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

Form 10-Q

(Mark One)

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

For the quarterly period ended October 2, 2020

or

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

For the transition period from to

Commission file number 001-33072

Leidos Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

(571) 526-6000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

The number of shares issued and outstanding of each of the issuer’s classes of common stock as of October 26, 2020, was 142,320,981 shares of common stock ($.0001 par value per share).

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PART I—FINANCIAL INFORMATION

Item 1. *Financial Statements.*

LEIDOS HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	October 2, 2020	January 3, 2020
	(in millions)	
ASSETS		
Cash and cash equivalents	**$ 512**	$ 668
Receivables, net	**1,872**	1,734
Inventory, net	**292**	72
Other current assets	**523**	338
Total current assets	**3,199**	2,812
Property, plant and equipment, net	**577**	287
Intangible assets, net	**1,335**	530
Goodwill	**6,158**	4,912
Operating lease right-of-use assets, net	**581**	400
Other assets	**435**	426
	$ 12,285	$ 9,367
LIABILITIES AND EQUITY		
Accounts payable and accrued liabilities	**$ 2,279**	$ 1,837
Accrued payroll and employee benefits	**718**	435
Long-term debt, current portion	**401**	61
Total current liabilities	**3,398**	2,333
Long-term debt, net of current portion	**4,125**	2,925
Operating lease liabilities	**549**	326
Deferred tax liabilities	**216**	184
Other long-term liabilities	**282**	182
Commitments and contingencies (Notes 15 and 16)		
Stockholders’ equity:		
Common stock, $0.0001 par value, 500 million shares authorized, 142 million and 141 million shares issued and outstanding at October 2, 2020 and January 3, 2020, respectively	**—**	—
Additional paid-in capital	**2,624**	2,587
Retained earnings	**1,180**	896
Accumulated other comprehensive loss	**(98)**	(70)
Total Leidos stockholders’ equity	**3,706**	3,413
Non-controlling interest	**9**	4
Total equity	**3,715**	3,417
	$ 12,285	$ 9,367

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	October 2, 2020	September 27, 2019	**October 2, 2020**	September 27, 2019
	(in millions, except per share amounts)			
Revenues	**$ 3,242**	$ 2,835	**$ 9,045**	$ 8,140
Cost of revenues	**2,774**	2,450	**7,799**	7,019
Selling, general and administrative expenses	**200**	177	**583**	518
Bad debt expense and recoveries	**2**	(35)	**(70)**	(35)
Acquisition, integration and restructuring costs	**5**	—	**33**	3
Asset impairment charges	**—**	—	**11**	—
Equity loss (earnings) of non-consolidated subsidiaries	**3**	(6)	**(10)**	(16)
Operating income	**258**	249	**699**	651
Non-operating (expense) income:				
Interest expense, net	**(44)**	(28)	**(133)**	(99)
Other (expense) income, net	**—**	(7)	**(30)**	87
Income before income taxes	**214**	214	**536**	639
Income tax expense	**(51)**	(52)	**(104)**	(150)
Net income	**163**	162	**432**	489
Less: net income attributable to non-controlling interest	**—**	1	**1**	3
Net income attributable to Leidos common stockholders	**$ 163**	$ 161	**$ 431**	$ 486
Earnings per share:				
Basic	**$ 1.15**	$ 1.13	**$ 3.04**	$ 3.38
Diluted	**1.13**	1.11	**2.99**	3.33

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	October 2, 2020	September 27, 2019	**October 2, 2020**	September 27, 2019
	(in millions)			
Net income	**$ 163**	$ 162	**$ 432**	$ 489
Foreign currency translation adjustments	**26**	(24)	**13**	(26)
Unrecognized gain (loss) on derivative instruments	**4**	(11)	**(41)**	(52)
Pension adjustments	**(1)**	—	**—**	—
Total other comprehensive income (loss), net of taxes	**29**	(35)	**(28)**	(78)
Comprehensive income	**192**	127	**404**	411
Less: comprehensive income attributable to non-controlling interest	**—**	1	**1**	3
Comprehensive income attributable to Leidos common stockholders	**$ 192**	$ 126	**$ 403**	$ 408

See accompanying notes to condensed consolidated financial statements.

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

	Shares of common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Leidos Holdings, Inc. stockholders' equity	Non-controlling interest	Total
	(in millions, except for per share amounts)						
Balance at January 3, 2020	141	$ 2,587	$ 896	$ (70)	$ 3,413	$ 4	$ 3,417
Cumulative adjustments related to ASU adoption	—	—	(1)	—	(1)	—	(1)
Balance at January 4, 2020	141	2,587	895	(70)	3,412	4	3,416
Net income	—	—	115	—	115	—	115
Other comprehensive loss, net of taxes	—	—	—	(115)	(115)	—	(115)
Issuances of stock	1	9	—	—	9	—	9
Repurchases of stock and other	—	(32)	—	—	(32)	—	(32)
Dividends of $0.34 per share	—	—	(49)	—	(49)	—	(49)
Stock-based compensation	—	15	—	—	15	—	15
Balance at April 3, 2020	142	2,579	961	(185)	3,355	4	3,359
Net income	—	—	153	—	153	1	154
Other comprehensive income, net of taxes	—	—	—	58	58	—	58
Issuances of stock	—	8	—	—	8	—	8
Repurchases of stock and other	—	(2)	—	—	(2)	—	(2)
Dividends of $0.34 per share	—	—	(49)	—	(49)	—	(49)
Stock-based compensation	—	15	—	—	15	—	15
Capital contributions to non-controlling interest	—	—	—	—	—	4	4
Balance at July 3, 2020	142	2,600	1,065	(127)	3,538	9	3,547
Net income	—	—	163	—	163	—	163
Other comprehensive income, net of taxes	—	—	—	29	29	—	29
Issuances of stock	—	10	—	—	10	—	10
Repurchases of stock and other	—	(1)	—	—	(1)	—	(1)
Dividends of $0.34 per share	—	—	(48)	—	(48)	—	(48)
Stock-based compensation	—	15	—	—	15	—	15
Balance at October 2, 2020	**142**	**$ 2,624**	**$ 1,180**	**$ (98)**	**$ 3,706**	**$ 9**	**$ 3,715**

See accompanying notes to condensed consolidated financial statements.

LEIDOS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED) [CONTINUED]

	Shares of common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Leidos Holdings, Inc. stockholders' equity	Non-controlling interest	Total
	(in millions, except for per share amounts)						
Balance at December 28, 2018	146	$ 2,966	$ 372	$ (30)	$ 3,308	$ 3	$ 3,311
Cumulative adjustments related to ASU adoption	—	—	48	—	48	—	48
Balance at December 29, 2018	146	2,966	420	(30)	3,356	3	3,359
Net income	—	—	189	—	189	—	189
Other comprehensive loss, net of taxes	—	—	—	(5)	(5)	—	(5)
Issuances of stock	1	11	—	—	11	—	11
Repurchases of stock and other	(3)	(222)	—	—	(222)	—	(222)
Dividends of $0.32 per share	—	—	(47)	—	(47)	—	(47)
Stock-based compensation	—	12	—	—	12	—	12
Balance at March 29, 2019	144	2,767	562	(35)	3,294	3	3,297
Net income	—	—	136	—	136	2	138
Other comprehensive loss, net of taxes	—	—	—	(38)	(38)	—	(38)
Issuances of stock	—	6	—	—	6	—	6
Repurchases of stock and other	—	(5)	—	—	(5)	—	(5)
Dividends of $0.32 per share	—	—	(46)	—	(46)	—	(46)
Stock-based compensation	—	13	—	—	13	—	13
Other	—	(1)	—	—	(1)	(2)	(3)
Balance at June 28, 2019	144	2,780	652	(73)	3,359	3	3,362
Net income	—	—	161	—	161	1	162
Other comprehensive loss, net of taxes	—	—	—	(35)	(35)	—	(35)
Repurchases of stock and other	(3)	(203)	—	—	(203)	—	(203)
Dividends of $0.34 per share	—	—	(49)	—	(49)	—	(49)
Stock-based compensation	—	13	—	—	13	—	13
Balance at September 27, 2019	**141**	**$ 2,590**	**$ 764**	**$ (108)**	**$ 3,246**	**$ 4**	**$ 3,250**

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	October 2, 2020	September 27, 2019
	(in millions)	
Cash flows from operations:		
Net income	**$ 432**	$ 489
Adjustments to reconcile net income to net cash provided by operations:		
Gain on sale of business	**—**	(87)
Depreciation and amortization	**214**	174
Stock-based compensation	**45**	38
Loss on debt extinguishment	**31**	—
Asset impairment charges	**11**	—
Deferred income taxes	**(2)**	29
Bad debt expense	**11**	19
Other	**4**	3
Change in assets and liabilities, net of effects of acquisitions and dispositions:		
Receivables	**140**	68
Other current assets and other long-term assets	**49**	34
Accounts payable and accrued liabilities and other long-term liabilities	**211**	93
Accrued payroll and employee benefits	**247**	(17)
Income taxes receivable/payable	**(7)**	(20)
Net cash provided by operating activities	**1,386**	823
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	**(2,610)**	(94)
Payments for property, equipment and software	**(120)**	(67)
Proceeds from disposition of businesses	**—**	183
Net proceeds from sale of assets	**10**	96
Other	**6**	1
Net cash (used in) provided by investing activities	**(2,714)**	119
Cash flows from financing activities:		
Proceeds from debt issuance	**6,225**	—
Payments of long-term debt	**(4,680)**	(50)
Payments for debt issuance costs	**(39)**	—
Dividend payments	**(148)**	(101)
Repurchases of stock and other	**(35)**	(430)
Proceeds from issuances of stock	**26**	16
Other	**4**	—
Net cash provided by (used in) financing activities	**1,353**	(565)
Net increase in cash, cash equivalents and restricted cash	**25**	377
Cash, cash equivalents and restricted cash at beginning of period	**717**	369
Cash, cash equivalents and restricted cash at end of period	**$ 742**	$ 746

See accompanying notes to condensed consolidated financial statements.

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

Nature of Operations and Basis of Presentation

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

We have a controlling interest in Mission Support Alliance, LLC ("MSA"), a joint venture with Centerra Group, LLC, which is anticipated to end in early fiscal 2021. We also have a controlling interest in Hanford Mission Integration Solutions, LLC ("HMIS"), the legal entity for the follow-on contract to MSA's contract and a joint venture with Centerra Group, LLC and Parsons Government Services, Inc. The financial results for MSA and HMIS are consolidated into our unaudited condensed consolidated financial statements. The unaudited condensed consolidated financial statements also include the balances of all voting interest entities in which Leidos has a controlling voting interest ("subsidiaries") and a variable interest entity ("VIE") in which Leidos is the primary beneficiary. The consolidated balances of the VIE are not material to the unaudited condensed consolidated financial statements for the periods presented. Intercompany accounts and transactions between consolidated companies have been eliminated in consolidation.

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

Effective the beginning of fiscal 2020, certain contracts were reassigned from the Civil reportable segment to the Defense Solutions reportable segment. Prior year segment results have been recast to reflect this change (see "Note 14–Business Segments").

