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 September 27, 2019

or

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

For the transition period from to

Commission file number 001-33072

Leidos Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

(571) 526-6000

(Registrant's telephone number, including area code)

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

Title of each class	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 21, 2019, was 141,563,826 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)

	September 27, 2019	December 28, 2018
	(in millions)	
ASSETS		
Cash and cash equivalents	**$ 635**	$ 327
Receivables, net	**1,775**	1,877
Other current assets	**514**	543
Assets held for sale	**—**	92
Total current assets	**2,924**	2,839
Property, plant and equipment, net	**228**	237
Intangible assets, net	**571**	652
Goodwill	**4,889**	4,860
Operating lease right-of-use assets, net	**394**	—
Other assets	**404**	182
	$ 9,410	$ 8,770
LIABILITIES AND EQUITY		
Accounts payable and accrued liabilities	**$ 2,004**	$ 1,491
Accrued payroll and employee benefits	**446**	473
Long-term debt, current portion	**77**	72
Liabilities held for sale	**—**	23
Total current liabilities	**2,527**	2,059
Long-term debt, net of current portion	**2,939**	3,052
Operating lease liabilities	**295**	—
Deferred tax liabilities	**196**	170
Other long-term liabilities	**203**	178
Commitments and contingencies (Notes 20 and 21)		
Stockholders’ equity:		
Common stock, $.0001 par value, 500 million shares authorized, 141 million and 146 million shares issued and outstanding at September 27, 2019 and December 28, 2018, respectively	**—**	—
Additional paid-in capital	**2,590**	2,966
Retained earnings	**764**	372
Accumulated other comprehensive loss	**(108)**	(30)
Total Leidos stockholders’ equity	**3,246**	3,308
Non-controlling interest	**4**	3
Total equity	**3,250**	3,311
	$ 9,410	$ 8,770

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 27, 2019	September 28, 2018	**September 27, 2019**	September 28, 2018
	(in millions, except per share amounts)			
Revenues	**$ 2,835**	$ 2,575	**$ 8,140**	$ 7,547
Cost of revenues	**2,450**	2,174	**7,019**	6,412
Selling, general and administrative expenses	**177**	194	**518**	547
Bad debt expense and recoveries	**(35)**	1	**(35)**	—
Integration and restructuring costs	**—**	7	**3**	32
Asset impairment charges	**—**	—	**—**	7
Equity earnings of non-consolidated subsidiaries	**(6)**	(4)	**(16)**	(12)
Operating income	**249**	203	**651**	561
Non-operating (expense) income:				
Interest expense, net	**(28)**	(35)	**(99)**	(104)
Other (expense) income, net	**(7)**	2	**87**	3
Income before income taxes	**214**	170	**639**	460
Income tax expense	**(52)**	(23)	**(150)**	(66)
Net income	**162**	147	**489**	394
Less: net income attributable to non-controlling interest	**1**	—	**3**	1
Net income attributable to Leidos common stockholders	**$ 161**	$ 147	**$ 486**	$ 393
Earnings per share:				
Basic	**$ 1.13**	$ 0.97	**$ 3.38**	$ 2.59
Diluted	**1.11**	0.96	**3.33**	2.55

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 27, 2019	September 28, 2018	**September 27, 2019**	September 28, 2018
	(in millions)			
Net income	**$ 162**	$ 147	**$ 489**	$ 394
Foreign currency translation adjustments	**(24)**	(8)	**(26)**	(41)
Unrecognized (loss) gain on derivative instruments	**(11)**	(2)	**(52)**	12
Total other comprehensive loss, net of taxes	**(35)**	(10)	**(78)**	(29)
Comprehensive income	**127**	137	**411**	365
Less: comprehensive income attributable to non-controlling interest	**1**	—	**3**	1
Comprehensive income attributable to Leidos common stockholders	**$ 126**	$ 137	**$ 408**	$ 364

See accompanying notes to condensed consolidated financial statements.

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

	Shares of common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Leidos Holdings, Inc. stockholders' equity	Non-controlling interest	Total
	(in millions, except for per share amounts)						
Balance at 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 EQUITY (UNAUDITED) [CONTINUED]

	Shares of common stock	Additional paid-in capital	(Accumulated deficit) retained earnings	Accumulated other comprehensive income	Leidos Holdings, Inc. stockholders' equity	Non-controlling interest	Total
	(in millions, except for per share amounts)						
Balance at December 29, 2017	151	$ 3,344	$ (7)	$ 33	$ 3,370	$ 13	$ 3,383
Cumulative adjustments related to ASU adoptions	—	—	(8)	9	1	—	1
Balance at December 30, 2017	151	3,344	(15)	42	3,371	13	3,384
Net income	—	—	102	—	102	—	102
Other comprehensive income, net of taxes	—	—	—	14	14	—	14
Issuances of stock	1	5	—	—	5	—	5
Repurchases of stock and other	—	(22)	—	—	(22)	—	(22)
Dividends of $0.32 per share	—	—	(50)	—	(50)	—	(50)
Stock-based compensation	—	11	—	—	11	—	11
Purchase of a non-controlling interest	—	—	—	—	—	(10)	(10)
Balance at March 30, 2018	152	3,338	37	56	3,431	3	3,434
Net income	—	—	144	—	144	1	145
Other comprehensive loss, net of taxes	—	—	—	(33)	(33)	—	(33)
Issuances of stock	—	4	—	—	4	—	4
Repurchases of stock and other	(2)	(94)	—	—	(94)	—	(94)
Dividends of $0.32 per share	—	—	(48)	—	(48)	—	(48)
Stock-based compensation	—	12	—	—	12	—	12
Other	—	—	—	—	—	(2)	(2)
Balance at June 29, 2018	150	3,260	133	23	3,416	2	3,418
Net income	—	—	147	—	147	—	147
Other comprehensive loss, net of taxes	—	—	—	(10)	(10)	—	(10)
Issuances of stock	—	7	—	—	7	—	7
Repurchases of stock and other	—	(66)	—	—	(66)	—	(66)
Dividends of $0.32 per share	—	—	(49)	—	(49)	—	(49)
Stock-based compensation	—	10	—	—	10	—	10
Purchase of a non-controlling interest	—	(1)	—	—	(1)	—	(1)
Other	—	—	—	—	—	1	1
Balance at September 28, 2018	150	$ 3,210	$ 231	$ 13	$ 3,454	$ 3	$ 3,457

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	September 27, 2019	September 28, 2018
	(in millions)	
Cash flows from operations:		
Net income	**$ 489**	$ 394
Adjustments to reconcile net income to net cash provided by operations:		
Gain on sale of businesses	**(87)**	—
Depreciation and amortization	**174**	193
Stock-based compensation	**38**	33
Asset impairment charges	**—**	7
Bad debt expense	**19**	—
Other	**3**	17
Change in assets and liabilities, net of effects of acquisitions and dispositions:		
Receivables	**68**	2
Other current assets	**(49)**	(24)
Accounts payable and accrued liabilities	**253**	61
Accrued payroll and employee benefits	**(17)**	(71)
Deferred income taxes and income taxes receivable/payable	**9**	3
Other long-term assets/liabilities	**(77)**	49
Net cash provided by operating activities	**823**	664
Cash flows from investing activities:		
Proceeds from disposition of businesses	**183**	—
Net proceeds from sale of assets	**96**	—
Acquisitions of businesses	**(94)**	(81)
Payments for property, equipment and software	**(67)**	(53)
Collections on promissory note	**—**	40
Other	**1**	—
Net cash provided by (used in) investing activities	**119**	(94)
Cash flows from financing activities:		
Repurchases of stock and other	**(430)**	(182)
Dividend payments	**(101)**	(151)
Payments of long-term debt	**(50)**	(59)
Proceeds from issuances of stock	**16**	13
Payment of tax indemnification liability	**—**	(23)
Payments for non-controlling interest acquired	**—**	(8)
Payments for debt issuance and modification costs	**—**	(6)
Other	**—**	(1)
Net cash used in financing activities	**(565)**	(417)
Net increase in cash, cash equivalents and restricted cash	**377**	153
Cash, cash equivalents and restricted cash at beginning of period	**369**	422
Cash, cash equivalents and restricted cash at end of period	**$ 746**	$ 575

See accompanying notes to condensed consolidated financial statements.

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

Note 1–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. Leidos' domestic 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, as well as state and local government agencies. Leidos' international customers include foreign governments and their agencies, primarily located in Australia and the United Kingdom ("U.K."). Unless indicated otherwise, references to the "Company," "we," "us" and "our" refer collectively to Leidos Holdings, Inc. and its consolidated subsidiaries. The Company operates in three reportable segments: Defense Solutions, Civil and Health. Additionally, the Company separately presents the costs associated with corporate functions as Corporate.

