;
- attracting and retaining the necessary personnel associated with the Splitco Business following the consummation of the Transactions;
- creating and implementing uniform standards, controls, procedures, policies and information systems and controlling the costs associated with such matters; and
- integrating information technology, purchasing, accounting, finance, sales, billing, payroll and regulatory compliance systems, and meeting external reporting requirements following the consummation of the Transactions.

All of the risks associated with the integration process could be exacerbated by the fact that we may not have a sufficient number of employees with the requisite expertise to integrate the businesses or to operate our business. Failure to hire or retain employees with the requisite skills and knowledge to run Leidos may have a material adverse effect on our business, financial condition and results of operations.

Even if we are able to combine the two business operations successfully, it may not be possible to realize the benefits of the increased sales volume and other benefits, including the expected synergies that are expected to result from the Transactions, or realize these benefits within the time frame that is expected. For example, the elimination of duplicative costs may not be possible or may take longer than anticipated, or the benefits from the Transactions may be offset by costs incurred or delays in integrating the companies. In addition, the quantification of synergies expected to result from the Transactions is based on significant estimates and assumptions that are subjective in nature and inherently uncertain. The amount of synergies actually realized in the Transactions, if any, and the time periods in which any such synergies are realized, could differ materially from the expected synergies discussed in this document, regardless of whether we are able to combine the two business operations successfully.

If we are unable to successfully integrate the Splitco Business or if we are unable to realize the anticipated synergies and other benefits of the Transactions, there could be a material adverse effect on our business, financial condition and results of operations.

We are required to abide by potentially significant restrictions which could limit our ability to undertake certain corporate actions (such as the issuance of Leidos common stock or the undertaking of a merger or consolidation) that otherwise could be advantageous.

The merger agreement and the tax matters agreement impose certain ongoing restrictions on us to ensure that applicable statutory requirements under the Internal Revenue Code of 1986, as amended, and applicable Treasury regulations are met so that the Transactions qualify as tax-free to Lockheed Martin and its shareholders. As a result of these restrictions, our ability to engage in certain transactions may be limited.

If we take any actions that would cause the Transactions to become taxable, we generally will be required to bear the cost of any resulting tax liability. If the Transactions became taxable, Lockheed Martin would be expected to recognize a substantial amount of income, which would result in a material amount of taxes. Any such taxes allocated to us would be expected to be material to us, and could cause our business, financial condition and operating results to suffer. These restrictions may reduce our ability to engage in certain business transactions that otherwise might be advantageous to us.

We incurred new indebtedness in connection with the Transactions, and the degree to which Leidos is leveraged may have a material adverse effect on Leidos' business, financial condition or results of operations and cash flows.

Certain financial institutions provided financing to Splitco to finance the amount of the Splitco debt and to Leidos to fund the special dividend, for which the Company paid $993 million to its stockholders and accrued $29 million of dividend equivalents with respect to outstanding equity awards. Leidos' ability to make payments on and to refinance its indebtedness, including the debt incurred pursuant to the Transactions, as well as any future debt that Leidos may incur, will depend on, among other things, Leidos' ability to generate cash in the future from operations, financings or asset sales. Leidos' ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond Leidos' control.

If Leidos is not able to repay or refinance its debt as it becomes due, Leidos may be forced to sell assets or take other disadvantageous actions, including (i) reducing financing in the future for working capital, capital expenditures and general corporate purposes or (ii) dedicating an unsustainable level of Leidos' cash flow from operations to the payment of principal and interest on Leidos' indebtedness. In addition, Leidos' ability to withstand competitive pressures and to react to changes in Leidos' industry could be impaired. The lenders who hold such debt could also potentially accelerate amounts due, which could potentially trigger a default or acceleration of any of Leidos' other debt.

In addition, Leidos may increase its debt or raise additional capital subject to restrictions in Leidos' debt agreements and agreements entered into in connection with the Transactions. If Leidos' cash flow from operations is less than it anticipates, or if Leidos' cash requirements are more than it expects, Leidos may require more financing. However, debt or equity financing may not be available to Leidos on terms acceptable to Leidos, if at all. If Leidos incurs additional debt or raises equity through the issuance of preferred stock, the terms of the debt or preferred stock issued may give the holders rights, preferences and privileges senior to those of holders of Leidos' common stock, particularly in the event of liquidation. The terms of the debt may also impose additional and more stringent restrictions on Leidos' operations than it currently has. If Leidos raises funds through the issuance of additional equity, your percentage ownership in Leidos would be diluted. If Leidos is unable to raise additional capital when needed, it could affect Leidos' financial condition, which could negatively affect your investment in Leidos. Also, regardless of the terms of Leidos' debt or equity financing, the amount of Leidos' stock that it can issue may be limited because the issuance of Leidos' stock may cause the Distribution (as defined below in Item 7) to be a taxable event for Lockheed Martin, and under the tax matters agreement, Leidos could be required to indemnify Lockheed Martin for the resulting tax.

We will incur significant costs related to the Transactions that could have a material adverse effect on our liquidity, cash flows and operating results.

We expect to incur approximately $235 million of one-time transition and integration-related costs, a portion of which will be incremental capital spending, which management believes are necessary to realize the anticipated synergies from the Transactions. The incurrence of these costs may have a material adverse effect on our liquidity, cash flows and operating results in the periods in which they are incurred. We may be able to recover approximately $90 million of the transition and integration-related expenses as allocable costs through its cost-type contracts over a five year period, but there can be no assurances that we will be able to do so. The identification and implementation of additional anticipated synergies, particularly in reduced real estate footprint and systems consolidation opportunities, may result in additional one-time integration costs.

We may be unable to provide the same types and level of benefits, services and resources to Splitco that historically have been provided by Lockheed Martin, or may be unable to provide them at the same cost.

As part of Lockheed Martin, Splitco received benefits and services from Lockheed Martin and benefited from Lockheed Martin’s financial strength and extensive business relationships. As a result of the Transactions, Splitco is now a wholly owned subsidiary of Leidos and no longer will benefit from Lockheed Martin’s resources. While we have entered into agreements under which Lockheed Martin has agreed to provide certain transition services and site-related services for a period of time following the consummation of the Transactions, it cannot be assured that we will be able to adequately replace those resources or replace them at the same cost. If we are not able to replace the resources provided by Lockheed Martin or are unable to replace them at the same cost or are delayed in replacing the resources provided by Lockheed Martin, our business, financial condition and results of operations may be materially adversely impacted.

Our business, financial condition and results of operations may be adversely affected as we replace certain of Splitco's contracts if we cannot negotiate contract terms that are as favorable as those Lockheed Martin received.

Prior to the consummation of the Transactions, certain functions (such as purchasing, accounts payable processing, accounts receivable management, information systems, logistics and distribution) associated with the Splitco Business were performed under Lockheed Martin's centralized systems and, in some cases, under contracts that also are used for Lockheed Martin's other businesses and which were not assigned in whole or in part to Splitco. In addition, some other contracts to which Lockheed Martin was a party on behalf of Splitco will require consents of third parties to assign them to Splitco. There can be no assurance that we will be able to negotiate contract terms that are as favorable as those Lockheed Martin received when and if we replace these contracts with our own agreements for similar services, including any contracts that may need to be replaced as a result of a failure to obtain required third-party consents. Although we believe that we will be able to enter into new agreements for similar services and that Lockheed Martin and Leidos will be able to obtain all material third-party consents required to assign contracts to Splitco, it is possible that the failure to enter into new agreements for similar services or to obtain required consents to assign contracts could have a material adverse impact on our business, financial condition and results of operations.

We may be required to recognize impairment charges for goodwill and other intangible assets.

The Transactions added $5.1 billion of goodwill and other intangible assets to our consolidated balance sheets as of August 16, 2016. In accordance with GAAP, our management periodically assesses these assets to determine if they are impaired. Significant negative industry or economic trends, disruptions to our business, inability to effectively integrate acquired businesses, unexpected significant changes or planned changes in use of the assets, divestitures and market capitalization declines may impair goodwill and other intangible assets. Any charges relating to such impairments would adversely affect our results of operations in the periods recognized.

Risks Relating to Our Stock

We cannot assure you that we will continue to pay dividends on our common stock.

In March 2012, our Board of Directors approved the initiation of a quarterly dividend program. The timing, declaration, amount and payment of any future dividends fall within the discretion of our Board of Directors and will depend on many factors, including our available cash, estimated cash needs, earnings, financial condition, operating results, capital requirements, as well as limitations in our contractual agreements, applicable law, regulatory constraints, industry practice and other business considerations that our Board of Directors considers relevant. A change in our dividend program could have an adverse effect on the market price of our common stock.

Provisions in our charter documents and under Delaware law could delay or prevent transactions that many stockholders may favor.

Some provisions of our certificate of incorporation and bylaws may have the effect of delaying, discouraging or preventing a merger or acquisition that our stockholders may consider favorable, including transactions in which stockholders might receive a premium for their shares. These restrictions, which may also make it more difficult for our stockholders to elect directors not endorsed by our current directors and management, include the following:

- Our certificate of incorporation provides that our bylaws and certain provisions of our certificate of incorporation may be amended by only two-thirds or more voting power of all of the outstanding shares entitled to vote. These supermajority voting requirements could impede our stockholders' ability to make changes to our certificate of incorporation and bylaws.
- Our certificate of incorporation contains certain supermajority voting provisions, which generally provide that mergers and certain other business combinations between us and a related person be approved by the holders of securities having at least 80% of our outstanding voting power, as well as by the holders of a majority of the voting power of such securities that are not owned by the related person.
- Our stockholders may not act by written consent. As a result, a holder, or holders, controlling a majority of our capital stock are limited in their ability to take certain actions other than in connection with its annual stockholders' meeting or a special meeting called at the request of qualified stockholders as provided in our certificate of incorporation and bylaws.

- Our Board of Directors may issue, without stockholder approval, shares of undesignated preferred stock. The ability to authorize undesignated preferred stock makes it possible for our Board of Directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

As a Delaware corporation, we are also subject to certain restrictions on business combinations. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years, or among other things, our Board of Directors has approved the business combination or the transaction pursuant to which such person became a 15% holder prior to the time the person became a 15% holder.

Forward-Looking Statement Risks

You may not be able to rely on forward-looking statements.

This Annual Report on Form 10-K contains forward-looking statements that are based on our management's belief and assumptions about the future in light of information currently available to our management. In some cases, you can identify forward-looking statements by words such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," and similar words or phrases or the negative of these words or phrases. These statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These statements may include statements regarding the benefits and synergies of the Transactions and future opportunities for the combined company following the transaction. Although we believe that the expectations reflected in the forward-looking statements are reasonable when made, we cannot guarantee future results, levels of activity, performance or achievements. There are a number of important factors that could cause our actual results to differ materially from those results anticipated by our forward-looking statements, which include, but are not limited to:

- developments in the U.S. Government defense budget, including budget reductions, sequestration, implementation of spending limits or changes in budgetary priorities, or delays in the U.S. Government budget process or approval of raising the debt ceiling;
- delays in the U.S. Government contract procurement process or the award of contracts and delays or loss of contracts as a result of competitor protests;
- changes in U.S. Government procurement rules, regulations, and practices;
- our compliance with various U.S. Government and other government procurement rules and regulations;
- governmental reviews, audits and investigations of our company;
- our ability to effectively compete and win contracts with the U.S. Government and other customers;
- our reliance on information technology spending by hospitals/health care organizations;
- our reliance on infrastructure investments by industrial and natural resources organizations;
- energy efficiency and alternative energy sourcing investments;
- investments by U.S. Government and commercial organizations in environment impact and remediation projects;
- our ability to attract, train and retain skilled employees, including our management team, and to obtain security clearances for our employees;
- our ability to accurately estimate costs associated with our firm-fixed-price and other contracts;
- resolution of legal and other disputes with our customers and others or legal or regulatory compliance issues;
- cybersecurity, data security or other security threats, system failures or other disruptions of our business;
- our ability to effectively acquire businesses and make investments;

- our ability to maintain relationships with prime contractors, subcontractors and joint venture partners;
- our ability to manage performance and other risks related to customer contracts, including complex engineering or design build projects;
- the failure of our inspection or detection systems to detect threats;
- the adequacy of our insurance programs designed to protect us from significant product or other liability claims;
- our ability to manage risks associated with our international business;
- the possibility that we may be unable to achieve expected synergies and operating efficiencies in connection with the transaction with Lockheed Martin within the expected time-frames or at all;
- the integration of the Information Systems & Global Solutions business acquired from Lockheed Martin being more difficult, time-consuming or costly than expected;
- the effect of any changes resulting from the Transactions in customer, supplier and other business relationships;
- exposure to lawsuits and contingencies associated with Lockheed Martin's Information Systems & Global Solutions business;
- our ability to declare future dividends based on our earnings, financial condition, capital requirements and other factors, including compliance with applicable law and our agreements;
- our ability to grow our commercial health and infrastructure businesses, which could be negatively affected by budgetary constraints faced by hospitals and by developers of energy and infrastructure projects; and
- our ability to execute our business plan and long-term management initiatives effectively and to overcome these and other known and unknown risks that we face.

We do not undertake any obligation to update or revise any of the forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence of unanticipated events after the date of those statements or to conform these statements to actual results.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

As of December 30, 2016, we conducted our operations in approximately 341 offices located in 39 states, the District of Columbia and various foreign countries. We occupy approximately 7.6 million square feet of floor space. Of this amount, we own approximately 1.2 million square feet, and the remaining balance is leased. Our major locations are in the Washington, D.C., metropolitan area, where we occupy a combination of leased and owned floor space of approximately 2.6 million square feet. We also have employees working at customer sites throughout the United States and in other countries.

As of December 30, 2016, we owned the following properties:

Location	Number of buildings	Square footage	Acreage
Gaithersburg, Maryland	1	542,000	44.8
San Diego, California	2	262,000	13.5
Columbia, Maryland	1	95,000	7.3
Colorado Springs, Colorado	1	86,000	14.2
Orlando, Florida	1	85,000	8.5
Oak Ridge, Tennessee	1	83,000	8.4
Reston, Virginia	1	62,000	2.6

As of December 30, 2016, we owned one property on 5 acres of vacant land in Virginia Beach, Virginia.

The nature of our business is such that there is no practicable way to relate occupied space to our reportable segments. See "Note 17–Leases" of the notes to consolidated financial statements contained within this Annual Report on Form 10-K for information regarding commitments under leases.

Item 3. ***Legal Proceedings***

We have provided information about legal proceedings in which we are involved in "Note 20–Legal Proceedings" of the notes to the consolidated financial statements contained within this Annual Report on Form 10-K.

In addition to the matters disclosed in "Note 20–Legal Proceedings," we are routinely subject to investigations and reviews relating to compliance with various laws and regulations. Additional information regarding such investigations and reviews is set forth in "Note 21**—**Other Commitments and Contingencies–Government Investigations and Reviews" of the notes to the consolidated financial statements contained within this Annual Report on Form 10-K.

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

Not applicable.

Executive Officers of the Registrant

The following is a list of the names and ages (as of February 24, 2017) of our executive officers, indicating all positions and offices held by each such person and each such person's business experience during at least the past five years. All such persons have been elected to serve until their successors are elected and qualified or until their earlier resignation or removal.

Name of officer	Age	Position(s) with the company and prior business experience
Roger A. Krone	60	Mr. Krone has served as Chief Executive Officer since July 2014. Mr. Krone is also Chairman of the Board. He brings more than 36 years of operational, strategic, and financial execution experience for some of the nation's most prominent names in aerospace. Mr. Krone has held senior program management and finance positions at The Boeing Company, McDonnell Douglas Corp., and General Dynamics. Mr. Krone is currently a member of the Georgia Tech Foundation Board of Trustees and a member of the board of WETA Public Television and Radio in Washington, D.C. He is a long-time supporter of the Urban League, and currently serves on the board of the Greater Washington chapter. He is also a member of the Executive Council of the Aerospace Industries Association (AIA) and a member of the AOPA Foundation's Board of Visitors.
James C. Reagan	58	Mr. Reagan has served as Executive Vice President, Chief Financial Officer since July 2015. Prior to joining Leidos, from 2012 to 2015, Mr. Reagan was with Vencore, Inc. (formerly The SI Organization, Inc.), a provider of information solutions, and engineering and analysis services to the U.S. Intelligence Community, Department of Defense, and federal and civilian agencies, where he served as Senior Vice President and Chief Financial Officer. From 2011 to 2012, Mr. Reagan was Executive Vice President and Chief Financial Officer of PAE, Inc., a provider of mission support services to the U.S. Government. Mr. Reagan is a Certified Public Accountant.
John J. Fratamico, Jr.	59	Mr. Fratamico served as President, National Security Solutions - Surveillance and Reconnaissance Group. As of November 2016 he has served as President, Technology Group and Chief Technology Officer. Before joining Leidos, Mr. Fratamico served as Chief Scientist at McDonnell Douglas Technologies Incorporated.
Mary S. Craft	58	Ms. Craft served as President, National Security Solutions - Global Services Group. As of August 2016 she has served as Chief Administrative Officer. Before joining Leidos, Ms. Craft held positions with QinetiQ North America, General Dynamics and Raytheon.
Jonathan W. Scholl	55	Mr. Scholl served as President, Health and Infrastructure group. As of August 2016, he has served as President, Health Group. Prior to joining Leidos, Mr. Scholl served for five years as the Chief Strategy Officer for Texas Health Resources, one of the largest nonprofit health care delivery systems in the country. Prior to that, he spent 15 years with The Boston Consulting group and served as Head of their North American Healthcare Provider Practice and leader of their Lean Six Sigma initiative for hospitals. He also served as vice president for applications development for the TenFold HealthCare Group in Dallas. Mr. Scholl served five years in the U.S. Navy as a nuclear submarine officer and nuclear power plant instructor.
Vincent A. Maffeo	66	Mr. Maffeo has served as Executive Vice President and General Counsel since June 2010. Prior to joining Leidos, from 1977 to 2009, Mr. Maffeo was with ITT Corporation, a high-technology engineering and manufacturing company, where he served as Senior Vice President and General Counsel from 1995 until 2009. He held various other increasingly responsible legal positions at ITT Corporation in the telecommunications, defense and automotive businesses, and at the European Headquarters of ITT Europe, before becoming General Counsel.
Gerald A. Fasano	51	Mr. Fasano has served as Chief of Business Development & Strategy since August 2016 when he joined Leidos. Prior to joining Leidos, Mr. Fasano served Lockheed Martin Corporation over 30 years in several capacities, most recently as a Vice President and General Manager of their former Information Systems & Global Solutions business.

Name of officer	Age	Position(s) with the company and prior business experience
Ann Addison	55	Ms. Addison has served as Executive Vice President and Chief Human Resources Officer since August 2016 when she joined Leidos. Prior to joining Leidos, Ms. Addison served Lockheed Martin Corporation in several capacities, most recently as the Vice President of Human Resources for their former Information Systems & Global Solutions business. Earlier in her career she held positions with Global eXchange Services and General Electric.
Timothy J. Reardon	52	Mr. Reardon has served as President, Defense & Intelligence Group since January 2017 and before that, as President, Intelligence & Homeland Security Group. Prior to joining Leidos in August 2016, Mr. Reardon served as a Vice President and General Manager of Lockheed Martin Corporation's former Information Systems & Global Solutions business. Prior to joining Lockheed Martin Corporation, Mr. Reardon served as an officer with the Central Intelligence Agency for 10 years.
Angela L. Heise	42	Ms. Heise has served as President, Civil Group since August 2016 when she joined Leidos. Prior to joining Leidos, Ms. Heise served as Vice President of Enterprise Information Technology for Lockheed Martin Corporation.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Leidos' common stock is listed on the New York Stock Exchange ("NYSE") under the ticker symbol "LDOS." The range of high and low sales prices at closing of Leidos' common stock on the NYSE for fiscal 2016 and the 11-month period ended January 1, 2016, are presented below.

Historical Stock Prices

	12 Months Ended December 30, 2016	
Fiscal Quarter	High	Low
1st quarter (January 2, 2016 to April 1, 2016)	$ 56.19	$ 40.79
2nd quarter (April 2, 2016 to July 1, 2016)	$ 52.32	$ 45.71
3rd quarter (July 2, 2016 to September 30, 2016)	$ 52.33	$ 38.50
4th quarter (October 1, 2016 to December 30, 2016)	$ 52.38	$ 41.18

	11 Months Ended January 1, 2016	
Fiscal Quarter	High	Low
1st quarter (January 31, 2015 to April 3, 2015) [(1)]	$ 46.76	$ 41.30
2nd quarter (April 4, 2015 to July 3, 2015)	$ 43.20	$ 39.63
3rd quarter (July 4, 2015 to October 2, 2015)	$ 45.03	$ 38.05
4th quarter (October 3, 2015 to January 1, 2016)	$ 59.05	$ 43.42

[(1)] The first quarter of the 11-month period ended January 1, 2016, included only two months as a result of the change in our fiscal year end.

Holders of Common Stock

As of February 14, 2017, there were approximately 23,552 holders of record of Leidos common stock. The number of stockholders of record of Leidos common stock is not representative of the number of beneficial owners due to the fact that many shares are held by depositories, brokers or nominees.

Dividend Policy

During fiscal 2016 and the 11-month period ended January 1, 2016, Leidos declared and paid quarterly dividends totaling $1.28 per share of Leidos common stock. Leidos currently intends to continue paying dividends on a quarterly basis, although the declaration of any future dividends will be determined by Leidos' Board of Directors and will depend on many factors, including available cash, estimated cash needs, earnings, financial condition, operating results, and capital requirements, as well as limitations in our contractual agreements, applicable law, regulatory constraints, industry practice and other business considerations that the Board of Directors considers relevant. Our ability to declare and pay future dividends on Leidos stock may be restricted by the provisions of Delaware law and covenants in our then-existing indebtedness arrangements.

In connection with the Transactions, Leidos' Board of Directors declared a special dividend of $13.64 per share of Leidos common stock. Consequently, on August 22, 2016, Leidos paid out $993 million to stockholders of record as of August 15, 2016, and accrued $29 million as dividend equivalents with respect to outstanding unvested equity awards.

Stock Performance Graph

In fiscal 2016, we chose to use the Standard & Poor's IT Services Industry index to replace the Standard & Poor's North American Technology Services index. The Standard & Poor's North American Technology Services index was discontinued in March 2016.

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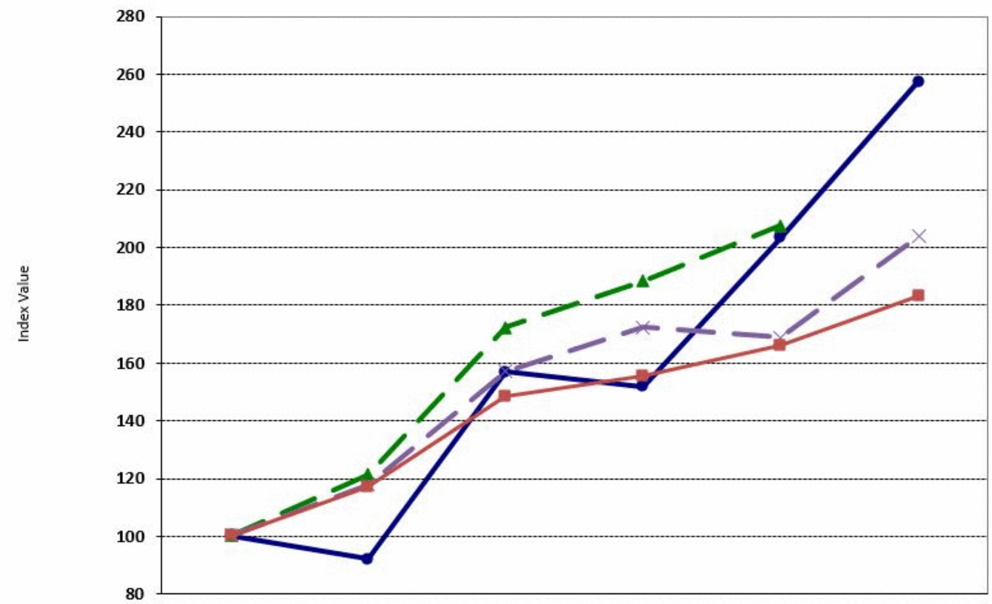
The following graph compares the total cumulative five-year return on Leidos common stock through December 30, 2016 to three indices: (i) the Standard & Poor's MidCap 400 index, (ii) the Standard & Poor's North American Technology Services index and (iii) the Standard & Poor's IT Services Industry index. The graph assumes an initial investment of $100 on December 31, 2011, and that dividends, if any, have been reinvested. On September 27, 2013, we completed the spin-off of New SAIC. Our stockholders received one share of New SAIC common stock for every seven shares of our common stock held on the record date (September 19, 2013). The effect of the spin-off is reflected in the cumulative total return as a reinvested dividend. The comparisons in the graph are required by the SEC, based upon historical data and are not intended to forecast or be indicative of possible future performance of Leidos common stock.

Leidos Stock Price Growth vs. S&P 400 Composite and S&P 500 IT Services Indices



	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/30/2016
Leidos Stock Price	100	92	157	152	203	257
S&P North American Tech - Svcs Index	100	121	172	188	208	
S&P 400 Composite Index	100	118	157	172	169	204
S&P 500 IT Services IT - Svcs Index	100	117	148	156	166	183

*Leidos SAIC split effective 9/28/13 *4 for 1 stock split adjusted Leidos historical price *S&P North American Tech - Svcs Index was discontinued on 3/7/16

Purchases of Equity Securities

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. This share repurchase authorization replaced the March 2012 share repurchase authorization of 10 million shares. Stock repurchases may be made on the open market or in privately negotiated transactions with third parties including through accelerated share repurchase agreements. Whether repurchases are made and the timing and actual number of shares repurchased depends on a variety of factors including price, corporate capital requirements, other market conditions and regulatory requirements. The repurchase program may be accelerated, suspended, delayed or discontinued at any time. 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, unless an exception applies.

PART II

The following table presents repurchases of Leidos common stock during the quarter ended December 30, 2016:

Period	(a) Total Number of Shares (or Units) Purchased[(1)]	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Repurchase Plans or Programs [(2)]	(d) Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs [(2)]
October 1, 2016 - October 31, 2016	706	$ 43.04	—	5,718,172
November 1, 2016 - November 30, 2016	28,645	42.27	—	5,718,172
December 1, 2016 - December 30, 2016	2,621	51.26	—	5,718,172
Total	31,972	$ 43.03	—	

(1) 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.

(2) Number of shares outstanding that can yet be repurchased out of the maximum 20 million shares authorized by our Board of Directors, under the 2013 Stock Repurchase Program announced in December 2013.

Item 6. *Selected Financial Data*

The selected financial data for the five-year period set forth below is derived from our consolidated financial statements for fiscal 2016, the 11-month period ended January 1, 2016, and for the fiscal years 2015 through 2013.

This information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II and our consolidated financial statements and the notes thereto contained within this Annual Report on Form 10-K.

PART II

	12 Months Ended[1]	11 Months Ended[1]	12 Months Ended[1]		
	December 30, 2016[2]	January 1, 2016[3]	January 30, 2015[4]	January31, 2014[5]	January 31, 2013
	(in millions, except for per share amounts)				
Consolidated Statement of Income (Loss) Data:					
Revenues	**$ 7,043**	$ 4,712	$ 5,063	$ 5,755	$ 6,449
Operating income (loss)	**417**	320	(214)	163	421
Income (loss) from continuing operations	**246**	243	(330)	84	323
(Loss) income from discontinued operations, net of taxes	**—**	(1)	7	80	202
Net income (loss)	**246**	242	(323)	164	525
Less: net income attributable to non-controlling interest, net of taxes	**2**	—	—	—	—
Net income (loss) attributable to Leidos Holdings, Inc.	**$ 244**	$ 242	$ (323)	$ 164	$ 525
Earnings (loss) per share:					
Basic:					
Income (loss) from continuing operations attributable to Leidos common stockholders	**$ 2.39**	$ 3.33	$ (4.46)	$ 0.98	$ 3.81
(Loss) income from discontinued operations, net of taxes	**—**	(0.01)	0.10	0.96	2.38
Net income (loss) attributable to Leidos common stockholders	**$ 2.39**	$ 3.32	$ (4.36)	$ 1.94	$ 6.19
Diluted:					
Income (loss) from continuing operations attributable to Leidos common stockholders	**$ 2.35**	$ 3.28	$ (4.46)	$ 0.98	$ 3.81
(Loss) income from discontinued operations, net of taxes	**—**	(0.01)	0.10	0.96	2.38
Net income (loss) attributable to Leidos common stockholders	**$ 2.35**	$ 3.27	$ (4.36)	$ 1.94	$ 6.19
Cash dividend per common share	**$ 14.92**	$ 1.28	$ 1.28	$ 5.60	$ 1.92

	December 30, 2016	January 1, 2016	January 30, 2015	January 31, 2014	January 31, 2013
	(in millions)				
Consolidated Balance Sheet Data:					
Total assets	**$ 9,132**	$ 3,370	$ 3,281	$ 4,162	$ 5,875
Notes payable and long-term debt, including current portion	**$ 3,287**	$ 1,081	$ 1,158	$ 1,323	$ 1,284
Other long-term liabilities[6]	**$ 204**	$ 149	$ 147	$ 161	$ 138

[1] References to financial data are to the Company's continuing operations, unless otherwise noted. During the year ended January 31, 2014, the Company completed the spin-off of New SAIC. The operating results of New SAIC are included in discontinued operations.

[2] Fiscal 2016 includes the results of the IS&GS Business acquired on August 16, 2016. Additionally, the results include acquisition and integration costs of $90 million and restructuring expenses of $14 million. For further information, see "Note 2—Acquisitions" and Note 4—Restructuring Expenses" of the notes to the consolidated financial statements contained within this Annual Report on Form 10-K.

(3) Reflects the 11-month period of January 31, 2015, through January 1, 2016, as a result of the change in our fiscal year end. For further information see, "Note 1—Summary of Significant Accounting Policies–Reporting Periods" of the notes to the consolidated financial statements contained within this Annual Report on Form 10-K. The 11-month period ended January 1, 2016, results include a gain on a real estate sale of $82 million, tangible asset impairment charges of $29 million, intangible asset impairment charges of $4 million and bad debt expense of $8 million. For further information, see "Note 17—"Leases–Sale and Leaseback Agreement," "Note 2—Acquisitions," "Note 6–Intangible Assets" and "Note 7–Receivables" of the notes to the consolidated financial statements contained within this Annual Report on Form 10-K.

(4) Fiscal 2015 results include goodwill impairment charges of $486 million, intangible asset impairment charges of $41 million and a tangible asset impairment charge of $40 million. For further information see, "Note 5–Goodwill," "Note 6–Intangible Assets" and "Note 2—Acquisitions" of the notes to the consolidated financial statements contained within this Annual Report on Form 10-K.

(5) Fiscal 2014 results include intangible asset impairment charges of $51 million, bad debt expense of $44 million, and separation transaction and restructuring expenses of $65 million. For further information see, "Note 6–Intangible Assets," "Note 7–Receivables" and "Note 4—Restructuring Expenses" of the notes to the consolidated financial statements contained within this Annual Report on Form 10-K.

(6) For fiscal 2016, the Company has separately disclosed "Deferred tax liabilities," which was previously aggregated within "Other long-term liabilities" within the consolidated balance sheets. Deferred tax liabilities for fiscal 2016, the 11-month period ended January 1, 2016, fiscal 2015, fiscal 2014 and fiscal 2013 were $540 million, $34 million, $21 million, $66 million and $32 million, respectively.

Item 7. *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 the consolidated financial statements and related notes.

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

All amounts in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" are presented for our continuing operations.

On March 20, 2015, our Board of Directors approved the amendment and restatement of our bylaws to change Leidos' year end from the Friday nearest the end of January to the Friday nearest the end of December. As a result of this change, we filed a Transition Report on Form 10-K for the 11-month period which began on January 31, 2015, and ended on January 1, 2016. This change did not impact our prior reported fiscal years, which covered a 12-month period and ended on the Friday closest to January 31. Fiscal 2015 began on February 1, 2014, and ended on January 30, 2015. This Annual Report on Form 10-K for fiscal 2016 covers a 12-month period that began on January 2, 2016, and ended on December 30, 2016.

The information presented in the Results of Operations compares fiscal 2016 (January 2, 2016 - December 30, 2016) to the 11-month transition period ended January 1, 2016 (January 31, 2015 - January 1, 2016) and compares the 11-month transition period ended January 1, 2016, to the 11-month period ended January 2, 2015 (February 1, 2014 - January 2, 2015). As a result, fiscal 2016 includes an additional month of activity as compared to the 11-month period ended January 1, 2016, which is a factor in the year-over-year changes discussed.

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. See “Risk Factors—Forward-Looking Statement Risks” in Part I of this Annual Report on Form 10-K. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in “Risk Factors.” 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.

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 agencies of 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, other 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. The majority of our revenues and tangible long-lived assets are generated by or owned by entities located in the United States.

During fiscal 2016, we completed our acquisition of Lockheed Martin's IS&GS Business (see "Note 2–Acquisitions"). Our fiscal 2016 results include the results of the IS&GS Business for the period from August 16, 2016, to December 30, 2016. The acquired IS&GS Business was identified as a new operating and reportable segment (see "Note 19–Business Segments"). In fiscal 2016, we sold our design, build and heavy construction business. Consequently, the reportable segment of Health and Engineering was renamed as Health and Infrastructure (see "Note 3–Divestitures" and "Note 19–Business Segments"). We now operate in the following segments: National Security Solutions ("NSS"), Information Systems & Global Solutions ("IS&GS"), Health and Infrastructure ("HIS") and Corporate and Other.

For additional information regarding our reportable segments, see “Business” in Part I and "Note 19–Business Segments" of the notes to consolidated financial statements contained within this Annual Report on Form 10-K.

Our significant initiatives include the following:

- achieving internal, or non-acquisition related, annual revenue growth through internal collaboration and better leveraging of key differentiators across our company and the deployment of resources and investments into higher growth markets;
- increasing the growth of our operating profits through improving the quality of our revenues and contract profitability, continued improvement in our IT systems infrastructure and related business processes for greater effectiveness and efficiency across all business functions; and
- disciplined deployment of our cash resources and use of our capital structure to enhance shareholder value while retaining an appropriate amount of financial leverage, through internal growth initiatives, stock repurchases, dividends, strategic acquisitions, debt level management and other uses to achieve our goals.

Sales Trend. For fiscal 2016, revenues increased by $2.3 billion, or 49%, compared to the 11-month period ended January 1, 2016, primarily attributable to revenues within our IS&GS segment. The revenue increase is also due to revenues from our international business and increases in fees resulting from the achievement of contract milestones and related profit write-ups on certain contracts. For the 11-month period ended January 1, 2016, revenues increased by $22 million, or less than 1%, to $4.7 billion compared to the 11-month period ended January 2, 2015, primarily due to growth in our engineering construction business as well as recent awards in our federal health business and for an international logistics program. This increase was partially offset by a decline in contract activities associated with support of Overseas Contingency Operations ("OCO Contracts") and continued decline in our commercial health business. See "Results of Operations" below for further discussion of our segment results.

Operating Expenses and Income Trend. For fiscal 2016, operating expenses increased by $2.2 billion, or 51%, compared to the 11-month period ended January 1, 2016, primarily attributable to the new IS&GS segment. Operating margin for fiscal 2016 was 5.9% compared to 6.8% for the 11-month period ended January 1, 2016. The decrease in operating margin was primarily due to acquisition and integration costs incurred during fiscal 2016 related to the acquisition of the IS&GS Business. For fiscal 2016, our operating income was $417 million, a $97 million increase compared to the 11-month period ended January 1, 2016. The increase in operating income was primarily attributable to the operating results of the newly acquired IS&GS Business.

For the 11-month period ended January 1, 2016, operating expenses decreased by $489 million, or 10%, compared to the 11-month period ended January 2, 2015. Operating expenses decreased at a greater rate than revenues, resulting in an operating income margin of 6.8% for the 11-month period ended January 1, 2016, compared to a negative operating margin of 4.1% for the 11-month period ended January 2, 2015. For the 11-month period ended January 1, 2016, our operating income was $320 million, a $511 million increase compared to the 11-month period ended January 2, 2015. This increase in operating margin and income was primarily due to prior period goodwill and asset impairment charges and increased program margins coupled with improved product mix of higher margin security product sales. See "Results of Operations" below for further discussion of our segment results.

From a macroeconomic perspective, our industry is under general competitive pressures due to spending from our largest customer, the U.S. Government, and has required and will require a higher level of cost management focus to allow us to remain competitive. Although the new Administration and Congress would like to significantly increase spending, primarily in the defense and homeland security sectors, it remains unclear whether or not they will be able to move such legislation through the Senate. We continue to review our cost structure against our anticipated sales and undertake cost management actions and efficiency initiatives where necessary.

Lockheed Martin Transaction

On January 26, 2016, Leidos announced that it had entered into a definitive agreement (as amended, the "Merger Agreement") with Lockheed Martin Corporation ("Lockheed Martin"); Abacus Innovations Corporation, a Delaware corporation and a wholly owned subsidiary of Lockheed Martin ("Splitco"); and Lion Merger Co., a Delaware corporation and, at the time of announcement, a wholly owned subsidiary of Leidos ("Merger Sub"), pursuant to which Leidos would combine with Lockheed Martin's realigned Information Systems & Global Solutions business in a Reverse Morris Trust transaction. In connection with the Merger Agreement, Lockheed Martin and Splitco entered into a Separation Agreement dated January 26, 2016 (as amended, the "Separation Agreement"), pursuant to which Lockheed Martin would separate the IS&GS Business from Lockheed Martin and transfer the IS&GS Business to Splitco. The transactions contemplated by the Merger Agreement and the Separation Agreement are referred to herein as the "Transactions."