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. We disaggregated "Inventory, net" from "Other current assets" on the condensed consolidated balance sheets. We separately disclosed "Deferred income taxes" and "Income taxes receivable/payable" within operating activities on the condensed consolidated statements of cash flows. Additionally, we combined "Other current assets" and "Other long-term assets" into "Other current assets and other long-term assets" and "Accounts payable and accrued liabilities" and "Other long-term liabilities" into "Accounts payable and accrued liabilities and other long-term liabilities" on the condensed consolidated statements of cash flows.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which consist of normal recurring adjustments, necessary for a fair presentation thereof. The results reported in these unaudited condensed consolidated financial statements are not necessarily indicative of the results that may be expected for the entire year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K filed on February 18, 2020.

Accounting Standards Updates ("ASU") Adopted

ASU 2016-13, ASU 2018-19, ASU 2019-05 and ASU 2019-11, *Financial Instruments – Credit Losses (Topic 326)*

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13 and subsequent updates, which 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 for annual and interim reporting periods beginning after December 15, 2019, 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. Early adoption is permitted.

Effective January 4, 2020, we adopted the requirements of Topic 326 using the modified retrospective approach. The adoption resulted in an immaterial impact to our financial assets and processes for determining the expected credit loss.

Accounting Standards Updates Issued But Not Yet Adopted

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

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

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

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

Changes in Estimates on Contracts

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

Changes in estimates on contracts were as follows:

	Three Months Ended		Nine Months Ended	
	October 2, 2020	September 27, 2019	**October 2, 2020**	September 27, 2019
	(in millions, except per share amounts)			
Favorable impact	**$ 34**	$ 23	**$ 86**	$ 69
Unfavorable impact	**(19)**	(11)	**(45)**	(40)
Net impact to income before income taxes	**$ 15**	$ 12	**$ 41**	$ 29
Impact on diluted EPS attributable to Leidos common stockholders	**$ 0.07**	$ 0.06	**$ 0.21**	$ 0.15

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

Revenue Recognized from Prior Obligations

Revenue recognized from performance obligations satisfied in previous periods was $10 million and $42 million for the three and nine months ended October 2, 2020, respectively, and $17 million and $36 million for the three and nine months ended September 27, 2019, respectively. The changes primarily relate to revisions of variable consideration, including award and incentive fees, and revisions to estimates at completion resulting from changes in contract scope, mitigation of contract risks or due to true-ups of contract estimates at the end of contract performance.

Cash and Cash Equivalents

Our cash equivalents are primarily comprised of investments in several large institutional money market accounts, with original maturity of three months or less. Outstanding payments are included within "Cash and cash equivalents" and "Accounts payable and accrued liabilities" correspondingly on the condensed consolidated balance sheets. At October 2, 2020 and January 3, 2020, $166 million and $169 million, respectively, of outstanding payments were included within "Cash and cash equivalents."

Note 2–Revenues

Remaining Performance Obligations

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

As of October 2, 2020, we had $15.3 billion of remaining performance obligations, which are expected to be recognized as revenues in the amounts of $3.3 billion, $5.7 billion and $6.3 billion for the remainder of fiscal 2020, fiscal 2021 and fiscal 2022 and thereafter, respectively.

Disaggregation of Revenues

We disaggregate revenues by customer-type, contract-type and geographic location for each of our reportable segments. These categories represent how the nature, timing and uncertainty of revenues and cash flows are affected.

Prior year segment results have been recast for the contracts that were reassigned from the Civil reportable segment to the Defense Solutions reportable segment.

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

Disaggregated revenues by customer-type were as follows:

	Three Months Ended October 2, 2020				Nine Months Ended October 2, 2020			
	Defense Solutions	Civil	Health	Total	Defense Solutions	Civil	Health	Total
	(in millions)							
DoD and U.S. Intelligence Community	**$ 1,411**	**$ 14**	**$ 137**	**$ 1,562**	**$ 4,058**	**$ 43**	**$ 384**	**$ 4,485**
Other government agencies[1]	**292**	**628**	**358**	**1,278**	**675**	**1,787**	**980**	**3,442**
Commercial and non-U.S. customers	**248**	**105**	**25**	**378**	**679**	**288**	**80**	**1,047**
Total	**$ 1,951**	**$ 747**	**$ 520**	**$ 3,218**	**$ 5,412**	**$ 2,118**	**$ 1,444**	**$ 8,974**

	Three Months Ended September 27, 2019				Nine Months Ended September 27, 2019			
	Defense Solutions	Civil	Health	Total	Defense Solutions	Civil	Health	Total
	(in millions)							
DoD and U.S. Intelligence Community	$ 1,215	$ 13	$ 123	$ 1,351	$ 3,542	$ 47	$ 360	$ 3,949
Other government agencies[1]	177	577	337	1,091	487	1,652	982	3,121
Commercial and non-U.S. customers	202	88	45	335	615	255	112	982
Total	$ 1,594	$ 678	$ 505	$ 2,777	$ 4,644	$ 1,954	$ 1,454	$ 8,052

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

The majority of our revenues are generated from U.S. government contracts, either as a prime contractor or as a subcontractor. Revenues from the U.S. government can be adversely impacted by spending caps or changes in budgetary priorities of the U.S. government, as well as delays in program start dates or the award of a contract.

Disaggregated revenues by contract-type were as follows:

	Three Months Ended October 2, 2020				Nine Months Ended October 2, 2020			
	Defense Solutions	Civil	Health	Total	Defense Solutions	Civil	Health	Total
	(in millions)							
Cost-reimbursement and fixed-price-incentive-fee	**$ 1,160**	**$ 363**	**$ 77**	**$ 1,600**	**$ 3,359**	**$ 1,052**	**$ 206**	**$ 4,617**
Firm-fixed-price	**597**	**278**	**348**	**1,223**	**1,499**	**740**	**958**	**3,197**
Time-and-materials and fixed-price-level-of-effort	**194**	**106**	**95**	**395**	**554**	**326**	**280**	**1,160**
Total	**$ 1,951**	**$ 747**	**$ 520**	**$ 3,218**	**$ 5,412**	**$ 2,118**	**$ 1,444**	**$ 8,974**

	Three Months Ended September 27, 2019				Nine Months Ended September 27, 2019			
	Defense Solutions	Civil	Health	Total	Defense Solutions	Civil	Health	Total
	(in millions)							
Cost-reimbursement and fixed-price-incentive-fee	$ 1,038	$ 409	$ 57	$ 1,504	$ 3,025	$ 1,177	$ 173	$ 4,375
Firm-fixed-price	406	161	333	900	1,181	452	930	2,563
Time-and-materials and fixed-price-level-of-effort	150	108	115	373	438	325	351	1,114
Total	$ 1,594	$ 678	$ 505	$ 2,777	$ 4,644	$ 1,954	$ 1,454	$ 8,052

Cost-reimbursement and fixed-price-incentive-fee contracts are generally lower risk and have lower profits. Time-and-materials ("T&M") and fixed-price-level-of-effort contracts are also lower risk but profits may vary depending on actual labor costs compared to negotiated contract billing rates. Firm-fixed-price ("FFP") contracts offer the potential for higher profits while increasing the exposure to risk of cost overruns.

Disaggregated revenues by geographic location were as follows:

	Three Months Ended October 2, 2020				Nine Months Ended October 2, 2020			
	Defense Solutions	Civil	Health	Total	Defense Solutions	Civil	Health	Total
	(in millions)							
United States	$ 1,731	$ 708	$ 520	$ 2,959	$ 4,804	$ 2,018	$ 1,444	$ 8,266
International	220	39	—	259	608	100	—	708
Total	$ 1,951	$ 747	$ 520	$ 3,218	$ 5,412	$ 2,118	$ 1,444	$ 8,974

	Three Months Ended September 27, 2019				Nine Months Ended September 27, 2019			
	Defense Solutions	Civil	Health	Total	Defense Solutions	Civil	Health	Total
	(in millions)							
United States	$ 1,388	$ 663	$ 505	$ 2,556	$ 4,053	$ 1,909	$ 1,454	$ 7,416
International	206	15	—	221	591	45	—	636
Total	$ 1,594	$ 678	$ 505	$ 2,777	$ 4,644	$ 1,954	$ 1,454	$ 8,052

Our international business operations, primarily located in Australia and the U.K., are 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.

In some countries, there is an increased chance for economic, legal or political changes that may adversely affect the performance of our services, sales of products or repatriation of profits. International transactions can also involve increased financial and legal risks arising from foreign exchange variability, imposition of tariffs or additional taxes and restrictive trade policies and delays or failure to collect amounts due to differing legal systems.

Revenues by customer-type, contract-type and geographic location exclude lease income of $24 million and $71 million for the three and nine months ended October 2, 2020, respectively, and $58 million and $88 million for the three and nine months ended September 27, 2019, respectively (see "Note 7–Leases").

Note 3–Contract Assets and Liabilities

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

Contract assets consist of unbilled receivables, which is the amount of revenue recognized that exceeds the amount billed to the customer, where right to payment is not just subject to the passage of time. Unbilled receivables exclude amounts billable where the right to consideration is unconditional. Contract liabilities consist of deferred revenue.

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

	Balance sheet line item	October 2, 2020	January 3, 2020
		(in millions)	
Contract assets - current:			
Unbilled receivables	Receivables, net	**$ 829**	$ 735
Contract liabilities - current:			
Deferred revenue	Accounts payable and accrued liabilities	**$ 578**	$ 400
Contract liabilities - non-current:			
Deferred revenue	Other long-term liabilities	**$ 21**	$ 9

The increase in unbilled receivables was primarily due the acquisitions of L3Harris Technologies' ("L3Harris") security detection and automation businesses (the "SD&A Businesses") and Dynetics, Inc ("Dynetics").

Revenue recognized for the three and nine months ended October 2, 2020 of $41 million and $267 million, respectively, was included as a contract liability at January 3, 2020. Revenue recognized for the three and nine months ended September 27, 2019 of $11 million and $200 million, respectively, was included as a contract liability at December 28, 2018.

Note 4–Acquisitions

L3Harris Transaction

On May 4, 2020 (the "Transaction Date"), we completed the acquisition of L3Harris' security detection and automation businesses for preliminary purchase consideration of $1,005 million, net of $30 million of cash acquired. The SD&A Businesses provide airport and critical infrastructure screening products, automated tray return systems and other industrial automation products. The addition of the SD&A Businesses will expand the scope and scale of our global security detection and automation offerings.

The preliminary purchase consideration for the acquisition of the SD&A Businesses was as follows (in millions):

Cash paid at closing	$ 1,015
Preliminary working capital adjustments	20
Preliminary purchase price	$ 1,035

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

Cash	$ 30
Receivables	134
Inventory	104
Other current assets	23
Operating lease right-of-use assets	35
Property, plant and equipment	35
Intangible assets	430
Accounts payable and accrued liabilities	(124)
Accrued payroll and employee benefits	(8)
Operating lease liabilities	(32)
Deferred tax liabilities	(40)
Other long-term liabilities	(14)
Total identifiable net assets acquired	573
Goodwill	462
Purchase price	$ 1,035

Due to the timing and complexity of the acquisition, the assets acquired and liabilities assumed were recorded at their preliminary estimated fair values. As of October 2, 2020, we had not finalized the determination of fair values for substantially all of the of the acquired assets and liabilities. The preliminary purchase price allocation is subject to change as we complete our determination of the final working capital and the fair value of the acquired assets and liabilities assumed, the impact of which could be material. During the three months ended October 2, 2020, we recorded adjustments to certain preliminary estimated values, including a $150 million increase in intangible assets and a $17 million increase in deferred taxes liabilities.