The Company has a controlling interest in Mission Support Alliance, LLC ("MSA"), a joint venture with Centerra Group, LLC. On January 26, 2018, the Company entered into a Membership Interest Purchase Agreement with Jacobs Engineering Group, Inc. ("Jacobs Group"), whereby the Company purchased 100% of Jacobs Group's 41% outstanding membership interest in MSA. As a result, Leidos increased its controlling ownership in MSA from 47% to 88%. The Company consolidates the financial results for MSA into its 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 Company’s VIE are not material to the Company’s 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, 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 December 29, 2018, the Company adopted the requirements of Accounting Standards Update ("ASU") 2016-02 using the modified retrospective approach (see "Note 2–Accounting Standards"). Comparative information for the prior fiscal year has not been retrospectively adjusted.

Effective the beginning of fiscal 2019, certain contracts were reassigned between the Civil and Defense Solutions reportable segments (see "Note 19–Business Segments"). While this activity did not have a material impact on the Company's reportable segments, prior year segment results have been recast to reflect this change.

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. The Company combined "Dividends payable" and "Income taxes payable" with "Accounts payable and accrued liabilities" on the condensed consolidated balance sheets. Additionally, the Company reclassified bad debt expense from "Selling, general and administrative expenses" to "Bad debt expense and recoveries" on the condensed consolidated statement of income. The Company also separately disclosed "Bad debt expense" 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 Company's Annual Report on Form 10-K filed on February 19, 2019.

Note 2–Accounting Standards

Accounting Standards Updates Adopted

ASU 2016-02, ASU 2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01, *Leases (Topic 842)*

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02 ("ASC 842"), which supersedes the lease guidance under *Leases (Topic 840)* and makes several changes, such as requiring an entity to recognize a right-of-use ("ROU") asset and corresponding lease obligation on the balance sheet, classified as financing or operating, as appropriate. The update is effective for public companies for annual and interim reporting periods beginning after December 15, 2018, and should be adopted under the modified retrospective approach.

In July 2018, the FASB issued ASU 2018-10 "Codification Improvements to Topic 842, Leases" to add clarity to certain areas within ASU 2016-02, and ASU 2018-11 "Targeted Improvements", to add an additional and optional transition method to adopt the new leases standard by allowing recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The ASU also provided lessors with a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease components, similar to the expedient provided for lessees. In December 2018, the FASB issued ASU 2018-20 "Narrow-Scope Improvements for Lessors" to add clarity to lessors accounting for sales taxes and other similar taxes collected from lessees, accounting for variable payments for contracts with lease and non-lease components and accounting for certain lessor costs. In March 2019, the FASB issued ASU 2019-01 "Codification Improvements" to *Leases (Topic 842)* to clarify the codification more generally and/or to correct unintended application of guidance. The effective date and transition requirements of these updates are the same as ASU 2016-02.

The Company has elected to adopt certain practical expedients provided under ASC 842, including the options to not apply lease recognition for short-term leases, reassess whether expired or existing contracts contain leases, reassess lease classification for expired or existing leases, reassess initial direct costs, and combine lease and non-lease components in revenue arrangements when (i) the timing and pattern of revenue recognition for the components are the same and (ii) the lease component if accounted for separately, would be classified as an operating lease. The Company did not elect the hindsight practical expedient to determine the lease term for existing leases and in assessing impairment for the ROU assets. The Company also applies a single discount rate to a portfolio of leased assets with similar durations.

Effective December 29, 2018, the Company adopted the requirements of ASC 842 using the modified retrospective approach. Comparative information for the prior fiscal year has not been retrospectively adjusted.

As a result of the adoption of the new standard, the Company recorded $433 million and $486 million of ROU assets and lease liabilities, respectively, primarily due to its operating leases, to the Company's consolidated balance sheets. The standard did not have a material impact on the consolidated statements of income and consolidated statements of cash flows. The Company also recorded a $48 million increase in retained earnings due to the cumulative effect of recognizing the gain, net of taxes, related to the sale of the San Diego properties (see "Note 11–Property, Plant and Equipment").

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

The cumulative effect of the changes made to the Company's condensed consolidated balance sheet for the adoption of ASU 2016-02 was as follows:

	Balance at December 28, 2018	Adjustments due to ASU 2016-02	Balance at December 29, 2018
		(in millions)	
Assets - non-current:			
Property, plant and equipment, net	$ 237	$ 1	$ 238
Operating lease right-of-use assets, net	—	418	418
Liabilities - current:			
Accounts payable and accrued liabilities	$ 1,491	$ 132	$ 1,623
Long-term debt, current portion	72	8	80
Liabilities - non-current:			
Long-term debt, net of current portion	$ 3,052	$ (72)	$ 2,980
Operating lease liabilities	—	320	320
Deferred tax liabilities	170	17	187
Other long-term liabilities	178	(34)	144
Equity:			
Retained earnings	$ 372	$ 48	$ 420

Accounting Standards Updates Issued But Not Yet Adopted

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

In June 2016, the FASB issued ASU 2016-13, 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.

In November 2018, the FASB issued ASU 2018-19 "Codification Improvements to Topic 326, Financial Instruments - Credit Losses" to add clarity to certain areas within ASU 2016-13. In May 2019, the FASB issued ASU 2019-05 "Financial Instruments - Credit Losses (Topic 326), Target Transition Relief" which provided transition relief for entities adopting ASU 2016-13 by allowing the election of the fair value option on certain financial instruments. The effective date and the transition methodology for the amendments in these updates are the same as in ASU 2016-13.

The Company is evaluating the impacts that this standard update will have on certain financial assets, including trade receivables, note receivables and receivables on sales-type leases. The Company is in the process of determining the potential impacts to processes, including allowance estimation models and internal controls in order to meet the standard update's accounting and reporting requirements.

Note 3–Significant Accounting Policies

Leases

Lessee

The Company has facilities and equipment lease arrangements. An arrangement is determined to be a lease at inception if it conveys the right to control the use of identified property and equipment for a period of time in exchange for consideration. ROU assets represent the Company's right to use an underlying asset over the lease term and lease liabilities represent its obligation to make lease payments arising from the lease.

ROU assets and lease liabilities are recorded on the consolidated balance sheet at lease commencement date based on the present value of the future minimum lease payments over the lease term. As the Company generally does not know the implicit rate for its leases, the discount rate used is the Company's incremental borrowing rate which is determined based on the rate of interest that the Company would have to pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term. An ROU asset is initially measured by the present value of the remaining lease payments, plus initial direct costs and prepaid lease payments, less any lease incentives received before commencement. The remaining lease cost is allocated over the remaining lease term on a straight-line basis unless another systematic or rational basis is more representative of the pattern in which the underlying asset is expected to be used. ROU assets are evaluated for impairment in a manner consistent with the treatment of other long-lived assets.

Certain of the Company's facility leases contain options to renew or extend the terms of the lease which are included in the determination of the ROU assets and lease liabilities when it is reasonably certain that the Company will exercise the option. The Company's leases may also include variable lease payments such as an escalation clause based on consumer price index rates, maintenance costs and utilities. Variable lease payments that depend on an index or a rate are included in the determination of ROU assets and lease liabilities using the index or rate at the lease commencement date, whereas variable lease payments that do not depend on an index or rate are recorded as lease expense in the period incurred. At September 27, 2019, the Company did not have any lease agreements with residual value guarantees.

As a result of the adoption of ASC 842, the Company elected to not separate non-lease components from lease components and instead account for both components as a single lease.

The related lease payments on the Company's short-term facilities and equipment leases are recognized as expense on a straight-line basis over the lease term.

Lessor

The Company is a lessor on certain equipment sales-type and operating lease arrangements with its customers. To be considered lease revenue, the contract must contain a specified asset, the Company must not have a substantive substitution right, the customer must have the right to direct the use of the specified asset during the period of use and the customer must have the right to obtain substantially all of the economic benefit of the specified asset.

Certain arrangements may contain variable payments that depend on an index or rate and are measured using the index or rate on the commencement date. Arrangements may also contain options to renew or extend the performance period. Option periods are included in the lease term if the Company determines that it is reasonably certain the customer will exercise an option.