On August 16, 2016, the acquisition date, we completed the Transactions. In the Transactions, among other steps, (i) Lockheed Martin transferred the IS&GS Business to Splitco; (ii) Lockheed Martin offered to Lockheed Martin stockholders the right to exchange all or a portion of their shares of Lockheed Martin common stock for shares of Splitco common stock by way of an exchange offer (the "Distribution"); and (iii) Merger Sub merged with and into Splitco, with Splitco as the surviving corporation (the "Merger") and a wholly owned subsidiary of Leidos. Additionally, on the closing date of the Transactions, Splitco's name was changed to Leidos Innovations Corporation. Upon consummation of the Transactions, those Lockheed Martin stockholders who elected to participate in the exchange offer received approximately 77 million shares of Leidos common stock, which represent approximately 50.5% of the outstanding shares of Leidos common stock after consummation of the Transactions. Holders of Leidos shares prior to the transaction held the remaining 49.5% of the outstanding shares of Leidos common stock immediately after the closing.

Prior to the Distribution, Splitco incurred third-party debt financing in an aggregate principal amount of $1.8 billion and immediately thereafter, Lockheed Martin transferred the IS&GS Business to Splitco and Splitco made a special cash payment to Lockheed Martin of $1.8 billion.

In connection with the Transactions, Leidos incurred new indebtedness and assumed Splitco's indebtedness in the form of term loans in an aggregate principal amount of $690 million and $1.8 billion, respectively, and entered into a new $750 million senior secured revolving credit facility, which replaced its existing revolving credit facility. See "Note 11–Debt" for further information regarding the new debt incurred and the new senior revolving credit facility.

In conjunction with the Transactions, Leidos' Board of Directors declared a special dividend of $13.64 per share of Leidos common stock. Consequently, on August 22, 2016, we paid $993 million to stockholders of record as of August 15, 2016, and accrued $29 million of dividend equivalents with respect to outstanding unvested equity awards. See "Note 14–Stock Based Compensation" for further information regarding the modifications made to our outstanding stock awards as a result of the special dividend.

We incurred $46 million of integration costs during fiscal 2016 and expect to incur additional integration costs in connection with the Transactions through fiscal 2018.

In connection with the Transactions, certain additional agreements were entered into, including, among others an employee matters agreement, a tax matters agreement, transition services agreements, an intellectual property matters agreement, agreements relating to certain government contracts matters, supply agreements and certain real estate related agreements.

Spin-off Transaction

In accordance with a distribution agreement, on September 27, 2013 (the "Distribution Date"), Leidos completed a spin-off of its technical services and enterprise information technology services business into an independent, publicly traded company named Science Application International Corporation ("New SAIC"). The spin-off was effected through a tax-free distribution to Leidos' stockholders of 100% of the shares of New SAIC's common stock. As a result of the spin-off, the results of operations and cash flows of New SAIC have been classified as discontinued operations for all periods presented.

Divestitures

Discontinued Operations

In addition to the spin-off of New SAIC discussed above, in order to better align our business portfolio with our strategy, we sold or committed to plans to dispose of certain non-strategic components of our business in fiscal 2015 and fiscal 2014, which are reclassified as discontinued operations for all periods presented.

In August 2014, we sold a business, historically included in our Health and Infrastructure segment, which primarily focused on full service emergency management consulting for disaster preparedness, response, recovery, and mitigation, for cash proceeds of $19 million, resulting in an immaterial gain on sale.

In January 2014, we committed to plans to dispose of Cloudshield Technologies, Inc. ("Cloudshield"), historically included in our National Security Solutions segment, which was previously acquired in fiscal 2011 and primarily focused on producing a suite of cybersecurity hardware and associated software and services. The sale transaction was completed in February 2015 with received cash proceeds of $5 million, resulting in an immaterial loss on sale.

In August 2013, we committed to plans to dispose of a business, historically included in our National Security Solutions segment, that primarily focused on technology used to detect if an individual is concealing explosive devices or other hidden weapons. In the first quarter ended May 2, 2014, we adjusted the carrying values of the business's assets to their fair value based on the estimated selling price of the business. The carrying value exceeded the fair value which resulted in $12 million of impairment charges recorded in discontinued operations, of which $9 million related to fixed assets and inventory and the remainder related to intangible assets. The sale transaction was completed in May 2014 with insignificant cash proceeds received, resulting in an immaterial loss on sale.

The operating results through the date of disposal of our discontinued operations discussed above for the periods presented were as follows:

	12 Months Ended	11 Months Ended	12 Months Ended
	December 30, 2016	January 1, 2016	January 30, 2015
		(in millions)	
Revenues	**$ 14**	$ 17	$ 68
Cost of revenues	**14**	17	60
Selling, general and administrative expenses (including impairment charges of $9 million for the fiscal year ended January 30, 2015)	**—**	2	29
Intangible asset impairment charges	**—**	—	3
Operating loss	**$ —**	$ (2)	$ (24)
Non-operating income	**$ —**	$ 1	$ 11

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, either as a prime contractor or a subcontractor to other contractors engaged in work for the U.S. Government. Revenues under contracts with the DoD, including subcontracts under which the DoD is the ultimate purchaser, represented approximately 56% of our total revenues for fiscal 2016. Accordingly, our business performance is affected by the overall level of U.S. Government spending, especially national security, homeland security, and intelligence spending, and the alignment of our service and product offerings and capabilities with current and future budget priorities of the U.S. Government.

In February 2016, the President delivered his requested budget for the government fiscal year ("GFY") 2017 budget cycle to Congress. The Appropriations Committee began its work for the year in March 2016 and made significant progress in committee. However, Congress failed to enact any of the 12 appropriations bills, which necessitated the passage of a series of continuing resolutions ("CR"). The federal government continues to operate under a CR which expires on April 28, 2017. There is a possibility of a government shutdown if Congress cannot agree to a long-term budget agreement; however, we believe that is unlikely. Furthermore, we expect the new Administration to submit a GFY 2018 budget later in the spring and, although Congress and the Administration are controlled by the same political party, there are no guarantees that any of the 12 appropriations bills will be enacted by the end of this government fiscal year.

Trends in the U.S. Government contracting process, including a shift towards multiple-awards contracts (in which certain contractors are preapproved using indefinite-delivery/indefinite-quantity ("IDIQ") and U.S. General Services Administration ("GSA") contract vehicles) and awarding contracts on a low price, technically acceptable basis, have increased competition for U.S. Government contracts, reduced backlogs by shortening periods of performance on contracts, and increased pricing pressure. We expect that a majority of the business that we seek in the foreseeable future will be awarded through a competitive bidding process. For more information on these risks and uncertainties, see “Risk Factors” in Part I of this Annual Report on Form 10-K.

International Markets

Sales to customers in international markets represented 9% of total revenues for fiscal 2016 compared to 4% of total revenues for the 11-month period ended January 1, 2016, primarily due to our acquisition of the IS&GS Business. The acquisition has increased the relative contribution from international business, particularly in the United Kingdom and Australia, and has therefore increased our exposure to international markets and the associated international regulatory and geopolitical risks.

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. In addition, we consider contract types to be a useful measure to management and investors in evaluating our operating income and margin performance.

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Results of Operations

The following table summarizes our results of operations for fiscal 2016, the 11-month periods ended January 1, 2016, and January 2, 2015, and fiscal 2015:

	12 Months Ended	11 Months Ended			11 Months Ended				12 Months Ended
	December 30, 2016	January 1, 2016	Dollar change	Percent change	January 1, 2016	January 2, 2015	Dollar change	Percent change	January 30, 2015
					(dollars in millions)				
Revenues	**$ 7,043**	$ 4,712	$ 2,331	49 %	$ 4,712	$ 4,690	$ 22	— %	$ 5,063
Cost of revenues	**6,191**	4,146	2,045	49 %	4,146	4,069	77	2 %	4,392
Selling, general and administrative expenses:									
General and administrative	**201**	105	96	91 %	105	182	(77)	(42)%	205
Bid and proposal	**89**	67	22	33 %	67	64	3	5 %	68
Internal research and development	**44**	29	15	52 %	29	34	(5)	(15)%	37
Bad debt expense	**3**	8	(5)	(63)%	8	4	4	100 %	5
Goodwill impairment charges	**—**	—	—	— %	—	486	(486)	(100)%	486
Asset impairment charges	**4**	33	(29)	(88)%	33	41	(8)	(20)%	81
Acquisition and integration costs	**90**	—	90	100 %	—	—	—	— %	—
Restructuring expenses	**14**	4	10	*NM*	4	1	3	*NM*	3
Equity earnings of non-consolidated subsidiaries	**(10)**	—	(10)	100 %	—	—	—	— %	—
Operating income (loss)	**417**	320	97	30 %	320	(191)	511	*NM*	(214)
Non-operating (expense) income, net	**(99)**	35	(134)	*NM*	35	(65)	100	154 %	(69)
Income (loss) from continuing operations before income taxes	**318**	355	(37)	(10)%	355	(256)	611	*NM*	(283)
Income tax expense	**(72)**	(112)	40	(36)%	(112)	(67)	(45)	67 %	(47)
Income (loss) from continuing operations	**246**	243	3	1 %	243	(323)	566	175 %	(330)
Loss (income) from discontinued operations, net of taxes	**—**	(1)	1	100 %	(1)	(11)	10	91 %	7
Net income (loss)	**246**	242	4	2 %	242	(334)	576	172 %	(323)
Less: net income attributable to non-controlling interest, net of taxes	**2**	—	2	100 %	—	—	—	— %	—
Net income (loss) attributable to Leidos Holdings, Inc.	**$ 244**	$ 242	$ 2	1 %	$ 242	$ (334)	$ 576	172 %	$ (323)
Operating income (loss) margin	***5.9%***	*6.8%*			*6.8%*	*(4.1)%*			*(4.2)%*

NM - Not meaningful

The revenue increase in constant currency[1] for fiscal 2016 was 50% as compared to an overall increase of 49%. The adverse foreign currency impact was attributable to our U.K. business in the NSS segment. Foreign currency impacts for the 11-month period ended January 1, 2016, as compared to the 11-month period ended January 2, 2015, were immaterial.

Revenues for fiscal 2016 include revenues from the recently acquired IS&GS Business. See "Note 2–Acquisitions" and the discussion on the IS&GS segment below.

We classify indirect costs incurred within or allocated to our U.S. Government customers as overhead (included in cost of revenues) and general and administrative expenses in the same manner as such costs are defined in our disclosure statements under U.S. Government Cost Accounting Standards. Effective January 31, 2015, we updated our disclosure statements, resulting in certain costs being classified differently either as cost of revenues or as general and administrative expenses on a prospective basis. These changes did not have an overall impact on the total expense or income reported.

Reportable Segment Results

National Security Solutions

	12 Months Ended	11 Months Ended			11 Months Ended				12 Months Ended
	December 30, 2016	January 1, 2016	Dollar change	Percent change	January 1, 2016	January 2, 2015	Dollar change	Percent change	January 30, 2015
				(dollars in millions)					
Revenues	**$ 3,610**	$ 3,210	$ 400	12%	$ 3,210	$ 3,337	$ (127)	(4)%	$ 3,594
Operating income	**292**	263	29	11%	263	270	(7)	(3)%	286
Operating income margin	***8.1%***	*8.2%*			*8.2%*	*8.1%*			*8.0%*

National Security Solutions revenues increased $400 million, or 12%, for fiscal 2016 as compared to the 11-month period ended January 1, 2016. The revenue increase was primarily attributable to revenues from our international business and increases in fees resulting from the achievement of contract milestones and related profit write-ups on certain contracts. These increases were partially offset by reduced revenue due to lower scope and completion of certain contracts.

In constant currency, revenues increased 13% for fiscal 2016 as compared to the 11-month period ended January 1, 2016. The adverse impact of foreign currency of 1% was primarily due to the movement of the exchange rate between the U.S. dollar and the British pound.

National Security Solutions revenues decreased $127 million, or 4%, for the 11-month period ended January 1, 2016, as compared to the 11-month period ended January 2, 2015. The revenue contraction was primarily attributable to contract activities associated with OCO Contracts which includes a reduction of airborne programs that support intelligence collection. Excluding the revenue declines associated with OCO Contracts, the remaining revenue for the National Securities Solutions segment increased by 2% primarily due to an increase in our logistics program. OCO Contracts contributed approximately $175 million in revenues for the 11-month period ended January 1, 2016.

National Security Solutions operating income increased $29 million, or 11%, for fiscal 2016 as compared to the 11-month period ended January 1, 2016. This increase in operating income was primarily attributable to increased revenues.

National Security Solutions operating income decreased $7 million, or 3%, for the 11-month period ended January 1, 2016, as compared to the 11-month period ended January 2, 2015. This decrease in operating income was primarily attributable to a decrease in revenues.

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[1] 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.

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Information Systems & Global Solutions

	12 Months Ended December 30, 2016
	(dollars in millions)
Revenues	$ **1,971**
Operating income	**114**
Operating income margin	***5.8%***

We acquired the IS&GS Business on August 16, 2016 (see "Note 2–Acquisitions"), and the business constitutes a separate reportable segment (see "Note 19–Business Segments").

The operating results above reflect IS&GS segment performance during the period August 16, 2016, through December 30, 2016.

Health and Infrastructure

	12 Months Ended	11 Months Ended			11 Months Ended				12 Months Ended
	December 30, 2016	January 1, 2016	Dollar change	Percent change	January 1, 2016	January 2, 2015	Dollar change	Percent change	January 30, 2015
	(dollars in millions)								
Revenues	$ **1,463**	$ 1,496	$ (33)	(2)%	$ 1,496	$ 1,366	$ 130	10%	$ 1,485
Operating income (loss)	**162**	76	86	113 %	76	(442)	518	117%	(472)
Operating income (loss) margin	***11.1%***	*5.1%*			*5.1%*	*(32.4)%*			*(31.8)%*

Health and Infrastructure revenues decreased $33 million, or 2%, for fiscal 2016 as compared to the 11-month period ended January 1, 2016. The revenue decline is primarily attributable to the divestiture of our design, build and heavy construction engineering services business in the second quarter of fiscal 2016 and the sale of the Plainfield plant, which closed in the second quarter of the prior year, as well as lower revenues in our engineering services business. This was partially offset by growth in the federal and commercial health businesses. Excluding the revenues from the divested businesses, HIS revenues increased $232 million, or 18.9%, primarily due to growth in the federal and commercial health businesses, partially offset by lower revenues in our engineering services business.

Health and Infrastructure revenues increased $130 million, or 10%, for the 11-month period ended January 1, 2016, as compared to the 11-month period ended January 2, 2015. The revenue growth reflects increased revenues in our engineering construction business, higher sales in the Federal Health business primarily due to our new Electronic Health Record system modernization program, and timing of security product shipments, which was partially offset by decreased volume in the commercial health business.

Health and Infrastructure operating income was $162 million for fiscal 2016 as compared to operating income of $76 million for the 11-month period ended January 1, 2016. The increase in operating income was primarily due to $46 million of asset impairment charges and operating losses associated mainly with the Plainfield plant recorded in the prior year that did not recur in fiscal 2016, along with a decrease in bad debt expense.

Health and Infrastructure operating income was $76 million for the 11-month period ended January 1, 2016, as compared to operating loss of $442 million for the 11-month period ended January 2, 2015. The increase in operating income was primarily due to a decrease in asset impairment charges in our commercial health and engineering businesses, primarily due to a goodwill impairment charge during fiscal 2015 of $486 million as well as higher operating income generated from our security products business due to an impairment charge in fiscal 2015 on our Reveal line of security products, increased volume of higher margin security products and lower indirect costs. The increase in operating income was partially offset by bad debt expense associated with a renewable energy power generation facility design build project that was completed in 2013.

Corporate and Other

	12 Months Ended	11 Months Ended			11 Months Ended				12 Months Ended
	December 30, 2016	January 1, 2016	Dollar change	Percent change	January 1, 2016	January 2, 2015	Dollar change	Percent change	January 30, 2015
	(dollars in millions)								
Revenues	**$ (1)**	$ 6	$ (7)	(117)%	$ 6	$ (13)	$ 19	146%	$ (16)
Operating loss	**(151)**	(19)	(132)	*NM*	(19)	(19)	—	—%	(28)

NM - Not meaningful

Corporate and Other operating loss represents corporate costs that are not directly related to the operating performance of the reportable segments.

Corporate and Other revenues decreased $7 million for fiscal 2016 as compared to the 11-month period ended January 1, 2016, primarily due to proceeds received during the 11-month period ended January 1, 2016, related to a one-time settlement of a litigation matter of $5 million.

Corporate and Other revenues increased $19 million for the 11-month period ended January 1, 2016, as compared to the 11-month period ended January 2, 2015, primarily due to a $12 million adjustment to rate reserves during the 11-month period ended January 2, 2015, and proceeds received during the 11-month period ended January 1, 2016, related to the settlement of a litigation matter of $5 million.

Corporate and Other operating loss increased $132 million as compared to the 11-month period ended January 1, 2016, primarily due to acquisition and integration costs incurred related to the acquisition of the IS&GS Business of $90 million and an increase in restructuring expenses of $10 million. The increase in operating loss was also attributable to a $12 million unfavorable change in real estate activity, a $6 million loss recognized on our defined benefit pension plan and proceeds received during the 11-month period ended January 1, 2016, related to the settlement of a litigation matter of $5 million.

Corporate and Other operating loss was approximately $19 million for both the 11-month period ended January 1, 2016, and the 11-month period ended January 2, 2015, respectively.

Long-Lived Asset Impairment Evaluations

Goodwill Impairment Evaluation. In the second quarter of fiscal 2015, our Health Solutions and Infrastructure reporting units within the Health and Infrastructure reportable segment were adversely impacted by certain unexpected events that caused us to reassess that year and future years' performance expectations for both reporting units. Based on significant declines in forecasted revenue volumes and delayed award decisions, we conducted an interim goodwill impairment test using the two-step quantitative approach.

Based on the first step of the two-step quantitative goodwill impairment test performed during the second quarter of fiscal 2015, we determined that the carrying value of both the Health Solutions and Infrastructure reporting units were greater than the respective estimated fair values of the reporting units, and the second step of the two-step quantitative goodwill impairment test was performed in order to determine the amount of the impairment of the respective reporting units.

As a result of the second step evaluation, we recorded goodwill impairment charges in the Health Solutions and Infrastructure reporting units of $369 million and $117 million, respectively, during the second quarter of fiscal 2015. There were no other goodwill impairment charges as part of the interim goodwill impairment test recorded for the remaining reporting units. See "Note 5–Goodwill" within our notes to the consolidated financial statements for further information.

Asset Impairment

In March 2015, we entered into a definitive Membership Interest Purchase Agreement (the "Agreement") to sell 100% of our equity membership interest in Plainfield Renewable Energy Holdings, LLC ("Plainfield"). We adjusted the carrying values of Plainfield's assets to their fair values based on the estimated selling price of the business pursuant to the terms of the agreement. The carrying value exceeded the fair value, which resulted in approximately $40 million of impairment charges in fiscal 2015. In the second quarter of the 11-month period ended January 1, 2016, further negotiations occurred related to the sale of Plainfield resulting in approximately $29 million of impairment charges. We adjusted the carrying values of Plainfield's assets to their fair values based on the estimated selling price of the business pursuant to the terms of the amended Agreement that was amended on July 17, 2015. On July 24, 2015, we completed the sale. See "Note 3—Divestitures" within our notes to the consolidated financial statements for further information on the sale.

Restructuring Expenses

After the acquisition of the IS&GS Business, we began an initiative to review our cost structure, which included optimization of our real estate portfolio by vacating facilities that were not necessary for future requirements, and reducing headcount. For fiscal 2016, we recognized $12 million of restructuring expenses related to this program. We anticipate this restructuring program to last through fiscal 2018 and currently expect to incur approximately $125 million in connection with these restructuring activities.

For fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015, we recorded $2 million, $4 million and $3 million of restructuring expenses, respectively, related to the separation of New SAIC and our real estate optimization initiatives. Substantially all of these charges resulted from a revision of original estimates for vacating real estate leases.

Equity earnings of non-consolidated subsidiaries

As a result of the Lockheed Martin transaction, we received certain non-controlling ownership interests in equity investments. For fiscal 2016, we recorded earnings of $10 million from our equity method investments.

Non-Operating (Expense) Income

Non-operating expense for fiscal 2016 was $99 million as compared to non-operating income of $35 million for the 11-month period ended January 1, 2016. This $134 million increase in non-operating expense was primarily attributable to the following:

- $82 million gain on sale of the remaining building, parcels of land that surround the building, and the multi-level surface parking garage associated with our former headquarters during the 11-month period ended January 1, 2016 that did not recur in fiscal 2016;
- $35 million of higher interest expense recognized on the new $2.5 billion term loans secured in connection with the Transactions; and
- an $18 million increase in foreign currency exchange losses, mostly due to the movement in exchange rates between the British pound and U.S. dollar.

Non-operating income for the 11-month period ended January 1, 2016, was $35 million as compared to non-operating expense of $65 million for the 11-month period ended January 2, 2015. This $100 million increase in non-operating income was primarily attributable to the following:

- an $82 million gain on sale of the remaining building, parcels of land that surround the building, and the multi-level surface parking garage associated with our former headquarters; and
- a decrease in interest expense of $18 million, of which $14 million was due to the repurchase of $37 million of outstanding debt and due to interest expense reductions from the swap agreements.

Provision for Income Taxes

Our effective tax rate was 22.6%, 31.5% and (26.2)% in fiscal 2016 and the 11-month periods ended January 1, 2016, and January 2, 2015, respectively. The effective tax rate for fiscal 2016 was favorably impacted by the tax deductibility of the special cash dividend, related to the Transactions on shares held by the Leidos retirement plan, the income tax benefits of the research tax credit and the excess tax benefits related to employee share-based payments, partially offset by the impact of certain capitalized transactions costs related to the Transactions.

The effective tax rate for the 11-month period ended January 1, 2016, was favorably impacted by the release of the valuation allowance related to the utilization of a capital loss carryforward for capital gains recognized during the current year as well as the favorable resolution of certain tax contingencies with the tax authorities. The effective tax rate for the 11-month period ended January 2, 2015, was negatively impacted by the goodwill impairment charge of $486 million recorded in the quarter ended August 1, 2014, which was mostly not deductible.

Our valuation allowance for deferred tax assets was $102 million as of December 30, 2016, and January 1, 2016.

Non-controlling Interest

As a result of the Lockheed Martin transaction, we received an interest in Mission Support Alliance, LLC ("MSA"), a joint venture with Jacobs Engineering Group, Inc. and Centerra Group, LLC. We have consolidated the financial results for MSA into our consolidated financial statements. Net income attributable to non-controlling interest, for fiscal 2016 was $2 million.

Bookings and Backlog

We had net bookings worth an estimated $6.9 billion and $6.8 billion during fiscal 2016 and the 11-month period ended January 1, 2016, respectively. Net bookings represent the estimated amount of revenue to be earned in the future from funded and unfunded contract awards that were received during the year, net of any adjustments to previously awarded backlog amounts. We calculate net bookings as the year’s ending backlog plus the year’s revenues less the prior year’s ending backlog and less the backlog obtained in acquisitions during the year.

Backlog represents the estimated amount of future revenues to be recognized under negotiated contracts as work is performed. We segregate our backlog into two categories as follows:

- *Funded Backlog.* Funded backlog for contracts with government agencies primarily represents contracts for which funding is appropriated less revenues previously recognized on these contracts, and does not include the unfunded portion of contracts where funding is incrementally appropriated or authorized on a quarterly or annual basis by the U.S. Government and other customers, even though the contract may call for performance over a number of years. Funded backlog for contracts with non-government agencies and commercial customers represents the estimated value on contracts, which may cover multiple future years, under which we are obligated to perform, less revenues previously recognized on these contracts.
- *Negotiated Unfunded Backlog.* Negotiated unfunded backlog represents estimated amounts of revenue to be earned in the future from (1) negotiated contracts for which funding has not been appropriated or otherwise authorized and (2) unexercised priced contract options. Negotiated unfunded backlog does not include future potential task orders expected to be awarded under IDIQ, GSA Schedule, or other master agreement contract vehicles.

The estimated value of our total backlog for fiscal 2016 and the 11-month period ended January 1, 2016, was as follows:

	December 30, 2016	January 1, 2016
	(in millions)	
National Security Solutions		
Funded backlog	$ 1,436	$ 1,472
Negotiated unfunded backlog	6,131	6,554
Total National Security Solutions backlog	$ 7,567	$ 8,026
Information Systems & Global Solutions		
Funded backlog	$ 3,572	$ —
Negotiated unfunded backlog	4,793	—
Total Information Systems & Global Solutions backlog	$ 8,365	$ —
Health and Infrastructure		
Funded backlog	$ 967	$ 1,049
Negotiated unfunded backlog	837	820
Total Health and Infrastructure backlog	$ 1,804	$ 1,869
Total		
Funded backlog	$ 5,975	$ 2,521
Negotiated unfunded backlog	11,761	7,374
Total backlog	$ 17,736	$ 9,895

Total backlog at December 30, 2016, included $638 million of reduction due to the adverse impact of foreign currency movement between the U.S. dollar and the British pound.

Bookings and backlog fluctuate from period to period depending on our success rate in winning contracts and the timing of contract awards, renewals, modifications and cancellations. Contract awards may be negatively impacted by ongoing industry-wide delays in procurement decisions and budget cuts by the U.S. Government as discussed in “Business Environment and Trends” in this Annual Report on Form 10-K.

We expect to recognize a substantial portion of our funded backlog as revenues within the next 12 months. However, the U.S. Government may cancel any contract at any time through a termination for the convenience of the U.S. Government. In addition, certain contracts with commercial or non-U.S. Federal Government customers may include provisions that allow the customer to cancel at any time. Most of our contracts have cancellation terms that would permit us to recover all or a portion of our incurred costs and fees for work performed.

Contract Types

Our earnings and profitability may vary materially depending on changes in the proportionate amount of revenues derived from each type of contract. For a discussion of the types of contracts under which we generate revenue, see “Business—Contract Types” in Part I of this Annual Report on Form 10-K. The following table summarizes revenues by contract type as a percentage of our total revenue for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015:

	12 Months Ended	11 Months Ended	12 Months Ended
	December 30, 2016	January 1, 2016	January 30, 2015
Cost-reimbursement and fixed price-incentive fee (FP-IF)	**51%**	51%	48%
Time and materials (T&M) and fixed-price-level-of-effort (FP-LOE)	**19**	22	25
Firm-fixed-price (FFP)	**30**	27	27
Total	**100%**	100%	100%

The percentage of revenue derived from cost-reimbursement contracts for fiscal 2016 remained consistent with the 11-month period ended January 1, 2016. The percentage of revenue derived from T&M and FP-LOE contracts decreased by 3% and FFP contracts increased by 3% for fiscal 2016 from the 11-month period ended January 1, 2016, primarily due to the contract mix of the acquired IS&GS Business.

Liquidity and Capital Resources

Overview of Liquidity

As of December 30, 2016, we had $376 million in cash and cash equivalents. In addition, in August 2016, we entered into a secured revolving credit facility which can provide up to $750 million in secured borrowing capacity, if required. This new credit facility replaced the previous unsecured credit facility held that provided $500 million of borrowing capacity. During fiscal 2016 and the 11-month period ended January 1, 2016, there were no borrowings outstanding under either of the credit facilities and we were in compliance with the financial covenants.

In August 2016, our Board of Directors declared a special dividend of $13.64 per share of Leidos common stock. Consequently, on August 22, 2016, we paid $993 million to stockholders of record as of August 15, 2016, and accrued $29 million of dividend equivalents with respect to the outstanding unvested equity awards. In addition, we paid quarterly dividends of $142 million, $93 million and $95 million for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015, respectively.

At December 30, 2016, and January 1, 2016, we had outstanding debt of $3.3 billion and $1.1 billion, respectively. The notes outstanding as of December 30, 2016, contain financial covenants and customary restrictive covenants. We were in compliance with all covenants as of December 30, 2016.

In connection with the Transactions, Leidos has incurred $2.5 billion of new indebtedness in the form of term loans (see "Note 2–Acquisitions"). Of the $2.5 billion, $1.8 billion of the term loans was secured by Leidos Innovations prior to being acquired and the funds were used to finance the special cash payment to Lockheed Martin. The remaining $690 million of term loans was secured by Leidos to fund the special cash dividend. During fiscal 2016, we repaid $275 million of these term loans (see "Note 11–Debt").

In August 2016, the Company entered into interest rate swap agreements to hedge the cash flows with respect to $1.2 billion of the aggregate principal outstanding on the Company's variable rate senior secured notes (see "Note 10–Derivative Instruments"). The objective of these instruments is to reduce variability in the forecasted interest payments of the Company's variable rate secured notes.

We may from time to time seek to retire or purchase our outstanding debt through cash purchases in the open market, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions, and other factors. The amounts involved may be material. In addition to the $275 million repaid in fiscal 2016 noted above, we paid $36 million and $175 million in the 11-month period ended January 1, 2016, and fiscal 2015, respectively, to repurchase and retire a principal amount of $37 million and $183 million of outstanding debt, respectively.

Stock repurchases may be made on the open market or in privately negotiated transactions with third parties including through accelerated share repurchase agreements. Whether repurchases are made and the timing and actual number of shares repurchased depends on a variety of factors including price, corporate capital requirements, other market conditions and regulatory requirements. The repurchase program may be accelerated, suspended, delayed or discontinued at any time. During fiscal 2016, there were no open market repurchases of our common stock.

In the 11-month period ended January 1, 2016, we entered into an Accelerated Share Repurchase ("ASR") agreement with a financial institution to repurchase shares of our outstanding common stock for an aggregate purchase price of $100 million, resulting in a delivery of 2.4 million shares, completed during the second quarter of the 11-month period ended January 1, 2016.

In fiscal 2015, we entered into an ASR agreement with a financial institution to repurchase shares of our outstanding common stock for an aggregate purchase price of $200 million, resulting in a delivery of 5.3 million shares, completed during the second quarter of fiscal 2015.

In fiscal 2014, we entered into an ASR agreement with a financial institution to repurchase shares of our outstanding common stock for an aggregate purchase price of $300 million. The final delivery of approximately 1.0 million shares for a total value of $45 million under the program was completed during the first quarter of fiscal 2015.

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 fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015:

	12 Months Ended	11 Months Ended	12 Months Ended
	December 30, 2016	January 1, 2016	January 30, 2015
		(in millions)	
Cash provided by operating activities of continuing operations	**$ 446**	$ 399	$ 396
Cash provided by investing activities of continuing operations	**26**	64	51
Cash used in financing activities of continuing operations	**(751)**	(249)	(478)
Cash (used in) provided by operating activities of discontinued operations	**—**	(7)	15
Cash (used in) provided by investing activities of discontinued operations	**(1)**	6	29
Total (decrease) increase in cash and cash equivalents	**$ (280)**	$ 213	$ 13

Cash Provided by Operating Activities of Continuing Operations. Cash flows provided by operating activities of continuing operations increased $47 million for fiscal 2016 as compared to the 11-month period ended January 1, 2016. The increase was primarily due to timing of collections of receivables and early funding for employee benefit programs of $30 million in the 11-month period ended January 1, 2016 that did not recur in fiscal 2016, partially offset by payments for acquisition and integration expenses, pre-funding IS&GS expenses in accordance with the transition services agreement with Lockheed Martin and increased interest payments in fiscal 2016.

Cash flows provided by operating activities of continuing operations increased $3 million for the 11-month period ended January 1, 2016, as compared to fiscal 2015. The increase was primarily due to a net increase in working capital of $117 million, partially offset by a decrease in net income adjusted for non-cash items of $78 million. The net increase in working capital was primarily due to lower tax payments and a net increase from the timing of collections from customers and payments to vendors. Cash flows provided by operating activities was negatively impacted by the advancement of funding for employee benefit programs of $30 million.

Cash flows provided by operating activities of continuing operations was $11 million in the month of January 2015, consisting of net income adjusted for non cash items of $39 million partially offset by a net decrease in working capital of $24 million.

Cash Provided by Investing Activities of Continuing Operations. We generated $26 million of cash flows from investing activities for fiscal 2016, including cash acquired as part of the acquisition of the IS&GS Business of $25 million and proceeds from the divestiture of our design, build and heavy construction engineering services business of $23 million, partially offset by $29 million of payments for capital expenditures.

We generated $64 million of cash flows from investing activities of continuing operations for the 11-month period ended January 1, 2016, including $79 million of proceeds from the sale of assets, primarily due to the sale of the remaining building, parcels of land and the multi-level surface parking garage of our former headquarters of $70 million, as well as $27 million received from the disposition of our equity interest in Plainfield. This increase is partially offset by $27 million to purchase property, plant, and equipment and $13 million paid for income tax related matters in connection with a prior acquisition. We did not have cash flows from investing activities for the month of January 2015.

We generated $51 million of cash flows from investing activities of continuing operations in fiscal 2015, including $80 million of proceeds from the U.S. Treasury cash grant in connection with the Plainfield plant, offset by $29 million to purchase property, plant, and equipment.

Cash Used in Financing Activities of Continuing Operations. We used $751 million of cash in support of financing activities of continuing operations for fiscal 2016, primarily due to a special cash dividend payment in connection with the Transactions of $993 million and dividend payments of $142 million, partially offset by net borrowings of $385 million.

We used $249 million of cash in support of financing activities of continuing operations for the 11-month period ended January 1, 2016, primarily due to the repayment and retirement of debt of $36 million, the payment of dividends of $93 million and $100 million to repurchase shares of our stock related to the May 2015 ASR.

We used $47 million of cash in support of financing activities of continuing operations for the month of January 2015, including the repayment and retirement of debt of $23 million and the payment of dividends of $24 million.

We used $478 million of cash in support of financing activities of continuing operations in fiscal 2015, including the repurchase and retirement of debt of $175 million, the payment of dividends of $95 million and $200 million to repurchase shares of our stock from the fiscal 2015 ASR, partially offset by $7 million in proceeds from the sale of stock under our employee stock purchase plan ("ESPP") and exercise of stock options.

Cash Flows from Discontinued Operations

Cash (Used in) Provided by Operating Activities of Discontinued Operations. There were no cash flows provided by operating activities of discontinued operations for fiscal 2016. Cash flows provided by operating activities of discontinued operations decreased $22 million for the 11-month period ended January 1, 2016, as compared to fiscal 2015 primarily due to a decrease of net income adjusted for non-cash items of $12 million and a decrease in working capital of $8 million. Cash flows provided by operating activities of discontinued operations was $20 million in the month of January 2015, primarily due to a tax benefit of $18 million from the conversion of one of our domestic subsidiaries held in discontinued operations.

Cash (Used in) Provided by Investing Activities of Discontinued Operations. Cash flows provided by investing activities of discontinued operations were $1 million for fiscal 2016. Cash flows provided by investing activities of discontinued operations were $6 million for the 11-month period ended January 1, 2016, due to cash proceeds received primarily for the sale of a component of our business focused on producing a suite of cybersecurity hardware and associated software and services completed in February 2015. There were no cash flows from investing activities of discontinued operations in the month of January 2015. Cash flows provided by investing activities of discontinued operations were $29 million for fiscal 2015 due to cash proceeds received for the sale of certain components of our business in fiscal 2015.

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 21–Other Commitments and Contingencies" of the notes to consolidated financial statements contained within this Annual Report on Form 10-K. 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.

Contractual Obligations

The following table summarizes, as of December 30, 2016, our obligations to make future payments pursuant to certain contracts or arrangements and provides an estimate of the fiscal years in which these obligations are expected to be satisfied:

	Total	2017	2018	2019	2020	2021	2022 & Thereafter
				(in millions)			
Contractual obligations[1]:							
Long-term debt (including current portion) [2]	$ 4,536	$ 185	$ 209	$ 313	$ 717	$ 800	$ 2,312
Operating lease obligations	522	142	106	83	58	41	92
Capital lease obligations	3	1	1	1	—	—	—
Other long-term liabilities [3]	60	9	8	5	15	5	18
Total contractual obligations	$ 5,121	$ 337	$ 324	$ 402	$ 790	$ 846	$ 2,422

(1) We have excluded purchase orders for services or products to be delivered pursuant to U.S. Government contracts for which we are entitled to full recourse under normal contract termination clauses.

(2) Includes total interest payments on our outstanding debt. Interest payments represent $124 million, $128 million, $124 million, $124 million and $89 million of the balance for fiscal 2017, fiscal 2018, fiscal 2019, fiscal 2020 and fiscal 2021, respectively, and $608 million for fiscal 2022 and thereafter. The total interest payments on our outstanding term loan debt are calculated based on the stated variable rates of the notes as of December 30, 2016. The total interest payments on our outstanding senior fixed rate secured and unsecured notes are calculated based on the stated fixed rates and do not reflect the variable interest component due to the interest rate swap agreements.

(3) Other long-term liabilities were allocated by fiscal year as follows: a liability for our foreign defined benefit pension plan is based upon the expected near-term contributions to the plan (for a discussion of potential changes in these pension obligations, see "Note 16–Retirement Plans" of the notes to consolidated financial statements contained within this Annual Report on Form 10-K), liabilities under deferred compensation arrangements are based upon the average annual payments in prior years upon termination of employment by participants and other liabilities are based on the fiscal year that the liabilities are expected to be realized. The table above does not include income tax liabilities for uncertain tax positions of $5 million and $34 million of additional tax liabilities, as we are not able to reasonably estimate the timing of payments in individual years due to uncertainties in the timing of audit outcomes and when settlements will become due.