The goodwill represents intellectual capital and the acquired assembled workforce, neither of which qualify for recognition as a separate intangible asset. Of the goodwill recognized, $289 million is deductible for tax purposes.

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

	Weighted average amortization period	Fair value
	(in years)	(in millions)
Programs	13	$ 150
Customer relationships	10	91
Technology	10	91
In-process research and development ("IPR&D")[(1)]		98
Total	11	$ 430

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

For the three and nine months ended October 2, 2020, $74 million and $154 million, respectively, of revenues related to the SD&A Businesses were recognized within the Civil reportable segment.

Dynetics Acquisition

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

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

Cash	$ 18
Receivables	159
Inventory	47
Other current assets	22
Operating lease right-of-use assets	25
Property, plant and equipment	178
Intangible assets	528
Other assets	8
Accounts payable and accrued liabilities	(48)
Accrued payroll and employee benefits	(29)
Operating lease liabilities	(20)
Other long-term liabilities	(4)
Total identifiable net assets acquired	884
Goodwill	776
Purchase price	$ 1,660

Due to the timing and complexity of the acquisition, the assets acquired and liabilities assumed were recorded at their preliminary estimated fair values. As of October 2, 2020, we had not finalized the determination of fair values of the acquired assets and liabilities, primarily including, but not limited to property, plant and equipment. The purchase price allocation is subject to change as we complete our determination of the fair value of the acquired assets and liabilities assumed, the impact of which could be material. During the nine months ended October 2, 2020, we recorded adjustments to certain preliminary estimated values, including a $64 million increase in intangible assets.

The goodwill represents intellectual capital and the acquired assembled workforce, neither of which qualify for recognition as a separate intangible asset. Of the goodwill recognized, $766 million is deductible for tax purposes.

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

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

For the three and nine months ended October 2, 2020, $302 million and $637 million, respectively, of revenues related to Dynetics were recognized within the Defense Solutions reportable segment.

Acquisition and Integration Costs

The following expenses were incurred related to the acquisitions of Dynetics and the SD&A Businesses:

	Three Months Ended	Nine Months Ended
	October 2, 2020	**October 2, 2020**
	(in millions)	
Acquisition costs	**$ —**	**$ 23**
Integration costs	**4**	**7**
Total acquisition and integration costs	**$ 4**	**$ 30**

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

Pro Forma Financial Information

The following unaudited pro forma financial information presents consolidated results of operations as if the acquisitions of Dynetics and the SD&A Businesses had occurred on December 29, 2018. 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 acquisitions of Dynetics and the SD&A Businesses and are factually supportable. The unaudited pro forma results below do not reflect future events that have occurred or may occur after the acquisitions, including anticipated synergies or other expected benefits that may be realized from the acquisitions. The pro forma information is not intended to reflect the actual results of operations that would have occurred if the acquisitions had been completed on December 29, 2018, nor is it intended to be an indication of future operating results.

	Three Months Ended		Nine Months Ended	
	October 2, 2020	September 27, 2019	**October 2, 2020**	September 27, 2019
	(in millions, except per share amounts)			
Revenues	**$ 3,242**	$ 3,125	**$ 9,301**	$ 8,984
Net income	**161**	151	**423**	401
Net income attributable to Leidos common stockholders	**161**	150	**422**	398
Earnings per share:				
Basic	**$ 1.13**	$ 1.05	**$ 2.97**	$ 2.76
Diluted	**1.12**	1.03	**2.93**	2.73

The unaudited pro forma financial information above includes the following nonrecurring significant adjustment made to account for certain costs incurred as if the acquisitions had been completed on December 29, 2018:

- Acquisition-related costs of $23 million for the nine months ended October 2, 2020 were excluded within the pro forma financial information for fiscal 2020 and were included within the supplemental pro forma earnings for fiscal 2019.

Note 5–Inventory

The components of inventory, net consisted of the following:

	October 2, 2020	January 3, 2020
	(in millions)	
Raw materials	**$ 148**	$ 46
Work in process	**79**	13
Finished goods	**65**	13
	$ 292	$ 72

Note 6–Goodwill and Intangible Assets

Goodwill

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

	Defense Solutions	Civil	Health	Total
		(in millions)		
Goodwill at December 28, 2018	$ 2,015	$ 1,924	$ 921	$ 4,860
Goodwill re-allocation	25	(25)	—	—
Acquisition of IMX Medical Management Services, Inc.	—	—	50	50
Divestiture of health staff augmentation business	—	—	(5)	(5)
Foreign currency translation adjustments	(4)	8	—	4
Adjustment to goodwill	3	—	—	3
Goodwill at January 3, 2020	2,039	1,907	966	4,912
Goodwill re-allocation	429	(429)	—	—
Acquisition of Dynetics and the SD&A Businesses	776	462	—	1,238
Foreign currency translation adjustments	8	—	—	8
Goodwill at October 2, 2020	**$ 3,252**	**$ 1,940**	**$ 966**	**$ 6,158**

Effective the beginning of fiscal 2020, certain contracts were reassigned from the Civil reportable segment to the Defense Solutions reportable segment. This change resulted in the reallocation of $429 million of goodwill between the reporting units within the two reportable segments. We evaluated goodwill for impairment for certain reporting units using either a quantitative step one analysis or qualitative analysis, both before and after the changes were made, and determined that goodwill was not impaired.

There were no goodwill impairments during the nine months ended October 2, 2020 and September 27, 2019.

Intangible Assets

Intangible assets, net consisted of the following:

	October 2, 2020			January 3, 2020		
	Gross carrying value	**Accumulated amortization**	**Net carrying value**	Gross carrying value	Accumulated amortization	Net carrying value
			(in millions)			
Finite-lived intangible assets:						
Programs	**$ 1,638**	**$ (647)**	**$ 991**	$ 1,003	$ (536)	$ 467
Software and technology	**205**	**(96)**	**109**	102	(83)	19
Customer relationships	**136**	**(15)**	**121**	45	(6)	39
Backlog	**32**	**(21)**	**11**	—	—	—
Trade names	**1**	**—**	**1**	1	—	1
Total finite-lived intangible assets	**2,012**	**(779)**	**1,233**	1,151	(625)	526
Indefinite-lived intangible assets:						
In-process research and development	**98**	**—**	**98**	—	—	—
Trade names	**4**	**—**	**4**	4	—	4
Total intangible assets	**$ 2,114**	**$ (779)**	**$ 1,335**	$ 1,155	$ (625)	$ 530

Amortization expense was $60 million and $154 million for the three and nine months ended October 2, 2020, respectively, and $43 million and $129 million for the three and nine months ended September 27, 2019, respectively.

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

The estimated annual amortization expense as of October 2, 2020, was as follows:

Fiscal year ending	
	(in millions)
2020 (remainder of year)	$ 58
2021	219
2022	208
2023	182
2024	133
2025 and thereafter	433
	$ 1,233

We are monitoring the impacts of the coronavirus outbreak ("COVID-19") on the fair value of our intangible assets and goodwill. While we currently do not anticipate any impairments to intangible assets and goodwill as a result of COVID-19, future changes in the expectations of the impact on our operations, financial performance and cash flows related to intangible assets and goodwill could cause these assets to be impaired.

Note 7–Leases

Lessee

In March 2020, we took occupancy of our new corporate headquarters in Reston, VA. As a result, we recorded $104 million of right-of-use assets and $132 million of lease liabilities.

During the three months ended July 3, 2020, we made a decision to vacate one of our facilities. The carrying amount was determined to be less than the expected recovery from sublease income and as a result, we recorded an impairment charge of $11 million, which was recorded within our Health reportable segment.

Lessor

The components of lease income were as follows:

	Income statement line item	Three Months Ended October 2, 2020	Three Months Ended September 27, 2019	Nine Months Ended October 2, 2020	Nine Months Ended September 27, 2019
		(in millions)			
Sales-type leases:					
Selling price at lease commencement	Revenues	**$ 16**	$ 53	**$ 44**	$ 68
Cost of underlying asset	Cost of revenues	**(12)**	(56)	**(35)**	(70)
Operating income (loss)		**4**	(3)	**9**	(2)
Interest income on lease receivables	Revenues	**2**	1	**6**	1
		6	(2)	**15**	(1)
Operating lease income	Revenues	**6**	4	**21**	19
Total lease income		**$ 12**	$ 2	**$ 36**	$ 18

Note 8–Fair Value Measurements

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

The accounting guidance for fair value measurements requires that we maximize the use of observable inputs and minimize the use of unobservable inputs in determining fair value. The accounting guidance provides for the irrevocable option to elect, on a contract-by-contract basis, to measure certain financial assets and liabilities at fair value at inception of the contract and record any subsequent changes in fair value in earnings. We have not made fair value option elections for any of our financial assets and liabilities.

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

	October 2, 2020 Carrying value	**October 2, 2020** Fair value	January 3, 2020 Carrying value	January 3, 2020 Fair value
	(in millions)			
Financial assets:				
Derivatives	**$ —**	**$ —**	$ 2	$ 2
Financial liabilities:				
Derivatives	**$ 115**	**$ 115**	$ 75	$ 75

As of October 2, 2020, our derivatives primarily consisted of the cash flow interest rate swaps on $1.4 billion of the variable rate senior unsecured term loan (see "Note 9–Derivative Instruments"). The fair value of the cash flow interest rate swaps is determined based on observed values for underlying interest rates on the LIBOR yield curve and the underlying interest rate (Level 2 inputs).

The carrying amounts of our financial instruments, other than derivatives, which include cash equivalents, accounts receivable, accounts payable and accrued expenses, are reasonable estimates of their related fair values. The carrying value of our notes receivable of $20 million as of October 2, 2020, and January 3, 2020, approximates fair value as the stated interest rates within the agreements are consistent with current market rates used in notes with similar terms in the market (Level 2 inputs).

As of October 2, 2020, and January 3, 2020, the fair value of debt was $4.9 billion and $3.1 billion, respectively, and the carrying amount was $4.5 billion and $3.0 billion, respectively (see "Note 10–Debt"). The fair value of long-term debt is determined based on current interest rates available for debt with terms and maturities similar to our existing debt arrangements (Level 2 inputs).

On January 31, 2020 and May 4, 2020, non-financial instruments measured at fair value on a non-recurring basis were recorded in connection with the acquisitions of Dynetics and the SD&A Businesses, respectively (see "Note 4–Acquisitions"). The preliminary fair values of the assets acquired and liabilities assumed were determined using Level 3 inputs. Additionally, on July 3, 2020, we had a real estate property measured at fair value (Level 2), which resulted in an impairment charge of $11 million (see "Note 7–Leases"). As of October 2, 2020, we did not have any assets or liabilities measured at fair value on a non-recurring basis.