The Company has arrangements that contain both lease and non-lease components. The Company will account for them as one unit of account if the timing and pattern of transfer is identical for both the lease and the non-lease components and the lease component would be classified as an operating lease if accounted for separately. If both criteria are met and the predominant component is a lease, then the entire arrangement will be accounted for in accordance with ASC 842. If the Company accounts for an arrangement both as a lease and non-lease component, then the allocation of consideration for each component will be based the relative standalone sales price.

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	
	September 27, 2019	September 28, 2018	**September 27, 2019**	September 28, 2018
	(in millions, except per share amounts)			
Favorable impact	**$ 23**	$ 34	**$ 69**	$ 135
Unfavorable impact	**(11)**	(17)	**(40)**	(49)
Net impact to income before income taxes	**$ 12**	$ 17	**$ 29**	$ 86
Impact on diluted EPS attributable to Leidos common stockholders	**$ 0.06**	$ 0.07	**$ 0.15**	$ 0.41

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

Revenue Recognized from Prior Obligations

Revenue recognized from performance obligations satisfied in previous periods was $17 million and $36 million for the quarter and nine months ended September 27, 2019, respectively and $18 million and $84 million for the quarter and nine months ended September 28, 2018, 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

The Company's cash equivalents are primarily comprised of investments in several large institutional money market accounts, with original maturity of three months or less. The Company includes outstanding payments within "Cash and cash equivalents" and correspondingly increases "Accounts payable and accrued liabilities" on the condensed consolidated balance sheets. At September 27, 2019 and December 28, 2018, the Company included $33 million and $56 million, respectively, of outstanding payments within "Cash and cash equivalents."

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

Note 4–Leases

Lessee

The Company's ROU assets and lease liabilities consisted of the following:

	Balance sheet line item	September 27, 2019
		(in millions)
ROU assets:		
Finance leases	Property, plant and equipment, net	$ 9
Operating leases	Operating lease right-of-use assets, net	394
		$ 403
Current lease liabilities:		
Finance leases	Long-term debt, current portion	$ 7
Operating leases	Accounts payable and accrued liabilities	141
		$ 148
Non-current lease liabilities:		
Finance leases	Long-term debt, net of current portion	$ 2
Operating leases	Operating lease liabilities	295
		$ 297

The Company's total lease cost for the periods presented consisted of the following:

	Three Months Ended September 27, 2019	Nine Months Ended September 27, 2019
	(in millions)	
Finance lease cost:		
Amortization of ROU assets	$ 2	$ 6
Operating lease cost	34	116
Variable lease cost	28	79
Short-term lease cost	2	5
Less: Sublease income	(3)	(4)
Total lease cost	$ 63	$ 202

The Company's lease costs are included in "Cost of revenues" and "Selling, general and administrative expenses" within the condensed consolidated statements of income.

Lease terms and discount rates related to leases were as follows:

	September 27, 2019
Weighted-average remaining lease term (in years):	
Finance leases	2.2
Operating leases	5.0
Weighted-average discount rate:	
Finance leases	4.15%
Operating leases	4.11%

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Other information related to leases was as follows:

		Nine Months Ended September 27, 2019
		(in millions)
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	$	111
Financing cash flows from finance leases		6
Lease liabilities arising from obtaining ROU assets:		
Operating lease liabilities	$	81

The Company's future minimum lease commitments of its finance and operating leases on an undiscounted basis, reconciled to the respective lease liability at September 27, 2019, were as follows:

Fiscal Year Ending		Finance lease commitments		Operating lease commitments
		(in millions)		
2019 (remainder of year)	$	2	$	49
2020		5		136
2021		1		86
2022		1		65
2023		—		46
2024 and thereafter		—		102
Total undiscounted cash flows		9		484
Less: imputed interest		—		(48)
Lease liability as of September 27, 2019	$	9	$	436

On January 24, 2018, the Company entered into a lease agreement with its current lessor for office space in a building to be constructed to function as the Company's new corporate headquarters in Reston, Virginia. The Company will occupy the space for an initial term of 148 months and rent expense will be $11 million for the first lease year, with an annual rent expense increase of 2.5%. The Company currently expects construction to be completed and to take occupancy of the building by April 1, 2020, at which point the Company's lease agreements for its current corporate headquarters will terminate.

Disclosures related to periods prior to adoption of ASC 842

During the quarter and nine months ended September 28, 2018, the Company had $40 million and $120 million of net rental expense, respectively.

Future minimum lease commitments and sublease receipts, under non-cancelable operating leases in effect at December 28, 2018, were as follows:

Fiscal Year Ending		Capital lease commitments		Operating lease commitments		Sublease receipts
				(in millions)		
2019	$	3	$	144	$	3
2020		—		114		1
2021		—		83		1
2022		—		71		—
2023		—		55		—
2024 and thereafter		—		246		—
Total	$	3	$	713	$	5

Lessor

As of September 27, 2019, the Company had a total net investment in sales-type leases, which relates to lease payment receivables, of $56 million. The current and non-current portions of net investment in sales-type leases are included within "Other current assets" and "Other assets", respectively, on the Company's consolidated balance sheets.

The components of lease income were as follows:

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

As of September 27, 2019, undiscounted cash flows for sales-type and operating leases for the next five years and thereafter are as follows:

Fiscal Year Ending	Sales-type leases	Operating leases
	(in millions)	
2019 (remainder of year)	$ 11	$ 6
2020	31	22
2021	16	22
2022	5	22
2023	1	22
2024 and thereafter	—	22
Total undiscounted cash flows	$ 64	$ 116
Present value of lease payments as lease receivables	56	
Difference between undiscounted cash flows and discounted cash flows	$ 8	

Note 5–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") contracts 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 September 27, 2019, the Company had $10.8 billion of remaining performance obligations, which are expected to be recognized as revenue in the amounts of $2.7 billion, $5.0 billion and $3.1 billion for the remainder of fiscal 2019, fiscal 2020 and fiscal 2021 and thereafter, respectively.

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Disaggregation of Revenues

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

Prior year amounts have been recast for the contracts that were reassigned between the Defense Solutions and Civil reportable segments (see "Note 19–Business Segments").

Disaggregated revenues by customer-type were as follows:

	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]	$ 1,191	$ 37	$ 123	$ 1,351	$ 3,464	$ 125	$ 360	$ 3,949
Other government agencies[1][2]	75	679	337	1,091	203	1,936	982	3,121
Commercial and non-U.S. customers	88	202	45	335	299	571	112	982
Total	$ 1,354	$ 918	$ 505	$ 2,777	$ 3,966	$ 2,632	$ 1,454	$ 8,052

	Three Months Ended September 28, 2018				Nine Months Ended September 28, 2018			
	Defense Solutions	Civil	Health	Total	Defense Solutions	Civil	Health	Total
	(in millions)							
DoD and U.S. Intelligence Community[3]	$ 1,100	$ 40	$ 88	$ 1,228	$ 3,256	$ 89	$ 262	$ 3,607
Other government agencies[2][3]	45	605	312	962	137	1,746	937	2,820
Commercial and non-U.S. customers	105	236	44	385	308	691	121	1,120
Total	$ 1,250	$ 881	$ 444	$ 2,575	$ 3,701	$ 2,526	$ 1,320	$ 7,547

[1] For the nine months ended September 27, 2019, the Company reclassified $6 million within the Defense Solutions segment from "Other government agencies" to "DoD and U.S. Intelligence Community" to reflect the change in disaggregation of U.S. government customers in the current period.

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

[3] For the quarter and nine months ended September 28, 2018, the Company reclassified $9 million and $34 million, respectively, within the Defense Solutions segment from "Other government agencies" to "DoD and U.S. Intelligence Community" to reflect the change in disaggregation of U.S. government customers in the current period.

The majority of the Company's revenues are generated from U.S. government contracts, either as a prime contractor or as a subcontractor to other contractors. 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 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	$ 936	$ 511	$ 57	$ 1,504	$ 2,749	$ 1,453	$ 173	$ 4,375
Firm-fixed-price	299	268	333	900	870	763	930	2,563
Time-and-materials and fixed-price-level-of-effort	119	139	115	373	347	416	351	1,114
Total	$ 1,354	$ 918	$ 505	$ 2,777	$ 3,966	$ 2,632	$ 1,454	$ 8,052

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	Three Months Ended September 28, 2018				Nine Months Ended September 28, 2018			
	Defense Solutions	Civil	Health	Total	Defense Solutions	Civil	Health	Total
	(in millions)							
Cost-reimbursement and fixed-price-incentive-fee	$ 920	$ 464	$ 42	$ 1,426	$ 2,552	$ 1,377	$ 134	$ 4,063
Firm-fixed-price	214	276	277	767	772	719	814	2,305
Time-and-materials and fixed-price-level-of-effort	116	141	125	382	377	430	372	1,179
Total	$ 1,250	$ 881	$ 444	$ 2,575	$ 3,701	$ 2,526	$ 1,320	$ 7,547

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 Company's exposure to risk of cost overruns.