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 17–Leases", "Note 20–Legal Proceedings" and "Note 21–Other Commitments and Contingencies" of the notes to the consolidated financial statements contained within this Annual Report on Form 10-K.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements in accordance 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. Our estimates and assumptions have been prepared by management on the basis of the most current reasonably available information. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions and conditions.

We have several critical accounting policies that are both important to the portrayal of our financial condition and results of operations and require management’s most difficult, subjective and complex judgments. Typically, the circumstances that make these judgments difficult, subjective and complex have to do with making estimates about the effect of matters that are inherently uncertain. Our critical accounting policies are described below.

Revenue Recognition

We generate our revenues from various types of contracts, which include firm-fixed-price, time-and-materials, fixed-price-level-of-effort, cost-plus-fixed-fee, cost-plus-award-fee, cost-plus-incentive-fee and fixed-price-incentive fee contracts.

Firm-fixed-price contracts—Revenues and fees on these contracts that are system integration or engineering in nature are primarily recognized using the percentage-of-completion method of accounting utilizing the cost-to-cost method. The completed contract method is utilized when reasonable and reliable cost estimates for a project cannot be made.

Time-and-materials contracts—Revenue is recognized on time-and-materials contracts based on the hours provided in performance under the contract multiplied by the negotiated contract billing rates, plus the negotiated contract billing rate of any allowable material and subcontract costs and out-of-pocket expenses.

Fixed-price-level-of-effort contracts ("FP-LOE")—These contracts are substantially similar to time-and-materials contracts except they require a specified level of effort over a stated period of time. Accordingly, we recognize revenue on FP-LOE contracts with the U.S. Government in a manner similar to time-and-materials contracts in which we measure progress toward completion based on the hours provided in performance under the contract multiplied by the negotiated contract billing rates plus the negotiated contract billing rate of any allowable material costs and out-of-pocket expenses.

Cost-plus-fixed-fee contracts—Revenue is recognized on cost-plus-fixed-fee contracts with the U.S. Government on the basis of partial performance equal to costs incurred plus an estimate of applicable fees earned as we become contractually entitled to reimbursement of costs and the applicable fees.

Cost-plus-award-fee/cost-plus-incentive fee contracts—Revenues and fees on these contracts with the U.S. Government are primarily recognized using the percentage-of-completion method of accounting most often based on the cost-to-cost method. We include an estimate of the ultimate incentive or award fee to be received on the contract in the estimate of contract revenues for purposes of applying the percentage-of-completion method of accounting.

Fixed-price-incentive fee (“FP-IF”) contracts—Contracts are substantially similar to cost-plus-incentive-fee contracts recognized using the percentage-of-completion method of accounting except they require specified targets for cost and profit, price ceiling (but not a profit ceiling or floor) and profit adjustment formula. Under an FP-IF contract, the allowable costs incurred are eligible for reimbursement but are subject to a cost-share arrangement, which affects profitability. Generally, if our costs exceed the contract target cost or are not allowable under the applicable regulations, we may not be able to obtain reimbursement for all costs and may have our fees reduced or eliminated.

Revenues from services and maintenance contracts, notwithstanding contract type, are recognized over the term of the respective contracts as the services are performed and revenue is earned. Revenues from unit-priced contracts are recognized as transactions are processed based on objective measures of output. Revenues from the sale of manufactured products are recorded upon passage of title and risk of loss to the customer, which is generally upon delivery, provided that all other requirements for revenue recognition have been met.

We also use the efforts-expended method of percentage-of-completion using measures such as labor dollars for measuring progress toward completion in situations in which this approach is more representative of the progress on the contract. For example, the efforts-expended method is utilized when there are significant amounts of materials or hardware procured for the contract that is not representative of progress on the contract. Additionally, we utilize the units-of-delivery method under percentage-of-completion on contracts where separate units of output are produced. Under the units-of-delivery method, revenue is generally recognized when the units are delivered to the customer, provided that all other requirements for revenue recognition have been met.

We also evaluate contracts for multiple elements, and when appropriate, separate the contracts into separate units of accounting for revenue recognition. Revenues generated from product sales do not represent a material amount of the Company's total revenues.

We provide for anticipated losses on contracts by recording an expense during the period in which the losses are determined. Amounts billed and collected but not yet recognized as revenues under contracts are deferred. Contract costs incurred for U.S. Government contracts, including indirect costs, are subject to audit and adjustment through negotiations between us and government representatives. Our indirect cost audits by the DCAA remain open for fiscal 2012 and subsequent fiscal years for Leidos, Inc. and for fiscal 2009 and subsequent fiscal years for Leidos Innovations Corporation. Revenues on U.S. Government contracts have been recorded in amounts that are expected to be realized upon final settlement.

Contract claims are unanticipated additional costs incurred but not provided for in the executed contract price that we seek to recover from the customer. Such costs are expensed as incurred. Additional revenue related to contract claims is recognized when the amounts are awarded by the customer. Un-priced change orders are included in revenue when they are probable of recovery in an amount at least equal to the cost.

In certain situations, primarily where we are not the primary obligor on certain elements of a contract such as the provision of administrative oversight and/or management of government-owned facilities or logistical support services related to other vendor's products, we recognize as revenues the net management fee associated with the services and exclude from our income statement the gross sales and costs associated with the facility or other vendor's products.

Changes in Estimates on Contracts

Changes in estimates related to 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 IS&GS contracts where the adjustment is for the period commencing from the date of acquisition. Changes in these estimates can routinely 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 fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015 were as follows:

	12 Months Ended	11 Months Ended	12 Months Ended
	December 30, 2016	January 1, 2016	January 30, 2015
	(in millions, except for per share amounts)		
Net favorable impact to income (loss) from continuing operations before taxes	**$ 37**	$ 18	$ 24
Impact on diluted EPS from continuing operations attributable to Leidos common stockholders	**$ 0.22**	$ 0.14	$ 0.20

Receivables

Our accounts receivable include amounts billed and currently due from customers. For the 11-month period ended January 1, 2016, the amounts billable within the next month were classified as billed receivables. Such receivables were classified as unbilled receivables for fiscal 2016. Since our receivables are primarily with the U.S. Government, we do not have exposure to a material credit risk. Unbilled receivables consist of amounts billable and contract retentions. Amounts billable are stated at estimated realizable value and consist of costs and fees, substantially all of which are expected to be billed and collected within one year. Amounts billable also include rate variances that are billable upon negotiation of final indirect rates with the U.S. Government and, once billed, are subject to audit and approval by government representatives. Contract retentions are billed upon contract completion, or the occurrence of a specified event, and when negotiation of final indirect rates with the U.S. Government is complete. Consequently, the timing of collection of retention balances is outside our control. Based on our historical experience, the majority of retention balances are expected to be collected beyond one year and write-offs of retention balances have not been significant. When events or conditions indicate that amounts outstanding from customers may become uncollectible, an allowance is estimated and recorded.

Business Combinations

The accounting for business combinations requires management to make judgments and estimates of the fair value of assets acquired, including the identification and valuation of intangible assets, as well as the liabilities and contingencies assumed. Such judgments and estimates directly impact the amount of goodwill recognized in connection with each acquisition.

Goodwill Impairment

Goodwill represents purchase consideration paid in a business combination that exceeds the fair values of the net assets of acquired businesses. Goodwill is not amortized, but instead is tested for impairment at the reporting unit level annually, on the first day of the fourth quarter, and during interim periods, if events or circumstances indicate that the carrying value may not be recoverable.

Our policy is to perform our annual goodwill impairment evaluation as of the first day of the fourth quarter of our fiscal year.

The change in our fiscal year-end from the Friday nearest the end of January to the Friday nearest the end of December resulted in an annual goodwill impairment test date for the 11-month period ended January 1, 2016, that was approximately one month earlier than in previous years. The change in the annual goodwill impairment testing date was deemed to be a change in accounting principle, which we believe to be preferable. The change was made to better align with our most significant customer’s fiscal year as well as our year-end reporting cycle and annual planning and budgeting process, which is a significant element in the annual goodwill impairment test. This change in accounting principle did not delay, accelerate or avoid a goodwill impairment charge. The annual goodwill impairment test was performed on November 1, 2014, for fiscal 2015, and on October 3, 2015, for the 11-month period ended January 1, 2016, such that a period greater than 12 months did not elapse between test dates. The change in the annual goodwill impairment testing date was applied prospectively beginning on October 3, 2015, and had no effect on the consolidated financial statements. This change was not applied retrospectively as it is impracticable to objectively determine valuation estimates in prior periods.

Goodwill is evaluated for impairment either under a qualitative assessment option or a two-step quantitative approach depending on the facts and circumstances of a reporting unit, including consideration of the excess of fair value over carrying amount in previous assessments and changes in business environment.

When performing a qualitative assessment, we consider factors including, but not limited to, current macroeconomic conditions, industry and market conditions, cost factors, financial performance and other events relevant to the entity or reporting unit under evaluation to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine that it is more likely than not that a reporting unit’s fair value is less than its carrying amount, a quantitative two-step goodwill impairment test is performed.

In evaluating the first step of the two-step quantitative goodwill impairment test, the estimated fair value of each reporting unit is compared to its carrying value, which includes the allocated goodwill. If the estimated fair value of a reporting unit is more than its carrying value, no further analysis is required. If the estimated fair value of a reporting unit is less than its carrying value, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill. The implied fair value of goodwill is the residual fair value derived by deducting the fair value of a reporting unit's identifiable assets and liabilities from its estimated fair value calculated in the first step. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment charge equal to the difference.

We estimate the fair value of each reporting unit using both market and income approaches when a quantitative analysis is performed.

The market approach is a technique where the fair value is calculated based on fair values of publicly-traded companies that provide a reasonable basis of comparison with the reporting unit. Valuation ratios are selected that relate market prices to selected financial metrics from comparable companies. These ratios are applied after consideration of adjustments and weightings related to financial position, growth, volatility, working capital movement, and other factors. Due to the fact that stock prices of comparable companies represent minority interests we also consider an acquisition control premium to reflect the impact of additional value associated with a controlling interest.

The income approach is a technique where the fair value is calculated based on present value future cash flows using risk-adjusted discount rates, which represent the weighted-average cost of capital ("WACC") for each reporting unit. Determination of WACC includes assessing the cost of equity and debt as of the valuation date. In addition, a terminal value is developed for forecasted future cash flows beyond the projection period discounted back to the present value. The forecasts used in our estimation of fair value are developed by management based on business and market considerations.

The goodwill impairment test process and valuation model is based upon certain key assumptions that require the exercise of significant judgment including judgments for the use of appropriate financial projections, economic expectations, discount rates and WACC as well as using available market data. The goodwill impairment test process also requires management to make significant judgments and assumptions, including revenue, profit, expected long-term growth rates and cash flow forecasts about the reporting units to which goodwill is assigned. The fair values of our reporting units are based on estimates and assumptions that are believed to be reasonable. Significant changes to these estimates and assumptions could adversely impact our conclusions and actual future results may differ from the estimates. In addition, the identification of reporting units and the allocation of assets and liabilities to the reporting units when determining the carrying value of each reporting unit also requires judgment.

Our annual goodwill impairment analysis for fiscal 2016, which excluded the recently acquired IS&GS Business, indicated the estimated fair value of all of our reporting units were substantially in excess of their carrying values.

We face continued uncertainty in our business environment due to the substantial fiscal and economic challenges facing the U.S. Government, our primary customer, as well as challenges in the commercial healthcare industry, compounded by lower levels of U.S. Government reimbursements, including reductions in Medicare reimbursements which in turn impact hospital IT spending. Adverse changes in fiscal and economic conditions could adversely impact our future revenues and profitability. These circumstances could result in an impairment of goodwill and/or other intangibles. Also adverse equity market conditions that result in a decline in market multiples and our stock price could result in an impairment of goodwill and/or other intangibles.

Intangible Assets Impairment

Intangible assets with finite lives are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets with indefinite lives are not amortized but are assessed for impairment at the beginning of the fourth quarter and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Additionally, other indefinite-lived intangible assets are not being amortized until such time that the useful life is determined to no longer be indefinite.

In the 11-month period ended January 1, 2016, and fiscal 2015, we recognized intangible asset impairment charges of $4 million and $41 million, respectively. There were no intangible asset impairment charges recognized in fiscal 2016. The carrying value of intangible assets as of December 30, 2016, was $1.6 billion, which included the preliminary fair value of intangible assets acquired.

Income Taxes

We account for income taxes under the asset and liability method of accounting, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Under this method, changes in tax rates and laws are recognized in income in the period such changes are enacted. The provision for federal, state, foreign and local income taxes is calculated on income before income taxes based on current tax law and includes the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provision differs from the amounts currently payable because certain items of income and expense are recognized in different reporting periods for financial reporting purposes than for income tax purposes.

Recording our provision for income taxes requires management to make significant judgments and estimates for matters whose ultimate resolution may not become known until the final resolution of an examination by the IRS or state agencies. Additionally, recording liabilities for uncertain tax positions involves significant judgment in evaluating our tax positions and developing our best estimate of the taxes ultimately expected to be paid.

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent results of operations. If we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount or would no longer be able to realize our deferred income tax assets in the future as currently recorded, we would make an adjustment to the valuation allowance which would decrease or increase the provision for income taxes.

We also recognize liabilities for uncertain tax positions when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement. We have experienced years when liabilities for uncertain tax positions were settled for amounts different from recorded amounts as described in "Note 15–Income Taxes" of the notes to the consolidated financial statements contained within this Annual Report on Form 10-K.

Stock-Based Compensation

We account for stock-based compensation at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is generally the vesting period, net of an estimated forfeiture rate.

The fair value of the restricted stock awards and performance-based stock awards is based on the closing price of our common stock on the date of grant. We use a Monte Carlo simulation to estimate the fair value of certain performance-based awards with market conditions.

We determine the fair value of stock option awards granted using the Black-Scholes-Merton option pricing model. The estimation of stock option fair value requires management to make complex estimates and judgments about, among other things, employee exercise behavior, forfeiture rates, and the expected volatility of Leidos common stock over the expected option term. These judgments directly affect the amount of compensation expense that will ultimately be recognized.

During fiscal 2015, the expected term for all stock option awards granted was derived utilizing the “simplified” method due to the lack of historical experience post separation of New SAIC and expected volatility was estimated as of each grant date during fiscal 2015 based on a weighted average historical volatility of a group of publicly-traded peer companies for a period consistent with the expected option term due to lack of historical volatility after the spin-off of New SAIC in fiscal 2014. In the 11-month period ended January 1, 2016, the expected volatility was estimated using a blended volatility method for a period consistent with the expected term based more significantly on the weighted average historical volatility of a group of publicly-traded peer companies and the weighted average implied volatility from traded options on Leidos stock for a time period prior to the grant date.

During fiscal 2016, expected volatility was based on using a blended approach, which included weighted average historical volatility of a group of publicly-traded peer companies, our weighted average historical volatility and the weighted average implied volatility. We will continue to use peer group volatility information, until sufficient historical volatility of our common stock is relevant, to measure expected volatility for future option grants. The expected volatility increased from pre-acquisition to post-acquisition of the IS&GS Business in fiscal 2016 due to a higher allocation of peer group volatility used post-acquisition compared to a higher allocation of historical volatility used pre-acquisition. The post-acquisition volatility reflected an updated peer group mix. For fiscal 2016, we assumed weighted average volatilities of 29.9% and 37.9% before and after the acquisition of the IS&GS Business, respectively. For the 11-month period ended January 1, 2016 and fiscal 2015 we assumed a weighted average volatility of 24.5% and 25.1%, respectively. If other assumptions are held constant, an increase or decrease by 10% in our fiscal 2016 volatility assumptions would have changed the grant-date fair value of our stock options awarded during fiscal 2016 by approximately 12%.

The risk-free rate is derived using the yield curve of a zero-coupon U.S. Treasury bond with a maturity equal to the expected term of the stock option on the grant date and was derived in the same manner as in the prior years presented. The dividend yield increased from pre-acquisition to post-acquisition due to historical stock price fluctuations. We use historical data to estimate forfeitures.

Recently Adopted and Issued Accounting Pronouncements

For a discussion of these items, see "Note 1—Summary of Significant Accounting Policies" of the notes to the consolidated financial statements contained with this Annual Report on Form 10-K.

Effects of Inflation

Approximately 51% of our revenues are derived from cost-reimbursement type contracts, which are generally completed within one year. Bids for longer-term FFP and T&M and FP-LOE contracts typically include sufficient provisions for labor and other cost escalations to cover anticipated cost increases over the period of performance. As a result, our revenues and costs have generally both increased commensurate with inflation and net income as a percentage of total revenues has not been significantly affected.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

We are exposed to certain market risks in the normal course of business. Our current market risk exposures are primarily related to interest rates and foreign currency fluctuations. The following information about our market sensitive financial instruments contains forward-looking statements.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to long-term debt obligations and derivatives. Our policy authorizes, with Board of Directors' approval, the limited use of derivative instruments to hedge specific interest rate risks.

Debt obligations and derivatives

At December 30, 2016, and January 1, 2016, we had $3.3 billion and $1.1 billion, respectively, of fixed and variable rate debt. During fiscal 2016, in connection with the acquisition of the IS&GS Business, Leidos, Inc. secured a new term loan of $690 million from certain financial institutions. As a result of the acquisition, Leidos assumed the IS&GS Business' term loans of $1.8 billion, which were obtained by the IS&GS Business immediately prior to the Transactions. These senior secured term loans have variable stated interest rates that are determined based on the LIBOR rate plus a margin. As a result, we may experience fluctuations in interest expense. Additionally, during fiscal 2016, we entered into interest rate swap agreements to hedge the cash flows with respect to $1.2 billion of our variable rate senior secured term loans. Under the terms of the interest rate swap agreements, which mature in December 2021, we will receive variable interest payments based on the one-month LIBOR rate and will pay interest at a fixed rate of 1.08%. The interest rate swap agreements effectively converted a portion of our variable rate borrowings to fixed rate borrowings. As of December 30, 2016, the fair value of our interest rate swap agreements with respect to our variable rate senior secured loans was $26 million.

During fiscal 2015, we entered into interest rate swap agreements with respect to all of the $450 million aggregate principal outstanding on our fixed rate 4.45% notes maturing in December 2020. The interest rate swap agreements effectively converted a portion of our fixed-rate debt to floating-rate debt tied to the changes in the six-month LIBOR benchmark interest rate. As a result, we may experience fluctuations in interest expense. Under the terms of the interest rate swap agreements, we 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. As of December 30, 2016, and January 1, 2016, the fair value of our interest rate swaps with respect to our fixed rate debt was $3 million and $8 million, respectively.

The counterparties to these agreements are financial institutions. We do not hold or issue derivative financial instruments for trading or speculative purposes. We cannot predict future market fluctuations in interest rates and their impact on our interest rate swaps. For fiscal 2016 and the 11-month period ended January 1, 2016, a hypothetical 10% movement in the six-month LIBOR rate would have less than a $6 million and $4 million impact, respectively, on our annual interest expense due to the interest rate swaps. For fiscal 2016, a hypothetical 10% movement in the one-month LIBOR rate would have less than a $3 million impact on our annual interest expense due to the interest rate swaps and variable rate debt. For additional information related to our interest rate swap agreements and debt, see "Note 10–Derivative Instruments and Hedging Activities" and "Note 11–Debt," respectively, to the consolidated financial statements contained in this Annual Report.

Cash and Cash Equivalents

As of December 30, 2016, and January 1, 2016, our cash and cash equivalents included investments in several large institutional money market funds and bank deposits. For fiscal 2016 and the 11-month period ended January 1, 2016, a hypothetical 10% interest rate movement would have less than a $2 million impact and an immaterial impact, respectively, on the value of our holdings or on interest income.

Foreign Currency Risk

Although the majority of our transactions are denominated in U.S. dollars, some of our transactions are denominated in foreign currencies. Our foreign currency exchange rate risk relates to receipts from customers, payments to suppliers and certain intercompany transactions denominated in currencies other than our (or one of our subsidiaries') functional currency. Our foreign operations represented 9% of total revenues for fiscal 2016 compared to 4% of total revenues for the 11-month period ended January 1, 2016.

Item 8. *Financial Statements and Supplementary Data*

See our consolidated financial statements attached hereto and listed on the Index to Consolidated Financial Statements set forth on page F-1 of this Annual Report on Form 10-K.

Item 9. ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer (our Chief Executive Officer) and principal financial officer (our Executive Vice President and Chief Financial Officer), has evaluated the effectiveness of 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 December 30, 2016, and 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 Exchange Commission ("SEC"). 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

During the third quarter of fiscal 2016, the Company completed its acquisition of the IS&GS Business. As part of the ongoing integration of the acquired business, we are in the process of incorporating the controls and related procedures of the IS&GS Business. Other than incorporating the IS&GS controls, there have been no other changes in Leidos' internal control over financial reporting that occurred in the fourth quarter of period ended December 30, 2016, covered by this Annual Report that materially affected, or are reasonably likely to materially affect, Leidos' internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

As permitted by the SEC rules, management's assessment and conclusion on the effectiveness of the Company's internal control over financial reporting as of December 30, 2016, excludes an assessment of the internal control over financial reporting of the IS&GS business, acquired on August 16, 2016. IS&GS represents approximately 12% of our consolidated total assets, excluding the preliminary value of goodwill and intangible assets related to the IS&GS Business, at December 30, 2016, and 28% and 27% of our consolidated revenues and operating income, respectively, for the fiscal year ended December 30, 2016.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of Leidos' internal control over financial reporting as of December 30, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management has assessed the effectiveness of our internal control over financial reporting as of December 30, 2016, and has concluded that our internal control over financial reporting as of that date was effective.

Deloitte & Touche LLP, an independent registered public accounting firm, audited our consolidated financial statements included in this Annual Report on Form 10-K and our internal control over financial reporting, and that firm's report on our internal control over financial reporting are set forth below.

February 24, 2017

PART II

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Leidos Holdings, Inc.

Reston, Virginia

We have audited the internal control over financial reporting of Leidos Holdings, Inc. and subsidiaries (the "Company") as of December 30, 2016, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in *Management's Report on Internal Control Over Financial Reporting*, management excluded from its assessment the internal control over financial reporting at Information Systems & Global Solutions ("IS&GS"), which was acquired on August 16, 2016, and whose financial statements constitute 12% of consolidated total assets as of December 30, 2016, and 28% and 27% of consolidated revenues and operating income, respectively, during the fiscal year ended December 30, 2016. Accordingly, our audit did not include the internal control over financial reporting at IS&GS. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2016, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the fiscal year ended December 30, 2016 of the Company and our report dated February 24, 2017 expressed an unqualified opinion on those financial statements and includes an explanatory paragraph concerning the Company's change in fiscal year end from the Friday nearest the end of January to the Friday nearest the end of December, effective for the 11-month period ended January 1, 2016.

/s/ Deloitte & Touche LLP

McLean, Virginia

February 24, 2017

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

For certain information required by Item 10 with respect to executive officers, see “Executive and Other Key Officers of the Registrant” at the end of Part I of this Annual Report on Form 10-K. For additional information required by Item 10 with respect to executive officers and directors, including audit committee and audit committee financial experts, procedures by which stockholders may recommend nominees to the Board of Directors, and compliance with Section 16(a) of the Securities Exchange Act of 1934, see the information set forth under the captions "Proposal 1–Election of Directors," "Corporate Governance" and "Other Information" appearing in the 2017 Proxy Statement, which required information is incorporated by reference into this Annual Report on Form 10-K.

We have adopted a code of conduct that applies to our principal executive officer and our senior financial officers. A copy of our code of conduct is available on the Investor Relations section of our website free of charge at *www.leidos.com* by clicking on the links entitled “Investors” then “Corporate Governance” and then “Code of Conduct.” We intend to post on our website any material changes to or waivers from our code of business ethics. The information on our website is not incorporated by reference into and is not a part of this Annual Report on Form 10-K.

Item 11. *Executive Compensation*

For information required by Item 11 with respect to executive compensation and director compensation, see the information set forth under the captions "Compensation Discussion and Analysis," "Executive Compensation" and "Corporate Governance" in the 2017 Proxy Statement, which required information is incorporated by reference into this Annual Report on Form 10-K.

For information required by Item 11 with respect to compensation committee interlocks and insider participation, see the information set forth under the caption "Corporate Governance" in the 2017 Proxy Statement, which required information is incorporated by reference into this Annual Report on Form 10-K.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

For information required by Item 12 with respect to the security ownership of certain beneficial owners and management, see the information set forth under the caption "Other Information" in the 2017 Proxy Statement, which required information is incorporated by reference into this Annual Report on Form 10-K.

Information with respect to our equity compensation plans as of December 30, 2016, is set forth below:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders [(1)]	6,120,946 [(2)]	$ 29.77 [(3)]	2,502,109 [(4)] [(5)]
Equity compensation plans not approved by security holders [(6)]	—	—	— [(6)]
Total	6,120,946	$ 29.77 [(3)]	2,502,109

(1) The following equity compensation plans approved by security holders are included in this plan category: the 2006 Equity Incentive Plan and the 2006 Employee Stock Purchase Plan, as amended.

(2) Represents (i) 2,502,676 shares of Leidos common stock reserved for future issuance for performance and market-based awards assuming achievement of the target level of performance for unearned performance and market-based awards (does not include an additional 171,267 shares if the maximum level of performance is achieved) and other stock awards under the 2006 Equity Incentive Plan, (ii) 359,090 shares of Leidos common stock issuable pursuant to dividend equivalent rights and (iii) 3,259,180 shares of Leidos common stock reserved for future issuance upon the exercise of outstanding options awarded under the 2006 Equity Incentive Plan. Does not include shares to be issued pursuant to purchase rights under the 2006 Employee Stock Purchase Plan.

(3) Does not include shares to be issued for performance-based and other stock awards and shares of stock issuable pursuant to dividend equivalent rights, which will not require any payment upon issuance of those shares.

(4) Entire amount represents shares of Leidos common stock under the 2006 Equity Incentive Plan. The 2006 Equity Incentive Plan was amended in June 2012 to provide that the maximum number of shares available for issuance thereunder is 12.5 million. Those shares (i) that are issued under the 2006 Equity Incentive Plan that are forfeited or repurchased at the original purchase price or less or that are issuable upon exercise of awards granted under the plan that expire or become unexercisable for any reason after their grant date without having been exercised in full, (ii) that are withheld from an option or stock award pursuant to a Company-approved net exercise provision, or (iii) that are not delivered to or are award shares surrendered by a holder in consideration for applicable tax withholding will continue to be available for issuance under the plan.

(5) Does not include 5.0 million shares under our Amended and Restated 2006 Employee Stock Purchase Plan, which is subject to stockholder approval at our 2017 annual meeting of stockholders.

(6) The Stock Compensation Plan and the Management Stock Compensation Plan have not been approved by security holders and are included in this plan category. These plans do not provide for a maximum number of shares available for future issuance.

Some of the principal features of the Stock Compensation Plan and the Management Stock Compensation Plan, together referred to as the Stock Compensation Plans, are summarized below, which summary is qualified in its entirety by the full text of the Stock Compensation Plans. Stockholder approval of the Stock Compensation Plans was not required.

Summary of the Stock Compensation Plans

The Stock Compensation Plans have been adopted to provide a long-term incentive to key employees by making deferred awards of shares of Leidos stock. All officers and employees are eligible to receive awards under the Stock Compensation Plan. However, only a select group of management and highly compensated senior employees are eligible to receive awards under the Management Stock Compensation Plan. Participation in the Management Stock Compensation Plan is limited to individuals that would permit the plan to be treated as a “top hat” plan under applicable Internal Revenue Service and Department of Labor Regulations.

The awarding authority (as appointed by our Board of Directors) designates those key employees receiving awards and the number of share units to be awarded. Each share unit generally corresponds to one share of stock, but the employee receiving an award of share units will not have a direct ownership interest in the shares of stock represented by the share units. We have established a trust, which enables us to transfer shares of Leidos stock into the trust for purposes of funding the Stock Compensation Plans’ obligations. The trust, which is maintained by Vanguard Fiduciary Trust Company as trustee under a trust agreement between the trustee and us, is a special type of trust known as a rabbi trust. In order to avoid current taxation of awards under the Stock Compensation Plans, the trust must permit our creditors to reach the assets of the trust in the event of our bankruptcy or insolvency.

The awarding authority will establish a vesting schedule of not more than seven years for each award. Awards will generally vest 100% at the end of the fourth year following the date of award. The death of a participant or a change in control of us will result in full vesting of an award. A participant will forfeit any unvested portions of the account if the participant’s employment terminates for any reason other than death. We receive the benefit of forfeited amounts to satisfy future awards under the Stock Compensation Plans.

Participants of the Stock Compensation Plan receive a lump sum distribution of their awards in shares of stock once they become vested while participants of the Management Stock Compensation Plan receive a distribution of their awards in shares of stock following termination or retirement. Participants will be taxed on the value of any amounts distributed from the Stock Compensation Plans at the time of the distribution and shares will be withheld in order to satisfy this obligation.

The day-to-day administration of the Stock Compensation Plans is provided by the nonqualified plans committee appointed by our Board of Directors. We have the right to amend or terminate the Stock Compensation Plans at any time and for any reason.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

For information required by Item 13 with respect to certain relationships and related transactions and the independence of directors and nominees, see the information set forth under the caption "Corporate Governance" in the 2017 Proxy Statement, which required information is incorporated by reference into this Annual Report on Form 10-K.

PART III

Item 14. *Principal Accounting Fees and Services*

For information required by Item 14 with respect to principal accounting fees and services, see the information set forth under the caption "Audit Matters" in the 2017 Proxy Statement, which required information is incorporated by reference into this Annual Report on Form 10-K.

PART IV

Item 15. *Exhibits, Financial Statement Schedules*

(a) Documents filed as part of the report:

1. *Financial Statements*

Our consolidated financial statements are attached hereto and listed on the Index to Consolidated Financial Statements set forth on page F-1 of this Annual Report on Form 10-K.

2. *Financial Statement Schedules*

Financial statement schedules are omitted because they are not applicable or the required information is shown in our consolidated financial statements or the notes thereto.

3. *Exhibits*

Exhibit Number	Description of Exhibit
2.1	Distribution Agreement dated September 25, 2013. Incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on October 1, 2013.
2.2	Agreement and Plan of Merger, dated January 26, 2016, among Leidos Holdings, Inc., Lockheed Martin Corporation, Abacus Innovations Corporation, and Lion Merger Co. Incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on January 28, 2016.
2.3	Separation Agreement, dated January 26, 2016, between Lockheed Martin Corporation and Abacus Innovations Corporation. Incorporated by reference to Exhibit 2.2 to our Current Report on Form 8-K filed with the SEC on January 28, 2016.
2.4	Amendment to Agreement and Plan of Merger, dated as of June 27, 2016, among Lockheed Martin Corporation, Leidos Holdings, Inc., Abacus Innovations Corporation and Lion Merger Co. Incorporated by reference to Exhibit 2.7 to our Registrant Statement on Form S-4 with the SEC on June 28, 2016.
2.5	Amendment to Separation Agreement, dated as of June 27, 2016, between Lockheed Martin Corporation and Abacus Innovations Corporation. Incorporated by reference to Exhibit 2.8 to our Registration Statement on Form S-4 filed with the SEC on June 29, 2016.
3.1	Amended and Restated Certificate of Incorporation of Leidos Holdings, Inc. Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed with the SEC on October 1, 2013.
3.2	Amended and Restated Bylaws of Leidos Holdings, Inc. Incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed with the SEC on April 13, 2016.
4.1	Indenture dated June 28, 2002, between Leidos, Inc. and JPMorgan Chase Bank, as trustee. Incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed with the SEC on July 3, 2002. (SEC File No. 000-12771)
4.2	First Supplemental Indenture, dated October 13, 2006, by and among Leidos, Inc., Leidos Holdings, Inc. and The Bank of New York Trust Company, N.A., as successor trustee to JPMorgan Chase Bank, N.A. Incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed with the SEC on October 17, 2006. (SEC File No. 001-33072)
4.3	Indenture dated as of December 20, 2010, among Leidos Holdings, Inc., Leidos, Inc., and The Bank of New York Mellon Trust Company, N.A. as Trustee. Incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K with the SEC on December 22, 2010.
10.1*	Leidos Holdings, Inc.'s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.1 to our Annual Report on Form 10-K filed with the SEC on March 27, 2014.
10.2*	Leidos, Inc. Stock Compensation Plan. Incorporated by reference to Exhibit 10.2 to our Annual Report on Form 10-K filed with the SEC on March 27, 2014.
10.3*	Leidos, Inc.'s Management Stock Compensation Plan. Incorporated by reference to Exhibit 10.3 to our Annual Report on Form 10-K filed with the SEC on March 27, 2014.

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PART IV

Exhibit Number	Description of Exhibit
10.4*	Amended and Restated Leidos, Inc.'s Keystaff Deferral Plan. Incorporated by reference to Exhibit 10.4 to our Transition Report on Form 10-K filed with the SEC on February 26, 2016.
10.5*	Amended and Restated Leidos, Inc.’s Key Executive Stock Deferral Plan. Incorporated by reference to Exhibit 10.4 to our Transition Report on Form 10-K filed with the SEC on February 26, 2016.
10.6*	Leidos Holdings, Inc.’s 2006 Employee Stock Purchase Plan. Incorporated by reference to Exhibit 10.6 to our Annual Report on Form 10-K filed with the SEC on March 27, 2014.
10.7*	Leidos, Inc.’s 401(k) Excess Deferral Plan. Incorporated by reference to Exhibit 10.7 to our Annual Report on Form 10-K filed with the SEC on March 27, 2014.
10.8*	Form of Stock Award Agreement of Leidos Holdings, Inc.’s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q filed with the SEC on December 9, 2009.
10.9*	Form of Stock Award Agreement (Non-Employee Directors) of Leidos Holdings, Inc.’s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.7 to our Quarterly Report on Form 10-Q filed with the SEC on December 9, 2009.
10.10*	Form of Nonstatutory Stock Option Agreement of Leidos Holdings, Inc.’s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.10 to our Annual Report on Form 10-K filed with the SEC on March 27, 2014.
10.11*	Form of Nonstatutory Stock Option Agreement (Non-Employee Directors) of Leidos Holdings, Inc.’s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.11 to our Annual Report on Form 10-K filed with the SEC on March 27, 2014.
10.12*	Form of Performance Share Award Agreement of Leidos Holdings, Inc.’s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed with the SEC on June 3, 2011.
10.13*	Form of Amendment to Performance Share Award Agreement of Leidos Holdings, Inc.’s 2006 Equity Incentive Plan (for Performance Share Award Agreements entered into prior to March 22, 2012). Incorporated by reference to Exhibit 10.10 to our Quarterly Report on Form 10-Q filed with the SEC on June 1, 2012.
10.14*	Form of Restricted Stock Unit Award Agreement of Leidos Holdings, Inc.’s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.14 to our Annual Report on Form 10-K filed with the SEC on March 27, 2014.
10.15*	Form of Restricted Stock Unit Award Agreement (Non-Employee Directors) of Leidos Holdings, Inc.’s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.15 to our Annual Report on Form 10-K filed with the SEC on March 27, 2014.
10.16*	Form of Restricted Unit Award Agreement (Management) of Leidos Holdings, Inc.’s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.16 to our Annual Report on Form 10-K filed as with the SEC on March 27, 2014.
10.17*	Form of Recoupment Policy and Non-Solicitation Acknowledgment and Agreement. Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed with the SEC on June 4, 2010.
10.18	Amended and Restated Four Year Credit Agreement, dated March 11, 2011, among Leidos Holdings, Inc., as borrower, Leidos, Inc., as guarantor, Citibank, N.A., as administrative agent, Bank of America, N.A., as syndication agent, Morgan Stanley Bank, N.A., The Bank of Nova Scotia and Wells Fargo Bank, National Association, as co-documentation agents, and the other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Leidos Holdings, Inc.’s Current Report on Form 8-K filed with the SEC on March 15, 2011.
10.19*	Form of Indemnification Agreement. Incorporated by reference to Exhibit 10.19 to our Annual Report on Form 10-K filed with the SEC on March 25, 2015.
10.20*	Executive Severance Plan.