Note 9–Derivative Instruments

We manage our risk to changes in interest rates and foreign currency exchange rates through the use of derivative instruments. We do not hold derivative instruments for trading or speculative purposes. For fixed rate borrowings, we use 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, we use fixed interest rate swaps, effectively converting a portion of the variable interest rate payments to fixed interest rate payments. These swaps are designated as cash flow hedges. We transact business globally and are subject to risks associated with changing foreign currency exchange rates. We enter into foreign currency forward contracts in order to mitigate fluctuations in our earnings and cash flows due to changes in foreign currency exchange rates. The foreign currency forward contracts are not designated as hedges and hedge accounting does not apply.

The fair value of the interest rate swaps and foreign currency forward contracts was as follows:

	Asset derivatives		
	Balance sheet line item	**October 2, 2020**	January 3, 2020
		(in millions)	
Fair value interest rate swaps	Other assets	**$ —**	$ 2

	Liability derivatives		
	Balance sheet line item	**October 2, 2020**	January 3, 2020
		(in millions)	
Cash flow interest rate swaps	Other long-term liabilities	**$ 114**	$ 75
Foreign currency forward contracts	Accounts payable and accrued liabilities	**1**	—

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

Fair Value Hedge

We held interest rate swap agreements to hedge the fair value of the $450 million fixed rate 4.45% senior unsecured notes maturing in December 2020 (the "2020 Notes"). The objective of these instruments was to hedge the 2020 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, we received semi-annual interest payments at the coupon rate of 4.45% and paid variable interest based on the six-month LIBOR rate.

On September 1, 2020, we repaid the 2020 Notes in full (see "Note 10–Debt"). In conjunction with the retirement of the 2020 Notes, we terminated our fair value hedge and received a final settlement of $2 million.

Cash Flow Hedges

We have interest rate swap agreements to hedge the cash flows of $1.4 billion of the variable rate senior unsecured term loan (the "Variable Rate Loan"). These interest rate swap agreements have a maturity date of August 2025 and a fixed interest rate of 3.00%. The objective of these instruments is to reduce variability in the forecasted interest payments of the Variable Rate Loan, which are based on the LIBOR rate. Under the terms of the interest rate swap agreements, we will receive monthly variable interest payments based on the one-month LIBOR rate and will pay interest at a fixed rate.

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

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

	Three Months Ended		Nine Months Ended	
	October 2, 2020	September 27, 2019	**October 2, 2020**	September 27, 2019
	(in millions)			
Total interest expense, net presented in the condensed consolidated statements of income in which the effects of cash flow hedges are recorded	**$ 44**	$ 28	**$ 133**	$ 99
Amount recognized in other comprehensive income (loss)	**$ —**	$ (13)	**$ (62)**	$ (62)
Amount reclassified from accumulated other comprehensive loss to interest expense, net	**5**	(2)	**9**	(6)

We expect to reclassify net losses of $16 million from accumulated other comprehensive loss into earnings during the next 12 months.

We terminated interest rate swaps in September 2018. The net derivative gain of $60 million related to the discontinued cash flow hedges remained in accumulated other comprehensive loss and is being reclassified into earnings over the remaining life of the original hedges as the hedged variable rate debt impacts earnings.

Note 10–Debt

Our debt consisted of the following:

	Stated interest rate	Effective interest rate	October 2, 2020[1]	January 3, 2020[1]
			(in millions)	
Senior unsecured term loans:				
$300 million Term Loan, due June 2021	2.15%	2.41%	$ 299	$ —
$1,925 million Term Loan, due January 2025	1.53%	1.78%	1,860	—
Senior secured term loans:				
$690 million Term Loan A, due August 2023	3.31%	3.74%	—	581
$310 million Term Loan A, due August 2023	3.31%	3.76%	—	242
$1,131 million Term Loan B, due August 2025	3.56%	3.91%	—	1,075
Senior unsecured notes:				
$450 million notes, due December 2020	4.45%	4.53%	—	452
$500 million notes, due May 2023	2.95%	3.17%	497	—
$500 million notes, due May 2025	3.63%	3.76%	496	—
$750 million notes due May 2030	4.38%	4.50%	736	—
$250 million notes, due July 2032	7.13%	7.43%	247	247
$300 million notes, due July 2033	5.50%	5.88%	158	158
$300 million notes, due December 2040	5.95%	6.03%	216	216
Notes payable and finance leases due on various dates through fiscal 2030	2.15%-5.49%	Various	17	15
Total long-term debt			4,526	2,986
Less: current portion			(401)	(61)
Total long-term debt, net of current portion			$ 4,125	$ 2,925

(1) The carrying amounts of the senior term loans and notes as of October 2, 2020, and January 3, 2020, include the remaining principal outstanding of $4,556 million and $3,004 million, respectively, less total unamortized debt discounts and deferred debt issuances costs of $47 million and $35 million, respectively, and a $2 million asset as of January 3, 2020 related to the fair value interest rate swaps (see "Note 9–Derivative Instruments").

Senior Notes

Notes Retirement

On September 1, 2020, we retired our $450 million senior unsecured notes due December 2020. Cash on hand was used to repay in full all indebtedness under, and discharge and release all guarantees existing in connection with these notes.

Notes Issuance

On May 12, 2020, we issued and sold $500 million senior notes maturing in May 2023 (the "2023 Notes"), $500 million senior notes maturing in May 2025 (the "2025 Notes") and $750 million senior notes maturing in May 2030 (the "2030 Notes", and together with the 2023 Notes and 2025 Notes, the "Notes"). The Notes are senior unsecured obligations issued by Leidos, Inc. and guaranteed by Leidos Holdings, Inc. The Notes have not been registered under the Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

The proceeds from the Notes were used to repay all of the outstanding obligations in respect of principal, interest, fees and other amounts under the January 31, 2020 Bridge Facility and to repay a portion of the outstanding loans under the February 12, 2020 Facility.

Interest on the Notes is payable on a semi-annual basis with principal payments due at maturity. The annual interest rate for the 2023 Notes, 2025 Notes and 2030 Notes is 2.95%, 3.63% and 4.38%, respectively.

Additionally, on May 12, 2020, we entered into a registration rights agreement, pursuant to which we agreed to use reasonable best efforts to file a registration statement to permit the exchange of the Notes and related guarantees for registered notes having terms substantially identical thereto, or in the alternative, the registered resale of the Notes and related guarantees, under certain circumstances. Under the agreement, the registration statement is to be filed no later than 420 days after the original issuance of the securities. If we fail to satisfy our obligations under the registration rights agreement, we will be required to pay additional annual interest equal to 0.25% of the aggregate outstanding on the principal amount to holders of the Notes.

Term Loan Financing

On June 18, 2020 (the "Agreement Date"), we entered into a 364-day Term Loan Credit Agreement, which provided for a senior unsecured term loan facility in an aggregate principal amount of $300 million (the "Term Loan"), with maturity 364 days after the Agreement Date.

The proceeds of the Term Loan and cash on hand on the Agreement Date were used to repay in full all indebtedness under, and discharge and release all guarantees existing in connection with the delayed-draw term loan facility.

Borrowings under the Term Loan Credit Agreement bear interest at a rate determined, at our option, based on either an alternate base rate or a LIBOR rate plus, in each case, an applicable margin that varies depending on our credit rating. The applicable margin range for LIBOR-denominated borrowings is from 1.75% to 2.25%. Based on our current ratings, the applicable margin for LIBOR-denominated borrowings is 2.00%.

The financial covenants in the Term Loan Credit Agreement require that we maintain, as of the last day of each fiscal quarter, a ratio of adjusted consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") of not more than 4.50 to 1.00 and a ratio of EBITDA to consolidated interest expense of not less than 3.50 to 1.00.

Delayed-Draw Term Loan Facility

On February 12, 2020, we entered into a senior unsecured delayed-draw term loan facility providing for $1.0 billion of commitments from certain financial institutions in connection with the acquisition of the SD&A Businesses. On May 4, 2020, we completed our acquisition of the SD&A Businesses and drew on the Facility in an aggregate principal amount of $1.0 billion (the "Facility"). The proceeds of the Facility and cash on hand were used to fund the purchase of the SD&A Businesses.

On May 12, 2020, in connection with the issuance of the $1.75 billion Notes, $500 million of the principal outstanding on the Facility was repaid. During May and June 2020, we made $200 million of principal repayments on the Facility. On June 18, 2020, in connection with the 364-day Term Loan Credit Agreement, the remaining principal outstanding on the Facility was fully repaid.

Bridge Facility

On January 31, 2020, in connection with the acquisition of Dynetics, we entered into a Bridge Credit Agreement with certain financial institutions, which provided for a senior unsecured 364-day bridge loan facility in an aggregate principal amount of $1.25 billion (the "Bridge Facility"), with maturity 364 days after the Acquisition Date.

The proceeds of the Bridge Facility and cash on hand on the Acquisition Date were used to fund the purchase of Dynetics and repay in full all third party indebtedness of Dynetics, terminate all commitments thereunder and discharge and release all existing guarantees and liens.

Borrowings under the Bridge Credit Agreement bear interest at a rate determined, at our option, based on either an alternate base rate or a LIBOR rate, plus, in each case, an applicable margin that varies depending on our credit rating, subject to increases by 0.25% every 90 days. During the period the Bridge Facility borrowing was outstanding, the applicable margins for LIBOR-denominated borrowings were 1.38% and 1.63%. Additionally, we paid to each lender under the Bridge Facility a duration fee equal to 0.50% of the aggregate outstanding principal amount of the loans under the Bridge Facility 90 days after the Acquisition Date.

On May 12, 2020, in connection with the issuance of the Notes, the outstanding principal on the Bridge Credit Agreement was fully repaid.

Term Loans and Revolving Credit Facility Refinancing

On January 17, 2020 (the "Closing Date"), we entered into a Credit Agreement (the "Credit Agreement") with certain financial institutions, which provided for a senior unsecured term loan facility in an aggregate principal amount of $1.9 billion (the "Term Loan Facility") and a $750 million senior unsecured revolving facility (the "Revolving Facility" and, together with the Term Loan Facility, the "Credit Facilities"). The Credit Facilities will mature five years from the Closing Date, subject to two additional one year extensions.

The proceeds of the Term Loan Facility and cash on hand on the Closing Date were used to repay in full all indebtedness, and terminate all commitments, under, and discharge and release all guarantees and liens existing in connection with the credit agreements entered into in August 2016 (the "Terminated Credit Agreements"). As a result of the termination of the liens under the Terminated Credit Agreements, the liens securing the $450 million notes due 2020 and $300 million notes due 2040 were also released and such notes became senior unsecured obligations.

Borrowings under the Credit Agreement bear interest at a rate determined, at our option, based on either an alternate base rate or a LIBOR rate plus, in each case, an applicable margin that varies depending on our credit rating. The applicable margin range for LIBOR-denominated borrowings is from 1.13% to 1.75%. Based on our current ratings, the applicable margin for LIBOR-denominated borrowings is 1.38%. Principal payments are made quarterly on the Term Loan Facility, with the majority of the principal due at maturity. Interest on the Term Loan Facility for LIBOR-denominated borrowings is payable on a periodic basis, which must be at least quarterly.