Disaggregated revenues by geographic location were as follows:

	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	**$ 1,261**	**$ 790**	**$ 505**	**$ 2,556**	**$ 3,689**	**$ 2,273**	**$ 1,454**	**$ 7,416**
International	**93**	**128**	**—**	**221**	**277**	**359**	**—**	**636**
Total	**$ 1,354**	**$ 918**	**$ 505**	**$ 2,777**	**$ 3,966**	**$ 2,632**	**$ 1,454**	**$ 8,052**

	Three Months Ended September 28, 2018				Nine Months Ended September 28, 2018			
	Defense Solutions	Civil	Health	Total	Defense Solutions	Civil	Health	Total
	(in millions)							
United States	$ 1,156	$ 739	$ 444	$ 2,339	$ 3,424	$ 2,112	$ 1,320	$ 6,856
International	94	142	—	236	277	414	—	691
Total	$ 1,250	$ 881	$ 444	$ 2,575	$ 3,701	$ 2,526	$ 1,320	$ 7,547

The Company's international business operations, primarily located in Australia and the U.K., are subject to additional and different risks than its 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 the Company's 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 the Company's 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.

For the quarter and nine months ended September 27, 2019, revenues exclude $58 million and $88 million, respectively, recognized under ASC 842. See "Note 4–Leases" for additional information regarding revenues recognized under ASC 842.

Note 6–Contract Assets and Liabilities

The Company's 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, for each of the Company's contracts, the timing of revenue recognition, customer billings and cash collections 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. Contract liabilities consist of deferred revenue.

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

	Balance sheet line item	**September 27, 2019**	December 28, 2018
		(in millions)	
Contract assets - current:			
Unbilled receivables[(1)]	Receivables, net	**$ 756**	$ 818
Contract liabilities - current:			
Deferred revenue	Accounts payable and accrued liabilities	**$ 444**	$ 276
Contract liabilities - non-current:			
Deferred revenue	Other long-term liabilities	**$ 9**	$ 10

(1) Balances exclude $460 million and $381 million determined to be billable at September 27, 2019, and December 28, 2018, respectively.

The decrease in unbilled receivables was primarily due to the timing of revenue recognized on certain contracts. The increase in deferred revenue was primarily due to the timing of advance payments from customers offset by revenue recognized during the period.

Revenue recognized for the quarter and nine months ended September 27, 2019 of $11 million and $200 million, respectively, was included as a contract liability at December 28, 2018. Revenue recognized for the quarter and nine months ended September 28, 2018 of $37 million and $164 million, respectively, was included as a contract liability at December 30, 2017 (date of adoption).

Note 7–Acquisitions

On August 15, 2019, the Company completed the acquisition of IMX Medical Management Services, Inc. and its affiliated businesses ("IMX") for preliminary purchase consideration of $95 million, which primarily included $90 million of cash paid and an additional $4 million paid to extinguish IMX's existing term loans and credit facility balances. The acquisition extends the Company's independent medical evaluation coverage area for commercial and federal customers.

The Company recorded $51 million of goodwill (which is deductible for tax purposes) and $42 million of intangible assets. The intangible assets primarily consist of $41 million for customer relationships. The amortization period for the customer relationships is 10 years.

At September 27, 2019, the Company had not finalized the determination of fair values allocated to assets and liabilities, including, but not limited to, intangible assets and accounts payable and accrued liabilities.

Note 8–Divestitures

Health Staff Augmentation Business

On September 12, 2019, the Company's Health segment disposed of its health staff augmentation business that was primarily focused on implementation and optimization services to hospital customers. The Company recorded an immaterial loss, which is primarily comprised of the $15 million sales price less the $12 million carrying value of net assets divested, preliminary net working capital adjustments and transaction related costs. This disposition did not meet the criteria to be classified as a discontinued operation in the Company's financial statements.

Commercial Cybersecurity Business

On February 20, 2019, the Company's Civil segment disposed of its commercial cybersecurity business in order to focus on providing solutions, including cybersecurity, to the Company's core markets of governments and highly regulated industries. In February 2019, the Company received initial proceeds of $171 million. During the quarter ended June 28, 2019, working capital adjustments were finalized, resulting in a final sales price of $166 million. The Company recorded a pre-tax gain on sale of $87 million, net of assets divested of $69 million and $10 million in transaction related costs. The gain was recorded in "Other (expense) income, net" on the condensed consolidated statements of income. This disposition did not meet the criteria to be classified as a discontinued operation in the Company's financial statements.

The major classes of assets and liabilities divested were as follows (in millions):

Receivables, net	$	14
Other current assets		5
Property, plant and equipment, net		3
Intangible assets, net		5
Goodwill		57
Deferred tax assets		6
Total assets divested	$	90
Accounts payable and accrued liabilities	$	(13)
Accrued payroll and employee benefits		(5)
Other long-term liabilities		(3)
Total liabilities divested	$	(21)

Note 9–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 29, 2017	$ 2,055	$ 1,998	$ 921	$ 4,974
Foreign currency translation adjustments	(40)	(11)	—	(51)
Transfers to assets held for sale	—	(57)	—	(57)
Adjustment to goodwill	—	(6)	—	(6)
Goodwill at December 28, 2018	2,015	1,924	921	4,860
Goodwill re-allocation	25	(25)	—	—
Acquisition of IMX	—	—	51	51
Divestiture of health staff augmentation business	—	—	(5)	(5)
Foreign currency translation adjustments	(16)	(4)	—	(20)
Adjustment to goodwill	3	—	—	3
Goodwill at September 27, 2019	**$ 2,027**	**$ 1,895**	**$ 967**	**$ 4,889**

The goodwill balances at September 27, 2019, December 28, 2018, and December 29, 2017 included accumulated goodwill impairment losses of $369 million and $117 million within the Health and Civil segments, respectively.

Effective the beginning of fiscal 2019, the Company changed the composition of its Defense Solutions reportable segment, which resulted in the identification of new operating segments and reporting units within Defense Solutions. In addition, certain contracts were reassigned between Civil and Defense solutions reportable segments (see "Note 19–Business Segments"). Consequently, the carrying amount of goodwill was re-allocated among the reporting units for the purpose of testing goodwill for impairment.

In conjunction with the changes mentioned above, the Company evaluated goodwill for impairment using a quantitative step one 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 September 27, 2019 and September 28, 2018.

During the quarter ended March 29, 2019, the Company recorded an immaterial correction of $3 million with respect to the fair value of assets acquired from Lockheed Martin's Information Systems & Global Solutions business ("the Transactions").

Note 10–Intangible Assets

Intangible assets consisted of the following:

	September 27, 2019			December 28, 2018		
	Gross carrying value	**Accumulated amortization**	**Net carrying value**	Gross carrying value	Accumulated amortization	Net carrying value
			(in millions)			
Finite-lived intangible assets:						
Program and contract intangibles	**$ 1,001**	**$ (494)**	**$ 507**	$ 1,003	$ (374)	$ 629
Software and technology	**100**	**(81)**	**19**	93	(74)	19
Customer relationships	**45**	**(5)**	**40**	4	(4)	—
Trade names	**1**	**—**	**1**	—	—	—
Total finite-lived intangible assets	**1,147**	**(580)**	**567**	1,100	(452)	648
Indefinite-lived intangible assets:						
Trade names	**4**	**—**	**4**	4	—	4
Total intangible assets	**$ 1,151**	**$ (580)**	**$ 571**	$ 1,104	$ (452)	$ 652

Amortization expense was $43 million and $129 million, for the quarter and nine months ended September 27, 2019, respectively, and $50 million and $151 million for the quarter and nine months ended September 28, 2018, respectively.

Program and contract intangible assets are amortized over their respective estimated useful lives in proportion to the pattern of economic benefit based on expected future discounted cash flows. Customer relationships are amortized on a straight-line basis over their estimated useful lives. 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 September 27, 2019, was as follows:

Fiscal year ending	
	(in millions)
2019 (remainder of year)	$ 43
2020	131
2021	110
2022	97
2023	77
2024 and thereafter	109
	$ 567

Note 11–Property, Plant and Equipment

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

	September 27, 2019	December 28, 2018
	(in millions)	
Computers and other equipment	**$ 248**	$ 233
Leasehold improvements	**187**	206
Office furniture and fixtures	**34**	36
Buildings and improvements	**23**	56
Land	**4**	40
Construction in progress	**58**	15
	554	586
Less: accumulated depreciation	**(326)**	(349)
	$ 228	$ 237

Depreciation expense was $16 million and $45 million for the quarter and nine months ended September 27, 2019, respectively, and $14 million and $42 million for the quarter and nine months ended September 28, 2018, respectively.