PART IV

Exhibit Number	Description of Exhibit
10.21	Deferred Prosecution Agreement between Leidos, Inc. and the U.S. Attorney's Office for the Southern District of New York effective March 14, 2012. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on March 14, 2012.
10.22	Administrative Agreement between Leidos, Inc. and the United States Army on behalf of the U.S. Government, dated August 21, 2012. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on August 21, 2012.
10.23	Employee Matters Agreement dated September 25, 2013. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on October 1, 2013.
10.24	Tax Matters Agreement dated September 25, 2013. Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on October 1, 2013.
10.25	Transition Services Agreement dated September 25, 2013. Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the SEC on October 1, 2013.
10.26	Agreement, dated October 11, 2013, by and among Leidos Renewable Energy, LLC, Plainfield Renewable Energy Owner, LLC and Plainfield Renewable Energy Holdings, LLC. Incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q filed with the SEC on December 10, 2013.
10.27††	Confirmation, dated December 13, 2013, regarding Issuer Forward Repurchase Transaction between Leidos Holdings, Inc. and Bank of America, N.A. Incorporated by reference to Exhibit 10.29 to our Annual Report on Form 10-K filed with the SEC on March 27, 2014.
10.28*	Executive Employment Agreement dated June 30, 2014. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on July, 2, 2014.
10.29	Amendment No. 2 to the Amended and Restated Four Year Credit Agreement dated as of March 11, 2011, as amended by Amendment No. 1 dated April 19, 2013, among Leidos Holdings, Inc., as borrower, and Leidos, Inc., as guarantor, Citibank, N.A., as administrative agent and the other lending institutions party thereto. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on October 20, 2014.
10.30*	Transition Agreement, dated January 23, 2015, between Leidos Holdings, Inc. and Mark W. Sopp. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on January 29, 2015.
10.31*	Form of Performance Share Award Agreement of Leidos Holdings, Inc.'s 2006 Equity Incentive Plan (for Performance Share Award Agreements entered into on or after April 3, 2015). Incorporated by reference to Exhibit 10.19 to our Annual Report on Form 10-K filed with the SEC on March 25, 2015.
10.32*	Memorandum of Understanding, executed on March 24, 2014, between the Company and K. Stuart Shea. Incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q filed with the SEC on June 4, 2014.
10.33	Membership Interest Purchase Agreement by and among Leidos Engineering, LLC, Greenleaf Power Consolidated, LLC and Plainfield Renewable Energy, LLC dated March 24, 2015. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on March 25, 2015.
10.34*	Employment Offer Letter dated June 9, 2015. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on June 15, 2015.
10.35	Amendment to Membership Interest Purchase Agreement by and among Leidos Engineering, LLC, Greenleaf Power Consolidated, LLC and Plainfield Renewable Energy, LLC dated July 17, 2015. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on July 23, 2015.
10.36	Fourth Amendment to Purchase and Sale Agreement dated August 31, 2015. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on September 8, 2015.

PART IV

Exhibit Number	Description of Exhibit
10.37	Amendment No. 3 to the Amended and Restated Four Year Credit Agreement dated as of March 11, 2011, as amended by Amendment No. 1 dated April 19, 2013, and Amendment No. 2 dated as of October 17, 2014, among Leidos Holdings, Inc. as borrower and Leidos, Inc., as guarantor, Citibank, N.A., as administrative agent and the other lending institutions party thereto. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on January 28, 2016.
10.38	Credit Agreement dated August 16, 2016, among Leidos Holdings, Inc., Leidos, Inc., as Borrower, the lenders party thereto and Citibank, N.A., as administrative agent. Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed with the SEC on November 4, 2016.
10.39	Credit Agreement dated August 16, 2016, among Leidos Innovations Corporation (formerly Abacus Innovations Corporation) as Borrower, the lenders party thereto, and Citibank, N.A., as administrative agent. Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed with the SEC on November 4, 2016.
10.40	Intellectual Property Matters Agreement, dated August 16, 2016, between Lockheed Martin Corporation and Abacus Innovations Corporation. Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q filed with the SEC on November 4, 2016.
10.41	Shared Contracts Agreement - Shared Contracts (Parent Companies), dated August 16, 2016, between Lockheed Martin Corporation and Splitco. Incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q filed with the SEC on November 4, 2016.
10.42	Shared Contracts Agreement - Shared Contracts (Splitco Companies), dated August 16, 2016, between Lockheed Martin Corporation and Splitco. Incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q filed with the SEC on November 4, 2016.
10.43	Subcontract Pending Novation and Consent (Parent to Splitco), dated August 16, 2016, between Lockheed Martin Corporation and Splitco. Incorporated by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q filed with the SEC on November 4, 2016.
10.44	Supply Agreement (Parent to Splitco), dated August 16, 2016, between Lockheed Martin Corporation and Splitco. Incorporated by reference to Exhibit 10.7 to our Quarterly Report on Form 10-Q filed with the SEC on November 4, 2016.
10.45	Supply Agreement (Splitco to Parent), dated August 16, 2016, between Lockheed Martin Corporation and Splitco. Incorporated by reference to Exhibit 10.8 to our Quarterly Report on Form 10-Q filed with the SEC on November 4, 2016.
10.46	Transition Services Agreement (Parent to Splitco), dated August 16, 2016, between Lockheed Martin Corporation and Splitco. Incorporated by reference to Exhibit 10.9 to our Quarterly Report on Form 10-Q filed with the SEC on November 4, 2016.
21	Subsidiaries of Registrants.
23.1	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.
31.1	Certification of 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 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.
99.1	Patent License and Assignment Agreement dated as of August 12, 2005, between Leidos, Inc. and VirnetX, Inc. Incorporated by reference to Exhibit 99.1 to our Annual Report on Form 10-K filed with the SEC on April 1, 2010.

PART IV

Exhibit Number	Description of Exhibit
99.2†	Amendment No. 1 dated as of November 2, 2006, to Patent License and Assignment Agreement between Leidos, Inc. and VirnetX, Inc. Incorporated by reference to Exhibit 99.2 to our Annual Report on Form 10-K filed with the SEC on April 1, 2010.
99.3	Amendment No. 2 dated as of March 12, 2008, to Patent License and Assignment Agreement between Leidos, Inc. and VirnetX, Inc. Incorporated by reference to Exhibit 99.3 to our Form 10-K filed with the SEC on April 1, 2010.
99.4	Employee Matters Agreement, dated as of January 26, 2016, among Lockheed Martin Corporation, Abacus Innovations Corporation and Leidos Holdings, Inc. Incorporated by reference to Exhibit 99.1 to our Registration Statement on Form S-4 filed with the SEC on April 18, 2016.
99.5	Tax Matters Agreement, dated as of January 26, 2016, among Lockheed Martin Corporation, Abacus Innovations Corporation and Leidos Holdings, Inc. Incorporated by reference to Exhibit 99.2 to our Registration Statement on Form S-4 filed with the SEC on April 18, 2016.
99.6	First Amendment to Employee Matters Agreement, dated June 27, 2016, among Lockheed Martin Corporation, Abacus Innovations Corporation and Leidos Holdings, Inc. Incorporated by reference to Exhibit 99.13 to our Registration Statement on Form S-4 filed with the SEC on June 28, 2016.
99.7†	Professional Services Contract effective September 7, 1999, between Leidos, Inc. and In-Q-Tel, Inc. (f/k/a In-Q-It, Inc.). Incorporated by reference to Exhibit 99.4 to our Annual Report on Form 10-K filed with the SEC on April 1, 2010.
101	Interactive Data File.

* Executive Compensation Plans and Arrangements

† Confidential treatment has been granted with respect to certain portions of these exhibits

††Confidential treatment has been requested with respect to certain portions of this exhibit

Item 16. *Form 10-K Summary*

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Leidos Holdings, Inc.

By /s/ James C. Reagan

James C. Reagan
Executive Vice President and Chief Financial Officer

Dated: February 24, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Leidos Holdings, Inc., in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Roger A. Krone **Roger A. Krone**	Principal Executive Officer	February 24, 2017
/s/ James C. Reagan **James C. Reagan**	Principal Financial Officer	February 24, 2017
/s/ Ranjit S. Chadha **Ranjit S. Chadha**	Principal Accounting Officer	February 24, 2017
/s/ Gregory R. Dahlberg **Gregory R. Dahlberg**	Director	February 24, 2017
/s/ David G. Fubini **David G. Fubini**	Director	February 24, 2017
/s/ Miriam E. John **Miriam E. John**	Director	February 24, 2017
/s/ John P. Jumper **John P. Jumper**	Director	February 24, 2017
/s/ Harry M. J. Kraemer, Jr. **Harry M. J. Kraemer, Jr.**	Director	February 24, 2017
/s/ Gary S. May **Gary S. May**	Director	February 24, 2017
/s/ Surya N. Mohapatra **Surya N. Mohapatra**	Director	February 24, 2017
/s/ Lawrence C. Nussdorf **Lawrence C. Nussdorf**	Director	February 24, 2017
/s/ Robert S. Shapard **Robert S. Shapard**	Director	February 24, 2017
/s/ Susan M. Stalnecker **Susan M. Stalnecker**	Director	February 24, 2017
/s/ Noel B. Williams **Noel B. Williams**	Director	February 24, 2017

LEIDOS HOLDINGS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Financial statement schedules are omitted because they are not applicable or the required information is presented in the consolidated financial statements or the notes thereto.

LEIDOS HOLDINGS, INC.
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Leidos Holdings, Inc.

Reston, Virginia

We have audited the accompanying consolidated balance sheets of Leidos Holdings, Inc. and subsidiaries (the "Company") as of December 30, 2016 and January 1, 2016, and the related consolidated statements of income (loss), comprehensive income (loss), equity, and cash flows for the fiscal year ended December 30, 2016, the 11-month period ended January 1, 2016 and the fiscal year ended January 30, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Leidos Holdings, Inc. and subsidiaries as of December 30, 2016 and January 1, 2016, and the results of their operations and their cash flows for the fiscal year ended December 30, 2016, the 11-month period ended January 1, 2016 and the fiscal year ended January 30, 2015, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective for the 11-month period ended January 1, 2016, the Company changed its fiscal year end from the Friday nearest the end of January to the Friday nearest the end of December. As a result of this change, the prior year was an 11-month transition period which began on January 31, 2015 and ended on January 1, 2016.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 30, 2016, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2017, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

McLean, Virginia

February 24, 2017

LEIDOS HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

	December 30, 2016	January 1, 2016
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 376	$ 656
Receivables, net	1,657	921
Inventory, prepaid expenses and other current assets	348	216
Total current assets	2,381	1,793
Property, plant and equipment, net	259	142
Intangible assets, net	1,589	25
Goodwill	4,622	1,207
Deferred tax assets	16	8
Other assets	265	195
	$ 9,132	$ 3,370
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,427	$ 761
Accrued payroll and employee benefits	483	268
Dividends payable	23	2
Income taxes payable	21	6
Notes payable and long-term debt, current portion	62	2
Liabilities of discontinued operations	—	1
Total current liabilities	2,016	1,040
Notes payable and long-term debt, net of current portion	3,225	1,079
Deferred tax liabilities	540	34
Other long-term liabilities	204	149
Commitments and contingencies (Notes 17, 20 and 21)		
Stockholders' equity:		
Preferred stock, $.0001 par value,10 million shares authorized and no shares issued and outstanding at December 30, 2016 and January 1, 2016	—	—
Common stock, $.0001 par value, 500 million shares authorized, 150 million and 72 million shares issued and outstanding at December 30, 2016, and January 1, 2016, respectively	—	—
Additional paid-in capital	3,316	1,353
Accumulated deficit	(177)	(277)
Accumulated other comprehensive loss	(4)	(8)
Total Leidos stockholders' equity	3,135	1,068
Non-controlling interest	12	—
Total equity	3,147	1,068
	$ 9,132	$ 3,370

See accompanying notes to consolidated financial statements.

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

	12 Months Ended	11 Months Ended		12 Months Ended
	December 30, 2016	January 1, 2016	January 2, 2015 (unaudited)	January 30, 2015
	(in millions, except per share amounts)			
Revenues	**$ 7,043**	$ 4,712	$ 4,690	$ 5,063
Cost of revenues	**6,191**	4,146	4,069	4,392
Selling, general and administrative expenses	**334**	201	280	310
Bad debt expense	**3**	8	4	5
Acquisition and integration costs	**90**	—	—	—
Goodwill impairment charges	**—**	—	486	486
Asset impairment charges	**4**	33	41	81
Restructuring expenses	**14**	4	1	3
Equity earnings of non-consolidated subsidiaries	**(10)**	—	—	—
Operating income (loss)	**417**	320	(191)	(214)
Interest income	**10**	4	1	1
Interest expense	**(96)**	(53)	(71)	(75)
Other (expense) income, net	**(13)**	84	5	5
Income (loss) from continuing operations before income taxes	**318**	355	(256)	(283)
Income tax expense	**(72)**	(112)	(67)	(47)
Income (loss) from continuing operations	**246**	243	(323)	(330)
Discontinued operations:				
Loss from discontinued operations before income taxes	**—**	(1)	(14)	(13)
Income tax benefit	**—**	—	3	20
(Loss) income from discontinued operations	**—**	(1)	(11)	7
Net income (loss)	**246**	242	(334)	(323)
Less: net income attributable to non-controlling interest, net of taxes	**2**	—	—	—
Net income (loss) attributable to Leidos common stockholders	**$ 244**	$ 242	$ (334)	$ (323)
Earnings (loss) per share:				
Basic:				
Income (loss) from continuing operations attributable to Leidos common stockholders	**$ 2.39**	$ 3.33	$ (4.36)	$ (4.46)
Discontinued operations, net of taxes	**—**	(0.01)	(0.15)	0.10
Net income (loss) attributable to Leidos common stockholders	**$ 2.39**	$ 3.32	$ (4.51)	$ (4.36)
Diluted:				
Income (loss) from continuing operations attributable to Leidos common stockholders	**$ 2.35**	$ 3.28	$ (4.36)	$ (4.46)
Discontinued operations, net of taxes	**—**	(0.01)	(0.15)	0.10
Net income (loss) attributable to Leidos common stockholders	**$ 2.35**	$ 3.27	$ (4.51)	$ (4.36)

See accompanying notes to consolidated financial statements.

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

	12 Months Ended	11 Months Ended		12 Months Ended
	December 30, 2016	January 1, 2016	January 2, 2015 (unaudited)	January 30, 2015
	(in millions)			
Net income (loss)	**$ 246**	$ 242	$ (334)	$ (323)
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustments, net of taxes of $1 million for fiscal 2016 and fiscal 2015	**(7)**	(1)	(1)	(1)
Unrecognized gain on derivative instruments, net of taxes of ($10) million for fiscal 2016	**14**	1	1	—
Pension liability adjustments, net of taxes of $2 million, ($2) million, $2 million and $3 million for fiscal 2016, the 11-month periods ended January 1, 2016 and January 2, 2015, and fiscal 2015, respectively	**(3)**	3	(4)	(4)
Total other comprehensive income (loss), net of taxes	**4**	3	(4)	(5)
Comprehensive income (loss)	**250**	245	(338)	(328)
Less: comprehensive income attributable to non-controlling interest, net of taxes	**2**	—	—	—
Comprehensive income (loss) attributable to Leidos	**$ 248**	$ 245	$ (338)	$ (328)

See accompanying notes to consolidated financial statements.

LEIDOS HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF EQUITY

	Shares of common stock	Additional paid-in capital	Accumulated earnings (deficit)	Accumulated other comprehensive loss	Leidos Holdings, Inc. stockholders' equity	Non-controlling interest	Total
	(in millions, except for per share amounts)						
Balance at January 31, 2014	80	$ 1,576	$ 25	$ (6)	$ 1,595	$ —	$ 1,595
Net loss	—	—	(323)	—	(323)	—	(323)
Other comprehensive loss, net of taxes	—	—	—	(5)	(5)	—	(5)
Issuances of stock (less forfeitures)	1	1	—	—	1	—	1
Repurchases of stock and other	(7)	(178)	(37)	—	(215)	—	(215)
Dividends of $1.28 per common share	—	—	(89)	—	(89)	—	(89)
Adjustments for income tax benefits from stock-based compensation	—	(6)	—	—	(6)	—	(6)
Stock-based compensation	—	42	—	—	42	—	42
Other	—	(2)	—	—	(2)	—	(2)
Balance at January 30, 2015	74	1,433	(424)	(11)	998	—	998
Net income	—	—	242	—	242	—	242
Other comprehensive income, net of taxes	—	—	—	3	3	—	3
Issuances of stock (less forfeitures)	1	7	—	—	7	—	7
Repurchases of stock and other	(3)	(118)	—	—	(118)	—	(118)
Dividends of $1.28 per common share	—	—	(95)	—	(95)	—	(95)
Adjustments for income tax benefits from stock-based compensation	—	1	—	—	1	—	1
Stock-based compensation	—	30	—	—	30	—	30
Balance at January 1, 2016	72	1,353	(277)	(8)	1,068	—	1,068
Net income			244	—	244	2	246
Other comprehensive income, net of taxes	—	—	—	4	4	—	4
Issuances of stock (less forfeitures)	1	36	—	—	36	—	36
Repurchases of stock and other	—	(24)	—	—	(24)	—	(24)
Dividends of $1.28 per share	—	—	(144)	—	(144)	—	(144)
Special cash dividend of $13.64 per share	—	(1,022)	—	—	(1,022)	—	(1,022)
Stock-based compensation	—	35	—	—	35	—	35
Stock issued for the IS&GS Business acquisition	77	2,938	—	—	2,938	—	2,938
Equity interest acquired	—	—	—	—	—	10	10
Balance at December 30, 2016	**150**	**$ 3,316**	**$ (177)**	**$ (4)**	**$ 3,135**	**$ 12**	**$ 3,147**

See accompanying notes to consolidated financial statements.

LEIDOS HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	12 Months Ended	11 Months Ended		12 Months Ended
	December 30, 2016	January 1, 2016	January 2, 2015 (unaudited)	January 30, 2015
		(in millions)		
Cash flows from operations:				
Net income (loss)	**$ 246**	$ 242	$ (334)	$ (323)
Income (loss) from discontinued operations	**—**	1	11	(7)
Adjustments to reconcile net income (loss) to net cash provided by continuing operations:				
Depreciation and amortization	**122**	41	58	62
Stock-based compensation	**35**	30	40	42
Goodwill impairment charges	**—**	—	486	486
Asset impairment charges	**4**	33	41	81
Gain on a real estate sale	**—**	(82)	—	—
Other	**—**	6	4	8
Change in assets and liabilities, net of effects of acquisitions and dispositions:				
Receivables	**123**	(19)	68	162
Inventory, prepaid expenses and other current assets	**(101)**	3	6	(12)
Accounts payable and accrued liabilities	**(25)**	102	(41)	(43)
Accrued payroll and employee benefits	**26**	5	10	(21)
Deferred income taxes and income taxes receivable/payable	**36**	81	37	(31)
Other long-term assets/liabilities	**(20)**	(44)	(1)	(8)
Total cash flows provided by operating activities of continuing operations	**446**	399	385	396
Cash flows from investing activities:				
Payments for property, plant and equipment	**(29)**	(27)	(29)	(29)
Acquisitions of businesses	**25**	(2)	—	—
Payments on accrued purchase price related to prior acquisition	**—**	(13)	—	—
Net proceeds from sale of assets	**3**	79	—	—
Proceeds from disposition of business	**23**	27	—	—
Proceeds from collections on promissory note	**4**	—	—	—
Proceeds from U.S. Treasury cash grant	**—**	—	80	80
Total cash flows provided by investing activities of continuing operations	**26**	64	51	51

LEIDOS HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS [CONTINUED]

	12 Months Ended	11 Months Ended		12 Months Ended
	December 30, 2016	January 1, 2016	January 2, 2015 (unaudited)	January 30, 2015
	(in millions)			
Cash flows from financing activities:				
Payments of long-term debt	**(277)**	(39)	(154)	(177)
Payments on real estate financing transaction	**—**	(8)	—	—
Proceeds from debt issuance	**690**	—	—	—
Payments for debt issuance costs	**(30)**	—	—	—
Proceeds from issuances of stock	**25**	6	7	7
Repurchases of stock and other	**(24)**	(118)	(213)	(215)
Special cash dividend payment	**(993)**	—	—	—
Dividend payments	**(142)**	(93)	(72)	(95)
Other	**—**	3	1	2
Total cash flows used in financing activities of continuing operations	**(751)**	(249)	(431)	(478)
(Decrease) increase in cash and cash equivalents from continuing operations	**(279)**	214	5	(31)
Cash flows from discontinued operations:				
Cash (used in) provided by operating activities of discontinued operations	**—**	(7)	(5)	15
Cash (used in) provided by investing activities of discontinued operations	**(1)**	6	29	29
(Decrease) increase in cash and cash equivalents from discontinued operations	**(1)**	(1)	24	44
Total (decrease) increase in cash and cash equivalents	**(280)**	213	29	13
Cash and cash equivalents at beginning of year	**656**	443	430	430
Cash and cash equivalents at end of year	**$ 376**	$ 656	$ 459	$ 443

See accompanying notes to consolidated financial statements.

LEIDOS HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—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 solutions company that provides technology and engineering solutions in the defense, intelligence, homeland security, civil and health markets. Leidos brings 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. Leidos' domestic customers include agencies of 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, other 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.

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 acquired IS&GS Business was renamed Leidos Innovations Corporation. See "Note 2–Acquisitions" for further information. As a result of the Lockheed Martin transaction, the Company received an interest in Mission Support Alliance, LLC ("MSA"), a joint venture with Jacobs Engineering Group, Inc. and Centerra Group, LLC. The Company has consolidated the financial results for MSA into its consolidated financial statements.

The 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.

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. The Company disaggregated "Goodwill and intangible assets, net" into "Goodwill" and "Intangible assets, net"; separately disclosed "Dividends payable" and "Income taxes payable," which were previously aggregated within "Accounts payable and accrued liabilities"; and separately disclosed "Deferred tax liabilities," which was previously aggregated within "Other long-term liabilities" on the consolidated balance sheets.

Reporting Periods

On March 20, 2015, the Board of Directors approved the amendment and restatement of the bylaws of Leidos to change Leidos' year end from the Friday nearest the end of January to the Friday nearest the end of December.

As a result of this change, the Company filed a Transition Report on Form 10-K for the 11-month period which began on January 31, 2015, and ended on January 1, 2016.

This change did not impact the Company's prior reported fiscal years, which covered a 12-month period and ended on the Friday closest to January 31. Fiscal 2015 began on February 1, 2014, and ended on January 30, 2015.

This Annual Report on Form 10-K for fiscal 2016 covers a 12-month period that began on January 2, 2016, and ended on December 30, 2016.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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 cost billings, 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.

Restructuring Expenses

Restructuring expenses are incurred in connection with programs aimed at reducing the Company's costs and primarily include lease termination, vacancy costs and termination costs associated with headcount reduction. A liability for costs associated with vacant or idle facilities is recognized and measured initially at its fair value in the period in which the liability is incurred and the use of the facility has ceased. Sublease loss liabilities are estimated and recorded, as of the estimated sublease commencement date, and adjusted when necessary. Liabilities associated with reduced headcount occur when the obligations are probable and estimable based on management's approval date for these termination benefit obligations regardless of whether the Company has communicated its decision to terminate the employees.

Operating Cycle

The Company’s operating cycle for long-term contracts may be greater than one year and is measured by the average time intervening between the inception and the completion of those contracts. Contract-related assets and liabilities are therefore generally classified as current assets and current liabilities.

Business Combinations, Investments and Variable Interest Entities

Business Combinations

The accounting for business combinations requires the Company to make judgments and estimates related to the fair value of assets acquired, including the identification and valuation of intangible assets, as well as liabilities and contingencies assumed. Such judgments and estimates directly impact the amount of goodwill recognized in connection with an acquisition.

Investments

Investments in entities and corporate joint ventures where the Company has a noncontrolling ownership interest representing less than 50% and over which the Company has the ability to exercise significant influence, are accounted for under the equity method of accounting whereby the Company recognizes its proportionate share of the entities’ net income or loss and does not consolidate the entities' assets and liabilities.

Equity investments in entities over which the Company does not have the ability to exercise significant influence and whose securities do not have a readily determinable fair value are carried at cost or cost net of other-than-temporary impairments.

Variable Interest Entities

The Company occasionally forms joint ventures and/or enters into arrangements with special purpose limited liability companies for the purpose of bidding and executing on specific projects. The Company analyzes each such arrangement to determine whether it represents a variable interest entity ("VIE"). If the arrangement is determined to be a VIE, the Company assesses whether it is the primary beneficiary of the VIE and is consequently required to consolidate the VIE.

Revenue Recognition

The Company’s revenues are generated primarily from contracts with the U.S. Government, commercial customers and various international, state and local governments or from subcontracts with other contractors engaged in work with such customers. The Company performs under various types of contracts, which include firm-fixed-price, time-and-materials, fixed-price-level-of-effort, cost-plus-fixed-fee, cost-plus-award-fee, cost-plus-incentive-fee and fixed-price-incentive fee contracts.

Firm-fixed-price contracts—Revenues and fees on these contracts that are system integration or engineering in nature are primarily recognized using the percentage-of-completion method of accounting utilizing the cost-to-cost method. The completed contract method is utilized when reasonable and reliable cost estimates for a project cannot be made.

Time-and-materials contracts—Revenue is recognized on time-and-materials contracts based on the hours provided in performance under the contract multiplied by the negotiated contract billing rates, plus the negotiated contract billing rate of any allowable material and subcontract costs and out-of-pocket expenses.

Fixed-price-level-of-effort contracts ("FP-LOE")—These contracts are substantially similar to time-and-materials contracts except they require a specified level of effort over a stated period of time. Accordingly, the Company recognizes revenue on FP-LOE contracts with the U.S. Government in a manner similar to time-and-materials contracts in which the Company measures progress toward completion based on the hours provided in performance under the contract multiplied by the negotiated contract billing rates, plus the negotiated contract billing rate of any allowable material costs and out-of-pocket expenses.

Cost-plus-fixed-fee contracts—Revenue is recognized on cost-plus-fixed-fee contracts with the U.S. Government on the basis of partial performance equal to costs incurred, plus an estimate of applicable fees earned as the Company becomes contractually entitled to reimbursement of costs and the applicable fees.

Cost-plus-award-fee/cost-plus-incentive fee contracts—Revenues and fees on these contracts with the U.S. Government are primarily recognized using the percentage-of-completion method of accounting, most often based on the cost-to-cost method. The Company includes an estimate of the ultimate incentive or award fee to be received on the contract in the estimate of contract revenues for purposes of applying the percentage-of-completion method of accounting.

Fixed-price-incentive fee (“FP-IF”)—Contracts are substantially similar to cost plus incentive fee contracts recognized using the percentage-of-completion method of accounting except they require specified targets for cost and profit, price ceiling (but not a profit ceiling or floor), and profit adjustment formula. Under an FP-IF contract, the allowable costs incurred are eligible for reimbursement but are subject to a cost-share arrangement, which affects profitability. Generally, if costs exceed the contract target cost or are not allowable under the applicable regulations, the Company may not be able to obtain reimbursement for all costs and may have fees reduced or eliminated.

Revenues from services and maintenance contracts, notwithstanding contract type, are recognized over the term of the respective contracts as the services are performed and revenue is earned. Revenues from unit-priced contracts are recognized as transactions are processed based on objective measures of output. Revenues from the sale of manufactured products are recorded upon passage of title and risk of loss to the customer, which is generally upon delivery, provided that all other requirements for revenue recognition have been met.

The Company also uses the efforts-expended method of percentage-of-completion using measures such as labor dollars for measuring progress toward completion in situations in which this approach is more representative of the progress on the contract. For example, the efforts-expended method is utilized when there are significant amounts of materials or hardware procured for the contract that is not representative of progress on the contract. Additionally, the Company utilizes the units-of-delivery method under percentage-of-completion on contracts where separate units of output are produced. Under the units-of-delivery method, revenue is generally recognized when the units are delivered to the customer, provided that all other requirements for revenue recognition have been met.

The Company evaluates its contracts for multiple elements, and when appropriate, separates the contracts into separate units of accounting for revenue recognition. Revenues generated from product sales do not represent a material amount of the Company's total revenues.

The Company provides for anticipated losses on contracts by recording an expense during the period in which the losses are determined. Amounts billed and collected but not yet recognized as revenues under contracts are deferred. Contract costs incurred for U.S. Government contracts, including indirect costs, are subject to audit and adjustment through negotiations between the Company and government representatives. The Company's indirect cost audits by the DCAA remain open for fiscal 2012 and subsequent fiscal years for Leidos, Inc. and for fiscal 2009 and subsequent fiscal years for Leidos Innovations Corporation. Revenues on U.S. Government contracts have been recorded in amounts that are expected to be realized upon final settlement.

Contract claims are unanticipated additional costs incurred but not provided for in the executed contract price that the Company seeks to recover from the customer. Such costs are expensed as incurred. Additional revenue related to contract claims is recognized when the amounts are awarded by the customer. Un-priced change orders are included in revenue when they are probable of recovery in an amount at least equal to the cost.

In certain situations, primarily where the Company is not the primary obligor on certain elements of a contract such as the provision of administrative oversight and/or management of government-owned facilities or support services related to other vendors' products, the Company recognizes as revenue the net management fee associated with the services and excludes from its income statement the gross sales and costs associated with the facility or other vendors' products.

Changes in Estimates on Contracts

Changes in estimates related to 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 IS&GS contracts where the adjustment is for the period commencing from the date of acquisition. Changes in these estimates can routinely 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 fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015 were as follows:

	12 Months Ended	11 Months Ended	12 Months Ended
	December 30, 2016	January 1, 2016	January 30, 2015
	(in millions, except for per share amounts)		
Net favorable impact to income (loss) from continuing operations before taxes	**$ 37**	$ 18	$ 24
Impact on diluted EPS from continuing operations attributable to Leidos common stockholders	**$ 0.22**	$ 0.14	$ 0.20

Divestitures

From time-to-time, the Company may dispose (or management may commit to plans to dispose) of strategic or non-strategic components of the business. Divestitures representing a strategic shift in operations are reclassified as discontinued operations for all periods presented. Non-strategic divestitures are not reclassified as discontinued operations and remain in continuing operations.

During fiscal 2015, the Company adopted the provisions of Accounting Standards Update ("ASU") 2014-08 *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity,* which designated new discontinued operations qualification criteria. For the divestitures presented in this Annual Report for periods prior to the 11-month period ended January 1, 2016, the provisions in ASU 2014-08 were not applicable and thus the divestitures reclassified as discontinued operations for those periods represent both non-strategic and strategic shifts in operations.

Pre-contract and Transition Costs

Pre-contract Costs

Costs incurred on projects as pre-contract costs are deferred as assets (inventory, prepaid expenses and other current assets) when the Company has been requested by the customer to begin work under a new arrangement prior to contract execution and it is probable that the Company will recover the costs through the issuance of a contract. When the formal contract has been executed, the costs are recorded to the contract and revenue is recognized.

Transition Costs

Under certain services contracts, costs are incurred, usually at the beginning of the contract performance, to transition the services, employees and equipment from the customer or prior contractor. These costs are capitalized as deferred assets and amortized over the shorter of the contractual period of performance or expected period of performance, if recoverability is deemed probable. Payments received from the customer for the performance of the transition services are deferred and amortized to over the same period as costs.

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 the 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 fair value of financial instruments is determined based on quoted market prices, if available, or management's best estimate (see "Financial Instruments" below). At December 30, 2016, the Company did not have any financial assets or liabilities measured at fair value on a recurring basis using Level 3 inputs.

Management evaluates its investments for other-than-temporary impairment at each balance sheet date. When testing long-term investments for recovery of carrying value, the fair value of long-term investments is determined using various valuation techniques and factors such as, market prices of comparable companies (Level 2 input), discounted cash flow models (Level 3 input) and recent capital transactions of the portfolio companies being valued (Level 3 input). If management determines that an other-than-temporary decline in the fair value of an investment has occurred, an impairment loss is recognized to reduce the investment to its estimated fair value.

The Company’s non-financial instruments measured at fair value on a non-recurring basis include goodwill, indefinite-lived intangible assets and long-lived tangible assets. The valuation methods used to determine fair value require a significant degree of management judgment to determine the key assumptions. As such, the Company generally classifies non-financial instruments as either Level 2 or Level 3 fair value measurements. On August 16, 2016, the Company had non-financial instruments measured at fair value on a non-recurring basis in connection with the acquisition of Lockheed Martin's IS&GS Business. Refer to "Note 2–Acquisitions" for the preliminary fair values of the assets acquired and liabilities assumed. At December 30, 2016, the Company did not have any material non-financial instruments measured at fair value on a non-recurring basis.

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 (see "Note 3–Divestitures" and "Note 17–Leases") as of December 30, 2016, of $92 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). The fair value of long-term debt (see "Note 11–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).

Financial Instruments

The Company is exposed to certain market risks which are inherent in certain transactions entered into during the normal course of business. These transactions include sales or purchase contracts denominated in foreign currencies, investments in equity securities and exposure to changing interest rates. The Company manages its risk to changes in interest rates through the use of derivative instruments.

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. The fair value of these interest rate swaps is determined based on observed values for underlying interest rates on the LIBOR yield curve (Level 2).

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. The fair value of these interest rate swaps is determined based on observed values for the underlying interest rate (Level 2).

The Company does not hold derivative instruments for trading or speculative purposes.

The Company's defined benefit plan assets consist of investments in pooled funds that contain investments with values based on quoted market prices, but for which the pools are not valued on a daily quoted market basis (Level 2 inputs).

Cash and Cash Equivalents

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. There are immaterial restrictions on the withdrawal of the Company's cash and cash equivalents of foreign currency due to exchange control regulations.

Restricted Cash

The Company has restricted cash balances, primarily representing advances from customers that are restricted as to use for certain expenditures related to that customer's contract. Restricted cash balances are included as "Inventory, prepaid expenses and other current assets" in the Company's consolidated balance sheets.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk primarily consists of accounts receivable. Since the Company's receivables are primarily with the U.S. Government, the Company does not have exposure to a material credit risk. Additionally, the Company is subject to credit risk related to its derivatives. This risk is limited, as the Company's derivatives are managed through the use of multiple counterparties with high credit standards.

Receivables

The Company's accounts receivable include amounts billed and currently due from customers. As of the 11-month period ended January 1, 2016, the amounts billable within the next month were classified as billed receivables. Such receivables were classified as unbilled receivables for fiscal 2016.

Amounts billable are stated at estimated realizable value and consist of costs and fees, substantially all of which are expected to be billed and collected within one year. Amounts billable also include rate variances that are billable upon negotiation of final indirect rates with the U.S. Government and, once billed, are subject to audit and approval by government representatives.

Contract retentions are billed upon contract completion, or the occurrence of a specified event, and when negotiation of final indirect rates with the U.S. Government is complete. Consequently, the timing of collection of retention balances is outside the Company's control. Based on the Company's historical experience, the majority of retention balances are expected to be collected beyond one year and write-offs of retention balances have not been significant. When events or conditions indicate that amounts outstanding from customers may become uncollectible, an allowance is estimated and recorded.

Inventories

Inventories are valued at the lower of cost or estimated net realizable value. Raw material inventory is valued using the average cost method. Work-in-process inventory includes raw material costs plus labor costs, including fringe benefits, and allocable overhead costs. The majority of finished goods inventory consists of security products and baggage scanning equipment. The Company evaluates inventory against historical and planned usage to determine appropriate provisions for obsolete inventory.

Property, Plant and Equipment

Purchases of property, plant and equipment as well as costs associated with major renewals and improvements are capitalized. Maintenance, repairs and minor renewals and improvements are expensed as incurred.

Construction in Progress ("CIP") is used to accumulate all costs for projects that are not yet complete. CIP balances are transferred to the appropriate asset account when the asset is capitalized and ready for its intended use.

When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is recognized. Depreciation is recognized using the methods and estimated useful lives as follows:

	Depreciation method	Estimated useful lives (in years)
Computers and other equipment	Straight-line or declining-balance	2-10
Buildings	Straight-line	Not to exceed 40
Building improvements and leasehold improvements	Straight-line	Shorter of useful life of asset or remaining lease term
Office furniture	Straight-line or declining-balance	6-9

The Company evaluates its long-lived assets for potential impairment whenever there is evidence that events or changes in circumstances indicate that the carrying value may not be recoverable and the carrying amount of the asset exceeds its estimated fair value.

Project Assets

Purchases of project assets are capitalized for specific contracts where delivery has not yet occurred or ownership is maintained by the Company over the life of the contract. Project assets include enterprise software licenses, computers, and significant material purchases on contracts. These project assets are relieved from the balance sheet based on different methodologies, including transfer of assets, amortization based on useful life and percentage of completion utilizing efforts expended method of revenue recognition.

Goodwill

Goodwill represents purchase consideration paid in a business combination that exceeds the fair values of the net assets of acquired businesses. Goodwill is not amortized, but instead is tested for impairment at the reporting unit level annually, on the first day of the fourth quarter, and during interim periods, if events or circumstances indicate that the carrying value may not be recoverable. The Company's policy is to perform its annual goodwill impairment evaluation as of the first day of the fourth quarter of its fiscal year.

The change in the Company's fiscal year-end from the Friday nearest the end of January to the Friday nearest the end of December resulted in an annual goodwill impairment test date for the 11-month period ended January 1, 2016, that was approximately one month earlier than in previous years. The change in the annual goodwill impairment testing date was deemed to be a change in accounting principle, which the Company believes to be preferable. The change was made to better align with the Company's most significant customer’s fiscal year as well as the Company's year-end reporting cycle and annual planning and budgeting process, which is a significant element in the annual goodwill impairment test. This change in accounting principle did not delay, accelerate or avoid a goodwill impairment charge. The annual goodwill impairment test was performed on November 1, 2014, for fiscal 2015, and on October 3, 2015, for the 11-month period ended January 1, 2016, such that a period greater than 12 months did not elapse between test dates. The change in the annual goodwill impairment testing date was applied prospectively beginning on October 3, 2015, and had no effect on the consolidated financial statements. This change was not applied retrospectively as it is impracticable to objectively determine valuation estimates in prior periods.

Goodwill is evaluated for impairment either under a qualitative assessment option or a two-step quantitative approach depending on the facts and circumstances of a reporting unit, including consideration of the excess of fair value over carrying amount in previous assessments and changes in business environment.