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

Principal Payments and Debt Issuance Costs

In addition to the refinancing activity noted above, we made principal payments on our long-term debt of $477 million and $705 million during the three and nine months ended October 2, 2020, respectively, and $2 million and $50 million during the three and nine months ended September 27, 2019, respectively. This activity included required principal payments on our term loans of $24 million and $48 million during the three and nine months ended October 2, 2020, respectively and $41 million during the nine months ended September 27, 2019. As of October 2, 2020, and January 3, 2020, there were no borrowings outstanding under the unsecured and secured credit facility, respectively.

In connection with the financing activity noted above, $56 million of debt discount and debt issuance costs related to the debt and revolving credit facility were recognized, which were recorded as an offset against the carrying value of debt and capitalized within "Other assets" in the condensed consolidated balance sheets, respectively. For the nine months ended October 2, 2020, $31 million of debt discount and debt issuance costs were written off related to the Terminated Credit Agreements and loan facility repayments. Amortization of debt discount and debt issuance costs was $4 million and $13 million for the three and nine months ended October 2, 2020, respectively, and $2 million and $7 million for the three and nine months ended September 27, 2019, respectively.

The senior unsecured term loans, notes and revolving credit facility are fully and unconditionally guaranteed and contain certain customary restrictive covenants, including among other things, restrictions on our ability to create liens and enter into sale and leaseback transactions under certain circumstances. We were in compliance with all covenants as of October 2, 2020.

Note 11–Accumulated Other Comprehensive Loss

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

	Foreign currency translation adjustments	Unrecognized gain (loss) on derivative instruments	Pension adjustments	Total accumulated other comprehensive loss
		(in millions)		
Balance at December 28, 2018	$ (41)	$ 14	$ (3)	$ (30)
Other comprehensive income (loss)	5	(55)	(1)	(51)
Taxes	3	15	—	18
Reclassification from accumulated other comprehensive loss	—	(7)	—	(7)
Balance at January 3, 2020	(33)	(33)	(4)	(70)
Other comprehensive income (loss)	13	(62)	—	(49)
Taxes	—	12	—	12
Reclassification from accumulated other comprehensive loss	—	9	—	9
Balance at October 2, 2020	**$ (20)**	**$ (74)**	**$ (4)**	**$ (98)**

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

Note 12–Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
	October 2, 2020	September 27, 2019	**October 2, 2020**	September 27, 2019
		(in millions)		
Basic weighted average number of shares outstanding	**142**	143	**142**	144
Dilutive common share equivalents—stock options and other stock awards	**2**	2	**2**	2
Diluted weighted average number of shares outstanding	**144**	145	**144**	146

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

Note 13–Supplementary Cash Flow Information and Restricted Cash

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

	Nine Months Ended	
	October 2, 2020	September 27, 2019
	(in millions)	
Supplementary cash flow information:		
Cash paid for income taxes, net of refunds	**$ 110**	$ 142
Cash paid for interest[1]	**104**	112
Non-cash investing activity:		
Fixed asset additions	**$ 16**	$ 9
Non-cash financing activity:		
Finance lease obligations	**$ 12**	$ —

[1] Includes net settlement of cash flow hedge and fair value hedge derivatives

Sale of Accounts Receivable

We have entered into purchase agreements with a financial institution which provide us the election to sell accounts receivable at a discount. The receivables sold are typically collectable within 30 days of the sale date. During the nine months ended October 2, 2020, we sold $1,866 million of accounts receivable under the agreements and received proceeds of $1,864 million, which were classified as operating activities in the condensed consolidated statements of cash flows.

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

Sold receivables activity for the period was as follows:

	Nine Months Ended
	October 2, 2020
	(in millions)
Sales of accounts receivable	$ 1,866
Cash collections on sold receivables remitted to financial institution	(1,634)
Outstanding balance sold to financial institution	232
Cash collected but not yet remitted to financial institution	(28)
Sold receivables due from customers	$ 204

Restricted Cash

The following is a reconciliation of cash and cash equivalents, as reported within the condensed consolidated balance sheets, to the total cash, cash equivalents and restricted cash, as reported within the condensed consolidated statements of cash flows:

	October 2, 2020	January 3, 2020
	(in millions)	
Cash and cash equivalents	$ 512	$ 668
Restricted cash	230	49
Total cash, cash equivalents and restricted cash	$ 742	$ 717

Restricted cash is recorded within "Other current assets" in the condensed consolidated balance sheets.

The restricted cash is primarily comprised of advances from customers that are restricted as to use for certain expenditures related to that customer's contract and collections on sold receivables to be remitted to the financial institution.

Note 14–Business Segments

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

Effective the beginning of fiscal 2020, certain contracts were reassigned from the Civil reportable segment to the Defense Solutions reportable segment to better align operations within the reportable segments to the customers they serve. Prior year segment results have been recast to reflect this change.

The results of Dynetics and the SD&A Businesses were included within the Defense Solutions and Civil reportable segments, respectively.

The segment information for the periods presented was as follows:

	Three Months Ended		Nine Months Ended	
	October 2, 2020	September 27, 2019	October 2, 2020	September 27, 2019
	(in millions)			
Revenues:				
Defense Solutions	$ 1,951	$ 1,594	$ 5,413	$ 4,645
Civil	771	733	2,183	2,023
Health	520	508	1,449	1,472
Total revenues	$ 3,242	$ 2,835	$ 9,045	$ 8,140
Operating income (loss):				
Defense Solutions	$ 145	$ 107	$ 359	$ 324
Civil	54	43	191	157
Health	75	63	149	169
Corporate	(16)	36	—	1
Total operating income	$ 258	$ 249	$ 699	$ 651

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

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

Note 15–Contingencies

Legal Proceedings

MSA Joint Venture

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

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

At October 2, 2020, we had a liability of $42 million recorded in the condensed consolidated balance sheets for this matter. The amount of possible loss ultimately incurred, if any, is subject to a range of complex factors and potential outcomes that remain to be determined, including information gathered during the course of litigation, pretrial and trial rulings and other litigation-related developments.

Securities Litigation

Between February and April 2012, alleged stockholders filed three putative securities class actions against Leidos and several former executives relating to a contract to develop and implement an automated time and attendance and workforce management system for certain agencies of the City of New York ("CityTime"). 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 asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based on allegations that Leidos and individual defendants made misleading statements or omissions about revenues, operating income and internal controls in connection with disclosures relating to the CityTime project. The plaintiffs sought to recover from Leidos and the individual defendants an unspecified amount of damages class members allegedly incurred by buying Leidos' stock at an inflated price. The District Court dismissed the plaintiffs' claims with prejudice and without leave to replead. The plaintiffs then appealed to the United States Court of Appeals for the Second Circuit, which issued an opinion affirming in part, and vacating in part, the District Court's ruling. Leidos filed a petition for a writ of certiorari in the U.S. Supreme Court, which was granted on March 27, 2017. The District Court granted Leidos' request to stay all proceedings, including discovery, pending the outcome at the Supreme Court. In September 2017, the parties engaged in mediation resulting in an agreement to settle all remaining claims for an immaterial amount to be paid by Leidos. On October 2, 2019, the court granted preliminary approval of the proposed settlement and on June 29, 2020, the court granted final approval effective July 30, 2020. The settlement payment was disbursed during the three months ended October 2, 2020. The payment by Leidos was covered by an insurance policy.

Arbitration Proceeding

Leidos was a party to an arbitration proceeding involving a claim by Lockheed Martin for indemnification for $56 million in taxes attributable to deferred revenue recognized as a result of the acquisition of Lockheed Martin's Information Systems & Global Solutions business. On July 16, 2020, the arbitrators issued a final opinion rejecting Lockheed Martin’s claims.

Other

We are also involved in various claims and lawsuits arising in the normal conduct of our business, none of which, in the opinion of management, based upon current information, will likely have a material adverse effect on our financial position, results of operations or cash flows.

Other Contingencies

VirnetX, Inc. ("VirnetX")

On September 29, 2017, the federal trial court in the Eastern District of Texas entered a final judgment in the VirnetX v. Apple case referred to as the Apple I case. The court found that Apple willfully infringed the VirnetX patents at issue in the Apple I case and awarded enhanced damages, bringing the total award against Apple to over $343 million in pre-interest damages. The court subsequently awarded an additional sum of over $96 million for costs, attorneys' fees, and interest, bringing the total award to VirnetX in the Apple I case to over $439 million. Apple appealed the judgment in the Apple I case with the U.S. Court of Appeals for the Federal Circuit and on January 15, 2019, the court affirmed the $439 million judgment. On August 1, 2019, the U.S. Court of Appeals for the Federal Circuit denied Apple’s petition for panel and en banc rehearing, but Apple subsequently filed motions to stay and vacate the judgment, and for leave to file a second petition for rehearing. These motions were denied by the court on October 1, 2019. On December 27, 2019, Apple filed a petition in the Apple I matter for a writ of certiorari with the United States Supreme Court, which was denied on February 24, 2020. On February 20, 2020, Apple filed a Motion for Relief from Judgment in the U.S. District Court for the Eastern District of Texas, further arguing that VirnetX should not be allowed to recover the large amount of damages awarded in this case. On March 13, 2020, VirnetX announced that it had received payment from Apple of over $454 million, which represents the judgment with interest for the Apple I matter. On May 22, 2020, Leidos received $85 million from VirnetX representing Leidos' current share of the proceeds resulting from the Apple I case. A net gain of $81 million was recognized during the three months ended July 3, 2020 and was presented in "Bad debt expense and recoveries" on the condensed consolidated statements of income. On July 23, 2020, Leidos paid a 4% royalty on the proceeds received to the customer who paid for the development of the original technology. Apple's Motion for Relief from Judgment was denied by the District Court on September 1, 2020. Apple is expected to appeal the denial of this Motion.

On April 10, 2018, a jury trial concluded in an additional patent infringement case brought by VirnetX against Apple, referred to as the Apple II case, in which the jury returned a verdict against Apple for infringement and awarded VirnetX damages in the amount of over $502 million. On April 11, 2018, in a second phase of the Apple II trial, the jury found Apple's infringement to be willful. On August 30, 2018, the federal trial court in the Eastern District of Texas entered a final judgment and rulings on post-trial motions in the Apple II case. The court affirmed the jury's verdict of over $502 million and granted VirnetX's motions for supplemental damages, a sunset royalty and royalty rate of $1.20 per infringing device, along with pre-judgment and post-judgment interest and costs. The court denied VirnetX's motions for enhanced damages, attorneys' fees and an injunction. The court also denied Apple's motions for judgment as a matter of law and for a new trial. An additional sum of over $93 million for costs and pre-judgment interest was subsequently agreed upon pursuant to a court order, bringing the total award to VirnetX in the Apple II case to over $595 million. Apple filed an appeal of the judgment in the Apple II case with the U.S. Court of Appeals for the Federal Circuit, and on November 22, 2019, the Federal Circuit affirmed in part, reversed in part and remanded the Apple II case back to the District Court. The Federal Circuit affirmed that Apple infringed two of the patents at issue in the case, and ruled that Apple is precluded from making certain patent invalidity arguments. However, the Federal Circuit reversed the judgment that Apple infringed two other patents at issue, vacated the prior damages awarded in the Apple II case, and remanded the Apple II case back to the District Court for further proceedings regarding damages. On April 23, 2020, the District Court ordered a new trial on damages in the Apple II case, which was delayed by COVID-19 and started on October 26, 2020. On October 30, 2020, the jury awarded VirnetX $503 million in damages. Apple is expected to appeal this decision.