Sale and Leaseback Agreements

Gaithersburg, MD Property

On December 31, 2018, the Company closed the sale and leaseback agreement relating to its land and building in Gaithersburg, MD. The Company received proceeds of $31 million, net of selling costs for the property, which had a carrying value of $31 million. The term of the lease is expected to end during fiscal 2020.

During the quarter ended March 30, 2018, an impairment charge of $7 million associated with this property was recorded within Corporate.

San Diego, CA Properties

On December 28, 2018, the Company closed the sale and leaseback agreement relating to two buildings and the adjacent land in San Diego, CA for consideration of $79 million, net of selling costs. The carrying value of the land and buildings was $14 million. The Company received cash proceeds of $14 million upon closing in December 2018, and received the remaining $65 million cash proceeds in January 2019. The term of the lease is expected to end during fiscal 2036.

Prior to the adoption of ASC 842, the consideration of $79 million was recorded as a financing transaction. Under ASC 842, the transaction qualified as a sale-leaseback and consequently the debt of $79 million and the carrying value of the property of $14 million, net of the related tax impact of $17 million, were reclassified into retained earnings as a cumulative effect adjustment. The proceeds received in fiscal 2019 were recorded as investing activities on the condensed consolidated statements of cash flows.

Note 12–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 the Company to develop its own assumptions (Level 3).

The accounting guidance for fair value measurements requires that the Company 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. The Company has not made fair value option elections on any of its financial assets and liabilities.

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

	September 27, 2019		December 28, 2018	
	Carrying value	Fair value	Carrying value	Fair value
	(in millions)			
Financial assets:				
Derivatives	$ 3	$ 3	$ —	$ —
Financial liabilities:				
Derivatives	$ 88	$ 88	$ 35	$ 35

The Company's derivatives consisted of the fair value interest rate swaps on its $450 million, fixed rate 4.45% senior secured notes maturing in December 2020 and cash flow interest rate swaps on $1.5 billion of the Company's variable rate senior secured term loans (see "Note 13–Derivative Instruments"). The fair value of the fair value interest rate swaps and cash flow interest rate swaps is determined based on observed values for underlying interest rates on the LIBOR yield curve and the underlying interest rate, respectively (Level 2 inputs).

The carrying amounts of the Company's financial instruments, other than derivatives, which include cash equivalents, accounts receivable, accounts payable and accrued expenses, are reasonable estimates of their related fair values. The carrying value of the Company's note receivable of $25 million and $24 million as of September 27, 2019, and December 28, 2018, respectively, approximates fair value as the stated interest rate within the agreement is consistent with current market rates used in notes with similar terms in the market (Level 2 inputs).

As of September 27, 2019, and December 28, 2018, the fair value of debt was $3.1 billion and the carrying amount was $3.0 billion and $3.1 billion, respectively (see "Note 14–Debt"). The fair value of long-term debt is determined based on current interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements (Level 2 inputs).

On August 15, 2019, the Company recorded non-financial instruments measured at fair value on a non-recurring basis in connection with the acquisition of IMX (see "Note 7–Acquisitions"). The preliminary fair values of the assets acquired and liabilities assumed were determined using Level 3 inputs. As of September 27, 2019, the Company did not have any assets or liabilities measured at fair value on a non-recurring basis.

Note 13–Derivative Instruments

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

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

	Asset derivatives		
	Balance sheet line item	September 27, 2019	December 28, 2018
		(in millions)	
Fair value interest rate swaps	Other assets	$ 3	$ —

	Liability derivatives		
	Balance sheet line item	September 27, 2019	December 28, 2018
		(in millions)	
Fair value interest rate swaps	Other long-term liabilities	$ —	$ 3
Cash flow interest rate swaps	Other long-term liabilities	88	32
		$ 88	$ 35

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

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

The interest rate swaps were accounted for as a fair value hedge of the Notes and qualified for the shortcut method of hedge accounting, which allows for the assumption of no ineffectiveness. The resulting changes in the fair value of the interest rate swaps are fully offset by the changes in the fair value of the underlying debt (the hedged item) (See "Note 14–Debt").

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

The following amounts were recorded on the condensed consolidated balance sheets related to cumulative basis adjustments for fair value hedges:

	Carrying amount of hedged item		Cumulative amount of fair value adjustment included within the hedged item	
Balance sheet line item of hedged item	**September 27, 2019**	December 28, 2018	**September 27, 2019**	December 28, 2018
	(in millions)			
Long-term debt, net of current portion	**$ 453**	$ 447	**$ 3**	$ (3)

Cash Flow Hedges

The Company has interest rate swap agreements to hedge the cash flows of a portion of its variable rate senior secured term loans (the "Variable Rate Loans"). The objective of these instruments is to reduce variability in the forecasted interest payments of the Company's Variable Rate Loans, which are based on the LIBOR rate. Under the terms of the interest rate swap agreements, the Company will receive monthly variable interest payments based on the one-month LIBOR rate and will pay interest at a fixed rate. In February 2018, the Company entered into interest rate swap agreements to hedge the cash flows of an additional $250 million of its Variable Rate Loans. The interest rate swap agreements on $1.1 billion of the Company's Variable Rate Loans had a maturity date of December 2021 and a fixed interest rate of 1.08%. The interest rate swap agreements on $300 million and $250 million of the Company's Variable Rate Loans both had a maturity date of August 2022 and fixed interest rates of 1.66% and 2.59%, respectively.

In September 2018, the Company terminated its existing interest rate swaps. The net derivative gain of $60 million related to the discontinued cash flow hedges remained within 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.

Additionally, in September 2018, the Company entered into new interest rate swap agreements to hedge the cash flows of $1.5 billion of the Company's Variable Rate Loans. These interest rate swap agreements have a maturity date of August 2025 and a fixed interest rate of 3.00%. The interest rate swap transactions were accounted for as cash flow hedges. The gain/loss on the swap 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.

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

	Three Months Ended		Nine Months Ended	
	September 27, 2019	September 28, 2018	**September 27, 2019**	September 28, 2018
	(in millions)			
Total interest expense, net presented in the condensed consolidated statements of income in which the effects of cash flow hedges are recorded	**$ 28**	$ 35	**$ 99**	$ 104
Amount recognized in other comprehensive loss	**$ (13)**	$ 1	**$ (62)**	$ 22
Amount reclassified from accumulated other comprehensive loss to interest expense, net	**(2)**	(3)	**(6)**	(6)

The Company expects to reclassify net gains of $2 million from accumulated other comprehensive loss into earnings during the next 12 months.

Note 14–Debt

The Company's debt consisted of the following:

	Stated interest rate	Effective interest rate	**September 27, 2019[1]**	December 28, 2018[1]
			(in millions)	
Senior secured notes:				
$450 million notes, due December 2020	4.45%	4.53%	**$ 453**	$ 447
$300 million notes, due December 2040	5.95%	6.03%	**216**	216
Senior secured term loans:				
$690 million Term Loan A, due August 2023	3.56%	3.99%	**596**	617
$310 million Term Loan A, due August 2023	3.56%	4.01%	**249**	258
$1,131 million Term Loan B, due August 2025	3.81%	4.16%	**1,079**	1,085
Senior unsecured notes:				
$250 million notes, due July 2032	7.13%	7.43%	**247**	246
$300 million notes, due July 2033	5.50%	5.88%	**158**	158
Notes payable and finance leases due on various dates through fiscal 2022 (see Note 2)	2.85%-5.49%	Various	**18**	97
Total long-term debt			**3,016**	3,124
Less: current portion			**77**	72
Total long-term debt, net of current portion			**$ 2,939**	$ 3,052

[1] The carrying amounts of the senior secured term loans and notes and unsecured notes as of September 27, 2019, and December 28, 2018, include the remaining principal outstanding of $3,032 million and $3,073 million, respectively, less total unamortized debt discounts and deferred debt issuances costs of $37 million and $43 million, respectively, and a $3 million asset and $3 million liability related to the fair value interest rate swaps (see "Note 13–Derivative Instruments"), respectively.