When performing a qualitative assessment, the Company considers factors including, but not limited to, current macroeconomic conditions, industry and market conditions, cost factors, financial performance and other events relevant to the entity or reporting unit under evaluation to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines that it is more likely than not that a reporting unit's fair value is less than its carrying amount, a quantitative two-step goodwill impairment test is performed.

In evaluating the first step of the two-step quantitative goodwill impairment test, the estimated fair value of each reporting unit is compared to its carrying value, which includes the allocated goodwill. If the estimated fair value of a reporting unit is more than its carrying value, no further analysis is required. If the estimated fair value of a reporting unit is less than its carrying value, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill. The implied fair value of goodwill is the residual fair value derived by deducting the fair value of a reporting unit’s identifiable assets and liabilities from its estimated fair value calculated in the first step. If the carrying value of a reporting unit’s goodwill exceeds its implied fair value, then the Company records an impairment charge equal to the difference.

The Company estimates the fair value of each reporting unit using both market and income approaches (Level 3) when a quantitative analysis is performed.

The market approach is a technique where the fair value is calculated based on fair values of publicly-traded companies that provide a reasonable basis of comparison with the reporting unit. Valuation ratios are selected that relate market prices to selected financial metrics from comparable companies. These ratios are applied after consideration of adjustments and weightings related to financial position, growth, volatility, working capital movement, and other factors. Due to the fact that stock prices of comparable companies represent minority interests, the Company also considers an acquisition control premium to reflect the impact of additional value associated with a controlling interest.

The income approach is a technique where the fair value is calculated based on present value of future cash flows using risk-adjusted discount rates, which represent the weighted-average cost of capital ("WACC") for each reporting unit. Determination of WACC includes assessing the cost of equity and debt as of the valuation date. In addition, a terminal value is developed for forecasted future cash flows beyond the projection period discounted back to the present value. The forecasts used in the Company’s estimation of fair value are developed by management based on business and market considerations.

The goodwill impairment test process and valuation model is based upon certain key assumptions that require the exercise of significant judgment including judgments for the use of appropriate financial projections, economic expectations, discount rates and WACC as well as using available market data.

Intangible Assets

Acquired intangible assets with finite lives are amortized using the method that best reflects how their economic benefits are utilized or, if a pattern of economic benefits cannot be reliably determined, on a straight-line basis over their estimated useful lives. Intangible assets with finite lives are being amortized over the following periods:

	Estimated useful lives (in years)
Customer relationships	8-10
Software and technology	9-15
Programs and contract intangibles	10
Backlog	1

Intangible assets with finite lives are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. See "Note 6—Intangible Assets" for impairment charges taken during the 11-month period ended January 1, 2016 and fiscal 2015.

Intangible assets with indefinite lives are not amortized but are assessed for impairment at the beginning of the fourth quarter and whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Selling, General and Administrative Expenses

The Company classifies indirect costs incurred within or allocated to its U.S. Government customers as overhead (included in cost of revenues) or general and administrative expenses in the same manner as such costs are defined in the Company's disclosure statements under U.S. Government Cost Accounting Standards.

Selling, general and administrative expenses include general and administrative, bid and proposal and internal research and development ("IR&D") expenses.

The Company conducts research and development activities under customer-funded contracts and with company-funded IR&D funds. For fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015, company-funded IR&D expense was $44 million, $29 million and $37 million, respectively. Expenses for research and development activities performed under customer contracts are charged directly to cost of revenues for those contracts.

Income Taxes

The Company accounts for income taxes under the asset and liability method in accordance with the accounting standard for income taxes. The asset and liability method requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. Under this method, changes in tax rates and laws are recognized in income in the period such changes are enacted.

The Company records net deferred tax assets to the extent that it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent results of operations. If the Company were to determine that it would be able to realize its deferred income tax assets in the future in excess of their net recorded amount or would no longer be able to realize its deferred income tax assets in the future as currently recorded, the Company would make an adjustment to the valuation allowance which would decrease or increase the provision for income taxes.

The provision for federal, state, foreign and local income taxes is calculated on income before income taxes based on current tax law and includes the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provision differs from the amounts currently payable because certain items of income and expense are recognized in different reporting periods for financial reporting purposes than for income tax purposes.

The Company recognizes liabilities for uncertain tax positions when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company recognizes interest and penalties related to uncertain tax positions in its income tax expense.

Stock-Based Compensation

The Company recognizes the fair value of all stock-based awards granted to employees and directors in exchange for services as compensation expense over the requisite service period, which is typically the vesting period, net of an estimated forfeiture rate.

Foreign Currency

The financial statements of consolidated international subsidiaries, for which the functional currency is not the U.S. dollar, are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and a weighted average exchange rate over the reporting period for revenues, expenses, gains and losses. Translation adjustments are recorded as accumulated other comprehensive income (loss) in stockholders' equity. Gains and losses due to movements in foreign currency exchange rates, are recognized in the Company's consolidated statements of income (loss).

Accounting Standards Updates Adopted

During fiscal 2016, the Company adopted the following Accounting Standard Updates (ASUs):

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This update eliminates separate presentation for debt issuance costs as an asset and requires issuance costs to be reported in the balance sheet as a direct reduction to the face amount of the associated debt. The Company adopted this ASU on a retrospective basis during the Company's first quarter ended April 1, 2016. This resulted in a reclassification of deferred financing costs related to the Company's notes of $7 million from "Other assets" to "Notes payable and long-term debt, net of current portion" as of January 1, 2016.

In March 2016, the FASB issued ASU 2016-09 *Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* This update is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. Among other requirements in the new standard, 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 an $8 million discrete tax benefit for fiscal 2016, and operating cash flows for fiscal 2016 increased $8 million with a corresponding decrease to financing cash flows.

The Company adopted various other accounting standard updates, none of which had a material effect on the Company’s consolidated financial position, results of operations or cash flows.

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 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.

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. We are in the process of evaluating the adoption methodology of the standard along with the potential impacts. The Company has substantially completed an initial assessment of the new standard and began to quantify the financial statement impact. We believe the majority of our 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.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU will supersede the current lease guidance under ASC 840 and makes several changes, such as requiring an entity to recognize a right-of-use asset and corresponding lease obligation in the balance sheet, classified as financing or operating, as appropriate. The update is effective for public companies in the beginning of fiscal 2019 and should be adopted under the modified retrospective approach. Early adoption is permitted. The Company is evaluating the provisions of ASU 2016-02 and its impact on the Company's consolidated financial position, results of operations and cash flows.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments.* This ASU eliminates the requirement that a credit loss on a financial instrument be “probable” prior to recognition. Instead, a valuation allowance will be recorded to reflect an entity’s current estimate of all expected credit losses, based on both historical and forecasted information related to an instrument. The update is effective for public companies in the beginning of fiscal 2020 and should be adopted using a modified-retrospective approach, which applies a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. A prospective approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date and loans and debt securities acquired with deteriorated credit quality. The guidance may be early-adopted for fiscal 2019. The Company is evaluating the provisions of ASU 2016-13 and its impact on the Company's consolidated financial position, results of operations and cash flows.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments.* This ASU clarifies guidance for cash flow classification to reduce current and potential future diversity in practice. The update is effective for public companies in the beginning of fiscal 2018. The amendments should be applied using a retrospective transition method to each period presented. For items that are impractical to apply the amendments retrospectively, they shall be applied prospectively as of the earliest date practicable. Early adoption is permitted. The Company is evaluating the provisions of ASU 2016-15 and its impact on the Company's consolidated cash flows.

In November, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) - Restricted Cash*. This ASU amends the presentation and disclosure requirements of restricted cash and restricted cash equivalents. The majority of the amendments revise how restricted cash and restricted cash equivalents are presented in the statements of cash flows. The update is effective for public companies in the beginning of fiscal 2018 and should be applied on a retrospective basis. Early adoption is permitted. The Company is evaluating the provisions of ASU 2016-18 and its impact on the Company's consolidated 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 is evaluating the provisions of ASU 2017-04 and its impact on the Company's consolidated financial position, results of operation and cash flows.

Various other accounting standard updates were issued but are not effective for the Company until periods subsequent to December 30, 2016. The Company is still evaluating the guidance or does not expect these updates to have a material impact on its consolidated financial position, results of operations, or cash flows.

Note 2—Acquisitions

The Company may acquire businesses as part of its growth strategy to provide new or enhance existing capabilities and offerings to customers. During fiscal 2016, the Company completed the acquisition of Lockheed Martin's IS&GS Business (as described below). No businesses were acquired during the 11-month period ended January 1, 2016, and fiscal 2015.

Lockheed Martin Transaction

On January 26, 2016, Leidos announced that it had entered into a definitive agreement (as amended, the "Merger Agreement") with Lockheed Martin Corporation ("Lockheed Martin"); Abacus Innovations Corporation, a Delaware corporation and a wholly owned subsidiary of Lockheed Martin ("Splitco"); and Lion Merger Co., a Delaware corporation and, at the time of announcement, a wholly owned subsidiary of Leidos ("Merger Sub"), pursuant to which Leidos would combine with Lockheed Martin’s realigned Information Systems & Global Solutions business in a Reverse Morris Trust transaction. In connection with the Merger Agreement, Lockheed Martin and Splitco entered into a Separation Agreement dated January 26, 2016 (as amended, the "Separation Agreement"), pursuant to which Lockheed Martin would separate the IS&GS Business from Lockheed Martin and transfer the IS&GS Business to Splitco. The transactions contemplated by the Merger Agreement and the Separation Agreement are referred to herein as the “Transactions.”

On August 16, 2016, the acquisition date, the Company completed the Transactions. In the Transactions, among other steps, (i) Lockheed Martin transferred the IS&GS Business to Splitco; (ii) Lockheed Martin offered to Lockheed Martin stockholders the right to exchange all or a portion of their shares of Lockheed Martin common stock for shares of Splitco common stock by way of an exchange offer (the "Distribution"); and (iii) Merger Sub merged with and into Splitco, with Splitco as the surviving corporation (the "Merger") and a wholly owned subsidiary of Leidos. Additionally, on the closing date of the Transactions, Splitco's name was changed to Leidos Innovations Corporation. Upon consummation of the Transactions, those Lockheed Martin stockholders who elected to participate in the exchange offer received approximately 77 million shares of Leidos common stock, which represent approximately 50.5% of the outstanding shares of Leidos common stock after consummation of the Transactions. Holders of Leidos shares prior to the transaction held the remaining 49.5% of the outstanding shares of Leidos common stock immediately after the closing.

Prior to the Distribution, Splitco incurred third-party debt financing in an aggregate principal amount of $1.8 billion and immediately thereafter, Lockheed Martin transferred the IS&GS Business to Splitco and Splitco made a special cash payment to Lockheed Martin of $1.8 billion.

In connection with the Transactions, Leidos incurred new indebtedness and assumed Splitco's indebtedness in the form of term loans in an aggregate principal amount of $690 million and $1.8 billion, respectively, and entered into a new $750 million senior secured revolving credit facility, which replaced its existing revolving credit facility. See "Note 11–Debt" for further information regarding the new debt incurred and the new senior revolving credit facility.

In conjunction with the Transactions, Leidos' Board of Directors declared a special dividend of $13.64 per share of Leidos common stock. Consequently, on August 22, 2016, the Company paid $993 million to stockholders of record as of August 15, 2016, and accrued $29 million of dividend equivalents with respect to outstanding equity awards. See "Note 14–Stock-Based Compensation" for further information regarding the modifications made to the Company's outstanding stock awards as a result of the special dividend.

As a result of the Transactions, membership on the Leidos Board of Directors was increased to 12 directors, in which three directors designated by Lockheed Martin were appointed to the board. A majority of the senior management of Leidos immediately prior to the consummation of the Transactions remained Leidos executive officers immediately after the Transactions. Leidos management determined that Leidos is the accounting acquirer in the Transactions based on the facts and circumstances noted within this section and other relevant factors.

The acquisition adds large, complex IT system implementation and operation experience and additional federal and international IT solutions and services work to the Leidos portfolio, providing more venues to sell value added services such as cybersecurity and analytics. As a result, the Company is more diversified in markets it serves and provides the Company the scale and access to markets intended to further growth.

In connection with the Transactions, certain additional agreements were entered into, including, among others an employee matters agreement, a tax matters agreement, transition services agreements, an intellectual property matters agreement, agreements relating to certain government contracts matters, supply agreements and certain real estate related agreements.

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(1)	$	2,929
Equity consideration for replacement awards(2)		9
Preliminary working capital adjustments		50
Preliminary purchase price	$	2,988

(1) 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.

(2) The fair value of replacement equity-based awards attributable to pre-Merger service was recorded as part of the consideration transferred in the Merger (see "Note 14–Stock-Based Compensation").

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, net	940
Inventory, prepaid expenses and other current assets	71
Property, plant and equipment	137
Deferred tax assets	12
Intangible assets	1,650
Other assets	23
Accounts payable and accrued liabilities	(700)
Accrued payroll and employee benefits	(190)
Long-term debt, current portion	(23)
Deferred tax liabilities	(532)
Long-term debt, net of current portion	(1,780)
Other long-term liabilities	(50)
Total identifiable net liabilities assumed	(417)
Non-controlling interest	(10)
Goodwill	3,415
Preliminary purchase price	$ 2,988

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 December 30, 2016, the Company had not finalized the determination of fair values allocated to various assets and liabilities, including, but not limited to, receivables, net; property, plant and equipment; deferred income taxes; deferred revenue; intangible assets; accounts payable and accrued liabilities; loss contracts; non-controlling interest; residual amount allocated to goodwill; and the allocation of goodwill. 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 fourth quarter of fiscal 2016, the Company recorded valuation adjustments to certain preliminary estimated fair values which resulted in an increase of $41 million in property, plant and equipment, a $23 million decrease in deferred tax assets, a $34 million reduction in receivables, a $315 million reduction in deferred tax liabilities, a $32 million increase in other long-term liabilities and a $252 million reduction in goodwill.

The goodwill is attributable to the new reportable IS&GS segment. The goodwill represents intellectual capital and the acquired assembled work force, none of which qualify for recognition as a separate intangible asset. The preliminary goodwill presented above includes $418 million of tax deductible goodwill.

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	Fair value
	(in years)	(in millions)
Programs and contract intangibles[1]	10.0	$ 1,450
Backlog	1.4	200
Total	9.0	$ 1,650

[1] An average 10-year amortization period for programs and contract intangibles has been estimated based on the projected economic benefits associated with these assets. Programs and contract intangibles are amortized using the pattern of economic benefit, which approximates discounted future cash flows. Refer to "Note 6 - Intangible Assets" for additional information.

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

	12 Months Ended December 30, 2016
	(in millions)
Acquisition costs	$ 44
Integration costs	46
Total acquisition and integration costs	**$ 90**

Pro Forma Financial Information (unaudited)

The following pro forma financial information presents consolidated results of operations as if the acquisition had occurred on January 31, 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 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 31, 2015, nor is it intended to be an indication of future operating results.

(unaudited)	12 Months Ended December 30, 2016	11 Months Ended January 1, 2016
	(in millions, except for per share amounts)	
Revenues	**$ 10,443**	$ 9,868
Income from continuing operations	**342**	343
Income from continuing operations attributable to Leidos common stockholders	**336**	338
Earnings per share:		
Basic	**$ 2.24**	$ 2.25
Diluted	**$ 2.21**	$ 2.24

The unaudited pro forma financial information above includes the following nonrecurring significant adjustment made to account for certain costs incurred as if the Transactions had been completed on January 31, 2015:

- Acquisition-related costs of $44 million were excluded within the pro forma financial information for fiscal 2016 and were included within the supplemental pro forma earnings for the 11-month period ended January 1, 2016.

Note 3—Divestitures

In April 2016, the Company’s Health and Infrastructure ("HIS") segment disposed of a business 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 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 pre-tax gain on sale in "Other (expense) income, net" in the Company's consolidated statements of income (loss).

Plainfield Renewable Energy Holdings LLC

Plainfield Renewable Energy Holdings LLC ("Plainfield") is a 37.5 megawatt biomass-fueled power plant in Plainfield, Connecticut (the "plant"). On October 11, 2013, the Company became the primary beneficiary of Plainfield, which required the consolidation of the VIE. The Company also determined that Plainfield met the definition of a business and as such gained control of 100% of PRE Holdings equity through the consensual foreclosure agreement which constituted a change in control accounted for as a business combination. Subsequent to the business combination, three of the acquired fuel supply agreements were impaired in fiscal 2015. See "Note 6—Intangible Assets" for further information.

In July 2014, the Company received a cash grant of $80 million from the U.S. Treasury Department, which was recorded as a reduction to the fixed asset basis of the plant on the Company's consolidated balance sheets. For tax purposes, the tax basis of the plant was reduced by half of the amount of the cash grant. This difference between the excess tax basis of the plant over the book basis resulted in a $27 million deferred tax asset which was recorded as a reduction to the fixed asset basis of the plant. The U.S. Treasury grant also contains a recapture provision that could require the Company to repay funds to the Treasury in certain circumstances (see further discussion below).

In March 2015, the Company entered into a definitive Membership Interest Purchase Agreement (the "Agreement") to sell 100% of the equity membership interest in Plainfield resulting in an approximate $40 million impairment charge in the Company's Health and Infrastructure segment in January 2015 to adjust the carrying values of Plainfield's assets to their fair values based on the estimated selling price of the business (Level 1).

During the quarter ended July 3, 2015, further negotiations occurred related to the sale of Plainfield resulting in an approximate $29 million impairment charge. The Company adjusted the carrying values of Plainfield's assets to their fair values based on the estimated selling price of the business pursuant to the terms of the Agreement that was amended on July 17, 2015 (Level 1). The Company recorded these tangible asset impairment charges in "Asset impairment charges" in the Company's consolidated statements of income (loss).

On July 24, 2015, the Company completed the sale of its equity interests in Plainfield for an aggregate consideration of $102 million, subject to certain adjustments, and contingent earn-out payments. The consideration received at closing consisted of a cash payment of $29 million (the "Closing Payment") and a secured promissory note for $73 million, net of discount (the "Note"). The sale resulted in an immaterial deferred gain. In addition to the Closing Payment and the Note, the Company is eligible to receive certain contingent earn-out payments not to exceed $30 million. The Company will recognize any consideration for the contingent earn-out payments when received. In conjunction with the sale of the plant, the Company paid $2 million of the purchase price contingent consideration accrued at January 30, 2015, based on the successful sale of the plant. The remaining accrued contingent consideration was released and not paid as the selling price did not meet the qualifications for the payment of the remaining contingent consideration.

The maturity date of the Note is July 24, 2017 (the "Original Maturity Date"), with an option to extend the maturity date for three consecutive one-year periods. The annual interest rate of 6% will increase to 8% if the maturity date is extended beyond July 24, 2017, and will increase to 9% if extended beyond July 24, 2019. The first payment of accrued and unpaid interest was due January 24, 2016, with subsequent payments occurring every six months, including a portion of the principal balance. The note allows for a six-month deferral of certain payments due in January 2016, and July 2016. In January 2016 and July 2016, the Company was notified by the buyer that the interest payment due on January 24, 2016 would be deferred to the next payment date, and a portion of the principal payment due on July 24, 2016, would be deferred to the next payment due date. The Company collected $6 million of principal and interest during fiscal 2016.

The remaining unpaid principal amount and accrued interest is due on the Original Maturity Date (as may be extended as described above) or each six months thereafter, if extended. Payments under the Note are secured by a general security interest in the personal property of Plainfield, a pledge of the membership interests of Plainfield and a first mortgage on the real property that comprises the plant. As of December 30, 2016, the Company expects the Note to be collectible in full.

As outlined in the amended Agreement, the buyer represents to the Company that it meets the definition of a qualified buyer in regards to the terms in the U.S. Treasury cash grant. During the remaining recapture period that follows the closing date of the sale, the buyer and any following acquired companies, including any transferred membership interests to these companies, is contractually obligated to remain a qualified buyer, and the buyer shall cause any transferee of the plant permitted under the Agreement to enter into a written agreement to be jointly liable for any recapture event. In addition, the buyer and any continuing membership interests to acquired companies shall operate the plant as an “open-loop biomass” facility in accordance with Section 1603 of the cash grant, timely file all reports related to Section 1603 and indemnify the Company for any liabilities incurred that may arise if these obligations are breached. Based on the indemnification in the Agreement, and since the onus is on the buyer to comply with the conditions of the grant, the Company has deemed a recapture event not probable; therefore, has not recorded a liability associated with a potential recapture of the grant.

Discontinued Operations

In August 2014, the Company sold a business, historically included in the Company's Health and Infrastructure segment, which primarily focused on full service emergency management consulting for disaster preparedness, response, recovery and mitigation, for cash proceeds of $19 million, resulting in an immaterial gain on sale.

In January 2014, the Company committed to plans to dispose of Cloudshield Technologies, Inc. ("Cloudshield"), historically included in the Company's National Security Solutions segment, which was previously acquired in fiscal 2011 and primarily focused on producing a suite of cybersecurity hardware and associated software and services. The sale transaction was completed in February 2015 with cash proceeds received of $5 million, resulting in an immaterial loss on sale.

In August 2013, the Company committed to plans to dispose of a business, historically included in the Company's National Security Solutions segment, which primarily focused on technology used to detect if an individual is concealing explosive devices or other hidden weapons. In the first quarter ended May 2, 2014, the Company adjusted the carrying values of the business's assets to their fair value based on the estimated selling price of the business. The carrying value exceeded the fair value which resulted in $12 million of impairment charges recorded in discontinued operations, of which $9 million related to fixed assets and inventory and the remainder related to intangible assets. The sale transaction was completed in May 2014 with insignificant cash proceeds received, resulting in an immaterial loss on sale.

Separation of New SAIC

The Company completed the spin-off of New SAIC on September 27, 2013. The spin-off was made pursuant to the terms of a Distribution Agreement and several other agreements entered into between the Company and New SAIC on September 25, 2013. These agreements set forth, among other things, the principal actions needed to be taken in connection with the separation and govern certain aspects of the relationship between the Company and New SAIC following the separation. These agreements generally provide with certain exceptions, that each party is responsible for its respective assets, liabilities and obligations, including employee benefits, insurance and tax related assets and liabilities, whether accrued or contingent, except that unknown liabilities will be shared between the parties in certain circumstances. The agreements also describe the party’s commitments to provide each other with certain services for a limited time to help ensure an orderly transition. The agreements also include the treatment of existing contracts, proposals, and teaming arrangements where New SAIC will jointly perform work after separation on Leidos contracts. While the Company is a party to the Distribution Agreement and the ancillary agreements, the Company has determined that it does not have significant continuing involvement in the operations of New SAIC, nor does the Company expect significant continuing cash flows from New SAIC.

The operating results of New SAIC through the Distribution Date, which have been classified as discontinued operations, for the periods presented were as follows:

	12 Months Ended December 30, 2016	11 Months Ended January 1, 2016	12 Months Ended January 30, 2015
	(in millions)		
Revenues	**$ 14**	$ 17	$ 39
Cost of revenues	**14**	17	39
Operating income	**$ —**	$ —	$ —

The operating results through the date of disposal of the Company's discontinued operations discussed above, excluding the spin-off of New SAIC, for the periods presented were as follows:

	11 Months Ended January 1, 2016	12 Months Ended January 30, 2015
	(in millions)	
Revenues	$ —	$ 29
Cost of revenues	—	21
Selling, general and administrative expenses (including impairment charges of $9 million for the fiscal year ended January 30, 2015)	2	29
Intangible asset impairment charges	—	3
Operating loss	$ (2)	$ (24)
Non-operating income	$ 1	$ 11

The operating results for fiscal 2016 for the Company's discontinued operations above, excluding the spin-off of New SAIC, were immaterial.

The major classes of assets and liabilities included in discontinued operations through the date of disposal for the periods presented are immaterial for disclosure purposes.

Note 4–Restructuring Expenses

IS&GS Business Acquisition

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 related restructuring expenses were as follows:

	12 Months Ended December 30, 2016
	(in millions)
Severance costs	**$ 10**
Lease termination expenses	**2**
Restructuring expenses related to the IS&GS Business in operating income	**$ 12**

These restructuring expenses have been recorded within the Corporate and Other segment and presented separately within "Restructuring expenses" on the consolidated statements of income (loss).

The related restructuring liability at December 30, 2016, was:

	Severance Costs	Lease Termination Expenses	Total
		(in millions)	
Balance as of January 1, 2016	$ —	$ —	$ —
Charges	10	2	12
Cash payments	(3)	(1)	(4)
Balance as of December 30, 2016	**$ 7**	**$ 1**	**$ 8**

The Company does not expect the restructuring liability to be fully settled within one year.

Separation of New SAIC and Real Estate Optimization Initiatives

In fiscal 2014, in anticipation of the spin-off of New SAIC from the Company, the Company initiated an overall spin-off program to align the Company's cost structure for post spin-off.

The restructuring expenses related to the separation of New SAIC and the Company's real estate optimization initiatives were as follows:

	12 Months Ended **December 30, 2016**	11 Months Ended January 1, 2016	12 Months Ended January 30, 2015
		(in millions)	
Lease termination expenses	**$ 2**	$ 4	$ 3

During fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015, the lease termination expenses related to lease losses and an adjustment to reserves for lease losses from the spin-off due to revised sublease income assumptions. The termination expenses were recorded within the Corporate and Other segment and presented separately within "Restructuring expenses" on the consolidated statements of income (loss).

The restructuring liability related to the separation of New SAIC at December 30, 2016, was:

	Lease Termination Expenses
	(in millions)
Balance as of January 30, 2015	$ 11
Charges	1
Cash payments	(5)
Balance as of January 1, 2016	$ 7
Charges	2
Cash payments	(5)
Balance as of December 30, 2016	**$ 4**

The Company does not expect the restructuring liability to be fully settled within one year.

Note 5—Goodwill

The Company has the following reportable segments that contain goodwill: National Security Solutions ("NSS"), Health and Infrastructure ("HIS") and Information Systems & Global Solutions ("IS&GS").

The balance and changes in the carrying amount of goodwill by segment, including the preliminary fair value of goodwill related to the acquisition of the IS&GS Business, were as follows:

	NSS	HIS	IS&GS	Total
		(in millions)		
Goodwill at January 30, 2015	$ 788	$ 419	$ —	$ 1,207
Adjustments	—	—	—	—
Goodwill at January 1, 2016	$ 788	$ 419	$ —	$ 1,207
Acquisition of the IS&GS Business	—	—	3,415	3,415
Goodwill at December 30, 2016	**$ 788**	**$ 419**	**$ 3,415**	**$ 4,622**

(1) Accumulated impairment losses at January 1, 2016, and December 30, 2016, were $486 million within the HIS segment.

Based on a qualitative analysis performed during the Company's annual impairment evaluation for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015 for certain of its reporting units, it was determined that it is more likely than not that the fair values of the reporting units were in excess of the individual reporting unit carrying values, and as a result, a quantitative step one analysis was not necessary. Additionally, based on the results of the quantitative step one analysis for certain other of its reporting units, it was determined that their fair values were in excess of the individual reporting units carrying values. As a result, no goodwill impairments were identified as part of the annual goodwill impairment evaluation for periods mentioned above.

During the second quarter of fiscal 2015, the Health Solutions reporting unit within HIS experienced a significant decline in both actual and forecasted revenue volumes, primarily in the Company's commercial health consulting business, resulting from a reduction in project opportunities, delayed award decisions and completion of several larger electronic health records ("EHR") implementation engagements that were not extended or replaced with other projects. The declines were also impacted by delays in legislative compliance deadlines (i.e., ICD-10 and Meaningful Use Stage 2). These events attributed to a significant reduction in the Company's sales pipeline, forecasted revenue and operating income. The nature of the Company's commercial health consulting engagements are short term in nature and the aforementioned events transpired and became known during the second quarter of fiscal 2015 and triggered a revised and lower financial forecast.

During the second quarter of fiscal 2015, the Infrastructure reporting unit within HIS experienced delayed or lost award decisions and reductions in scope on several large engineering construction projects as clients shifted priorities and adjusted their capital expenditure plans that were anticipated to be awarded to the Company during the second quarter of fiscal 2015. The Infrastructure reporting unit was also impacted by significant reduction in scope of services with an existing client. These events culminated in a significant reduction in the Company's sales pipeline, revenue and operating income. The aforementioned events transpired and became known during the second quarter of fiscal 2015 and triggered a revised and lower financial forecast.

Based on the unexpected impacts and other unanticipated factors discussed above, the Company conducted an interim goodwill impairment test using the two-step quantitative approach.

As described in Note 1, the Company utilized both the market and income approach as part of the first step of the two-step quantitative goodwill impairment test to determine the estimated fair value of both the Health Solutions and Infrastructure reporting units.

The Company performed the market approach, guideline public company method, by applying pricing multiples derived from publicly traded guideline companies that are comparable to the reporting units to determine their fair values. The Company utilized enterprise/earnings before interest, taxes, depreciation and amortization ("EBITDA") multiples and enterprise/revenue multiples which averaged 6.0 and 0.5, respectively, for the Health Solutions reporting unit, and 6.8 and 0.4, respectively, for the Infrastructure reporting unit. In addition, the fair value under the guideline public company method included a control premium of 20%, which was determined based on a review of comparable market transactions.

The income approach was performed by calculating the fair value based on forecasted future cash flows discounted back to the present value, including significant judgments related to the risk adjusted discount rates, terminal growth rates and weighted-average cost of capital ("WACC"). The projected cash flows were developed by management for planning purposes based on current known business and market conditions as well as future anticipated industry trends. The method included certain cost adjustments that a market participant buyer would not incur to operate the respective reporting units. A terminal value growth rate of 3% and 2% and WACC of 12% and 14% (which includes a specific company risk premium of 2%) were used for the Health Solutions and Infrastructure reporting units, respectively.

Based on the first step of the two-step quantitative goodwill impairment test, the Company determined that the fair values of the Health Solutions and Infrastructure reporting units were 62% and 91% of their carrying values, respectively. Due to the fact that indicators of impairment existed, the second step of the two-step quantitative goodwill impairment test was performed to determine the implied fair value of goodwill and the impairment amount of the respective reporting units.

As a result of the second step evaluation, the Company recorded goodwill impairment charges in the Health Solutions and Infrastructure reporting units of $369 million and $117 million, respectively, for the second quarter ended August 1, 2014, which represents the difference between the carrying value and the implied fair value.

Note 6—Intangible Assets

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

	December 30, 2016			January 1, 2016		
	Gross carrying value	**Accumulated amortization**	**Net carrying value**	Gross carrying value	Accumulated amortization	Net carrying value
			(in millions)			
Finite-lived intangible assets:						
Customer relationships	**$ 6**	**$ (5)**	**$ 1**	$ 20	$ (16)	$ 4
Software and technology	**61**	**(48)**	**13**	61	(44)	17
Programs and contract intangibles	**1,450**	**(25)**	**1,425**	—	—	—
Backlog	**200**	**(54)**	**146**	—	—	—
Total finite-lived intangible assets	**1,717**	**(132)**	**1,585**	81	(60)	21
Indefinite-lived intangible assets:						
Trade names	**4**	**—**	**4**	4	—	4
Total intangible assets	**$ 1,721**	**$ (132)**	**$ 1,589**	$ 85	$ (60)	$ 25

The Company recognized intangible asset impairment charges of $4 million and $41 million for the 11-month period ended January 1, 2016 and fiscal 2015, respectively. There were no intangible asset impairment charges during fiscal 2016. Intangible asset impairment charges were recorded in "Asset impairment charges" in the Company's consolidated statements of income (loss).

The Company determined that certain customer relationship intangible assets associated with Vitalize and maxIT were not recoverable due to lower projected revenue and operating income levels from the associated customers. As a result, the Health and Infrastructure reportable segment recognized impairment charges of $24 million during fiscal 2015 to reduce the carrying value of these intangible assets to their estimated fair values. Additionally, in the 11-month period ended January 1, 2016, the Health and Infrastructure reportable segment recognized an impairment charge of $4 million to write-off the remaining carrying value (with a gross carrying value of $38 million).

The Company determined that certain intangible assets consisting of software and technology, associated with the acquisition of Reveal Imaging Technologies, Inc. were not recoverable due to lower projected revenue levels from the associated products and customers. As a result, the Health and Infrastructure reportable segment recognized impairment charges of $14 million during fiscal 2015, to reduce the carrying value of these intangible assets to their estimated fair values.

During fiscal 2015, the Company determined that certain intangible assets associated with fuel supply contracts obtained through the Plainfield Renewable Energy Project foreclosure were not recoverable due to changes in the Company's fuel supply strategy and newly identified requirements to operate the plant, which impacted expected benefits from the related fuel supply arrangements. As a result, the Health and Infrastructure reportable segment recognized an impairment charge of $3 million to write-off the carrying value associated with the intangible assets of three fuel supply agreements.

The fair value of the impairment charges described above were estimated using the income approach based on management's forecast of future cash flows to be derived from the assets' use (Level 3).

Amortization expense related to amortizable intangible assets, including the preliminary amortization for acquired IS&GS intangibles, was $84 million, $8 million and $15 million for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015, 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 cash flows on a discounted basis. The acquired backlog intangible asset, 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 related to finite-lived intangible assets as of December 30, 2016, is as follows:

Fiscal Year Ending	(in millions)
2017	$ 277
2018	213
2019	188
2020	165
2021	139
2022 and thereafter	603
	$ 1,585

Actual amortization expense in future periods could differ from these estimates as a result of future acquisitions, divestitures, impairments, the outcome and timing of completion of in-process research and development projects , adjustments to preliminary valuations of intangible assets and other factors.

Note 7—Receivables

The components of receivables, net consisted of the following:

	December 30, 2016	January 1, 2016
	(in millions)	
Billed and billable receivables	**$ 847**	$ 715
Unbilled receivables	**821**	216
Allowance for doubtful accounts	**(11)**	(10)
	$ 1,657	$ 921

During the 11-month period ended January 1, 2016, the Company reached an agreement to settle a legal claim related to receivables from one construction project with deferred payment terms that had not been paid in accordance with the initial payment terms established with the customer. As a result of the settlement terms, the Company recorded "Bad debt expense" of $11 million in the Company's consolidated statements of income (loss). During the 11-month period ended January 1, 2016, the Company received a partial payment of $6 million, from the customer. As of January 1, 2016, the remaining receivables balance related to this construction project was immaterial.

Note 8—Property, Plant and Equipment

Property, plant and equipment, net consisted of the following:

	December 30, 2016	January 1, 2016
	(in millions)	
Computers and other equipment	**$ 172**	$ 161
Leasehold improvements	**161**	149
Buildings and improvements	**104**	57
Office furniture and fixtures	**35**	30
Land	**57**	15
Construction in progress	**12**	2
	541	414
Less accumulated depreciation and amortization	**(282)**	(272)
	$ 259	$ 142

Depreciation expense was $38 million, $33 million and $47 million for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015, respectively. The acquired asset balances related to the Transactions may change upon final valuation, see "Note 2–Acquisitions".

During the 11-month period ended January 1, 2016, the Company amended its sale agreement entered into in 2013 and closed the sale of the remaining building, parcels of land that surround the building and the multi-level surface parking garage associated with the Company's former headquarters. The sale resulted in a write-off of $40 million in aggregate net book value of assets disposed, including $29 million for buildings and $10 million attributed to land. See "Note 17—Leases" for further information regarding the sale of the Company's former headquarters.

Note 9—Composition of Certain Financial Statement Captions

Balance Sheet

	December 30, 2016	January 1, 2016
	(in millions)	
Inventory, prepaid expenses and other current assets:		
Inventory	$ 67	$ 70
Prepaid expenses	90	26
Prepaid income taxes and tax refunds receivable	13	56
Transition costs and project assets	62	26
Pre-contract costs	33	1
Restricted cash	20	17
Short-term notes receivable	3	4
Other	60	16
	$ 348	$ 216
Other assets:		
Long-term notes receivables	$ 89	$ 91
Investment in rabbi trust	48	44
Deferred costs	31	18
Derivatives	29	8
Equity method investments[(1)]	20	1
Other	48	33
	$ 265	$ 195
Accounts payable and accrued liabilities:		
Accounts payable	$ 591	$ 306
Accrued liabilities	493	318
Collections in excess of revenues and deferred revenue	246	133
Provision for loss contracts	97	4
	$ 1,427	$ 761
Accrued payroll and employee benefits:		
Salaries, bonuses and amounts withheld from employees' compensation	$ 211	$ 142
Accrued vacation	244	121
Accrued contributions to employee benefit plans	28	5
	$ 483	$ 268
Other long-term liabilities:		
Deferred compensation	$ 48	$ 41
Lease related obligations	37	35
Tax indemnity liability	31	—
Deferred revenue	20	18
Accrued pension liabilities	6	—
Liabilities for uncertain tax positions	5	5
Other	57	50
	$ 204	$ 149

(1) Net of $10 million of dividends received during fiscal 2016 from these investments that were recorded in cash flows provided by operating activities of continuing operations on the consolidated statements of cash flows.

Fiscal 2016 balances include IS&GS as of the date of acquisition on August 16, 2016, and may change upon finalization of the valuation of the acquired assets (see "Note 2 Acquisitions").

Income Statement

	12 Months Ended December 30, 2016	11 Months Ended January 1, 2016	12 Months Ended January 30, 2015
		(in millions)	
Other (expense) income, net			
Loss on foreign currency	**$ (18)**	$ —	$ (4)
Gain on sale of former headquarters	**—**	82	—
Other income, net	**5**	2	9
	$ (13)	$ 84	$ 5

Note 10—Derivative Instruments and Hedging Activities

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

In September 2014, the Company entered into 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 interest rate swaps is determined based on observed values for underlying interest rates on the LIBOR yield curve (Level 2).