Under our agreements with VirnetX, Leidos would receive 25% of the proceeds obtained by VirnetX after reduction for attorneys' fees and costs. However, the verdicts in these cases remain subject to the ongoing and potential future proceedings and appeals. In addition, the patents at issue in these cases are subject to U.S. Patent and Trademark Office post-grant inter partes review and/or reexamination proceedings and related appeals, which may result in all or part of these patents being invalidated or the claims of the patents being limited. Thus, no assurances can be given when or if we will receive any proceeds in connection with these jury awards. In addition, if Leidos receives any proceeds, we are required to pay a royalty to the customer who paid for the development of the technology.

Government Investigations and Reviews

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

As of October 2, 2020, indirect cost audits by the Defense Contract Audit Agency remain open for fiscal 2015 and subsequent fiscal years. Although we have recorded contract revenues based upon an estimate of costs that we believe will be approved upon final audit or review, we cannot predict the outcome of any ongoing or future audits or reviews and adjustments, and if future adjustments exceed estimates, our profitability may be adversely affected. As of October 2, 2020, we believe we have adequately reserved for potential adjustments from audits or reviews of contract costs.

Note 16–Commitments

We have outstanding letters of credit of $94 million as of October 2, 2020, principally related to performance guarantees on contracts. We also have outstanding surety bonds with a notional amount of $128 million, principally related to performance and subcontractor payment bonds on contracts. The value of the surety bonds may vary due to changes in the underlying project status and/or contractual modifications.

As of October 2, 2020, the future expirations of the outstanding letters of credit and surety bonds were as follows:

Fiscal year ending	(in millions)
2020 (remainder of year)	$ 39
2021	78
2022	94
2023	2
2024	1
2025 and thereafter	8
	$ 222

Note 17–Subsequent Events

Notes Issuance

On October 8, 2020, we issued and sold $1.0 billion aggregate principal amount of fixed-rate senior notes maturing in February 2031 (the "2031 Notes"). The 2031 Notes are senior unsecured obligations issued by Leidos, Inc. and guaranteed by Leidos Holdings, Inc. The 2031 Notes have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

The proceeds from the 2031 Notes were used for general corporate purposes, including to repay all of the outstanding obligations in respect of principal, interest, fees and other amounts under the 364-day Term Loan and to repay a portion of the outstanding loans under the five-year Term Loan Facility.

Interest on the 2031 Notes is payable on a semi-annual basis with principal payments due at maturity. The annual interest rate for the 2031 Notes is 2.30%.

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

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

The following discussion contains forward-looking statements, including statements regarding our intent, belief or current expectations with respect to, among other things, trends affecting our financial condition or results of operations, backlog, our industry, the impact of our merger and acquisition activity, government budgets and spending, our business contingency plans and our ability to recover certain costs through the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). Such statements are not guarantees of future performance and involve risks and uncertainties, including uncertainties relating to the coronavirus outbreak ("COVID-19") and the actions taken by authorities and us to respond, and actual results may differ materially from those in the forward-looking statements as a result of various factors. Some of these factors include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K, as updated by the risk factor in this report under Part II, Item 1A. "Risk Factors" and as may be further updated in subsequent filings with the U.S. Securities and Exchange Commission. Due to such uncertainties and risks, you are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to update these factors or to publicly announce the results of any changes to our forward-looking statements due to future events or developments.

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

Overview

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

Effective the beginning of fiscal 2020, certain contracts were reassigned from the Civil reportable segment to the Defense Solutions reportable segment. Prior year segment results have been recast to reflect this change.

COVID-19

The COVID-19 outbreak is affecting major economic and financial markets, and effectively all industries and governments are facing challenges, which has resulted in a period of business disruption, the length and severity of which cannot be predicted. The outbreak has resulted in significant travel restrictions, government orders to “shelter-in-place”, quarantine restrictions and significant disruption of the financial markets. We have acted to protect the health and safety of our employees, comply with workplace health and safety regulations and work with our customers to minimize disruptions. The outbreak has impacted each of our groups, primarily in access to customer sites, travel restrictions, limitations of remote work and COVID-19 related costs.

Consistent with federal, state and local guidance, we perform work that is essential to support the critical infrastructure of the United States, the Defense Industrial Base and healthcare sector and we continue to operate in support of our customers. We have taken steps to support increased teleworking and safe workplace environments. We have some minor business operations that are not designated as critical infrastructure and therefore have been required to operate in minimal conditions.

For the three and nine months ended October 2, 2020, COVID-19 adversely impacted revenues by approximately $40 million and $200 million, respectively, and impacted operating income for the three and nine months ended October 2, 2020 by an immaterial amount and approximately $79 million, respectively, as compared to prior year results. The full extent of the impact of the COVID-19 outbreak on our operational and financial performance, including our ability to execute on programs in the expected timeframe, will depend on future developments, including the duration and spread of the outbreak and related actions taken by the U.S. government, state and local government officials and international governments to prevent disease spread, all of which are uncertain and cannot be predicted. While we have been able to make some recoveries, the ultimate timing and amount of recoveries remain uncertain as they will depend on a range of government actions, including each government agency and/or contracting officer's implementation of the authority granted in Section 3610 of the CARES Act, a $2 trillion coronavirus response bill providing widespread emergency relief, including the availability of funds. As a result of Congress passing a continuing resolution, the relief from the CARES Act has been extended until December 11, 2020.

We have experienced delays, and expect to continue experiencing delays, on certain contracts as a result of standby leave absences, which has caused a portion of our contracts to be less profitable. Within our Health segment we did not experience any negative COVID impacts for the three months ended October 2, 2020 and anticipate to see recoveries in the fourth quarter of our fiscal year. We are seeking reimbursement of some of the COVID-19 related costs under our U.S. government contracts through a combination of equitable adjustments to the contract prices and reimbursement of the costs under Section 3610, which allows, but does not require, federal agencies to reimburse contractors at the minimum applicable contract billing rate for costs arising from certain paid leave, including sick leave, a contractor provides to keep its employees or subcontractors in a ready state, including to protect the life and safety of government and contractor personnel. Reimbursement of any costs under Section 3610 increases sales, but is not expected to include a profit or fee and so would have the effect of reducing our margins in future periods. Standby cost increases, including costs for employees whose jobs cannot be performed remotely, may not be fully recoverable under our contracts, particularly fixed-price contracts, or adequately covered by insurance. We also have no assurance that Congress will appropriate funds to cover the reimbursement of defense contractors authorized by the CARES Act, which could reduce funds available for recovery of these costs or for other U.S. government defense priorities.

The CARES Act also enabled us to defer our federal and some state income tax payments from the second quarter of fiscal 2020 to the third quarter of fiscal 2020 and also to defer payment of the employer portion of social security taxes for the balance of fiscal 2020. For the three and nine months ended October 2, 2020, we deferred $92 million of employer social security tax payments and received $10 million from the Employee Retention Credit.

We have taken measures to protect the health and well-being of our workforce and are working with our customers to minimize the delay and disruption of the award and performance on our contracts. Many of our employees continue to work remotely while our offices remain open with limited capacity.

Business Environment and Trends

U.S. Government Markets

During the three and nine months ended October 2, 2020, we generated approximately 88% of our total revenues from contracts with the U.S. government. Accordingly, our business performance is affected by the overall level of U.S. government spending, especially on national security, homeland security and intelligence, and the alignment of our service and product offerings and capabilities with current and future budget priorities of the U.S. government.

On February 10, 2020, the President submitted the government fiscal year ("GFY") 2021 budget proposal to Congress, which included discretionary spending levels for defense and non-defense programs of $741 billion and $590 billion, respectively. Since then, Congress and the Administration have shifted their collective attention to mitigating the impact of COVID-19.

Congress is currently addressing the passage of appropriations bills for GFY 2021. Prior to the beginning of GFY 2021, Congress passed a continuing resolution that was enacted on October 1, 2020 to provide temporary funding for government operations at GFY 2020 enacted levels until December 11, 2020.

International Markets

Sales to customers in international markets represented approximately 8% of total revenues for the three and nine months ended October 2, 2020. Our international customers include foreign governments and their agencies. Our international business increases our exposure to international markets and the associated international regulatory and geopolitical risks.

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

Results of Operations

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

	Three Months Ended				Nine Months Ended			
	October 2, 2020	September 27, 2019	Dollar change	Percent change	**October 2, 2020**	September 27, 2019	Dollar change	Percent change
	(dollars in millions)							
Revenues	**$ 3,242**	$ 2,835	$ 407	14.4 %	**$ 9,045**	$ 8,140	$ 905	11.1 %
Operating income	**258**	249	9	3.6 %	**699**	651	48	7.4 %
Non-operating expense, net	**(44)**	(35)	(9)	25.7 %	**(163)**	(12)	(151)	*NM*
Income before income taxes	**214**	214	—	— %	**536**	639	(103)	(16.1)%
Income tax expense	**(51)**	(52)	1	(1.9)%	**(104)**	(150)	46	(30.7)%
Net income	**163**	162	1	0.6 %	**432**	489	(57)	(11.7)%
Net income attributable to Leidos common stockholders	**$ 163**	$ 161	$ 2	1.2 %	**$ 431**	$ 486	$ (55)	(11.3)%
Operating margin	***8.0 %***	*8.8 %*			***7.7 %***	*8.0 %*		

NM - Not meaningful

Segment and Corporate Results

Defense Solutions	Three Months Ended				Nine Months Ended			
	October 2, 2020	September 27, 2019	Dollar change	Percent change	**October 2, 2020**	September 27, 2019	Dollar change	Percent change
	(dollars in millions)							
Revenues	**$ 1,951**	$ 1,594	$ 357	22.4 %	**$ 5,413**	$ 4,645	$ 768	16.5 %
Operating income	**145**	107	38	35.5 %	**359**	324	35	10.8 %
Operating margin	***7.4 %***	*6.7 %*			***6.6 %***	*7.0 %*		

The increase in revenues for the three months ended October 2, 2020, as compared to the three months ended September 27, 2019, was primarily attributable to $302 million of revenues related to the acquisition of Dynetics, Inc. ("Dynetics"), program wins and favorable exchange rate movements, primarily related to changes in the Australian dollar when compared to the U.S. dollar. This was partially offset by the completion of certain contracts and approximately $26 million of negative impacts from reduced volume on certain contracts due to COVID-19.

The increase in revenues for the nine months ended October 2, 2020, as compared to the nine months ended September 27, 2019, was primarily attributable to $637 million of revenues related to the acquisition of Dynetics, program wins and a net increase in volumes on certain programs. This was partially offset by the completion of certain contracts and approximately $59 million of negative impacts from reduced volume on certain contracts due to COVID-19.

The increase in operating income for the three months ended October 2, 2020, as compared to the three months ended September 27, 2019, was primarily due to program wins, lower indirect expenditures and income related to the acquisition of Dynetics. This was partially offset by a net decrease in volumes on certain programs.

The increase in operating income for the nine months ended October 2, 2020, as compared to the nine months ended September 27, 2019, was primarily due to program wins, lower indirect expenditures and income related to the acquisition of Dynetics. This was partially offset by a net decrease in volumes on certain programs, including approximately $24 million of negative impacts from reduced volume on certain contracts due to COVID-19, and higher amortization of intangible assets related to the acquisition of Dynetics.