The interest rate on the Company's senior secured term loans is determined based on the LIBOR rate plus a margin. The margin for the Term Loan A loans ranges from 1.25% to 2.00%, depending on the Company's senior secured leverage ratio, and is computed on a quarterly basis. At September 27, 2019, the current margin on Term Loan A was 1.50% and the margin on Term Loan B was 1.75%.

The Company made principal payments on its long-term debt of $2 million and $50 million during the quarter and nine months ended September 27, 2019, respectively, and $15 million and $59 million during the quarter and nine months ended September 28, 2018, respectively. This activity included principal payments on its senior secured term loans of $41 million during the nine months ended September 27, 2019 and $15 million and $46 million during the quarter and nine months ended September 28, 2018, respectively. There were no principal payments on the Company's senior secured term loans for the quarter ended September 27, 2019. In April 2018, the Company made a required debt prepayment of $10 million on its senior secured term loans. The prepayment was a result of the annual excess cash flow calculation clause in the Company's credit agreements.

The Company has a revolving credit facility providing up to $750 million in secured borrowing capacity at interest rates determined based upon the LIBOR rate plus a margin that is subject to step-down provisions based on the Company's senior secured leverage ratio. The maturity date of this credit facility is August 2023. As of September 27, 2019, and December 28, 2018, there were no borrowings outstanding under the credit facility.

Amortization of the debt discount and deferred debt issuance costs related to the senior secured term loans and notes, unsecured notes and revolving credit facility was $2 million and $7 million for the quarter and nine months ended September 27, 2019, respectively, and $2 million and $8 million for the quarter and nine months ended September 28, 2018, respectively.

The senior secured term loans and notes, unsecured notes and revolving credit facility are fully and unconditionally guaranteed and contain certain customary restrictive covenants, including among other things, restrictions on the Company's ability to create liens and enter into sale and leaseback transactions under certain circumstances. The Company was in compliance with all covenants as of September 27, 2019.

Note 15–Accumulated Other Comprehensive Loss

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

	Foreign currency translation adjustments	Unrecognized gain (loss) on derivative instruments	Pension adjustments	Total accumulated other comprehensive income (loss)
		(in millions)		
Balance at December 29, 2017	$ 17	$ 14	$ 2	$ 33
Cumulative adjustments related to ASU adoptions	3	10	(4)	9
Balance at December 30, 2017	20	24	(2)	42
Other comprehensive loss	(65)	(7)	(1)	(73)
Taxes	4	3	—	7
Reclassification from accumulated other comprehensive loss	—	(6)	—	(6)
Balance at December 28, 2018	(41)	14	(3)	(30)
Other comprehensive loss	(27)	(62)	—	(89)
Taxes	1	16	—	17
Reclassification from accumulated other comprehensive loss	—	(6)	—	(6)
Balance at September 27, 2019	**$ (67)**	**$ (38)**	**$ (3)**	**$ (108)**

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

Note 16–Earnings Per Share ("EPS")

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

	Three Months Ended		Nine Months Ended	
	September 27, 2019	September 28, 2018	**September 27, 2019**	September 28, 2018
	(in millions)			
Basic weighted average number of shares outstanding	**143**	151	**144**	152
Dilutive common share equivalents—stock options and other stock awards	**2**	2	**2**	2
Diluted weighted average number of shares outstanding	**145**	153	**146**	154

Anti-dilutive stock-based awards are excluded from the weighted average number of shares outstanding used to compute diluted EPS.

On February 21, 2019, the Company entered into an Accelerated Share Repurchase ("ASR") agreement with a financial institution to repurchase shares of its outstanding common stock. During the quarter ended March 29, 2019, the Company paid $200 million to the financial institution and received an initial delivery of 2.6 million shares. In April 2019, the Company received the final delivery of 0.6 million shares related to the ASR agreement. The total number of shares that the Company received under the ASR agreement was based on the volume-weighted-average-price of $63.52 per share for the period February 21, 2019 to April 29, 2019. The purchases were recorded to "Additional paid-in capital" in the condensed consolidated balance sheets. All shares delivered were immediately retired.

On August 1, 2019, the Company entered into an ASR agreement with a financial institution to repurchase shares of its outstanding common stock. During the quarter ended September 27, 2019, the Company paid $200 million to the financial institution and received 2.4 million shares related to the ASR agreement. The total number of shares that the Company received under the ASR agreement was based on the volume-weighted-average-price of $84.25 per share for the period August 1, 2019 to September 25, 2019. The purchases were recorded to "Additional paid-in capital" in the condensed consolidated balance sheets. All shares delivered were immediately retired.

During the quarter and nine months ended September 28, 2018, the Company made open market repurchases of its common stock for an aggregate purchase price of $62 million and $162 million, respectively. All shares repurchased were immediately retired.

Note 17–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	
	September 27, 2019	September 28, 2018
	(in millions)	
Supplementary cash flow information:		
Cash paid for income taxes, net of refunds	**$ 142**	$ 68
Cash paid for interest	**112**	101
Non-cash investing activity:		
Fixed asset additions	**$ 9**	$ —

See "Note 4–Leases" for additional supplementary cash flow information related to the Company's leases.

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:

	September 27, 2019	December 28, 2018
	(in millions)	
Cash and cash equivalents	**$ 635**	$ 327
Restricted cash	**111**	42
Total cash, cash equivalents and restricted cash	**$ 746**	$ 369

The restricted cash is recorded within "Other current assets" in the Company's 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.

Note 18–Income Taxes

For the quarter ended September 27, 2019, the effective tax rate was 24.3% compared to 13.5% for the quarter ended September 28, 2018. The increase in the effective tax rate was primarily due to the recording of a valuation allowance related to foreign tax credits in the current quarter and a release of a valuation allowance related to the utilization of a capital loss carryforward in the prior year quarter.

For the nine months ended September 27, 2019, the effective tax rate was 23.5% compared to 14.3% for the nine months ended September 28, 2018. The increase in the effective tax rate was primarily due to the recording of a valuation allowance related to foreign tax credits and an increase in unrecognized tax benefits in the current year. Additionally, during the prior year, tax benefits were recognized related to the anticipated sale of the Company's commercial cybersecurity business and the release of a valuation allowance related to the utilization of a capital loss carryforward.

Note 19–Business Segments

The Company's operations and reportable segments are organized around the markets served and the nature of the products and services provided to customers in those markets. The Company defines its reportable segments based on the way the chief operating decision maker ("CODM"), currently its Chairman and Chief Executive Officer, manages the operations of the Company for purposes of allocating resources and assessing performance.

Effective the beginning of fiscal 2019, the Company changed the composition of its Defense Solutions reportable segment to better align the operations within the reportable segment to the customers it serves. This resulted in the identification of new operating segments within Defense Solutions. In addition, certain contracts were reassigned between the Civil and Defense Solutions reportable segments. While this activity did not have a material impact on the Company's reportable segments, prior year segments results have been recast to reflect this change.

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The segment information for the periods presented was as follows:

	Three Months Ended		Nine Months Ended	
	September 27, 2019	September 28, 2018	**September 27, 2019**	September 28, 2018
	(in millions)			
Revenues:				
Defense Solutions	**$ 1,354**	$ 1,250	**$ 3,967**	$ 3,701
Civil	**973**	881	**2,701**	2,526
Health	**508**	444	**1,472**	1,320
Total revenues	**$ 2,835**	$ 2,575	**$ 8,140**	$ 7,547
Operating income (loss):				
Defense Solutions	**$ 93**	$ 89	**$ 283**	$ 273
Civil	**57**	92	**198**	221
Health	**63**	52	**169**	162
Corporate	**36**	(30)	**1**	(95)
Total operating income	**$ 249**	$ 203	**$ 651**	$ 561

The financial 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 the Company's segments. Under U.S. Government Cost Accounting Standards, indirect costs including depreciation expense are collected in numerous indirect cost pools, which are then collectively allocated to the Company’s reportable segments based on a representative causal or beneficial relationship of the costs in the pool to the costs in the base. As such, the company does not separately disclose depreciation expense on the condensed consolidated statements of income.

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

Note 20–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, and each of MSA, LMSI and Lockheed Martin Corporation have produced information in response to Civil Investigative Demands from the U.S. Attorney's Office. On February 8, 2019, the U.S. Attorney's office 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. The complaint alleges violations of the False Claims Act, the Anti-Kickback Act and breach of contract with DoE, among other things. 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, 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. The Company has agreed to indemnify Jacobs Group and Centerra Group, LLC for any liability MSA incurs in this matter. Under the terms of the Separation Agreement, Lockheed Martin agreed to indemnify the Company for 100% of any damages in excess of $38 million up to $64 million, and 50% of any damages in excess of $64 million, with respect to claims asserted against MSA related to this matter. At September 27, 2019, the Company had a liability of $39 million recorded in the condensed consolidated balance sheets.