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.

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 is determined based on observed values for the underlying interest rate (Level 2).

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

	Balance sheet line item	**December 30, 2016**	January 1, 2016
		(in millions)	
Fair value interest rate swaps	Other assets	**$ 3**	$ 8
Cash flow interest rate swaps	Other assets	**26**	—

The fair value adjustment to the fair value interest rate swap and the underlying debt was a decrease of $5 million and $9 million for the year ended December 30, 2016, and the 11-month period ended January 1, 2016, respectively.

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

	12 Months Ended
	December 30, 2016
	(in millions)
Effective portion recognized in other comprehensive income	**$ 22**
Effective portion reclassified from accumulated other comprehensive loss to earnings	**2**
Ineffective portion recognized in earnings	**2**

The Company expects to reclassify losses of $1 million from accumulated other comprehensive loss into earnings during the next 12 months.

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

Note 11—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		**December 30, 2016[1]**		January 1, 2016[1]
		(dollars in millions)				
Senior secured notes:						
$450 million notes, due December 2020	4.45%	4.53%	**$**	**451**	$	455
$300 million notes, due December 2040	5.95%	6.03%		**216**		216
Senior secured term loans:						
$400 million Term Loan A, due August 2019	2.86%	3.78%		**123**		—
$690 million Term Loan A, due August 2021	2.86%	3.42%		**676**		—
$310 million Term Loan A, due August 2021	2.86%	3.39%		**304**		—
$1,131 million Term Loan B, due August 2023	3.36%	3.70%		**1,110**		—
Senior unsecured notes:						
$250 million notes, due July 2032	7.13%	7.43%		**246**		246
$300 million notes, due July 2033	5.50%	5.88%		**158**		158
Capital leases due on various dates through fiscal 2020	0%-5.94%	Various		**3**		6
Total notes payable and long-term debt				**3,287**		1,081
Less: current portion				**62**		2
Total notes payable and long-term debt, net of current portion			**$**	**3,225**	$	1,079
Fair value of notes payable and long-term debt			**$**	**3,336**	$	1,060

[1] The carrying amounts of the notes payable and long-term debt as of December 30, 2016, and January 1, 2016, include the remaining principal outstanding of $3,339 million and $1,087 million, respectively, unamortized debt discounts of $46 million and $5 million, respectively, and deferred debt issuance costs of $9 million and $7 million, respectively.

Senior Secured Notes

As a result of executing the fair value interest swap agreements, the carrying values of the 4.45% senior secured notes at December 30, 2016, and January 1, 2016, included $3 million and $8 million, respectively, of the fair value of interest rate swaps (see "Note 10–Derivative Instruments and Hedging").

During the 11-month period ended January 1, 2016, and fiscal 2015, the Company repurchased in the open market and retired principal amounts of $14 million and $67 million, respectively, on its $300 million 5.95% notes, due December 2040. The Company recorded an immaterial gain and $3 million gain on extinguishment of debt, respectively, as part of the partial repayment of the notes. The gain represents the difference between the repurchase price amounts of $14 million and $64 million, respectively, and the net carrying amount of the notes. The net carrying amount was reduced by the write-off of a portion of the unamortized debt discount and deferred financing costs on a pro-rata basis to the reduction of debt. The Company recorded the gains on extinguishment of debt in "Other (expense) income, net" in the Company's consolidated statements of income (loss).

Senior Secured Term Loans

On August 16, 2016, in connection with the acquisition of the IS&GS Business, Leidos, Inc. secured a new term loan of $690 million from certain financial institutions. In addition, as a result of the acquisition, Leidos assumed the IS&GS Business' term loans of $1.8 billion, which were obtained by the IS&GS Business immediately prior to the Transactions (see "Note 2–Acquisitions"). The outstanding obligations under the term loans are secured by a first priority lien on substantially all of the assets of the Company, subject to certain exceptions set forth in the credit agreements and related documentation.

The interest rate on these new borrowings is determined based on the LIBOR rate plus a margin. The margin for these notes ranges from 1.75% to 2.25%, depending on the Company's senior secured leverage ratio, and is re-determined on a quarterly basis. At December 30, 2016, the current margin on Term Loan A was 2.25%. The stated margin on Term Loan B was 2.75%.

As part of the credit agreements, the Company is required to perform a calculation each quarter that determines the incremental available amount of funds the Company is permitted to use towards investments relating to mergers and acquisitions, investments in joint ventures, repayment of outstanding debt and restricted payments relating to dividends and share repurchases. The incremental available amount is calculated as $35 million plus a portion of certain cash proceeds, multiplied by a percentage tied to the Company's senior secured leverage, which is added to an annual fixed amount of $250 million, as defined in the credit agreements. The constraints associated with use of cash are reduced and/or eliminated based on the Company's total leverage ratio.

The Company is also required to perform an excess cash flow calculation annually that determines the additional amount of debt prepayments the Company is required to make during the first quarter of the following fiscal year, with the first payment occurring in 2018. The excess cash flow is calculated based on the Company's consolidated net income as of the end of the fiscal year plus or minus adjustments for certain non-cash items and incurred and expected cash payments, as defined in the credit agreements. The amount of the excess cash flow that the Company is required to use to prepay the loans is based upon the Company's senior secured leverage ratio. The required debt prepayment amount is equal to 50% of the excess cash flow calculated if the senior secured leverage ratio is greater than 2.75 and is equal to 25% of the excess cash flow calculated if the ratio is between 2.75 and 2.00. No additional debt prepayment is required if the senior secured leverage ratio is less than 2.00.

During fiscal 2016, the Company repaid $275 million of its senior secured $400 million Term Loan A, due August 2019. Associated with this early repayment, $5 million of unamortized debt discount and deferred financing costs were written off and recorded to "Other (expense) income, net" in the Company's consolidated statements of income (loss).

Senior Unsecured Notes

During the 11-month period ended January 1, 2016 and fiscal 2015, the Company repurchased in the open market and retired principal amounts of $23 million and $116 million, respectively, on its $300 million 5.50% notes, due July 2033. The Company recorded a $1 million and $2 million gain on extinguishment of debt, respectively, as part of the partial repayment of the notes. The gains represent the difference between the repurchase price amounts of $22 million and $111 million, respectively, and the net carrying amount of the notes. The net carrying amount was reduced by the write-off of a portion of the unamortized debt discount and deferred financing costs on a pro-rata basis to the reduction of debt. The Company recorded the gains on extinguishment of debt in "Other (expense) income, net" in the Company's consolidated statements of income (loss).

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

In connection with the new senior secured term loans, the Company recognized $53 million of debt discount and debt issuance costs, which were recorded as an offset against the carrying value of debt and will be amortized to interest expense over the term of the term loans. Amortization for the senior secured term loans and notes and unsecured notes was $6 million and $1 million for fiscal 2016 and for the 11-month period ended January 1, 2016, respectively.

The senior secured term loans and notes, unsecured notes and revolving credit facility (see "Revolving Credit Facility" below) are fully and unconditionally guaranteed by intercompany guarantees. The senior secured term loans and notes and unsecured notes 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 December 30, 2016.

Maturities of notes payable and long-term debt are as follows:

Fiscal Year Ending	(in millions)
2017	$ 62
2018	82
2019	190
2020	593
2021	711
2022 and thereafter	1,704
Total principal payments	3,342
Less: unamortized debt discount and issuance costs	55
	$ 3,287

Revolving Credit Facility

On August 16, 2016, Leidos, Inc. entered into 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. Leidos, Inc. recognized $15 million of origination costs related to the new credit facility, which were capitalized within "Other assets" in the consolidated balance sheets. During fiscal 2016, there were no borrowings under the new credit facility.

The new credit facility replaced the previous $500 million credit facility that was set to expire in March 2018. The remaining deferred costs associated with the former credit facility that were written-off during fiscal 2016 were immaterial. During the 11-month period ended January 1, 2016, there were no borrowings under the former credit facility.

The credit agreements contain certain customary representations and warranties, as well as certain affirmative and negative covenants. The financial covenants define the debt-to-EBITDA ratio that the Company needs to maintain at the end of each quarter. The Company maintains a ratio of total senior secured debt, including borrowings under this credit facility, to the trailing four quarters of EBITDA (adjusted for certain items as defined in the credit facility) of not more than 4.75 prior to February 16, 2018, 4.25 from February 16, 2018, to February 16, 2019, and 3.75 thereafter. The Company was in compliance with these financial covenants as of December 30, 2016.

Other covenants in the credit facility restrict certain of the Company's activities, including, among other things, its ability to create liens, dispose of certain assets and merge or consolidate with other entities. The credit facility also contains certain customary events of default, including, among others, defaults based on certain bankruptcy and insolvency events, nonpayment, cross-defaults to other debt, breach of specified covenants, Employee Retirement Income Security Act (ERISA) events, material monetary judgments, change of control events, and the material inaccuracy of the Company’s representations and warranties.

Note 12—Accumulated Other Comprehensive Loss

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

	Foreign currency translation adjustments	Unrecognized net (loss) income on derivative instruments	Pension liability adjustments	Total accumulated other comprehensive loss
		(in millions)		
Balance at January 31, 2014	$ 2	$ (5)	$ (3)	$ (6)
Other comprehensive loss	(1)	—	(4)	(5)
Balance at January 30, 2015	1	(5)	(7)	(11)
Other comprehensive (loss) income	(1)	1	3	3
Balance at January 1, 2016	—	(4)	(4)	(8)
Other comprehensive (loss) income	(7)	16	3	12
Reclassification from accumulated other comprehensive loss	—	(2)	(6)	(8)
Balance at December 30, 2016	**$ (7)**	**$ 10**	**$ (7)**	**$ (4)**

Reclassifications for unrecognized gain (loss) on derivative instruments associated with outstanding debt are recorded in "Interest expense" in the Company's consolidated statements of income (loss). Reclassifications for pension liability adjustments are recorded in "Selling, general and administrative expenses" in the Company's consolidated statements of income (loss).

Note 13—Earnings (Loss) Per Share ("EPS")

Basic EPS is computed by dividing income (loss) attributable to Leidos stockholders by the basic weighted average number of shares outstanding. Diluted EPS is computed similar to basic EPS, except the weighted average number of shares outstanding is increased to include the dilutive effect of outstanding stock options and other stock-based awards.

The Company issues unvested stock awards that have forfeitable rights to dividends or dividend equivalents. These stock awards are dilutive common share equivalents subject to the treasury stock method.

Basic and diluted EPS attributable to Leidos stockholders for the years presented was as follows:

	12 Months Ended	11 Months Ended		12 Months Ended
	December 30, 2016	January 1, 2016	January 2, 2015 (unaudited)	January 30, 2015
Basic:				
Income (loss) from continuing operations attributable to Leidos common stockholders	**$ 2.39**	$ 3.33	$ (4.36)	$ (4.46)
Discontinued operations, net of taxes	**—**	(0.01)	(0.15)	0.10
Net income (loss) attributable to Leidos common stockholders	**$ 2.39**	$ 3.32	$ (4.51)	$ (4.36)
Diluted:				
Income (loss) from continuing operations attributable to Leidos common stockholders	**$ 2.35**	$ 3.28	$ (4.36)	$ (4.46)
Discontinued operations, net of taxes	**—**	(0.01)	(0.15)	0.10
Net income (loss) attributable to Leidos common stockholders	**$ 2.35**	$ 3.27	$ (4.51)	$ (4.36)

The weighted average number of shares used to compute basic and diluted EPS attributable to Leidos stockholders were:

	12 Months Ended	11 Months Ended		12 Months Ended
	December 30, 2016	January 1, 2016	January 2, 2015 (unaudited)	January 30, 2015
		(in millions)		
Basic weighted average number of shares outstanding	**102**	73	74	74
Dilutive common share equivalents—stock options and other stock awards	**2**	1	—	—
Diluted weighted average number of shares outstanding	**104**	74	74	74

The following anti-dilutive stock-based awards were excluded from the weighted average number of shares outstanding used to compute basic and diluted EPS for the years presented:

	11 Months Ended		12 Months Ended
	January 1, 2016	January 2, 2015 (unaudited)	January 30, 2015
		(in millions)	
Stock options excluded	1	4	4
Vesting stock awards excluded	—	3	3

In fiscal 2016, the anti-dilutive stock-based awards that were excluded from the weighted average number of shares outstanding used to compute basic and diluted EPS, including stock options and vesting stock awards, were immaterial. For the 11-month period ended January 2, 2015, and fiscal 2015, all outstanding common stock equivalents were excluded in the computation of diluted income (loss) per share because their effect would have been anti-dilutive due to the net loss for the periods.

Share repurchases

In the 11-month period ended January 1, 2016, the Company entered into an Accelerated Share Repurchase ("ASR") agreement with a financial institution to repurchase shares of its outstanding common stock for an aggregate purchase price of $100 million. During the second quarter of the 11-month period ended January 1, 2016, the Company paid $100 million to the financial institution and received a total delivery of 2.4 million shares of its outstanding shares of common stock. The purchase was allocated between additional paid in capital and retained earnings. All shares delivered were immediately retired. The total amount of shares delivered by the financial institution was adjusted by the volume weighted average price of the Company's stock over the valuation period specified in the ASR.

In fiscal 2015, the Company entered into an ASR agreement with a financial institution to repurchase shares of its outstanding common stock for an aggregate purchase price of $200 million. The Company paid $200 million to the financial institution and received an initial delivery of 4.5 million shares of its outstanding shares of common stock for an aggregate value of $168 million. The final delivery consisted of approximately 0.8 million shares for a total value of $32 million under the program and was completed in fiscal 2015. The purchase was allocated between additional paid in capital and retained earnings. All shares delivered were immediately retired. The total amount of shares delivered by the financial institution was adjusted by the volume weighted average price of the Company's stock over the valuation period specified in the ASR.

In fiscal 2014, the Company entered into an ASR agreement with a financial institution to repurchase shares of its outstanding common stock for an aggregate purchase price of $300 million. The final delivery of approximately 1.0 million shares for a total value of $45 million under the program was completed during the first quarter of fiscal 2015. The purchase was allocated between additional paid in capital and retained earnings. All shares delivered were immediately retired. The total amount of shares delivered by the financial institution was adjusted by the volume weighted average price of the Company's stock over the valuation period specified in the ASR.

The delivery of 2.4 million and 6.3 million shares of Leidos common stock related to ASR purchases for the 11-month period ended January 1, 2016 and fiscal 2015, respectively, reduced the Company's outstanding shares used to determine the weighted average shares outstanding for purposes of calculating basic and diluted EPS for those periods presented. There were no ASR agreements entered into during fiscal 2016.

Note 14—Stock-Based Compensation

Plan Summaries

As of December 30, 2016, the Company had stock-based compensation awards outstanding under the following plans: the 2006 Equity Incentive Plan, the Management Stock Compensation Plan, the Stock Compensation Plan and the 2006 Employee Stock Purchase Plan, as amended ("ESPP"). Leidos issues new shares upon the issuance of stock awards, vesting of stock units or exercise of stock options under these plans.

The 2006 Equity Incentive Plan provides the Company’s and its affiliates' employees, directors and consultants the opportunity to receive various types of stock-based compensation and cash awards. As of December 30, 2016, the Company has issued stock options, restricted stock awards including restricted stock units, performance-based awards and cash awards under this plan. Stock awards granted under the plan prior to fiscal 2015 generally vest or become exercisable 20% a year for the first three years and 40% in the fourth year. In fiscal 2015, the Company began granting awards that generally vest or become exercisable 25% a year over four years. As of December 30, 2016, 5.8 million shares of Leidos' stock were reserved for future issuance under the 2006 Equity Incentive Plan.

The Company has a Management Stock Compensation Plan and a Stock Compensation Plan, together referred to as the Stock Compensation Plans. These plans provide for restricted share units to eligible employees. Benefits from these plans are payable in shares of Leidos' stock that are held in a trust for the purpose of funding shares to the plans' participants. The fair value of the awards granted under the Stock Compensation Plans, which are vesting share unit awards, is based on the fair value of the award on the date of grant. Compensation expense is measured at grant date and generally recognized over the vesting period of four years. Awards granted vest 100% after four years following the date of the award. The Stock Compensation Plans do not provide for a maximum number of shares available for future issuance.

The Company has an ESPP which allows eligible employees to purchase shares of Leidos' stock at a discount of up to 15% of the fair market value on the date of purchase. During fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015, the discount was 5% of the fair market value on the date of purchase, thereby resulting in the ESPP being non-compensatory. There are 5 million shares reserved under the Company's Amended and Restated 2006 ESPP, which is subject to stockholder approval at the 2017 annual meeting of stockholders.

Stock-based compensation and related tax benefits recognized under all plans were as follows:

	12 Months Ended	11 Months Ended	12 Months Ended
	December 30, 2016	January 1, 2016	January 30, 2015
	(in millions)		
Total stock-based compensation expense	**$ 35**	$ 30	$ 42
Tax benefits recognized from stock-based compensation	**$ 14**	$ 12	$ 16

Stock Options

Stock options are granted with exercise prices equal to the fair value of Leidos' common stock on the date of grant and for terms not greater than ten years. Beginning in fiscal 2012, stock options granted under the 2006 Equity Incentive Plan have a term of seven years and a vesting period of four years, except for stock options granted to the Company's outside directors, which have a vesting period of the earlier of one year from grant date or the next annual meeting of stockholders following grant date.

The fair value of the Company's stock option awards is estimated on the date of grant using the Black-Scholes-Merton option-pricing model. The fair value of the Company's stock option awards is generally expensed on a straight-line basis over the vesting period of four years, except for stock options granted to the Company's outside directors, which is recognized over the vesting period of one year or less.

During fiscal 2015, the expected term for all stock option awards granted was derived utilizing the "simplified" method due to the lack of historical experience post separation of New SAIC and expected volatility was estimated as of each grant date during fiscal 2015 based on a weighted average historical volatility of a group of publicly-traded peer companies for a period consistent with the expected option term due to lack of historical volatility after the spin-off of New SAIC in fiscal 2014. During the 11-month period ended January 1, 2016, the expected volatility was estimated using a blended volatility method for a period consistent with the expected term based more significantly on the weighted average historical volatility of a group of publicly-traded peer companies and the weighted average implied volatility from traded options on Leidos stock for a time period prior to the grant date.

During fiscal 2016, expected volatility was based on using a blended approach, which included weighted average historical volatility of a group of publicly-traded peer companies, weighted average historical volatility of the Company and the weighted average implied volatility. The Company will continue to use peer group volatility information, until sufficient historical volatility of the Company's common stock is relevant, to measure expected volatility for future option grants. The expected volatility increased from pre-acquisition to post-acquisition of the IS&GS Business in fiscal 2016 due to a higher allocation of peer group volatility used post-acquisition compared to a higher allocation of historical volatility used pre-acquisition. The post-acquisition volatility reflected an updated peer group mix.

The risk-free rate is derived using the yield curve of a zero-coupon U.S. Treasury bond with a maturity equal to the expected term of the stock option on the grant date. The dividend yield increased from pre-acquisition to post-acquisition due to historical stock price fluctuations. The Company uses historical data to estimate forfeitures and was derived in the same manner as in the prior years presented.

The weighted average grant-date fair value and assumptions used to determine fair value of stock options granted for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015 were as follows:

	12 Months Ended		11 Months Ended	12 Months Ended
	December 30, 2016 (Grants after acquisition)	December 30, 2016 (Grants before acquisition)	January 1, 2016	January 30, 2015
Weighted average grant-date fair value	**$ 10.33**	$ 9.54	$ 6.72	$ 6.15
Expected term (in years)	**4.7**	4.8	4.7	4.7
Expected volatility	**37.9%**	29.9%	24.5%	25.1%
Risk-free interest rate	**1.2%**	1.3%	1.4%	1.6%
Dividend yield	**2.7%**	2.5%	2.9%	2.9%

Special Dividend Adjustment

As a result of the payment of the special cash dividend to Leidos stockholders in August 2016, Leidos modified all outstanding stock options to preserve their original grant date fair value. The modifications resulted in a reduction in the strike prices of the outstanding stock options by a factor of 0.74 and an increase in the number of shares issuable upon the exercise of each option by a factor of 1.35 between the pre-modification stock price and post-modification stock price. These adjustments did not result in additional stock-based compensation expense, as the fair value of the outstanding options immediately following the payment of the special cash dividend was equal to the fair value immediately prior to such distribution. The modifications resulted in an increase in options outstanding by 0.9 million. The special dividend declared was $993 million. As a result of the special dividend declaration, the Company accrued $29 million of dividend equivalents with respect to outstanding equity awards. The transactions associated with the special cash dividend were recorded to "Additional paid-in capital" in the consolidated balance sheets.

Stock option activity for each of the periods presented was as follows:

	Shares of stock under stock options	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
	(in millions)		(in years)	(in millions)
Outstanding at January 31, 2014	**4.5**	**$ 40.32**	**3.8**	**$ 25**
Options granted	0.7	37.25		
Options forfeited or expired	(1.5)	43.90		
Options exercised	(0.1)	34.89		1
Outstanding at January 30, 2015	**3.6**	**$ 38.50**	**4.0**	**$ 14**
Options granted	0.6	42.64		
Options forfeited or expired	(0.9)	42.03		
Options exercised	(0.9)	38.53		9
Outstanding at January 1, 2016	**2.4**	**$ 38.21**	**4.5**	**$ 43**
Options granted	0.6	43.56		
Special dividend adjustments	0.9			
Options forfeited or expired	(0.2)	34.98		
Options exercised	(0.4)	34.11		5
Outstanding at December 30, 2016	**3.3**	**29.77**	**4.1**	**70**
Exercisable at December 30, 2016	**1.6**	**$ 28.19**	**3.1**	**$ 37**
Vested and expected to vest in the future as of December 30, 2016	**3.1**	**$ 29.58**	**4.1**	**$ 67**

As of December 30, 2016, there was $5 million of unrecognized compensation cost, net of estimated forfeitures, related to stock options, which is expected to be recognized over a weighted-average period of 2.4 years.

The following table summarizes activity related to exercises of stock options:

	12 Months Ended December 30, 2016	11 Months Ended January 1, 2016
	(in millions)	
Tax benefits from stock options exercised	**$ 1**	$ 1
Fair value of stock surrendered in payment of the exercise price for stock options exercised	**$ 4**	$ 3

The tax benefits from stock options exercised and fair value of stock surrendered in payment of the exercise price for stock options exercised during fiscal 2015 were immaterial. Cash received from exercises of stock options in fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015 were immaterial.

Restricted Stock Units and Awards

Compensation expense is measured at the grant date fair value and generally recognized over the vesting period of four years based upon required service conditions and in some cases revenue-based performance conditions.

In connection with the IS&GS Business acquisition (see "Note 2–Acquisitions"), the Company issued 0.6 million replacement RSUs valued at $23 million, of which $9 million was allocated as purchase consideration attributed to pre-acquisition service and the remaining $12 million represents the total remaining stock-based compensation expense, net of estimated forfeitures. This remaining expense will be recognized over three years.

Restricted stock units and award activity for each of the periods presented was as follows:

	Shares of stock under stock awards	Weighted average grant-date fair value
	(in millions)	
Unvested stock awards at January 31, 2014	**3.7**	**$ 39.58**
Awards granted	0.8	37.06
Awards forfeited	(0.5)	39.05
Awards vested	(1.0)	41.08
Unvested stock awards at January 30, 2015	**3.0**	**$ 38.51**
Awards granted	0.5	42.95
Awards forfeited	(0.4)	40.10
Awards vested	(0.8)	40.05
Unvested stock awards at January 1, 2016	**2.3**	**$ 38.97**
Awards granted	1.5	41.45
Awards forfeited	(0.2)	40.88
Awards vested	(1.1)	38.91
Unvested stock awards at December 30, 2016	**2.5**	**$ 40.39**

As of December 30, 2016, there was $37 million of unrecognized compensation cost, net of estimated forfeitures, related to restricted stock units, which is expected to be recognized over a weighted average period of 2.0 years. The fair value of vesting stock awards that vested in fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015 was $43 million, $29 million and $34 million, respectively.

Performance-Based Stock Awards

The Company grants performance-based stock awards to certain officers and key employees of the Company under the 2006 Equity Incentive Plan. The Company's performance-based stock awards vest and the stock is issued at the end of a three-year period based upon the achievement of specific performance criteria, with the number of shares ultimately awarded, if any, ranging up to 150% of the specified target awards. If performance is below the threshold level of performance, no shares will be issued.

For the fiscal 2015 awards granted, one-third of the target number of shares of stock granted under the awards will be allocated to each fiscal year over the three-year performance period and the actual number of shares to be issued with respect to each fiscal year will be based upon the achievement of that fiscal year's performance criteria. For awards granted during fiscal 2016 and the 11-month period ended January 1, 2016, the target number of shares of stock granted under the awards will vest and the stock will be issued at the end of a three-year period based on a three-year cycle performance period and the actual number of shares to be issued will be based upon the achievement of the three-year cycle’s performance criteria. Also, during fiscal 2016 and the 11-month period ended January 1, 2016, the Company granted performance-based awards with market conditions. These market conditions grants represent the target number of shares and the actual number of shares to be awarded upon vesting may be higher or lower depending upon the achievement of the relevant market conditions. The target number of shares granted under the market conditions grants will vest and the stock will be issued at the end of a three-year period based on the attainment of certain total shareholder return performance measures and the employee's continued service through the vest date.

Performance-based stock award activity for each of the periods presented was as follows:

	Expected number of shares of stock to be issued under performance-based stock awards	Weighted average grant-date fair value
	(in millions)	
Unvested at January 31, 2014	**0.1** *	**$ 36.65** *
Awards granted	0.1	37.64
Awards vested	(0.1)	36.69
Unvested at January 30, 2015	**0.1**	**$ 37.70**
Awards granted	0.2	44.30
Awards forfeited	(0.1)	43.49
Unvested at January 1, 2016	**0.2**	**$ 43.35**
Awards granted	0.2	45.62
Unvested at December 30, 2016	**0.4**	**$ 44.44**

**Adjusted for Conversion Ratio of 1.4523 in connection with the spin-off of New SAIC in September 2013*

The weighted average grant date fair value for performance-based stock, excluding those with a market condition, during fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015 was $45.83, $43.78 and $36.88, respectively. The weighted average grant date fair value for performance-based stock with market conditions that were granted during fiscal 2016 and the 11-month period ended January 1, 2016, was $45.80 and $45.00, respectively, and was calculated using the Monte Carlo simulation. The Monte Carlo simulation in fiscal 2016 used various assumptions including expected volatility of 31.73%, a risk free rate of return of 1.01% and a weighted average grant date stock price of $46.54. For the 11-month period ended January 1, 2016, the Monte Carlo simulation used various assumptions including expected volatility of 27.67%, a risk free rate of return of 0.82% and a weighted average grant date stock price of $42.61.

As of December 30, 2016, there was $7 million of unrecognized compensation cost, net of estimated forfeitures, related to performance-based stock awards granted under the 2006 Equity Incentive Plan, which is expected to be recognized over a weighted average period of 1.6 years. There were no performance-based stock awards that vested in fiscal 2016 and the 11-month period ended January 1, 2016. The fair value of performance-based stock awards that vested in fiscal 2015 was $2 million.

Note 15—Income Taxes

The majority of the Company’s income from continuing operations before income taxes for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015 was earned in the United States. The provision for income taxes related to continuing operations for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015 included the following:

	12 Months Ended December 30, 2016	11 Months Ended January 1, 2016	12 Months Ended January 30, 2015
		(in millions)	
Current:			
Federal and foreign	$ 88	$ 71	$ 16
State	16	14	(6)
Deferred:			
Federal and foreign	(29)	20	26
State	(3)	7	11
Total	$ 72	$ 112	$ 47

A reconciliation of the provision for income taxes to the amount computed by applying the statutory federal income tax rate to income from continuing operations before income taxes for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015 follows:

	12 Months Ended December 30, 2016	11 Months Ended January 1, 2016	12 Months Ended January 30, 2015
		(in millions)	
Amount computed at the statutory federal income tax rate (35%)	$ 111	$ 124	$ (99)
State income taxes, net of federal tax benefit	8	14	3
Taxable conversion of subsidiary	—	—	(116)
Change in valuation allowance for deferred tax assets	(8)	(21)	105
Change in accruals for uncertain tax positions	1	(4)	2
Research and development credits	(4)	(4)	(4)
Dividends paid to employee stock ownership plan	(38)	(3)	(4)
Capitalized transaction costs	7	—	—
Excess tax benefits from stock-based compensation	(8)	—	—
Non-deductible goodwill	—	—	156
Other	3	6	4
Total	$ 72	$ 112	$ 47
Effective income tax rate	22.6%	31.5%	(16.6)%

The Company's effective tax rate for fiscal 2016 was favorably impacted by the tax deductibility of the special cash dividend, related to the Transactions described in “Note 2 - Acquisitions”, on shares held by the Leidos retirement plan, the income tax benefits of the research tax credit and the excess tax benefits related to employee stock-based payment transactions, partially offset by the impact of certain capitalized transactions costs related to the Transactions.

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The Company's effective tax rate for the 11-month period ended January 1, 2016, was favorably impacted by the release of the valuation allowance related to the utilization of a capital loss carryforward for capital gains recognized during the current year and the favorable resolution of certain tax contingencies with the tax authorities. In addition, the Company's effective tax rate was favorably impacted by the research tax credit as well as the tax deduction for dividends on shares held by the Leidos Retirement Plan (an employee stock ownership plan).

The Company's effective tax rate in fiscal 2015 was negatively impacted by the goodwill impairment charge of $486 million, recorded in the quarter ended August 1, 2014, which was mostly not deductible. The effective tax rate was also impacted favorably by the tax benefit of a capital loss resulting from the conversion of one of our domestic subsidiaries to a Limited Liability Company ("LLC").

In fiscal 2015, discontinued operations reflect a tax benefit of $18 million due to the conversion of one of the Company's domestic subsidiaries held in discontinued operations. This conversion resulted in a deemed liquidation for U.S. tax purposes and triggered tax deductions and an income tax benefit.

Deferred income taxes are recorded for differences in the basis of assets and liabilities for financial reporting purposes and tax reporting purposes. Deferred tax (liabilities) assets were comprised of the following:

	December 30, 2016	January 1, 2016
	(in millions)	
Accrued vacation and bonuses	**$ 89**	$ 45
Investments	**3**	3
Deferred compensation	**38**	39
Vesting stock awards	**23**	21
Credits and net operating losses carryovers	**35**	15
Employee benefit contributions	**3**	—
Capital loss carryover	**81**	91
Reserves	**103**	31
Deferred rent and tenant allowances	**16**	14
Other	**17**	13
Total deferred tax assets	**408**	272
Valuation allowance	**(102)**	(102)
Deferred tax assets, net of valuation allowance	**306**	170
Deferred revenue	**(42)**	(36)
Fixed asset basis differences	**(11)**	(1)
Purchased intangible assets	**(748)**	(138)
Partnership interest	**(14)**	(11)
Employee benefit contributions	**—**	(1)
Other	**(15)**	(9)
Total deferred tax liabilities	**(830)**	(196)
Net deferred tax liabilities	**$ (524)**	$ (26)

Net deferred tax (liabilities) assets were as follows:

	December 30, 2016	January 1, 2016
	(in millions)	
Net non-current deferred tax assets	**$ 16**	$ 8
Net non-current deferred tax liabilities	**(540)**	(34)
Total net deferred tax liabilities	**$ (524)**	$ (26)

Fiscal 2016 balances include IS&GS as of the date of acquisition on August 16, 2016, and may change upon finalization of the valuation of the acquired assets (see "Note 2 - Acquisitions").

At December 30, 2016, the Company had $26 million of federal net operating loss ("NOL") carryforwards and $184 million of state net operating losses, which will begin to expire in calendar year 2018. The Company also has $12 million of state tax credits, which will begin to expire in calendar year 2018. The Company expects to utilize $6 million and $69 million of these state tax credits and state net operating losses, respectively. The company also had foreign net operating losses of $38 million. The majority of the NOLs were acquired in the Transactions.

As of December 30, 2016, the Company had a capital loss carryforward of $206 million, $68 million of which will expire in 2018. The Company does not believe it will be able to generate capital gains to realize the benefit from the capital loss carryforward. As a result, a full valuation allowance has been provided as of December 30, 2016.

The Company’s unrecognized tax benefits are primarily related to certain recurring deductions customary for the Company’s industry. The changes in the unrecognized tax benefits, excluding accrued interest and penalties, were as follows:

	12 Months Ended	11 Months Ended	12 Months Ended
	December 30, 2016	January 1, 2016	January 30, 2015
		(in millions)	
Unrecognized tax benefits at beginning of year	**$ 11**	$ 17	$ 14
Additions for tax positions related to current year	**1**	5	2
Additions for tax positions related to prior years	**4**	4	11
Reductions for tax positions related to prior years	**(7)**	(15)	(5)
Settlements with taxing authorities	**—**	—	(1)
Lapse of statute of limitations	**—**	—	(4)
Unrecognized tax benefits at end of year	**$ 9**	$ 11	$ 17
Unrecognized tax benefits that, if recognized, would affect the effective income tax rate	**$ 4**	$ 7	$ 5

In fiscal 2016, The Company's unrecognized tax benefits decreased primarily due to the resolution of the uncertain characterization of certain gains and state claims with the tax authorities, partially offset by an increase due to additional state and foreign items.

In the 11-month period ended January 1, 2016, the Company's unrecognized tax benefits decreased primarily due to the resolution of the uncertain portion of the deferral of certain revenues, the resolution of the research and development tax credit and certain state claims with the tax authorities, which were offset by an increase due to the uncertain characterization of certain gains. In fiscal 2015, the Company's unrecognized tax benefits increased primarily due to the uncertain portion of the deferral of certain revenues, certain affirmative state claims and the research and development tax credit offset by a decrease due to the expiration of federal and several states statutes of limitations and the termination of certain state credits.

At December 30, 2016, January 1, 2016, and January 30, 2015, accrued interest and penalties totaled $1 million, $1 million and $2 million, respectively. A negligible amount of interest and penalties were recognized in the Company's consolidated statements of income (loss) in fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015.

At December 30, 2016, the balance of unrecognized tax benefits included liabilities for uncertain tax positions of $10 million, $5 million of which were classified as other long-term liabilities on the Company's consolidated balance sheets. At January 1, 2016, the balance of unrecognized tax benefits included liabilities for uncertain tax positions of $12 million, $5 million of which were classified as other long-term liabilities on the Company's consolidated balance sheets. At January 30, 2015, the balance of unrecognized tax benefits included liabilities for uncertain tax positions of $19 million, $6 million of which were classified as other long-term liabilities on the Company's consolidated balance sheets.

The Company files income tax returns in the United States and various state and foreign jurisdictions. The Company participates in the Internal Revenue Service (“IRS”) Compliance Assurance Process, a real-time audit of the Company’s consolidated federal corporate income tax return. The IRS has examined the Company’s consolidated federal income tax returns through the 11-month period ended January 1, 2016. With a few exceptions, as of December 30, 2016, the Company is no longer subject to state, local, or foreign examinations by the tax authorities for years before fiscal 2014.

During the next 12 months, it is reasonably possible that resolution of reviews by taxing authorities, both domestic and international, could be reached with respect to $4 million of the Company’s unrecognized tax benefits, depending on the timing of ongoing examinations, any litigation and expiration of statute of limitations, either because the Company’s tax positions are sustained or because the Company agrees to their disallowance and pays the related income tax. While the Company believes it has adequate accruals for uncertain tax positions, the tax authorities may determine that the Company owes taxes in excess of recorded accruals or the recorded accruals may be in excess of the final settlement amounts agreed to by tax authorities.

Note 16—Retirement Plans

Defined Contribution Plans

The Company sponsors several defined contribution plans, including the Leidos, Inc. Retirement Plan which is both a 401(k) plan and an employee stock ownership plan, in which most employees are eligible to participate, and the Leidos, Inc. Retirement Plan for Former IS&GS Employees. These plans allow eligible participants to contribute a portion of their income through payroll deductions and the Company may also make discretionary contributions. Company contributions were $68 million, $56 million and $62 million for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015, respectively.

Deferred Compensation Plans

The Company maintains two deferred compensation plans, the Keystaff Deferral Plan ("KDP") and the Key Executive Stock Deferral Plan ("KESDP"), for the benefit of certain management or highly compensated employees or members of the Board of Directors. The deferred compensation plans allow eligible participants to elect to defer all or a portion of certain bonuses, including equity awards. Directors may also elect to defer their director fees and retainers.

The Company makes no contributions to the KDP but maintains participant accounts for deferred amounts and investments. The Company maintains a rabbi trust for the purpose of funding benefit payments to the KDP participants. Participants may allocate deferred cash bonus amounts into a variety of designated investment options, with gains and losses based on the elected investment option performance. Under the KESDP, eligible participants may also elect to defer in share units all or a portion of certain cash bonuses and stock awards granted under the 2006 Equity Incentive Plan (see "Note 14 Stock-Based Compensation"). The Company makes no contributions to the accounts of KESDP participants. Benefits from the KESDP are payable in shares of Leidos common stock held in a rabbi trust for the purpose of funding benefit payments to KESDP participants. Deferred balances in the KDP and KESDP plans are paid upon retirement, termination, or the elected in-service date.