	Three Months Ended				Nine Months Ended			
Civil	**October 2, 2020**	September 27, 2019	Dollar change	Percent change	**October 2, 2020**	September 27, 2019	Dollar change	Percent change
	(dollars in millions)							
Revenues	**$ 771**	$ 733	$ 38	5.2 %	**$ 2,183**	$ 2,023	$ 160	7.9 %
Operating income	**54**	43	11	25.6 %	**191**	157	34	21.7 %
Operating margin	***7.0 %***	*5.9 %*			***8.7 %***	*7.8 %*		

The increase in revenues for the three months ended October 2, 2020, as compared to the three months ended September 27, 2019, was primarily attributable to $74 million of revenues related to the acquisition of L3Harris Technologies' security detection and automation businesses (the "SD&A Businesses") and program wins, partially offset by the completion of certain contracts, prior year upfront lease revenue recognized on certain programs and approximately $14 million of negative impacts from reduced volume on certain contracts due to COVID-19.

The increase in revenues for the nine months ended October 2, 2020, as compared to the nine months ended September 27, 2019, was primarily attributable to program wins, $154 million of revenues related to the acquisition of the SD&A Businesses and a net increase in volumes on certain programs. This was partially offset by the completion of certain contracts, approximately $45 million of negative impacts from reduced volume on certain contracts due to COVID-19 and an $11 million impact from the sale of our commercial cybersecurity business in the first quarter of fiscal 2019.

The increase in operating income for the three months ended October 2, 2020, as compared to the three months ended September 27, 2019, was primarily due to a net increase in volumes on certain programs, program wins and a decrease in bad debt expense. This was partially offset by higher amortization of intangible assets related to the acquisition of the SD&A Businesses and the completion of certain contracts.

The increase in operating income for the nine months ended October 2, 2020, as compared to the nine months ended September 27, 2019, was primarily attributable to program wins and a decrease in bad debt expense, partially offset by higher amortization of intangible assets related to the acquisition of the SD&A Businesses and the completion of certain contracts.

	Three Months Ended				Nine Months Ended			
Health	**October 2, 2020**	September 27, 2019	Dollar change	Percent change	**October 2, 2020**	September 27, 2019	Dollar change	Percent change
	(dollars in millions)							
Revenues	**$ 520**	$ 508	$ 12	2.4 %	**$ 1,449**	$ 1,472	$ (23)	(1.6)%
Operating income	**75**	63	12	19.0 %	**149**	169	(20)	(11.8)%
Operating margin	***14.4 %***	*12.4 %*			***10.3 %***	*11.5 %*		

The increase in revenues for the three months ended October 2, 2020, as compared to the three months ended September 27, 2019, was primarily attributable to a net increase in volumes on certain programs and program wins. This was partially offset by a $22 million impact from the sale of our health staff augmentation business in the third quarter of fiscal 2019.

The decrease in revenues for the nine months ended October 2, 2020, as compared to the nine months ended September 27, 2019, was primarily attributable to approximately $96 million related to timing of program execution due to COVID-19, a $73 million impact from the sale of our health staff augmentation business in the third quarter of fiscal 2019 and the completion of certain contracts. This was partially offset by a net increase in volumes on certain programs, program wins and a $23 million impact from our acquisition of IMX Medical Management Services, Inc. ("IMX") in the third quarter of fiscal 2019.

The increase in operating income for the three months ended October 2, 2020, as compared to the three months ended September 27, 2019, was primarily due to lower expenditures on certain programs.

The decrease in operating income for the nine months ended October 2, 2020, as compared to the nine months ended September 27, 2019, was primarily attributable to approximately $56 million of negative impacts from reduced volume on certain managed service contracts with fixed cost infrastructures that were impacted by COVID-19, partially offset by a net increase in volumes on certain programs.

	Three Months Ended				Nine Months Ended			
Corporate	**October 2, 2020**	September 27, 2019	Dollar change	Percent change	**October 2, 2020**	September 27, 2019	Dollar change	Percent change
	(dollars in millions)							
Operating (loss) income	**$ (16)**	$ 36	$ (52)	*NM*	**$ —**	$ 1	$ (1)	(100.0)%

NM - Not meaningful

The increase in operating loss for the three months ended October 2, 2020, as compared to the three months ended September 27, 2019, was primarily attributable to a $54 million recovery recognized in the prior year quarter related to the receipt of the Greek arbitration award.

The decrease in operating income for the nine months ended October 2, 2020, as compared to the nine months ended September 27, 2019, was primarily attributable to a $54 million recovery recognized in the prior year quarter related to the receipt of the Greek arbitration award, a $26 million increase in acquisition and integration costs and higher litigation costs. This was partially offset by an $81 million net gain recognized upon the receipt of proceeds related to the VirnetX, Inc. ("VirnetX") legal matter.

Non-Operating Expense, net

Non-operating expense, net for the three months ended October 2, 2020 was $44 million as compared to $35 million for the three months ended September 27, 2019. The change was primarily due to higher interest expense associated with increases in our long-term debt.

Non-operating expense, net for the nine months ended October 2, 2020 was $163 million as compared to $12 million for the nine months ended September 27, 2019. The change was primarily due to the $87 million gain recognized on the sale of our commercial cybersecurity business in the prior year, $31 million of debt discount and deferred financing costs written off related to the refinancing of our term loans and bridge facilities and higher interest expense associated with increases in our long-term debt.

Provision for Income Taxes

For the three months ended October 2, 2020, our effective tax rate was 23.8% compared to 24.3% for the three months ended September 27, 2019. The decrease in the effective tax rate was primarily due to a net decrease in valuation allowance related to foreign taxes compared to the prior year quarter, partially offset by an increase in current period foreign taxes.

For the nine months ended October 2, 2020, our effective tax rate was 19.4% compared to 23.5% for the nine months ended September 27, 2019. The decrease in the effective tax rate was primarily due to an increase in benefits related to employee stock-based payments, federal research tax credits and higher prior period unrecognized tax benefits.

Bookings and Backlog

We recorded net bookings worth an estimated $4.3 billion and $14.5 billion during the three and nine months ended October 2, 2020, respectively, as compared to $5.2 billion and $11.5 billion for the three and nine months ended September 27, 2019, respectively.

The estimated value of our total backlog was as follows:

		October 2, 2020		January 3, 2020
		(in millions)		
Defense Solutions:				
Funded backlog	$	**4,115**	$	3,063
Negotiated unfunded backlog		**13,746**		11,974
Total Defense Solutions backlog	$	**17,861**	$	15,037
Civil:				
Funded backlog	$	**1,521**	$	1,267
Negotiated unfunded backlog		**7,028**		2,978
Total Civil backlog	$	**8,549**	$	4,245
Health:				
Funded backlog	$	**1,208**	$	1,083
Negotiated unfunded backlog		**4,101**		3,725
Total Health backlog	$	**5,309**	$	4,808
Total:				
Funded backlog	$	**6,844**	$	5,413
Negotiated unfunded backlog		**24,875**		18,677
Total backlog	$	**31,719**	$	24,090

The change in backlog for the Defense Solutions and Civil reportable segments reflect $1,632 million and $574 million, respectively, of backlog acquired as a result of the acquisitions of Dynetics and the SD&A Businesses, respectively.

Backlog represents the estimated amount of future revenues to be recognized under negotiated contracts, both funded and unfunded. Backlog does not include unexercised option periods and future potential task orders expected to be awarded under indefinite delivery/indefinite quantity ("IDIQ"), General Services Administration Schedule or other master agreement contract vehicles, with the exception of certain IDIQ contracts where task orders are not competitively awarded and separately priced but instead are used as a funding mechanism, and where there is a basis for estimating future revenues and funding on future task orders is anticipated. Total backlog at October 2, 2020 included an adverse impact of $44 million when compared to total backlog at January 3, 2020, due to exchange rate movements in the British pound and Australian dollar when compared to the U.S. dollar. Backlog estimates are subject to change and may be affected by factors including modifications of contracts and foreign currency movements.

Liquidity and Capital Resources

Overview

As of October 2, 2020, we had $512 million in cash and cash equivalents. In January 2020, we entered into an unsecured revolving credit facility which can provide up to $750 million in additional borrowing, if required. This new credit facility replaced the previous secured credit facility with the same borrowing capacity. As of October 2, 2020, there were no borrowings outstanding under the credit facility and we were in compliance with the related financial covenants.

At October 2, 2020, and January 3, 2020, we had outstanding debt of $4.5 billion and $3.0 billion, respectively. In January 2020, we entered into a Credit Agreement with certain financial institutions, which provided for a senior unsecured term loan facility in an aggregate principal amount of $1.9 billion (the "Term Loan Facility"). We used the proceeds of the Term Loan Facility and cash on hand to repay in full all indebtedness, and terminate all commitments, under, and discharge and release all guarantees and liens existing in connection with the credit agreements entered into in August 2016.

Additionally, on January 17, 2020, we entered into a Bridge Credit Agreement with certain financial institutions, which provided for a senior unsecured 364-day bridge loan facility in an aggregate amount of $1.25 billion (the "Bridge Facility"). We used the proceeds of the Bridge Facility and cash on hand to fund the purchase of Dynetics and repay in full all third party indebtedness of Dynetics, terminate all commitments thereunder and discharge and release all existing guarantees and liens.

In February 12, 2020, we entered into a senior unsecured delayed-draw term loan facility (the "Facility") providing for $1.0 billion of commitments from certain financial institutions in connection with the acquisition of the SD&A Businesses. On May 4, 2020, we completed our acquisition of the SD&A Businesses and drew on the Facility in an aggregate principal amount of $1.0 billion. The proceeds of the Facility and cash on hand were used to fund the purchase of the SD&A Businesses.

On May 12, 2020, we issued and sold $500 million senior notes maturing in May 2023, $500 million senior notes maturing in May 2025 and $750 million senior notes maturing in May 2030 (collectively, the "Notes"). The proceeds from the Notes were used to repay all of the outstanding obligations in respect of principal, interest, fees and other amounts under the Bridge Credit Agreement and to repay a portion of the outstanding loans under the Facility.

On June 18, 2020, we entered into a 364-day Term Loan Credit Agreement, which provided for a senior unsecured term loan facility in an aggregate principal amount of $300 million (the "Term Loan"). The proceeds of the Term Loan and cash on hand on were used to repay in full all indebtedness under, and discharge and release all guarantees existing in connection with the Facility.

On September 1, 2020, we retired our $450 million senior unsecured notes due December 2020. Cash on hand was used to repay in full all indebtedness under, and discharge and release all guarantees existing in connection with the notes.

On October 8, 2020, we issued and sold $1.0 billion aggregate principal amount of fixed-rate senior notes maturing in February 2031 (the "2031 Notes"). The proceeds from the 2031 Notes were used for general corporate purposes, including to repay all of the outstanding obligations in respect of principal, interest, fees and other amounts under the 364-day Term Loan and to repay a portion of the outstanding loans under the five-year Term Loan Facility.

See "Note 10–Debt" and "Note 17–Subsequent Events" for further details regarding the debt transactions noted above.