Securities Litigation

Between February and April 2012, alleged stockholders filed three putative securities class actions against the Company and several former executives relating to the Company's contract to develop and implement an automated time and attendance and workforce management system for certain agencies of the City of New York ("CityTime"). 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 the Company and individual defendants made misleading statements or omissions about the Company's revenues, operating income and internal controls in connection with disclosures relating to the CityTime project. The plaintiffs sought to recover from the Company and the individual defendants an unspecified amount of damages class members allegedly incurred by buying Leidos' stock at an inflated price. 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. The Company 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 the Company's 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 the Company. On October 2, 2019, the court issued an order preliminarily approving the settlement. The amounts payable by the Company are covered by an insurance policy.

Greek Government Contract

In 2003, the Company entered into an FFP contract with the Hellenic Republic of Greece to provide a Command, Control, Communications, Coordination and Integration System. The Greek government disputed the contract balance owed to the Company and withheld payment. In 2013, the Company received an arbitral award by the International Chamber of Commerce. In 2017, the U.S. District Court granted an order to enforce the arbitration award and entered judgment in the Company's favor. The Company subsequently commenced enforcement proceedings against the Greek government. On September 10, 2019, the Company received $59 million on behalf of Leidos and its subcontractors, substantially, though not entirely, resolving the Company’s claim.

Arbitration Proceeding

The Company is 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 Transactions. Based on the arguments advanced to date, the Company believes that the claim appears to be without merit and intends to vigorously defend itself in arbitration. The Company does not believe that a material loss is probable, and has therefore not recorded any liability for this matter.

Other

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

Other Contingencies

VirnetX, Inc.

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 U.S. Court of Appeals for the Federal Circuit on October 1, 2019. It is expected that Apple will file a petition for a writ of certiorari with the Supreme Court of the United States in connection with the Apple I case.

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 has filed an appeal of the judgment in the Apple II case with the U.S. Court of Appeals for the Federal Circuit.

Under its agreements with VirnetX, the Company 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 appeal. 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 the Company will receive any proceeds in connection with these jury awards. In addition, if the Company receives any proceeds, the Company is required to pay a royalty to the customer who paid for the development of the technology.

The Company does not have any assets or liabilities recorded in connection with this matter as of September 27, 2019.

Government Investigations and Reviews

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

As of September 27, 2019, indirect cost audits by the Defense Contract Audit Agency remain open for fiscal 2013 and subsequent fiscal years. Although the Company has recorded contract revenues based upon an estimate of costs that the Company believes will be approved upon final audit or review, the Company cannot predict the outcome of any ongoing or future audits or reviews and adjustments, and if future adjustments exceed the Company's estimates, its profitability may be adversely affected. As of September 27, 2019, the Company believes it has adequately reserved for potential adjustments from audits or reviews of contract costs.

In February 2019, the Company executed an external restructuring advance agreement with the DoD in accordance with provisions of the Defense Federal Acquisition Regulation Supplement, which allows the Company to recover certain specified external restructuring costs.

Note 21–Commitments

The Company has outstanding letters of credit of $65 million as of September 27, 2019, principally related to performance guarantees on contracts. The Company also has outstanding surety bonds with a notional amount of $52 million, principally related to performance and subcontractor payment bonds on the Company's contracts. The value of the surety bonds may vary due to changes in the underlying project status and/or contractual modifications. The outstanding letters of credit and surety bonds have various terms with the majority expiring over the remainder of the current fiscal year and the next two fiscal years.

Reston, VA Lease Agreement

On January 24, 2018, the Company entered into a lease agreement with its current lessor for office space in a building to be constructed to function as the Company's new corporate headquarters in Reston, VA (see "Note 4–Leases").

Gaithersburg, MD Lease Agreement

On December 31, 2018, the Company closed the sale and leaseback agreement relating to its land and building in Gaithersburg, MD. (see "Note 11–Property, Plant and Equipment").

San Diego, CA Lease Agreement

On December 28, 2018, the Company closed the sales and leaseback agreement relating to two buildings and the adjacent land in San Diego, CA (see "Note 11–Property, Plant and Equipment").

Note 22–Subsequent Events

On September 30, 2019, the Company paid its $48 million dividend for the quarter ended September 27, 2019. The dividend liability at September 27, 2019 was included within "Accounts payable and accrued liabilities" in the consolidated balance sheets.

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 and government budgets and spending. Such statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. Some of these factors include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K, as updated periodically through our subsequent quarterly reports on Form 10-Q. Due to such uncertainties and risks, you are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to update these factors or to publicly announce the results of any changes to our forward-looking statements due to future events or developments.

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

Overview

We are a FORTUNE 500® science, engineering and information technology company that provides services and solutions in the defense, intelligence, civil and health markets. We bring domain-specific capability and cross-market innovations to customers in each of these markets by leveraging seven core capabilities: cyber; digital modernization; integrated systems; mission software systems; mission support; operations and logistics; and sensors, collection and phenomenology. Our domestic 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, as well as state and local government agencies. Our international customers include foreign governments and their agencies, primarily located in Australia and the United Kingdom ("U.K."). We operate in three reportable segments: Defense Solutions, Civil and Health. Additionally, we separately present the costs associated with corporate functions as Corporate.

Effective the beginning of fiscal 2019, we changed the composition of our Defense Solutions reportable segment to better align the operations within the reportable segment to the customers we serve. This resulted in the identification of new operating segments within Defense Solutions. In addition, certain contracts were reassigned between the Civil and Defense Solutions reportable segments. While this activity did not have a material impact on our reportable segments, prior year segment results have been recast to reflect this change.

Business Environment and Trends

U.S. Government Markets

During the three and nine months ended September 27, 2019, we generated approximately 87% 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.

In September 2018, Congress passed and the President signed a consolidated appropriations bill funding the Departments of Defense, Labor, and Health and Human Services for the full government fiscal year ("GFY") 2019. Earlier in 2018, funding for the Departments of Veterans Affairs and Energy as well as funding for Congress were also enacted. All were funded at increased levels from the previous year.

The remaining seven appropriations bills were operating under a continuing resolution ("CR") until it expired on December 21, 2018. From the expiration of that CR until the passage of a new CR on January 25, 2019 there was a partial U.S. government shutdown, which reduced or delayed work on existing contracts and caused delays in other government contracting actions and payments. Prior to the expiration of the January CR, Congress passed appropriations for the seven remaining appropriations bills, thereby completing funding for GFY 2019.

In March 2019, the President submitted the GFY 2020 budget proposal to Congress. The budget included $750 billion for defense and $563 billion for non-defense spending. The defense budget proposal included $576 billion for national defense and $165 billion for the Overseas Contingency Operations fund.

On July 22, 2019, the White House and Congress reached a tentative two-year budget deal to raise spending caps and suspend the debt ceiling until July 2021. Allocations for national defense spending increased to $738 billion in GFY 2020 and to $741 billion in GFY 2021. For non-defense programs, spending increased to $632 billion in GFY 2020 and $635 billion in GFY 2021. Overall, the measure increased spending by $323 billion over the limits set under the Bipartisan Budget Act of 2018.

Congress is currently addressing the passage of appropriations bills for GFY 2020. A CR was enacted on September 27, 2019, providing funding at GFY 2019 enacted levels until November 21, 2019.

International Markets

Sales to customers in international markets represented approximately 8% of total revenues for the three and nine months ended September 27, 2019. Our international customers include foreign governments and their agencies, primarily located in Australia and the U.K. Our international business increases our exposure to international markets and the associated international regulatory and geopolitical risks.

Recent 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 are still evaluating 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			
	September 27, 2019	September 28, 2018	Dollar change	Percent change	**September 27, 2019**	September 28, 2018	Dollar change	Percent change
				(dollars in millions)				
Revenues	**$ 2,835**	$ 2,575	$ 260	10.1%	**$ 8,140**	$ 7,547	$ 593	7.9 %
Operating income	**249**	203	46	22.7%	**651**	561	90	16.0 %
Non-operating expense, net	**(35)**	(33)	(2)	6.1%	**(12)**	(101)	89	(88.1)%
Income before income taxes	**214**	170	44	25.9%	**639**	460	179	38.9 %
Income tax expense	**(52)**	(23)	(29)	126.1%	**(150)**	(66)	(84)	127.3 %
Net income	**$ 162**	$ 147	$ 15	10.2%	**$ 489**	$ 394	$ 95	24.1 %
Operating margin	***8.8%***	*7.9%*			***8.0%***	*7.4%*		
Net income attributable to Leidos common stockholders	**$ 161**	$ 147	$ 14	9.5%	**$ 486**	$ 393	$ 93	23.7 %

The increase in revenues in constant currency[(1)] for the three and nine months ended September 27, 2019, was 10.6% and 8.4%, as compared to an actual increase in revenues of 10.1% and 7.9%, respectively. The foreign currency impact was mainly attributable to adverse exchange rate movements in the British pound and Australian dollar when compared to the U.S. dollar.