The Company sponsors a 401(k) Excess Deferral Plan ("Excess Plan") for the benefit of certain management or highly compensated employees that allows participants to elect to defer up to 20% of their eligible salary once the participant has met the IRS contribution limit imposed on the Leidos, Inc. Retirement Plan. The Company makes matching contributions to participants who have received a reduced Company contribution in the Leidos, Inc. Retirement Plan due to the participant’s deferral of salary into the Excess Plan which are included in the contributions expensed amount for defined contributions plans. This plan was frozen effective December 31, 2016.

Defined Benefit Plans

The Company sponsors a defined benefit pension plan in the United Kingdom for plan participants that primarily performed services on an expired customer contract. While benefits under the plan are frozen, the Company has continuing defined benefit pension obligations with respect to certain plan participants. In fiscal 2012, the Company sold certain components of its business, including the component of its business that contained this pension and employed the pension plan participants. Pursuant to the definitive sale agreement, the Company retained the assets and obligations of this defined benefit pension plan. As a result of retaining the pension obligation, the remaining immaterial components of ongoing pension expense, primarily interest costs and assumed return on plan assets subsequent to the sale, are recorded in continuing operations.

The projected benefit obligation as of December 30, 2016, and January 1, 2016, was $115 million and $106 million, respectively. The increase in the projected benefit obligation was primarily due to a lower discount rate, partially offset by the impact of a stronger U.S. dollar.

The fair value of plan assets as of December 30, 2016, and January 1, 2016, was $109 million and $108 million, respectively. The plan funding status was underfunded $6 million and overfunded $2 million as of December 30, 2016, and January 1, 2016, respectively.

Other

The Company also sponsors a defined benefit pension plan for employees working on one U.S. Government contract. As part of the contractual agreement, the customer reimburses the Company for contributions made to the plan that are allowable under government contract cost accounting requirements. If the Company were to cease being the contractor as a result of a recompetition process, this defined benefit pension plan and related plan assets and liabilities would transfer to the new contractor. If the contract expires or is terminated with no transfer of the plan to a successor contractor, any amount by which plan liabilities exceed plan assets, as of that date, will be reimbursed by the U.S. Government customer. Since the Company is not responsible for the current or future funded status of this plan, no assets or liabilities arising from its funded status are recorded in the Company's consolidated financial statements and no amounts associated with this plan are included in the defined benefit plan disclosures above. In fiscal 2015, the majority of the participants were transferred from the defined benefit pension plan into a new defined contribution plan for which there is a matching Company contribution. These participants can no longer make contributions into the defined benefit pension plan or earn future pension benefits. The remaining participants will continue in the defined benefit pension plan and will continue to earn future pension benefits; however, any Company matching contributions previously made into the plan have been discontinued.

Note 17—Leases

The Company occupies most of its facilities under operating leases. Most of the leases require the Company to pay maintenance and operating expenses such as taxes, insurance and utilities and also contain renewal options to extend the lease and provisions for periodic rate escalations to reflect inflationary increases. Certain equipment is leased under short-term or cancelable operating leases. Rental expense for facilities and equipment related to continuing operations for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015 were as follows:

	12 Months Ended	11 Months Ended	12 Months Ended
	December 30, 2016	January 1, 2016	January 30, 2015
		(in millions)	
Gross rental expense	**$ 107**	$ 83	$ 107
Less: sublease income	**(2)**	(8)	(9)
Net rental expense	**$ 105**	$ 75	$ 98

Future minimum lease commitments and sublease receipts, under non-cancelable operating leases in effect at December 30, 2016, are as follows:

Fiscal Year Ending	Operating lease commitment	Sublease receipts
	(in millions)	
2017	$ 142	$ 4
2018	106	2
2019	83	1
2020	58	1
2021	41	1
2022 and thereafter	92	—
Total	$ 522	$ 9

As of December 30, 2016, the Company had capital lease obligations of $3 million that are payable over the next three years (see "Note 11—Debt").

Sale and Leaseback Agreement

On May 3, 2013, the Company entered into a purchase and sale agreement relating to the sale of approximately 18 acres of land in Fairfax County, Virginia, including four office buildings, a multi-level parking garage, surface parking lots, and other related improvements and structures, as well as tangible personal property and third-party leases. This sale agreement contemplated that sales would be completed in a series of transactions over a period of several years.

On August 31, 2015, the Company entered into an amendment to the original purchase and sale agreement and subsequently, in December 2015, closed the sale of the remaining building, parcels of land that surround the building and the multi-level surface parking garage for a net purchase consideration of $95 million. The closing consideration consisted of a cash payment of $75 million and a promissory note (the "Note") of $20 million, net of discount of $5 million. The proceeds of $95 million resulted in a gain of $82 million due to 1) the write-off of the financing note payable of $35 million and other long-term liabilities of $5 million from the 2013 Sale; 2) offset by the write-off of $40 million in aggregate net book value of property disposed, which includes amounts related to the disposal of the third office building sold during the 2013 Sale; and 3) payments for a lease termination fee of $8 million to terminate the financing leaseback agreement and transaction and selling costs of $5 million. The gain was recorded in "Other (expense) income, net" in the Company's consolidated statements of income (loss).

The Note matures on December 17, 2019 ("Maturity Date"), and accrues interest at 30-day LIBOR subject to a floor of 0.25% per annum, plus 0.50% over a four-year period. Interest will accrue daily and is not compounded to the outstanding principal balance. The total accumulated interest and principal will be paid in a lump sum on the Maturity Date. If prepayments are made towards the outstanding principal and interest balance prior to the maturity date, the Company will credit 60% of the accrued interest against the outstanding balance; additionally, if all of the outstanding principal and interest balance is prepaid on or before December 17, 2018, the Company will credit 80% of the accrued interest due under the Note.

Note 18—Supplementary Cash Flow Information

Supplementary cash flow information, including non-cash investing and financing activities, for fiscal 2016, the 11-month periods ended January 1, 2016, and January 2, 2015, and fiscal 2015 was as follows:

	12 Months Ended	11 Months Ended		12 Months Ended
	December 30, 2016	January 1, 2016	January 2, 2015	January 30, 2015
			(unaudited)	
	(in millions)			
Dividends declared and other	**$ 21**	$ 2	$ 25	$ —
Capital lease obligations	**$ —**	$ 6	$ —	$ —
Promissory note, net received for disposition of business	**$ —**	$ 72	$ —	$ —
Promissory note, net received from a real estate sale	**$ —**	$ 20	$ —	$ —
Stock issued for acquisition of the IS&GS Business	**$ 2,938**	$ —	$ —	$ —
Cash paid for interest	**$ 90**	$ 50	$ 74	$ 74
Cash paid for income taxes, net of refunds (including discontinued operations)	**$ 47**	$ 31	$ 22	$ 55

Note 19—Business Segments

The Company defines its reportable segments based on the way the chief operating decision maker ("CODM"), currently its chief executive officer, manages the operations of the Company for purposes of allocating resources and assessing performance. The Company has the following reportable segments: National Security Solutions ("NSS"), Information Systems & Global Solutions ("IS&GS"), Health and Infrastructure ("HIS") and Corporate and Other.

During fiscal 2016, the Company completed its acquisition of Lockheed Martin's IS&GS Business (see "Note 2–Acquisitions"). The acquired IS&GS Business was identified as a new operating and reportable segment.

In fiscal 2016, the Company sold its design, build and heavy construction engineering business (see "Note 3–Divestitures"). Consequently, the reportable segment of Health and Engineering was renamed as Health and Infrastructure.

National Security Solutions is focused on rapidly deploying agile, cost-effective solutions to meet the ever-changing missions of the Company's customers in areas of intelligence surveillance and reconnaissance, integrated systems and cybersecurity and global services. National Security Solutions provides a diverse portfolio of national security solutions and systems for air, land, sea, space and cyberspace for the U.S. Intelligence Community, the DoD, military services, DHS, government agencies of U.S. allies abroad and other federal, civilian, and commercial customers in the national security industry. The Company's solutions deliver innovative technology, large-scale intelligence systems, command and control, data analytics, logistics and cybersecurity solutions, as well as intelligence analysis and operations support to critical missions around the world.

Information Systems & Global Solutions business focuses on being a leading provider of information technology ("IT"), management and engineering services to civil, defense and intelligence agencies of the U.S. Government. The Company's major customers within the U.S. Government include the DHS, the Department of the Treasury, DoD and the branches of the U.S. military. Various international customers are primarily located in the United Kingdom, the Middle East and Australia.

Health and Infrastructure businesses capitalize on the Company's knowledge and experience in technology and innovation. Major customers of Health and Infrastructure primarily include the U.S. federal government, state and local governmental agencies, foreign governments, healthcare providers and commercial enterprises in various industries. The Health business provides services and solutions to commercial hospitals, the DOD and other U.S. Government agencies focused on information technology and behavioral health and life sciences offerings. The healthcare business is focused on the overall availability and quality of electronic health data, clinical care optimization, and life sciences research and development that ultimately improves the quality of care while lowering cost for the Company's customers. The Infrastructure business is focused on seamlessly integrating and protecting physical, digital and data domains. By applying leading science and the right technologies and business acumen, the Company's forward thinkers are helping customers maximize their performance and take on the connected world with data-driven insights, improved efficiencies and technology advantages.

Corporate and Other includes the operations of the Company’s internal real estate management subsidiary, various corporate activities, certain corporate expense items that are not reimbursed by the Company’s U.S. Government customers and certain other revenue and expense items.

The following tables summarize business segment information for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015:

	12 Months Ended **December 30, 2016**	11 Months Ended January 1, 2016	12 Months Ended January 30, 2015
		(in millions)	
Revenues:			
National Security Solutions	**$ 3,610**	$ 3,210	$ 3,594
Information Systems & Global Solutions	**1,971**	—	—
Health and Infrastructure	**1,463**	1,496	1,485
Corporate and Other	**(1)**	6	(16)
Total revenues	**$ 7,043**	$ 4,712	$ 5,063
Operating income (loss):			
National Security Solutions	**292**	263	286
Operating income margin	***8.1%***	*8.2%*	*8.0 %*
Information Systems & Global Solutions	**114**	—	—
Operating income margin	***5.8%***	*—%*	*— %*
Health and Infrastructure	**162**	76	(472)
Operating income (loss) margin	***11.1%***	*5.1%*	*(31.8)%*
Corporate and Other	**(151)**	(19)	(28)
Total operating income (loss)	**$ 417**	$ 320	$ (214)
Operating income (loss) margin	***5.9%***	*6.8%*	*(4.2)%*
Amortization of intangible assets:			
Information Systems & Global Solutions	**79**	—	—
Health and Infrastructure	**5**	8	15
Total amortization of intangible assets	**$ 84**	$ 8	$ 15

Asset information by segment is not a key measure of performance used by the CODM. Other income (expense), interest income, interest expense and provision for income taxes, as reported in the consolidated financial statements, are not part of operating income and are primarily recorded at the corporate level. 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. While depreciation expense is a component of the allocated costs, the allocation process precludes depreciation expense from being specifically identified by the Company’s individual reportable segments. For this reason, depreciation expense by reportable segment has not been reported above.

The majority of the Company's revenues and tangible long-lived assets are generated by or located in the United States. As such, the financial information by geographic location is not presented.

The Company's revenues are largely attributable to prime contracts with the U.S. Government or to subcontracts with other contractors engaged in work for the U.S. Government. The percentages of total revenues for the U.S. Government, its agencies and other customers comprising more than 10% of total revenues in any of the years for fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015 were as follows:

	12 Months Ended	11 Months Ended	12 Months Ended
	December 30, 2016	January 1, 2016	January 30, 2015
U.S. Government	**81%**	76%	79%
U.S. DoD	**56%**	64%	67%
U.S. Army	**14%**	14%	16%
Maryland Procurement Office	**7%**	10%	10%

Note 20—Legal Proceedings

MSA Joint Venture

On November 10, 2015, MSA 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.

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 December 30, 2016, the Company recorded a liability of $39 million and an indemnification asset of $1 million in the 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 back-up 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, and oral arguments are scheduled for April 17, 2017.

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 names 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 the 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 moved to vacate the District Court's judgment or obtain relief from the judgment and for leave to file an amended complaint. On September 30, 2014, the District Court denied plaintiff's motions. 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. The Company petitioned the Second Circuit on April 12, 2016, to rehear the appeal, which was denied on August 2, 2016. The Company has filed a petition to appeal to the U.S. Supreme Court. Meanwhile, the case remains before the District Court for further proceedings on plaintiffs' claim. 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 plaintiffs filed a motion on October 7, 2016 for reconsideration of the Court’s order, which the Court denied.

Greek Government Contract

Background and Arbitration. 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 $14 million, representing the undisputed portion of the contract balance owed to the Company. The Customer has not paid this final invoice.

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 $41 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 court date is scheduled for November 16, 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.

Financial Status and Contingencies. 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 during fiscal 2016, the 11-month period ended January 1, 2016, and fiscal 2015. Prior to fiscal 2015, the Company 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 December 30, 2016, the Company's net balance sheet exposure for the Greek contract was $1 million.

The Company has $26 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 December 30, 2016, 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 December 30, 2016, 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 $17 million as of December 30, 2016, of which $15 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 consolidated financial position, results of operations, or cash flows.

Note 21—Other Commitments and 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 has been remanded to the Federal District Court for further proceedings, including a new jury trial which began on January 25, 2016.

On December 17, 2014, VirnetX settled a separate patent infringement dispute with Microsoft Corporation, with those parties executing an Amended Settlement and License Agreement. This agreement amended and restated certain terms of the original Settlement and License Agreement, dated May 14, 2010, between VirnetX and Microsoft. Under the terms of the amended agreement, Microsoft agreed to pay $23 million to VirnetX to settle the patent dispute and expand Microsoft's license. Under its agreements with VirnetX, the Company received proceeds of $10 million in the 11-month period ended January 1, 2016, from VirnetX's settlement with Microsoft and VirnetX's settlement of a previous litigation matter against various defendants, including Mitel, Siemens and Avaya. Pursuant to the agreements with VirnetX, the amount received by the Company includes reimbursement for attorney's fees and costs incurred by the Company in connection with these litigation matters. In addition, the Company is required to pay a royalty on the proceeds received to the customer who paid for the development of the technology.

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-cs-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 material assets or liabilities recorded in connection with this matter as of December 30, 2016.

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.

As of December 30, 2016, the Company believes it has adequately reserved for potential adjustments from audits or reviews of contract costs.

Leidos, Inc.'s indirect cost audits by the DCAA remain open for fiscal 2012 and subsequent fiscal years. Although the Company has recorded contract revenues subsequent to and including fiscal 2012 based upon an estimate of costs that the Company believes will be approved upon final audit or review, the Company does not know 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.

Leidos Innovations Corporation's indirect cost audits by the DCAA remain open for fiscal 2009 and subsequent fiscal years. Based upon an estimate of costs that the Company believes will be approved upon final audit or review, the Company does not know 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.

Letters of Credit, Surety Bonds and Third-Party Guarantees

The Company has outstanding letters of credit of $71 million as of December 30, 2016, 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 December 30, 2016, the Company is not aware of any existing event of default that would require it to satisfy any of these guarantees.

Other

The Company maintains self-insured medical and workers compensation insurance plans. The Company provided estimated accruals for claims incurred but not yet reported for both these plans totaling $27 million and $16 million as of December 30, 2016, and January 1, 2016, respectively.

Note 22—Selected Quarterly Financial Data (Unaudited)

Selected financial data (unaudited) for each quarter of fiscal 2016 (January 2, 2016, through December 30, 2016) and calendar 2015 (January 3, 2015, through January 1, 2016), respectively, is presented in the table below:

	Three Months Ended			
	April 1, 2016	July 1, 2016	September 30, 2016	December 30, 2016
	(in millions, except per share amounts)			
Fiscal 2016 [(1)]				
Revenues	**$ 1,312**	**$ 1,288**	**$ 1,868**	**$ 2,575**
Operating income	**$ 89**	**$ 75**	**$ 101**	**$ 152**
Income from continuing operations [(2)]	**$ 53**	**$ 41**	**$ 92**	**$ 60**
Net income [(2)]	**$ 53**	**$ 41**	**$ 92**	**$ 60**
Net income attributable to Leidos common stockholders	**$ 53**	**$ 41**	**$ 91**	**$ 59**
Basic earnings per share attributable to Leidos common stockholders [(3)]	**$ 0.74**	**$ 0.56**	**$ 0.81**	**$ 0.39**
Diluted earnings per share attributable to Leidos common stockholders [(3)]	**$ 0.72**	**$ 0.55**	**$ 0.80**	**$ 0.39**

	Three Months Ended			
	April 3, 2015	July 3, 2015	October 2, 2015	January 1, 2016
	(in millions, except per share amounts)			
Calendar 2015 [(4)(5)]				
Revenues	$ 1,246	$ 1,257	$ 1,302	$ 1,281
Operating income	$ 38	$ 64	$ 94	$ 102
Income from continuing operations	$ 23	$ 37	$ 49	$ 127
Income from discontinued operations	$ 18	$ —	$ —	$ —
Net income	$ 41	$ 37	$ 49	$ 127
Basic earnings per share [(3)]	$ 0.32	$ 0.51	$ 0.68	$ 1.76
Diluted earnings per share [(3)]	$ 0.31	$ 0.50	$ 0.67	$ 1.72

(1) Includes the results of the IS&GS Business acquired on August 16, 2016. Additionally, the fiscal 2016 quarterly results include acquisition and integration costs of $9 million, $15 million, $44 million, and $22 million in the first, second, third, and fourth quarter, respectively, and restructuring expenses of $1 million, $5 million, and $8 million in the second, third, and fourth quarter, respectively.

(2) Due to the adoption of ASU 2016-09 in the second quarter of fiscal 2016, the Company recognized a $4 million, $3 million and $1 million discrete tax benefit for the first, second and third quarter, respectively, of fiscal 2016.

(3) Earnings per share from continuing operations are computed independently for each of the quarters presented and therefore may not sum to the total for fiscal 2016 and calendar 2015.

(4) On March 20, 2015, the Board of Directors approved the amendment and restatement of the bylaws of Leidos to change Leidos' year end from the Friday nearest the end of January to the Friday nearest the end of December. In the first quarter of calendar 2015, the Company began reporting financial results on the basis of the new fiscal year end. The results for the month of January 2015, which are included in the audited results for fiscal 2015, were also included in the reported first quarter of calendar 2015. However, the results for the month of January 2015 are not included in the results for the 11-month period ended January 1, 2016. As a result, the four quarters of calendar 2015 are not additive to the 11-month period ended January 1, 2016.

(5) Calendar 2015 quarterly results include tangible asset impairment charges of $40 million and $29 million in the first and second quarter, respectively, intangible asset impairment charges of $4 million in the third quarter and an $82 million gain on a real estate sale in the fourth quarter. The first quarter impairment charge occurred during January 2015 and is included in both the first quarter of calendar 2015 and the Company's fiscal 2015 results.

Note 23—Subsequent Events

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.

LEIDOS HOLDINGS, INC.
Executive Severance Plan

Effective January 1, 2017

Establishment of Plan and Purpose.

The Company has established the Leidos Holdings, Inc. Executive Severance Plan (the "Plan") to provide benefits to Eligible Employees who leave the employment of the Company as the result of an Executive Layoff Event and otherwise satisfy the various eligibility requirements of the Plan as stated herein. This Plan document sets forth the material terms and provisions of the Plan, including rules pertaining to the administration and payment of benefits under the Plan.

SECTION 1. ***Definitions.*** The following terms when capitalized shall have the meaning set forth below:

"Accrued Compensation" means an amount which includes all amounts earned or accrued by the Eligible Employee through and including the Termination Date but not paid to the Eligible Employee on or prior to such date, including (a) all base salary, (b) reimbursement for all reasonable and necessary expenses incurred by the Eligible Employee on behalf of the Company during the period ending on the Termination Date, (c) all vacation pay, and (d) any annual cash bonus earned by the Eligible Employee for a prior year but not paid as of the Termination Date, and (e) any other vested incentive compensation or employee benefits to which the Participant is entitled as of the Termination Date under the Company's plans and programs.

"Administrator" means, for purposes of benefits under Appendices A and B, relating to Eligible Officers, the Administrator is the Compensation Committee, and for purposes of benefits under Appendix C, relating to participants that are Executives, the Administrator is the Chief Executive Officer. Notwithstanding the foregoing, the Administrator(s) may delegate any portion of, including the entirety of, its authority to any officer or employee of the Company. The Administrator(s) shall have the duties, powers and authority to act as described in Section 2 of the Plan.

"Cause" for the termination of the Eligible Employee's employment with the Company will be deemed to exist if:

(a) the Eligible Employee has been convicted, or entered a plea of *nolo contendere*, for committing an act of fraud, embezzlement, theft or other act constituting a felony (other than traffic related offenses or as a result of vicarious liability),

(b) the Eligible Employee willfully engages in illegal conduct or gross misconduct that is significantly injurious to the Company, including an Eligible Employee's material breach of his or her obligations under any written Company policy, including any code of ethics or conduct, which is not cured, if curable, within ten (10) days after the Company notifies Eligible Employee of such breach; however, no act or failure to act on the Eligible Employee's part shall be considered "willful" unless done or omitted to be done by the

Eligible Employee not in good faith and without reasonable belief that his or her action or omission was in the best interest of the Company, or

(c) failure to perform his or her duties in a reasonably satisfactory manner after the receipt of a notice from the Company detailing such failure if the failure is incapable of cure, and if the failure is capable of cure, upon the failure to cure such failure within 30 days of such notice or upon its recurrence.

"CHRO" means the Chief Human Resources Officer of the Company.

"Code" means the Internal Revenue Code of 1986, as amended.

"Company" means Leidos Holdings, Inc., a Delaware corporation, provided that in recognition of the fact that the Eligible Employee may be employed by Leidos, Inc., a Delaware corporation and wholly-owned subsidiary of the Company ("Leidos"), or by another direct or indirect Subsidiary of Leidos, Inc., the term "Company" when referring to the employment relationship and the compensation or benefits related thereto shall include the employer of the Eligible Employee as the context requires.

"Compensation Committee" means the Human Resources and Compensation Committee of the Board of Directors of the Company or any successor Committee.

"Disability" means the status of disability determined conclusively by the Company based upon certification of disability by the Social Security Administration or upon such other proof as the Company may reasonably require, effective upon receipt of such certification or other proof by the Company.

"Eligible Officer" means an Eligible Employee who is an EVP or a Group President, and who is also a direct report to the Chief Executive Officer.

Notwithstanding the foregoing, the term Eligible Officer shall include any other Eligible Employee designated by the Compensation Committee as eligible for benefits under Appendices A and/or B of the Plan.

"Eligible Employee" means an individual who meets the criteria set forth in both subsections (a) and (b) below:

(a) Is an active, full-time employee of the Company; and

(b) Is (i) an Eligible Officer, as defined above, who meets the additional eligibility criteria set forth in Appendices A or B, or (ii) as of the date of Notice of Termination is in a job code that is mapped to the "Executive" Career Stream, levels E1 or E2, but is not an Eligible Officer and meets the additional eligibility criteria set forth in Appendix C.

"Executive Layoff Event" means the termination of Employment of an Eligible Employee that is (i) initiated by the Company (including under a separation window program offered by the Company that incorporates the terms of this Plan or a portion thereof and that meets the applicable exception from Code section 409A and the accompanying Treasury Regulations) for reasons other than for Cause, or (ii) is initiated by an Eligible Officer for Good Reason; and (iii) is designated by the CHRO as an Executive Layoff Event.

Notwithstanding the foregoing, an Executive Layoff Event can only be initiated by an Eligible Employee for Good Reason under Appendix B of this Plan (benefits for Eligible Officers after a Change in Control of the Company).

"Full Release" means the written Release of All Claims and Potential Claims set forth in Appendix D of the Plan. The Company must have obtained a Full Release, timely executed so that it is fully effective as of the date of payment pursuant to the relevant Plan Appendix, as a condition to payment of benefits under the Plan.

"Notice of Termination" means a written notice from the Company to the Eligible Employee of the termination of the Eligible Employee's employment which indicates the specific termination provision in this Plan relied upon and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Eligible Employee's employment under the provision so indicated. For purposes of this Plan, no such purported termination will be effective without a Notice of Termination.

"Person" has the meaning as defined in Section 3(a)(9) of the Securities Exchange Act and used in Section 13(d) or 14(d) of the Securities Exchange Act, and will include any "group" as such term is used in such sections.

"Pro Rata Bonus" means:

(a) For Eligible Officers eligible for benefits described in Appendix A, the bonus based on the target annual cash incentive established by the Compensation Committee for the year in which the Termination Date occurs (or the target annual bonus established by the Compensation Committee for the most recently completed fiscal year if the Termination Date occurs prior to the establishment of an annual target bonus for the fiscal year in which the Termination Date occurs) with the payout amount calculated based only on the financial performance results (no personal performance) multiplied by a fraction, the numerator of which is the number of days elapsed in the then fiscal year through and including the Termination Date and the denominator of which is 365.

(b) For Eligible Officers eligible for benefits described in Appendix B, the bonus based on the target annual cash incentive established by the Compensation Committee for the year in which the Termination Date occurs (or the target annual bonus established by the Compensation Committee for the most recently completed fiscal year if the Termination Date occurs prior to the establishment of an annual target bonus for the fiscal year in which the Termination Date occurs) (no financial or personal performance) multiplied by a fraction, the numerator of which is the number of days elapsed in the then fiscal year through and including the Termination Date and the denominator of which is 365.

(c) For Executives eligible for benefits described in Appendix C, the bonus based on the target annual cash incentive established by the Company under the Executive Incentive Plan for the year in which the Termination Date occurs (or the target annual bonus established by the Compensation Committee for the most recently completed fiscal year if the Termination Date occurs prior to the establishment of an annual target bonus for the fiscal year in which the Termination Date occurs), with the payout amount calculated based only on the financial performance results (no personal performance) multiplied by a fraction, the numerator of which is the number of days elapsed in the then fiscal year through and including the Termination Date and the denominator of which is 365.

***"Securities Exchange Act*"** means the Securities Exchange Act of 1934, as amended.

"Subsidiary" means any corporation with respect to which another specified corporation has the power under ordinary circumstances to vote or direct the voting of sufficient securities to elect a majority of the directors.

"Successor" means a corporation or other entity acquiring all or substantially all the assets and business of the Company, whether by operation of law, by assignment or otherwise.

"Termination Date" means:

(a) in the case of the Eligible Employee's death, the Eligible Employee's date of death,

(b) in the case of the termination of the Eligible Officer's employment with the Company by the Eligible Officer for Good Reason, the date the Company's 30-day cure period expires if the Company has failed to cure the applicable Good Reason event, or

(c) in all other cases, the date specified in the Notice of Termination.

Notwithstanding anything to the contrary herein, to the extent necessary to comply with Code Section 409A, an Eligible Employee's employment shall be considered to have terminated if the Eligible Employee has experienced a "separation from service," as defined in Code Section 409A and the regulations thereunder.

SECTION 2.*Administration of Plan; Amendment and Termination*

2.1. This Plan shall be administered by the Administrator.

2.2. The Administrator has the power and authority to amend and/or terminate the Plan, and to interpret Plan provisions and develop administrative procedures, policies and guidance to aid it in the operation of the Plan. However, the Administrator is required to provide one hundred and eighty (180) days advance written notice to Eligible Employees before terminating the Plan, and is required to provide ninety (90) days written notice to Eligible Employees before amending the Plan in a way which would adversely impact their rights or benefits under the Plan. The

Administrator may at any time "freeze" the Plan and not allow new Eligible Employees to participate after a particular date. Notwithstanding the foregoing, the Administrator may not terminate the Plan or take any adverse action that would take effect during the period of time beginning 3 months prior to the Change in Control, and ending 24 months following a Change in Control, as that term is defined in Appendix B.

2.3. With respect to responsibilities for (a) amending or terminating the Plan, (b) or interpreting the provisions in Appendices A and B relating to Eligible Officers, or prescribing, revising or rescinding any rules or guidance relating to the benefits under Appendices A and B, the Administrator shall be the Compensation Committee or its delegate. With respect to interpreting the provisions in Appendix C, including determinations of eligibility, or prescribing, revising or rescinding any rules or guidance relating to the benefits provided under Appendix C, the Administrator shall be the Chief Executive Officer or his/her delegate.

2.2 All decisions of the Administrator shall be final and binding upon all Participants.

SECTION 3.*Benefits*

3.1 Executive Layoff Events. If the Eligible Employee's termination of employment with the Company meets the definition of an Executive Layoff Event as defined in this Plan, the Eligible Employee shall be entitled to the benefits described in Appendices A, B or C of this Plan, provided they meet the additional eligibility criteria set forth in the applicable Appendix.

3.2 Other Terminations. If the Eligible Employee's employment with the Company is terminated (i) by the Company for Cause or Disability, (ii) by reason of the Eligible Employee's death or (iii) by an Eligible Officer other than for Good Reason, the Company will pay to the Eligible Employee the Accrued Compensation only. If such termination is by the Company for Disability, or by reason of the Eligible Employee's death, the Company will also pay a Pro Rata Bonus.

3.3 No Duty to Mitigate. The Eligible Employee will not be required to mitigate the amount of any payment provided for in this Plan by seeking other employment or otherwise, and no such payment will be offset or reduced by the amount of any compensation or benefits provided to the Eligible Employee in any subsequent employment, except as specifically provided in the applicable Appendix.

3.4 Exclusivity of Benefits. Except as otherwise noted herein, the compensation to be paid to the Eligible Employee in accordance with this Section 3 and pursuant to the applicable Appendix will be in lieu of any similar severance or termination compensation (i.e., compensation based directly on the Eligible Employee's annual or weekly rate of salary or annual salary and bonus or statutory severance to which the Eligible Employee is entitled) to which the Eligible Employee may be entitled under any other Company severance or termination Plan, plan, program, policy, practice or arrangement. The Eligible Employee's entitlement to any compensation or benefits of a type not provided in this Plan will be determined in accordance with the Company's employee benefit plans and other applicable programs, policies and practices as in effect from time to time.

SECTION 4. ***Excise Tax Adjustments*.**

4.1 In the event that an Eligible Officer who is an Eligible Employee becomes entitled to receive the benefits provided in Appendix B (Executive Layoff Event after a Change in Control of the Company), and the Company determines that such benefits (the "Total Payments") will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code, or any similar tax that may hereafter be imposed, the Company shall compute the "Net After-Tax Amount," and the "Reduced Amount," and shall adjust the Total Payments as described below. The Net After-Tax Amount shall mean the present value of all amounts payable to the Eligible Employee hereunder, net of all federal income, excise and employment taxes imposed on the Eligible Employee by reason of such payments. The Reduced Amount shall mean the largest aggregate amount of the Total Payments that if paid to the Eligible Employee would result in the Eligible Employee receiving a Net After-Tax Amount that is equal to or greater than the Net After-Tax Amount that the Eligible Employee would have received if the Total Payments had been made. If the Company determines that there is a Reduced Amount, the Total Payments will be reduced to the Reduced Amount. Such reduction to the Total Payments shall be made by first reducing or eliminating any cash severance benefits, then by reducing or eliminating any accelerated vesting of stock options where the value of the underlying share of Leidos Holding, Inc. common stock is less than the exercise or strike price of the option ("underwater options"), then by reducing or eliminating any accelerated vesting of options that are not underwater options, then by reducing or eliminating any accelerated vesting of other equity awards, then by reducing or eliminating any other remaining Total Payments, in each case in reverse order beginning with the payments which are to be paid the farthest in time from the date of the transaction triggering the Excise Tax.

4.2 For purposes of determining whether the Total Payments will be subject to the Excise Tax and the amounts of such Excise Tax and for purposes of determining the Reduced Amount and the Net After-Tax Amount:

(a) Any other payments or benefits received or to be received by the Eligible Employee in connection with a Change in Control of the Company or the Eligible Employee's termination of employment (whether pursuant to the terms of this Plan or any other plan, arrangement, or Plan with the Company, or with any individual, entity, or group of individuals or entities (individually and collectively referred to in this subsection (a) as "Persons") whose actions result in a change in control of the Company or any Person affiliated with the Company or such Persons) shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) of the Code shall be treated as subject to the Excise Tax, unless in the opinion of a tax advisor selected by the Company and reasonably acceptable to the Eligible Employee ("Tax Counsel"), such other payments or benefits (in whole or in part) should be treated by the courts as representing reasonable compensation for services actually rendered (within the meaning of Section 280G(b)(4)(B) of the Code), or otherwise not subject to the Excise Tax;

(b) The amount of the Total Payments that shall be treated as subject to the Excise Tax shall be equal to the lesser of (i) the total amount of the Total Payments; or (ii) the amount of excess parachute payments within the meaning of Section 280G(b)(1) of the Code (after applying clause (a) above);

(c) In the event that the Eligible Employee disputes any calculation or determination made by the Company, the matter shall be determined by Tax Counsel, the fees and expenses of which shall be borne solely by the Company; and

(d) The Eligible Employee shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Change in Control of the Company occurs, and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Eligible Employee's residence on the effective date of the Change in Control of the Company, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes, taking into account the reduction in itemized deduction under Section 68 of the Code.

SECTION 5. ***Covenants of the Eligible Employee***. As a condition to receiving the benefits described in Appendices A, B and C (as applicable), the Eligible Employee must sign and comply with a form of Post-Employment Conduct Agreement as acceptable to the Company, and attached to this Plan as Appendix E.

SECTION 6. ***Successors; Binding Plan***.

This Plan will be binding upon and will inure to the benefit of the Company and its Successors, and the Company will require any Successors to expressly assume and agree to perform this Plan in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Neither this Plan nor any right or interest hereunder will be assignable or transferable by the Eligible Employee or by the Eligible Employee's beneficiaries or legal representatives, except by will or by the laws of descent and distribution.

SECTION 7. ***Fees and Expenses of Eligible Officers***.

The Company will pay as promptly as practicable all reasonable legal fees and related expenses (including the reasonable costs of experts) incurred byEligible Officers, as defined in the Plan, who in good faith, seek to obtain or enforce any right or benefit provided by this Plan, provided that the Eligible Officer prevails on a least one material claim.. If the dispute is resolved by a final decision of an arbitrator pursuant to Section 13 in the favor of the Company, the Eligible Employee shall reimburse the Company for all such legal fees and related expenses (including costs of experts) paid by the Company on behalf of the Eligible Employee. To the extent necessary to comply with Code Section 409A, any reimbursements pursuant to this Section 7 shall be paid to the Eligible Employee on or before the last day of the Eligible Employee's taxable year following the taxable year in which the related expense was incurred. Such reimbursements are not subject to liquidation or exchange for another benefit and the amount of such benefits and reimbursements that the Eligible Employee receives in one taxable year shall not affect the amount of such benefits or reimbursements that the Eligible Employee receives in any other taxable year.

SECTION 8. *Notice*.

For the purposes of this Plan, notices and all other communications provided for in the Plan (including the Notice of Termination) will be in writing and will be deemed to have been duly given (i) when personally delivered, (ii) upon acknowledgment of receipt when sent by e-mail or other electronic transmission (excluding acknowledgements generated automatically without an affirmative act by the recipient), or (iii) when sent by certified mail, return receipt requested, postage prepaid, addressed to the respective addresses last given by each party to the other, provided that all notices to the Company will be directed to the attention of the Board with a copy to the Secretary of the Company. All notices and communications will be deemed to have been received on the date of delivery thereof or on the third business day after the mailing thereof, except that notice of change of address will be effective only upon receipt.

SECTION 9. ***Nonexclusivity of Rights***.

Nothing in this Plan will prevent or limit the Eligible Employee's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Company for which the Eligible Employee may qualify, nor will anything herein limit or reduce such rights as the Eligible Employee may have under any other Plans with the Company (except for any severance or termination Plan). Amounts which are vested benefits or which the Eligible Employee is otherwise entitled to receive under any plan or program of the Company will be payable in accordance with such plan or program, except as specifically modified by this Plan.

SECTION 10. ***No Set-Off***.

The Company's obligation to make the payments provided for in this Plan and otherwise to perform its obligations hereunder will not be affected by any circumstances, including any right of set-off, counterclaim, recoupment, defense or other right which the Company may have against the Eligible Employee or others. Notwithstanding the foregoing, the Company has the unilateral right to offset the payment of benefits under this Plan against amounts due from the Eligible Employee under the Company's clawback/recoupment policy as in effect from time to time.

SECTION 11. ***Miscellaneous***.

No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Plan to be performed by such other party will be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreement or representation, oral or otherwise, express or implied, with respect to the subject matter hereof has been made by either party which is not expressly set forth in this Plan.

SECTION 12. ***Governing Law and Binding Arbitration***.

The Plan shall be governed by the substantive laws (excluding the conflict of laws rules) of the State of Virginia. All disputes relating to this Plan and attached restrictive covenants, including its enforceability, shall be resolved by final and binding arbitration before an arbitrator appointed by, and in accordance with the rules and procedures of arbitration of, the Judicial Arbitration and Mediation Service (JAMS), with the arbitration to be held in Fairfax County, Virginia. Judgment upon the award may be entered in any court having jurisdiction thereof.

SECTION 13. ***Code Section 409A***.