In addition to the refinancing activity noted above, we made principal payments on our long-term debt of $477 million and $705 million during the three and nine months ended October 2, 2020, respectively, and $2 million and $50 million during the three and nine months ended September 27, 2019, respectively. This activity included required principal payments on our term loans of $24 million and $48 million during the three and nine months ended October 2, 2020, respectively, and $41 million during the nine months ended September 27, 2019. The senior unsecured term loans and notes contain financial covenants and customary restrictive covenants. We were in compliance with all covenants as of October 2, 2020.

We paid dividends of $49 million and $148 million during the three and nine months ended October 2, 2020, respectively, and $101 million during the nine months ended September 27, 2019.

During the three and nine months ended October 2, 2020, we sold $753 million and $1,866 million, respectively, of accounts receivable under accounts receivable purchase agreements and received proceeds of $752 million and $1,864 million, respectively (see "Note 13–Supplementary Cash Flow Information and Restricted Cash").

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

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

Summary of Cash Flows

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

	Three Months Ended		Nine Months Ended	
	October 2, 2020	September 27, 2019	**October 2, 2020**	September 27, 2019
	(in millions)			
Net cash provided by operating activities	**$ 592**	$ 349	**$ 1,386**	$ 823
Net cash (used in) provided by investing activities	**(15)**	(102)	**(2,714)**	119
Net cash (used in) provided by financing activities	**(517)**	(204)	**1,353**	(565)
Net increase in cash, cash equivalents and restricted cash	**$ 60**	$ 43	**$ 25**	$ 377

Net cash provided by operating activities increased $243 million for the three months ended October 2, 2020, when compared to the prior year quarter. The increase was primarily due to the timing of payroll payments and higher advance payments from customers in the current year quarter.

Net cash provided by operating activities increased $563 million for the nine months ended October 2, 2020, when compared to the prior year. The increase was primarily due to the timing of payroll payments, $204 million from the sale of accounts receivable in the last month of the quarter and the receipt of $85 million of proceeds related to the VirnetX legal matter.

Net cash used in investing activities decreased $87 million for the three months ended October 2, 2020, when compared to the prior year quarter, primarily due to $94 million of cash paid related to the acquisition of IMX in the prior year quarter, partially offset by $12 million of net proceeds received for the divestiture of our health staff augmentation business in the prior year quarter.

Net cash used in investing activities increased $2,833 million for the nine months ended October 2, 2020, when compared to the prior year, primarily due to $2,610 million of net cash paid related to the acquisitions of Dynetics and the SD&A Businesses, $183 million received in the prior year for the disposition of our commercial cybersecurity and health staff augmentation businesses, $96 million of proceeds received for the sale of real estate properties in the prior year and higher purchases of equipment and leasehold improvements associated with our new global headquarters. This was partially offset by $94 million of cash paid related to the acquisition of IMX in the prior year quarter.

Net cash used in financing activities increased $313 million for the three months ended October 2, 2020, when compared to the prior year quarter, primarily due to the early repayment of our $450 million senior unsecured notes in the current quarter and the timing of dividend payments, partially offset by $200 million of stock repurchases in the prior year quarter.

Net cash provided by financing activities increased $1,918 million for the nine months ended October 2, 2020, when compared to the prior year, primarily due to $6,225 million of proceeds received related to the issuance of debt and $400 million of stock repurchases in the prior year. This was partially offset by $3,975 million of principal repayments related to refinancing of outstanding debt, $650 million of additional principal repayments on our outstanding debt in the current year and the timing of dividend payments.

Off-Balance Sheet Arrangements

We have outstanding performance guarantees and cross-indemnity agreements in connection with certain aspects of our business. We also have letters of credit outstanding principally related to performance guarantees on contracts and surety bonds outstanding principally related to performance and subcontractor payment bonds as described in "Note 16–Commitments" of the notes to the condensed consolidated financial statements contained within this Quarterly Report on Form 10-Q. These arrangements have not had, and management does not believe it is likely that they will in the future have, a material effect on our liquidity, capital resources, operations or financial condition.

Commitments and Contingencies

We are subject to a number of reviews, investigations, claims, lawsuits, other uncertainties and future obligations related to our business. For a discussion of these items, see "Note 15–Contingencies" and "Note 16–Commitments" of the notes to the condensed consolidated financial statements contained within this Quarterly Report on Form 10-Q.

Critical Accounting Policies

There were no material changes to our critical accounting policies, estimates or judgments during the period covered by this report from those discussed in our Annual Report on Form 10-K for the year ended January 3, 2020.

Recently Adopted and Issued Accounting Standards

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

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

The broad effects of the COVID-19 outbreak have resulted in negative impacts on the global economy and financial markets and may affect our interest rates and cause foreign currency fluctuations.

Except as noted above, there were no material changes in our market risk exposure from those discussed in our Annual Report on Form 10-K for the year ended January 3, 2020.

Item 4. *Controls and Procedures.*

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer (our Chairman and Chief Executive Officer) and principal financial officer (our Executive Vice President and Chief Financial Officer), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) as of October 2, 2020. Based upon that evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

On January 31, 2020 and May 4, 2020, we completed the acquisitions of Dynetics and the SD&A Businesses, respectively. In conducting our evaluation of the effectiveness of our internal control over financial reporting, we excluded Dynetics and the SD&A Businesses from our evaluation for the third quarter of fiscal 2020. We are in the process of integrating Dynetics and the SD&A Businesses into our system of internal control over financial reporting.

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

PART II—OTHER INFORMATION

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

We have furnished information relating to legal proceedings, and any investigations and reviews that we are involved with in "Note 15–Contingencies" of the notes to the condensed consolidated financial statements contained within this Quarterly Report on Form 10-Q.

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

Other than as described below, there have been no material changes to the risks described in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended January 3, 2020 and Part II, Item 1A “Risk Factors” in our Quarterly Report on Form 10-Q for the quarterly period ended July 3, 2020. If any risks and uncertainties described below actually occur, our business, financial condition or operating results could be materially harmed and the price of our stock could decline. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may materially harm our business.

The extent to which our business will be adversely affected by the recent COVID-19 outbreak or other health epidemics, pandemics and similar outbreaks is highly uncertain and cannot be predicted.

The recent outbreak and global spread of COVID-19, and the preventative or protective actions that governments, corporations, individuals and we are taking and may continue to take in an effort to limit the impact of COVID-19, have resulted in a period of business disruption and increased economic uncertainty. The spread of COVID-19 has caused us to modify our business practices (including employee travel, access to customer sites, employee and contractor remote work and cancellation of physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers and business partners. There is no certainty that such measures will be sufficient to mitigate the risks posed by COVID-19 or otherwise be satisfactory to government authorities. If significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, facility closures or other restrictions due to COVID-19, our operations and results will likely be impacted.

Government agencies are our primary customers and the long-term impact of increased government spending in response to COVID-19 is uncertain. For example, the U.S. government fiscal year 2021 budget cycle is delayed as the U.S. government focuses its attention on mitigating the impact of COVID-19, and a continuing resolution was enacted on October 1, 2020 to provide temporary funding for government operations through December 11, 2020. This could result in a re-evaluation of U.S. government spending levels and priorities, which could impact our business performance. Even after COVID-19 has subsided, we may experience materially adverse impacts on our business as a result of the outbreak's global economic impact, including any recession that is occurring or may occur in the future. New contract awards have been and may continue to be delayed and our ability to perform on our existing contracts has been and may continue to be delayed or impaired, which will negatively impact our revenues. In addition, our costs have increased and may continue to increase as a result of COVID-19, and these cost increases may not be fully recoverable or adequately covered by insurance, or equitable adjustments to contract prices or reimbursement of costs under Section 3610 of the CARES Act, which could impact our profitability. The continued spread of COVID-19 has had and may continue to have similar negative impacts on our customers, subcontractors and suppliers, causing delay or limiting their ability to perform, including in making timely payments to us. Any resulting financial impact cannot be reasonably estimated at this time but may materially and adversely affect our business, financial condition, results of operations and cash flows. The extent to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity and duration of COVID-19 and actions to contain it or treat its impact, among others. In addition, to the extent COVID-19 or any worsening of the global business and economic environment as a result adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described under Part I, Item 1A "Risk Factors" of our most recent Annual Report on Form 10-K.

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

(a) None

(b) None

(c) Purchases of Equity Securities by the Issuer

On February 16, 2018, our Board of Directors authorized a new share repurchase program of up to 20 million shares of our outstanding common stock. The shares may be repurchased from time to time in one or more open market repurchases or privately negotiated transactions, including accelerated share repurchase transactions. The actual timing, number and value of shares repurchased under the program will depend on a number of factors, including the market price of our common stock, general market and economic conditions, applicable legal requirements, compliance with the terms of our outstanding indebtedness and other considerations. There is no assurance as to the number of shares that will be repurchased, and the repurchase program may be suspended or discontinued at any time at our Board of Directors' discretion.

The following table presents repurchases of Leidos common stock during the quarter ended October 2, 2020:

Period	Total Number of Shares (or Units) Purchased [1]	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Repurchase Plans or Programs	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 4, 2020 - July 31, 2020	—	$ —	—	7,696,108
August 1, 2020 - August 31, 2020	—	—	—	7,696,108
September 1, 2020 - September 30, 2020	4,177	88.43	—	7,696,108
October 1, 2020 - October 2, 2020	—	—	—	7,696,108
Total	4,177	$ 88.43	—	

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

Item 3. *Defaults Upon Senior Securities.*

None.

Item 4. *Mine Safety Disclosures.*

Not applicable.

Item 5. *Other Information.*

None.

Table of Contents

Item 6. ***Exhibits.***

Exhibit Number	Description of Exhibit
31.1	Certification of Chairman and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Executive Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data File. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104	Cover Page Interactive Data File. The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

SIGNATURES

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

Date: November 2, 2020

Leidos Holdings, Inc.

/s/ James C. Reagan

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

Exhibit 31.1

LEIDOS HOLDINGS, INC.

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

I, Roger A. Krone, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended October 2, 2020, of Leidos Holdings, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: November 2, 2020

/s/ Roger A. Krone

Roger A. Krone
Chairman and Chief Executive Officer

Exhibit 31.2

LEIDOS HOLDINGS, INC.

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

I, James C. Reagan, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended October 2, 2020, of Leidos Holdings, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: November 2, 2020

/s/ James C. Reagan

James C. Reagan
Executive Vice President and Chief Financial Officer

Exhibit 32.1

LEIDOS HOLDINGS, INC.

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

In connection with the Quarterly Report of Leidos Holdings, Inc. ("Leidos") on Form 10-Q for the period ended October 2, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Roger A. Krone, Chairman and Chief Executive Officer of Leidos Holdings, Inc., certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

Date: November 2, 2020

/s/ Roger A. Krone

Roger A. Krone
Chairman and Chief Executive Officer

Exhibit 32.2

LEIDOS HOLDINGS, INC.

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

In connection with the Quarterly Report of Leidos Holdings, Inc. ("Leidos") on Form 10-Q for the period ended October 2, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James C. Reagan, Executive Vice President and Chief Financial Officer of Leidos Holdings, Inc., certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

Date: November 2, 2020

/s/ James C. Reagan

James C. Reagan
Executive Vice President and Chief Financial Officer