It is intended that any amounts payable under this Plan shall either be exempt from or comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) ("**Code Section 409A**") so as not to subject the Eligible Employee to payment of any interest or additional tax imposed under Code Section 409A. To the extent that any amount payable under this Plan would trigger the additional tax, penalty or interest imposed by Code Section 409A, this Plan shall be modified to avoid such additional tax, penalty or interest yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Eligible Employee. If the Eligible Employee is a "specified employee" within the meaning of Treasury Regulation Section 1.409A-1(i) as of the Termination Date, the Eligible Employee shall not be entitled to any payment or benefit pursuant to the applicable Plan Appendix until the earlier of (i) the date which is six months after the Termination Date, or (ii) the date of the Eligible Employee's death. The provisions of this Section 13 shall only apply if, and to the extent, required to avoid the imputation of any tax, penalty or interest pursuant to Code Section 409A. Any amounts otherwise payable to the Eligible Employee upon or in the six month period following the Eligible Employee's Termination Date that are not so paid by reason of this Section 13 shall be paid (without interest) as soon as practicable (and in all events within five days) after the date that is six months after the Eligible Employee's Termination Date (or, if earlier, as soon as practicable, and in all events within five days, after the date of the Eligible Employee's death).

Appendix A

Schedule of Benefits for Eligible Officers
Executive Layoff Event

A.I. Eligibility. Only Eligible Officers who meet each of the additional eligibility requirements set forth in subsections A.I.1 to A.I.6 below are eligible to receive the benefits described in Section A.II:

A.I.1. The Eligible Officer is an Eligible Employee, as defined in the Plan, and is not classified as "part-time" or a "consulting employee." Part-time and consulting employees are not eligible for benefits under the Plan.

A.I.2. The Eligible Officer is not covered by another plan, program, agreement, contract or arrangement providing severance or similar benefits on account of termination of employment.

A.I.3. The Eligible Officer has not waived coverage under the Plan.

A.I.4. The Company has communicated by a Notice of Termination its intention to terminate the Eligible Officer's employment. Eligible

A.I.5. The Notice of Termination referenced in Section A.I.4 must specify that the termination has been determined to be an Executive Layoff Event.

A.I.6. The Eligible Officer must execute a Full Release and a Post-Employment Conduct Agreement or "PECA" (by which the Eligible Officer agrees to comply with certain restrictive covenants for a period of 12 months) as a condition to receiving all benefits described in Section A.II of the Plan except "Accrued Compensation" under Section A.II.1 below. The language of the PECA may vary by state and other applicable standards and requirements. In addition, the Company may in its discretion include non-competition provisions in the PECA.

A.II. Severance Benefits. Eligible Officers who meet the eligibility requirements set forth in the subsections of A.I. above are eligible to receive the following benefits from the Company:

A.II.1. all Accrued Compensation and a Pro Rata Bonus;

A.II.2. a single lump sum cash payment in an amount equal to one (1) times the Eligible Officer's Base Salary Amount. The "Base Salary Amount" means the Eligible Employee's annual base salary at the rate in effect on the Notice of Termination date;

A.II.3. a single lump sum cash payment equal to the cost of employee premiums for twelve (12) months of continuation coverage under the medical, dental and vision plans sponsored by the Company that the Eligible Officer and the Eligible Officer's dependents are enrolled in as of the Termination Date. The employee premiums shall be calculated as the cost of continuation coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA").

Other than continuation coverage under COBRA (with the cost to be paid by the Eligible Officer), no other insurance type benefits or continuation of coverage shall be offered to the Eligible Officer, in lieu of or in addition to these benefits. The Eligible Officer will be responsible for the payment of any taxes related to the single lump sum cash payment under this Section A.II.3, and the Company will provide no amount to the Eligible Officer for the gross-up of any such taxes;

A.II.4. outplacement services suitable to the Eligible Officer's position for a period of six months or, if earlier, until the first acceptance by the Eligible Officer of an offer of employment; and

A.II.5. any such other acceleration of vesting and other benefits as provided in other Company plans or Plans regarding options to purchase Company stock, restricted stock, deferral of stock or other equity compensation awards granted to or otherwise applicable to the Eligible Officer.

The payments calculated under Sections A.II.2 and A.II.3 shall be made within 55 days after the Termination Date, provided that such payment will be made no later than the last date to be considered a short-term deferral of compensation within the meaning of Treasury Regulation Section 1.409A-1(a)(4). No right to in-kind benefits, such as the outplacement services in section A.II.4, may be subject to liquidation or exchange for any other benefit.

Appendix B

Schedule of Benefits for Eligible Officers
Executive Layoff Event after a Change in Control

The Company recognizes that the possibility of a Change in Control of the Company exists and that the threat of or occurrence of a Change in Control may result in the distraction of its Eligible Officers because of the uncertainties inherent in such a situation relating to the Eligible Officers employment. Furthermore, the Company seeks to retain the services of its Eligible Officers in the event of the threat or occurrence of a Change in Control and to ensure the continued dedication and efforts of such Officers without undue concern for their personal financial and employment security.

Therefore, the Company has determined that it is essential and in the best interests of the Company and its stockholders to approve a separate set of benefits, as set forth in Appendix B, to be paid in the case of an Executive Layoff Event for an Eligible Officer that occurs within three months prior to or within 24 months following a Change in Control.

Such benefits as described in Appendix B of the Plan shall be paid in lieu of and not in addition to the benefits set forth in Appendix A of the Plan.

Definitions. For purposes of this Appendix B, the following terms when capitalized shall have the meaning set forth below:

"Beneficial Owner" has the meaning as used in Rule 13d-3 promulgated under the Securities Exchange Act. The terms "Beneficially Owned" and "Beneficial Ownership" each have a correlative meaning.

"Bonus Amount" means the target annual cash incentive amount established for the Eligible Officer by the Compensation Committee with respect to the fiscal year in which the Termination Date occurs (or the actual annual cash incentive paid or payable in respect of the most recently completed fiscal year if the Termination Date occurs prior to the establishment of an annual target incentive for the fiscal year in which the Termination Date occurs). The Bonus Amount refers specifically to the annual cash incentive at target (no personal or financial performance factors shall be applied) and excludes equity incentives such as restricted stock awards, performance shares, stock options or other long-term incentive compensation awarded to the Eligible Officer.

"Change in Control" of the Company means, and shall be deemed to have occurred upon, any of the following events:

(a) The acquisition by any Person of Beneficial Ownership of twenty-five percent (25%) or more of the outstanding voting power; provided, however, that the following acquisitions shall not constitute a Change in Control for purposes of this subparagraph (a): (A) any acquisition directly from the Company; (B) any acquisition by the Company or any of its Subsidiaries; (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its Subsidiaries; or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subparagraph (c) below; or

(b) Individuals who at the beginning of any two year period constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual who becomes a director of the Company during such two year period and whose election, or whose nomination for election by the Company's stockholders, to the Board was either (i) approved by a vote of at least a majority of the directors then comprising the Incumbent Board or (ii) recommended by a nominating committee comprised entirely of directors who are then Incumbent Board members shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act), other actual or threatened solicitation of proxies or consents or an actual or threatened tender offer; or

(c) Consummation of a reorganization, merger, or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case unless following such Business Combination, (i) all or substantially all of the Persons who were the Beneficial Owners, respectively, of the outstanding shares and outstanding voting securities immediately prior to such Business Combination own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the Company, as the case may be, of the entity resulting from the Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the outstanding voting securities (provided, however, that for purposes of this clause (i) any shares of common stock or voting securities of such resulting entity received by such Beneficial Owners in such Business Combination other than as the result of such Beneficial Owners' ownership of outstanding shares or outstanding voting securities immediately prior to such Business Combination shall not be considered to be owned by such Beneficial Owners for the purposes of calculating their percentage of ownership of the outstanding common stock and voting power of the resulting entity); (ii) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such entity resulting from the Business Combination) beneficially owns, directly or indirectly, twenty-five percent (25%) or more of the combined voting power of the then outstanding voting securities of such entity resulting from the Business Combination unless such Person owned twenty-five percent (25%) or more of the outstanding shares or outstanding voting securities immediately prior to the Business Combination; and (iii) at least a majority of the members of the Board of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial Plan, or the action of the Board, providing for such Business Combination; or

(d) Approval by the Company's stockholders of a complete liquidation or dissolution of the Company.

For purposes of clause (c), any Person who acquires outstanding voting securities of the entity resulting from the Business Combination by virtue of ownership, prior to such Business Combination, of outstanding voting securities of both the Company and the entity or entities with which the Company is combined shall be treated as two Persons after the Business Combination, who shall be treated as owning outstanding voting securities of the entity resulting from the Business Combination by virtue of ownership, prior to such Business Combination of, respectively, outstanding voting securities of the Company, and of the entity or entities with which the Company is combined.

"Good Reason" means the occurrence of any of the events or conditions described in clauses (a) through (f) hereof, without the Eligible Officer's prior written consent:

(a) any material adverse change in the Eligible Officer's authority, duties or responsibilities (including reporting responsibilities) from the Eligible Officer's authority, duties or responsibilities as in effect at any time within 90 days preceding the date of the Change in Control or at any time thereafter, or (ii) in the case of an Eligible Officer who is an Eligible Officer of the Company a significant portion of whose responsibilities relate to the Company's status as a public company, the failure of such Eligible Officer to continue to serve as an Eligible Officer of a public company, in each case except in connection with the termination of the Eligible Officer's employment for Disability, Cause, as a result of the Eligible Officer's death or by the Eligible Officer other than for Good Reason;

(b) a material reduction in Eligible Officer's base salary or any failure to pay the Eligible Officer any cash compensation to which the Eligible Officer is entitled within 15 days after the date when due;

(c) the imposition of a requirement (other than for reasonably required travel on Company business which is not materially greater in frequency or duration than prior to the Change in Control) that the Eligible Officer be based (i) at any place outside a 50-mile radius from the Eligible Officer's principal place of employment immediately prior to the Change in Control and which has a material adverse effect on the Eligible Officer's commuting requirements, or (ii) at any location other than the Company's corporate headquarters or, if applicable, the headquarters of the business unit by which he or she was employed immediately prior to the Change in Control, and which has a material adverse effect on the Eligible Officer's commuting requirements;

(d) any material breach by the Company of any provision of this Plan;

(e) any purported termination of the Eligible Officer's employment for Cause by the Company which does not comply with the definition in this Plan; or

(f) the failure of the Company to obtain, as contemplated in Section 6, agreement from any Successor to assume the obligations and liabilities under this Plan.

Notwithstanding anything to the contrary in this Plan, no termination will be deemed to be for Good Reason hereunder unless (i) the Eligible Officer provides written notice to the Company identifying the applicable event or condition within 120 days of the occurrence of the event or the initial existence of the condition, and (ii) the Company fails to remedy the event or condition within a period of 30 days following such notice.

B.I. Eligibility. Only Eligible Officers who meet each of the additional eligibility requirements set forth in subsections B.I.1 to B.I.6 below are eligible to receive the benefits d I escribed in Section B.II:

B.I.1. The Eligible Officer is an Eligible Officer, as defined in the Plan, and is not classified as "part-time" or a "consulting employee." Part-time and consulting employees are not eligible for benefits under the Plan.

B.I.2. The Eligible Officer is not covered by another plan, program, agreement, contract or arrangement providing severance or similar benefits on account of termination of employment.

B.I.3. The Eligible Officer has not waived coverage under the Plan.

B.I.4. The Company has communicated by a Notice of Termination its intention to terminate the Eligible Officer's employment, or the Eligible Officer terminates for Good Reason. Eligible

B.I.5. If applicable, the Notice of Termination referenced in Section A.I.4 must specify that the termination has been determined to be an Executive Layoff Event.

B.I.6. The Eligible Officer must execute a Full Release and a Post-Employment Conduct Agreement or "PECA" (by which the Eligible Officer agrees to comply with certain restrictive covenants for a period of 18 months) as a condition to receiving all benefits described in Section B.II of the Plan, except for "Accrued Compensation" under Section B.II.1 below. The language of the PECA may vary by state and other applicable standards and requirements. In addition, the Company may in its discretion include non-competition provisions in the PECA.

B.II. Severance Benefits. Eligible Officers who meet the eligibility requirements set forth in the subsections of B.I. above are eligible to receive the following benefits from the Company:

B.II.1. all Accrued Compensation and a Pro Rata Bonus;

B.II.2. a single lump sum cash payment in an amount equal to one and one-half (1 ½) times the sum of (A) the Base Salary Amount and (B) the Bonus Amount. The Base Salary Amount means the greater of the Eligible Officer's annual base salary (a) at the rate in effect on the Termination Date, or (b) at the highest rate in effect at any time during the 180-day period prior to a Change in Control, and will include all amounts of the Eligible Officer's base salary that are deferred under any qualified or non-qualified employee benefit plan of the Company or any other Plan or arrangement. ;

B.II.3. a single lump sum cash payment equal to the cost of employee premiums for eighteen (18) months of continuation coverage under the medical, dental and vision plans sponsored by the Company that the Eligible Officer and the Eligible Officer's dependents are enrolled in as of the date of Termination. The employee premiums shall be calculated as the cost of continuation coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA").

Other than continuation coverage under COBRA (with the cost to be paid by the Eligible Officer), no other insurance type benefits or continuation of coverage shall be offered to the Eligible Officer, in lieu of or in addition to these benefits. The Eligible Officer will be responsible for the payment of any taxes related to the single lump sum cash payment under this Section A.II.3, and the Company will provide no amount to the Eligible Officer for the gross-up of any such taxes;

B.II.4. outplacement services suitable to the Eligible Officer's position for a period of 12 months or, if earlier, until the first acceptance by the Eligible Officer of an offer of employment; and

B.II.5. any such other acceleration of vesting and other benefits as provided in other Company plans or Plans regarding options to purchase Company stock, restricted stock, deferral of stock or other equity compensation awards granted to or otherwise applicable to the Eligible Officer.

The payments calculated under Sections B.II.2 and B.II.3 shall be made within 55 days after the Termination Date, provided that such payment will be made no later than the last date to be considered a short-term deferral of compensation within the meaning of Treasury Regulation Section 1.409A-1(a)(4). No right to in-kind benefits, such as the outplacement services in section B.II.4, may be subject to liquidation or exchange for any other benefit.

Appendix C

Schedule of Benefits for Executives
Executive Layoff Event

C.I. Eligibility. Only Executives who meet each of the additional eligibility requirements set forth in subsections C.I.1 to C.I.6 below are eligible to receive the benefits described in Section C.II:

C.I.1. The Executive is not classified as "part-time" or a "consulting employee." Part-time and consulting employees are not eligible for benefits under the Plan.

C.I.2. The Executive is not covered by another plan, program, agreement, contract or arrangement providing severance or similar benefits on account of termination of employment.

C.I.3. The Executive has not waived coverage under the Plan.

C.I.4. The Company has communicated by a Notice of Termination its intention to terminate the Executive's employment.

C.I.5. The Notice of Termination referenced in Section C.I.4 must specify that the termination has been determined to be an Executive Layoff Event.

C.I.6. The Executive must execute a Full Release and a Post-Employment Conduct Agreement or "PECA" (by which the Executive agrees to comply with certain restrictive covenants for a period of 6 months as a condition to receiving all benefits described in Section C.II of the Plan, except for "Accrued Compensation" under Section C.II.1 and two (2) weeks of base salary and four (4) weeks of eave without pay under Section C.II.2 below. The language of the PECA may vary by state and other applicable standards and requirements. In addition, the Company may in its discretion include non-competition provisions in the PECA.

C.II. Severance Benefits. Executives who meet the eligibility requirements set forth in the subsections of C.I. above are eligible to receive the following benefits from the Company:

C.II.1. all Accrued Compensation and a Pro Rata Bonus;

C.II.2. a single lump sum cash payment in an amount equal to two (2) weeks of base salary, as determined by Leidos payroll and four (4) weeks of leave without pay;

C.II.3 in addition, a single lump sum cash payment in an amount equal to twenty-six (26) weeks of base salary, as determined by Leidos payroll as of the date of Notice of Termination, contingent upon the Executive signing a Full Release and a Post-Employment Conduct Agreement as specified in subsection C.I.6 above;

C.II.4. outplacement services suitable to the Executive's position for a period of 6 months or, if earlier, until the first acceptance by the Executive of an offer of employment; and

C.II.6. any such other acceleration of vesting and other benefits provided in other Company plans or Plans regarding options to purchase Company stock, restricted stock, deferral of stock or other equity compensation awards granted to or otherwise applicable to the Executive.

The payments calculated under Sections C.II.2 and C.II.3 shall be made within 55 days after the Termination Date, provided that such payment will be made no later than the last date to be considered a short-term deferral of compensation within the meaning of Treasury Regulation Section 1.409A-1(a)(4). No right to in-kind benefits, such as the outplacement services in section C.II.4, may be subject to liquidation or exchange for any other benefit.

C.III. Exceptions.

The Administrator may designative any other employee of the Company as an "Executive" under this Appendix C. Exceptions to eligibility, or to any of the other provisions set forth in this Appendix C, require the written approval of the Chief Executive Officer or his/her delegate.

Appendix D

Release of all Claims and Potential Claims

1. This Release of All Claims and Potential Claims ("Release") is entered into by and between ______________________ (the "Employee") and Leidos Holdings, Inc. (the "Company"). In consideration of the promises made herein and the consideration due Employee under Leidos Holdings, Inc. Executive Severance Plan (the "Plan"), this Release is entered into between the parties.

2. (a) The purposes of this Release is to settle completely and release the Company, its individual and/or collective officers, directors, stockholders, agents, parent companies, subsidiaries, affiliates, predecessors, successors, assigns, employees (including all former employees, officers, directors, stockholders and/or agents), attorneys, representatives and employee benefit programs (including the trustees, administrators, fiduciaries and insurers of such programs) (referred to collectively as "Releasees") in a final and binding manner from every claim and potential claim for relief, cause of action and liability of any and every kind, nature and character whatsoever, known or unknown, that Employee has or may have against Releasees arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities arising out of, relating to or resulting from the employment relationship between Employee and the Company and its

subsidiaries, affiliates and predecessors, and/or the termination of that relationship including any and all claims and rights under the Age Discrimination in Employment Act, and any personal gain with respect to any claim arising under the qui tam provisions of the False Claims Act, 31 U.S.C. 3730, but excluding any rights or benefits to which Employee is entitled under the Plan.

(b) This is a compromise settlement of all such claims and potential claims, known or unknown, and therefore this Release does not constitute either an admission of liability on the part of Employee and the Company or an admission, directly or by implication, that Employee and/or the Company, its subsidiaries, affiliates or predecessors, have violated any law, rule, regulation, contractual right or any other duty or obligation. The parties hereto specifically deny that they have violated any law, rule, regulation, contractual right or any other duty or obligation.

(c) This Release is entered into freely and voluntarily by Employee and the Company solely to avoid further costs, risks and hazards of litigation and to settle all claims and potential claims and disputes, known or unknown, in a final and binding manner.

3. For and in consideration of the promises and covenants made by Employee to the Company and the Company to Employee, contained herein, Employee and the Company have agreed and do agree as follows:

(a) Employee waives, releases and forever discharges Releasees from any claims and potential claims for relief, causes of action and liabilities, known or unknown, that [he/she] has or may have against Releasees arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities of any and every kind, nature and character whatsoever, known or unknown, arising out of, relating to or resulting from the employment relationship between Employee and the Company and its subsidiaries, affiliates and predecessors, and the termination of that relationship including any and all claims and rights under the Age Discrimination in Employment Act, and any personal gain with respect to any claim arising under the qui tam provisions of the False Claims Act, 31 U.S.C. 3730 but excluding any rights or benefits to which is entitled under the Plan. In addition, this Release does not cover, and nothing in this Release shall be construed to cover, any claim that cannot be so released as a matter of applicable law.

(b) Employee agrees that [he/she] will not directly or indirectly institute any legal proceedings against Releasees before any court, administrative agency, arbitrator or any other tribunal or forum whatsoever by reason of any claims and potential claims for relief, causes of action and liabilities of any and every kind, nature and character whatsoever, known or unknown, arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities arising out of, relating to or resulting from the employment relationship between Employee and the Company and its subsidiaries, affiliates and predecessors, and/or the termination of that relationship including any and all claims and rights under the Age Discrimination in Employment Act.

(c) Employee is presently unaware of any injuries that [he/she] may have suffered as a result of working at the Company or its subsidiaries, affiliates or predecessors, and has no present intention of filing a workers' compensation claim. Should any such claim arise in the future, Employee waives and releases any right to proceed against the Company or its subsidiaries, affiliates or predecessors, for such a claim. Employee also waives any right to bring any disability claim against the Company or its subsidiaries, affiliates or predecessors, or its or their carriers.

4. As a material part of the consideration for this Plan, Employee and [his/her] agents and attorneys, agree to keep completely confidential and not disclose to any person or entity, except immediate family, attorney, accountant, or tax preparers, or in response to a court order or subpoena, the terms and/or conditions of this Release and/or any understandings, Plans, provisions and/or information contained herein or with regard to the employment relationship between Employee and the Company and its subsidiaries, affiliates and predecessors.

5. Any dispute, claim or controversy of any kind or nature, including but not limited to the issue of arbitrability, arising out of or relating to this Release, or the breach thereof, or any disputes which may arise in the future, shall be settled in a final and binding before an arbitrator appointed by the Judicial Arbitration and Mediation Service in accordance with the rules and procedures of arbitration under the Company's Dispute Resolution Program, attached hereto as Exhibit A. The prevailing party shall be entitled to recover all reasonable attorneys' fees, costs and necessary disbursements incurred in connection with the arbitration proceeding. Judgment upon the award may be entered in any court having jurisdiction thereof.

6. It is further understood and agreed that Employee has not relied upon any advice whatsoever from the Company and/or its attorneys individually and/or collectively as to the taxability, whether pursuant to Federal, State or local income tax statutes or regulations, or otherwise, of the consideration transferred hereunder and that [he/she] will be solely liable for all of [his/her] tax obligations. Employee understands and agrees that the Company or its subsidiaries, affiliates or predecessors, may be required by law to report all or a portion of the amounts paid to [him/her] and/or [his/her] attorney in connection with this Release to federal and state taxing authorities. Employee waives, releases, forever discharges and agrees to indemnify, defend and hold the Company harmless with respect to any actual or potential tax obligations imposed by law.

7. Employee acknowledges that [he/she] has read, understood and truthfully completed the Business Ethics and Conduct Disclosure Statement attached hereto as Appendix F.

8. It is further understood and agreed that Releasees and/or their attorneys shall not be further liable either jointly and/or severally to Employee and/or [his/her] attorneys individually or collectively for costs and/or attorneys' fees, including any provided for by statute, nor shall Employee and/or [his/her] attorneys be liable either jointly and/or severally to the Company and/or its attorneys individually and/or collectively for costs and/or attorneys' fees, including any provided for by statute.

9. Employee understands and agrees that if the facts with respect to which this Release are based are found hereafter to be other than or different from the facts now believed by [him/her] to be true, [he/she] expressly accepts and assumes the risk of such possible difference in facts and agrees that this Release shall be and remain effective notwithstanding such difference in facts.

10. Employee understands and agrees that there is a risk that the damage and/or injury suffered by Employee may become more serious than [he/she] now expects or anticipates. Employee

expressly accepts and assumes this risk, and agrees that this Release shall be and remains effective notwithstanding any such misunderstanding as to the seriousness of said injuries or damage.

11. Employee understands and agrees that if [he/she] hereafter commences any suit arising out of, based upon or relating to any of the claims and potential claims for relief, cause of action and liability of any and every kind, nature and character whatsoever, known or unknown, [he/she] has released herein, Employee agrees to pay Releasees, and each of them, in addition to any other damages caused to Releasees thereby, all attorneys' fees incurred by Releasees in defending or otherwise responding to said suit.

12. It is further understood and agreed that this Release shall be binding upon and will inure to the benefit of Employee's spouse, heirs, successors, assigns, agents, employees, representatives, executors and administrators and shall be binding upon and will inure to the benefit of the individual and/or collective successors and assigns of Releasees and their successors, assigns, agents and/or representatives.

13. This Release shall be construed in accordance with and governed for all purposes by the laws of the State of Virginia.

14. Employee agrees that [he/she] will not seek future employment with, nor need to be considered for any future openings with the Company, any division thereof, or any subsidiary or related corporation or entity.

15. ________ and Releasees waive all rights under Section 1542 of the California Civil Code, which section has been fully explained to them by their respective legal counsel and which they fully understand, and any other similar provision or the law of any other state or jurisdiction. Section 1542 provides as follows:

> **A general release does not extend to claims which the creditor does not know or suspect to exist in [his/her] favor at the time of executing the release, which if known by [him/her] must have materially affected [his/her] settlement with the debtor.**

16. Notwithstanding anything in this Plan to the contrary, ________ does not waive, release or discharge any rights to indemnification for actions occurring through [his/her] affiliation with the Company or its subsidiaries, affiliates or predecessors, whether those rights arise from statute, corporate charter documents or any other source nor does __________ waive, release or discharge any right ________ may have pursuant to any insurance policy or coverage provided or maintained by the Company or its subsidiaries, affiliates or predecessors.

17. If any part of this Plan is found to be either invalid or unenforceable, the remaining portions of this Plan will still be valid.

18. This Plan is intended to release and discharge any claims of __________ under the Age Discrimination and Employment Act. To satisfy the requirements of the Older Workers' Benefit Protection Act, 29 U.S.C. section 626(f), the parties agree as follows:

A. _________ acknowledges that [he/she] has read and understands the terms of this Plan.

B. __________ acknowledges that [he/she] has been advised in writing to consult with an attorney, if desired, concerning this Plan and has received all advice [he/she] deems necessary concerning this Plan.

C. __________ acknowledges that [he/she] has been given twenty-one (21) days to consider whether or not to enter into this Plan, has taken as much of this time as necessary to consider whether to enter into this Plan, and has chosen to enter into this Plan freely, knowingly and voluntarily.

D. For a seven day period following the execution of this Plan, _________ may revoke this Plan by delivering a written revocation to at the Company. This Plan shall not become effective and enforceable until the revocation period has expired.

19. ________ acknowledges that [he/she] has been encouraged to seek the advice of an attorney of [his/her] choice with regard to this Release. Having read the foregoing, having understood and agreed to the terms of this Release, and having had the opportunity to and having been advised by independent legal counsel, the parties hereby voluntarily affix their signatures.

20. This Plan is to be interpreted without regard to the draftsperson. The terms and intent of the Plan shall be interpreted and construed on the express assumption that all parties participated equally in its drafting.

21. This Release constitutes a single integrated contract expressing the entire Plan of the parties hereto. Except for the Plan, which defines certain obligations on the part of both parties, and this Release, there are no Plans, written or oral, express or implied, between the parties hereto, concerning the subject matter herein.

Dated: ____________________, 20__

____
[Signature]

____
[Print Name]

Leidos Holdings, Inc.

By: ______________________________

Name: ____________________________

Its: ______________________________

Appendix E

Post-Employment Conduct Agreement

This Post Employment Conduct Plan dated ___, (this "PECA"), together with the Release of All Claims and Potential Claims in Appendix D being entered into contemporaneous with this PECA, is entered into in consideration of the payments and other benefits ("Severance Benefit") to be made to me under the Leidos Holdings, Inc. Eligible Employee Severance Plan (the "Plan").

By signing below, I agree as follows:

(1) Restrictions Following Termination of Employment.

(a) Non-Solicit- Without the express written consent of [the Chief Executive Officer of the Company/or the Compensation Committee with respect to Eligible Officers of the Company], during the [18/12]-month period following the Termination Date, I will not directly or indirectly (i) interfere with any contractual relationship between the Company and any customer, supplier, distributor or manufacturer of or to the Company to the detriment of the Company or (ii) hire directly or indirectly by inducing or attempting to induce any person who is an employee of the Company to perform work or services for any entity other than the Company.

(b) Protection of Proprietary Information- Except to the extent required by law, following my Termination Date, I will have a continuing obligation to comply with the terms of any non-disclosure or similar Plans that I signed while employed by the Company committing to hold confidential the "Confidential or Proprietary Information" (as defined below) of the Company or any of its affiliates, subsidiaries, related companies, joint ventures, partnerships, customers, suppliers, partners, contractors or agents, in each case in accordance with the terms of such Plans. I will not use or disclose or allow the use or disclosure by others to any person or entity of Confidential or Proprietary Information of the Company or others to which I had access or that I was responsible for creating or overseeing during my employment with the Company. In the event I become legally compelled (by deposition, interrogatory, request for documents, subpoena, civil investigative demand or otherwise) to disclose any proprietary or confidential information, I will immediately notify the Company's Executive Vice President and General Counsel as to the existence of the obligation and will cooperate with any reasonable request by the Company for assistance in seeking to protect the information. All materials to which I have had access, or which were furnished or otherwise made available to me in connection with my employment with the Company shall be and remain the property of the

Company. For purposes of this PECA, "Confidential or Proprietary Information" means any and all confidential and/or proprietary knowledge, data or information of the Company, its affiliates, parents and subsidiaries, which has economic value as a result of its remaining confidential, whether having existed, now existing, or to be developed during my employment, including information developed by me. Confidential or Proprietary Information may include, but is not limited to:

(i) existing and contemplated business, marketing and financial business information such as business plans and methods, marketing information, cost estimates, forecasts, financial data, cost or pricing data, bid and proposal information, customer identification, sources of supply, contemplated product lines, proposed business alliances, and information about customers or competitors, or

(ii) existing or contemplated technical information and documentation pertaining to technology, know how, equipment, machines, devices and systems, computer hardware and software, compositions, formulas, products, processes, methods, designs, specifications, mask works, testing or evaluation procedures, manufacturing processes, or production processes.

(c) No disparagement- Following the Termination Date, I will not make any statements, whether verbal or written, that disparage or reasonably may be interpreted to disparage the Company or its stockholders, directors, officers, employees, agents, attorneys, representatives, technology, products or services with respect to any matter whatsoever.

(d) Cooperation in Litigation and Investigations- Following the Termination Date, I will, to the extent reasonably requested, cooperate with the Company in any pending or future litigation (including alternative dispute resolution proceedings) or investigations in which the Company or any of its subsidiaries or affiliates is a party or is required or requested to provide testimony and regarding which, as a result of my employment with the Company, I reasonably could be expected to have knowledge or information relevant to the litigation or investigation. Notwithstanding any other provision of this PECA, nothing in this PECA shall affect my obligation to cooperate with any governmental inquiry or investigation or to give truthful testimony in court.

(2) Consideration and Release of Claims. I acknowledge and agree that the Severance Benefit being made to me is in addition to the payments or benefits that otherwise are or would be owed to me by the Company and that the Severance Benefit being provided to me is in consideration for my entering into this PECA and the Release of Claims attached to this PECA. I acknowledge that the scope and duration of the restrictions in Section 1 are necessary to be effective and are fair and reasonable in light of the value of the payments being made to me. I further acknowledge and agree

that as a result of the high level Eligible Employee and management positions I have held within the Company and the access to and extensive knowledge of the Company's Confidential or Proprietary Information, employees, suppliers and customers, these restrictions are reasonably required for the protection of the Company's legitimate business interests.

(3) Remedies for Breach of Section 1; Additional Remedies of Clawback and Recoupment.

(a) I agree, upon demand by the Company, to repay the Severance Benefit to the Company in the event any of the following occur:

(i) I breach any of the covenants in Section 1;

(ii) The Company determines that either (a) my intentional misconduct or gross negligence, or (b) my failure to report another person's intentional misconduct or gross negligence of which I had knowledge during the period I was employed by the Company, or breach of the Company’s clawback/recoupment policy in effect from time to time, contributed to the Company having to restate all or a portion of its financial statements filed for any period with the Securities and Exchange Commission; or

(iii) The Company determines that I engaged in fraud, bribery or any other illegal act or that my intentional misconduct or gross negligence (including the failure to report the acts of another person of which I had knowledge during the period I was employed by the Company) contributed to another person's fraud, bribery or other illegal act, which in any such case adversely affected the Company's financial position or reputation.

(b) The remedy provided in Section 3(a) shall not be the exclusive remedy available to the Company for any of the conduct described in Section 3(a) and shall not limit the Company from seeking damages or injunctive relief.

(4) Injunctive Relief. I acknowledge that the Company's remedies at law may be inadequate to protect the Company against any actual or threatened breach of the provisions of Section 1 or the conduct described in Section 3(a), and, therefore, without prejudice to any other rights and remedies otherwise available to the Company at law or in equity (including but not limited to, an action under Section 3(a)), the Company shall be entitled to the granting of injunctive relief in its favor and to specific performance without proof of actual damages and without the requirement of the posting of any bond or similar security.

(5) Invalidity; Unenforceability. It is the desire and intent of the parties that the provisions of this PECA shall be enforced to the fullest extent permissible.

Accordingly, if any particular provision of this PECA is adjudicated to be invalid or unenforceable, this PECA shall be deemed amended to delete the portion adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of this provision in the particular jurisdiction in which such adjudication is made.

(6) Miscellaneous

(a) The Severance Plan, and this PECA along with the attached Release of All Claims and Potential Claims in Appendix D, constitutes the entire Plan governing the terms of the Severance Benefit and supersedes all other prior Plans and understandings, both written and oral, between me and the Company or any employee, officer or director of the Company concerning payments on account of my termination of employment.

(b) This PECA shall be governed by Virginia law, without regard to its provisions governing conflicts of law.

(c) This PECA shall inure to the benefit of the Company's successors and assigns and may be assigned by the Company without my consent.

SIGNED this __day of __, 2_.

____
(Signature)

____
(Printed Name)

____
(Title)

FOR LEIDOS HOLDINGS, INC.

____
(Signature)

____
(Printed Name)

____
(Title)

____
(Date)

Appendix F
Business Ethics and Conduct Disclosure Statement

Are you aware of any illegal or unethical practices or conduct anywhere within Leidos Holdings, Inc. or its subsidiaries, affiliates or predecessors (the “Company”) (including, but not limited to, improper charging practices, or any violations of the Company’s Code of Conduct)?

Yes ¨ No ¨

(Your answer to all questions on this form will not have any bearing on the fact or terms of your Release with the Company.)

If the answer to the preceding question is “yes,” list here, in full and complete detail, all such practices or conduct. (Use additional pages if necessary.)

Have any threats or promises been made to you in connection with your answers to the questions on this form?

Yes ¨ No ¨

If “yes,” please identify them in full and complete detail. Also, notify the Company’s General Counsel at (571) 526-6300 immediately.

I declare under penalty of perjury, under the laws of the State of Virginia and of the United States, that the foregoing is true and correct.

Executed this ____ of ____________________, 20__, at ____________________.

____
[Signature]

Exhibit 21

Subsidiaries

Name	Jurisdiction of Formation
Leidos, Inc.	Delaware
Leidos Biomedical Research, Inc.	Delaware
Leidos Consulting Engineers, Inc.	California
Leidos Engineering, LLC	Delaware
Benham/Ellerbe Becket, LLC	Oklahoma
Leidos Global Technology Corporation	Delaware
Leidos Services, Inc.	Delaware
Reveal Imaging Technologies, Inc.	Delaware
Varec Holdings, Inc.	Delaware
Varec, Inc.	Georgia
Leidos Europe, Limited	United Kingdom
Leidos Supply, Limited	United Kingdom
Benham Military Communities, LLC	Oklahoma
Leidos Integrated Technology, LLC	Delaware
Leidos Health Holdings, LLC	Delaware
Leidos Health, LLC	Delaware
Leidos CDM Solutions, LLC	Delaware
BECHTEL SAIC COMPANY, LLC	Delaware
Leidos Arabia Company Limited	Saudi Arabia
Leidos Innovations Corporation	Delaware
Leidos Intermediate Holdings, Inc.	Delaware
Leidos Federal Healthcare, Inc.	Maryland
Leidos Government Services, Inc.	Maryland
QTC Holdings, Inc.	Delaware
QTC Management, Inc.	California
QTC Medical Services, Inc.	California
Leidos Cyber, Inc.	Delaware
Leidos Management Systems Designers, Inc.	Virginia
Systems Made Simple, Inc.	New York
The Sytex Group, Inc.	Pennsylvania
Sytex, Inc.	Pennsylvania
Leidos Innovations Global, Inc.	Delaware
Leidos Innovations Australia Pty Ltd.	Australia
Leidos Integrated Technology, LLC	Delaware
Mission Support Alliance, LLC	Delaware

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-138095, 333-153360, 333-169693 and Post-Effective Amendment No. 1 to Registration Statement No. 333-138095 on Forms S-8 of our reports dated February 24, 2017, relating to the consolidated financial statements of Leidos Holdings, Inc. and subsidiaries ("the Company") (which report expresses an unqualified opinion and includes an explanatory paragraph concerning the Company's change in fiscal year end from the Friday nearest the end of January to the Friday nearest the end of December, effective for the 11-month period ended January 1, 2016), and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the fiscal year ended December 30, 2016.

/s/ Deloitte & Touche LLP

McLean, Virginia
February 24, 2017

Exhibit 31.1

LEIDOS HOLDINGS, INC.

CERTIFICATION OF 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 Annual Report on Form 10-K 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 registrants 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: February 24, 2017

/s/ Roger A. Krone

Roger A. Krone
Chief Executive Officer

Exhibit 31.2

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 Annual Report on Form 10-K 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 registrants 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: February 24, 2017

/s/ James C. Reagan

James C. Reagan
Chief Financial Officer

Exhibit 32.1

LEIDOS HOLDINGS, INC.

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

In connection with the Annual Report of Leidos Holdings, Inc. (the "Company") on Form 10-K for the year ended December 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Roger A. Krone, 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: February 24, 2017

/s/ Roger A. Krone

Roger A. Krone
Chief Executive Officer

Exhibit 32.2

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 Annual Report of Leidos Holdings, Inc. (the "Company") on Form 10-K for the year ended December 30, 2016, 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: February 24, 2017

/s/ James C. Reagan

James C. Reagan
Chief Financial Officer