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

Segment and Corporate Results

Defense Solutions	Three Months Ended September 27, 2019	September 28, 2018	Dollar change	Percent change	Nine Months Ended September 27, 2019	September 28, 2018	Dollar change	Percent change
	(dollars in millions)							
Revenues	**$ 1,354**	$ 1,250	$ 104	8.3%	**$ 3,967**	$ 3,701	$ 266	7.2%
Operating income	**93**	89	4	4.5%	**283**	273	10	3.7%
Operating margin	***6.9%***	*7.1%*			***7.1%***	*7.4%*		

The increase in revenues for the three months ended September 27, 2019, as compared to the three months ended September 28, 2018, was primarily attributable to new awards and a net increase in program volumes, partially offset by the completion of certain contracts.

The increase in revenues for the nine months ended September 27, 2019, as compared to the nine months ended September 28, 2018, was primarily attributable to new awards and a net increase in program volumes, partially offset by the completion of certain contracts, lower net profit write-ups in the current year and adverse exchange rate movements in the Australian dollar when compared to the U.S. dollar.

The increase in operating income for the three months ended September 27, 2019, as compared to the three months ended September 28, 2018, was primarily due to new awards and favorable program mix, partially offset by lower net profit write-ups in the current quarter.

The increase in operating income for the nine months ended September 27, 2019, as compared to the nine months ended September 28, 2018, was primarily due to new awards and lower amortization of intangibles, partially offset by lower net profit write-ups in the current year.

Civil	Three Months Ended September 27, 2019	September 28, 2018	Dollar change	Percent change	Nine Months Ended September 27, 2019	September 28, 2018	Dollar change	Percent change
	(dollars in millions)							
Revenues	**$ 973**	$ 881	$ 92	10.4 %	**$ 2,701**	$ 2,526	$ 175	6.9 %
Operating income	**57**	92	(35)	(38.0)%	**198**	221	(23)	(10.4)%
Operating margin	***5.9%***	*10.4%*			***7.3%***	*8.7%*		

The increase in revenues for the three months ended September 27, 2019, as compared to the three months ended September 28, 2018, was primarily attributable to new awards and a net increase in program volumes, partially offset by the impact of the sale of our commercial cybersecurity business and lower net profit write-ups in the current quarter.

The increase in revenues for the nine months ended September 27, 2019, as compared to the nine months ended September 28, 2018, was primarily attributable to new awards and a net increase in program volumes, partially offset by the impact of the sale of our commercial cybersecurity business, the completion of certain contracts, lower net profit write-ups in the current year and adverse exchange rate movements in the British pound when compared to the U.S. dollar.

The decrease in operating income for the three months ended September 27, 2019, as compared to the three months ended September 28, 2018, was primarily due to increased bad debt expense on certain international contracts and lower net profit write-ups in the current quarter.

The decrease in operating income for the nine months ended September 27, 2019, as compared to the nine months ended September 28, 2018, was primarily due to lower net profit write-ups in the current year and increased bad debt expense on certain international contracts, partially offset by lower amortization of intangibles and new awards.

Health	Three Months Ended September 27, 2019	September 28, 2018	Dollar change	Percent change	Nine Months Ended September 27, 2019	September 28, 2018	Dollar change	Percent change
	(dollars in millions)							
Revenues	**$ 508**	$ 444	$ 64	14.4%	**$ 1,472**	$ 1,320	$ 152	11.5%
Operating income	**63**	52	11	21.2%	**169**	162	7	4.3%
Operating margin	***12.4%***	*11.7%*			***11.5%***	*12.3%*		

The increase in revenues for the three and nine months ended September 27, 2019, as compared to the three and nine months ended September 28, 2018, was primarily attributable to a net increase in program volumes and new awards, partially offset by the completion of certain contracts and the impact of the sale of our health staff augmentation business.

The increase in operating income for the three months ended September 27, 2019, as compared to the three months ended September 28, 2018, was primarily attributable to favorable program mix.

The increase in operating income for the nine months ended September 27, 2019, as compared to the nine months ended September 28, 2018, was primarily attributable to favorable program mix, partially offset by reduced margins on awarded re-compete contracts.

	Three Months Ended				Nine Months Ended			
Corporate	**September 27, 2019**	September 28, 2018	Dollar change	Percent change	**September 27, 2019**	September 28, 2018	Dollar change	Percent change
	(dollars in millions)							
Operating income (loss)	**$ 36**	$ (30)	$ 66	*NM*	**$ 1**	$ (95)	$ 96	(101.1)%

NM - Not meaningful

The increase in operating income for the three months ended September 27, 2019, as compared to the three months ended September 28, 2018, was primarily attributable to the receipt of the Greek arbitration award and lower integration and restructuring costs.

The increase in operating income for the nine months ended September 27, 2019, as compared to the nine months ended September 28, 2018, was primarily attributable to the receipt of the Greek arbitration award, lower integration and restructuring costs and an asset impairment charge in the prior year.

Non-Operating Expense, net

Non-operating expense, net of $35 million for the three months ended September 27, 2019 was consistent with the non-operating expense, net of $33 million for the three months ended September 28, 2018.

Non-operating expense, net for the nine months ended September 27, 2019 was $12 million as compared to $101 million for the nine months ended September 28, 2018. The $89 million decrease was primarily due to the gain recognized on the sale of our commercial cybersecurity business.

Provision for Income Taxes

For the three months ended September 27, 2019, our effective tax rate was 24.3% compared to 13.5% for the three months ended September 28, 2018. The increase in the effective tax rate was primarily due to the recording of a valuation allowance related to foreign tax credits in the current quarter and a release of a valuation allowance related to the utilization of a capital loss carryforward in the prior year quarter.

For the nine months ended September 27, 2019, our effective tax rate was 23.5% compared to 14.3% for the nine months ended September 28, 2018. The increase in the effective tax rate was primarily due to the recording of a valuation allowance related to foreign tax credits and an increase in unrecognized tax benefits in the current year. Additionally, during the prior year, tax benefits were recognized related to the anticipated sale of our commercial cybersecurity business and the release of a valuation allowance related to the utilization of a capital loss carryforward.

Bookings and Backlog

We recorded net bookings worth an estimated $5.2 billion and $11.5 billion during the three and nine months ended September 27, 2019, respectively, as compared to $4.6 billion and $10.5 billion for the three and nine months ended September 28, 2018, respectively.

The estimated value of our total backlog was as follows:

	September 27, 2019	December 28, 2018
	(in millions)	
Defense Solutions:		
Funded backlog	**$ 2,700**	$ 2,821
Negotiated unfunded backlog	**8,682**	6,925
Total Defense Solutions backlog	**$ 11,382**	$ 9,746
Civil:		
Funded backlog	**$ 2,034**	$ 2,304
Negotiated unfunded backlog	**5,271**	5,045
Total Civil backlog	**$ 7,305**	$ 7,349
Health:		
Funded backlog	**$ 924**	$ 1,254
Negotiated unfunded backlog	**4,321**	2,483
Total Health backlog	**$ 5,245**	$ 3,737
Total:		
Funded backlog	**$ 5,658**	$ 6,379
Negotiated unfunded backlog	**18,274**	14,453
Total backlog	**$ 23,932**	$ 20,832

The decrease in backlog within the Civil segment was primarily due to $154 million related to the sale of our commercial cybersecurity business in the first quarter of 2019.

Backlog represents the estimated amount of future revenues to be recognized under negotiated contracts, both funded and unfunded. Backlog does not include unexercised option periods and future potential task orders expected to be awarded under indefinite delivery/indefinite quantity ("IDIQ") contracts 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. 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 September 27, 2019, we had $635 million in cash and cash equivalents. In addition, we have a secured revolving credit facility which can provide up to $750 million in additional borrowing, if required. As of September 27, 2019, there were no borrowings outstanding under the credit facility and we were in compliance with related financial covenants.

At September 27, 2019, and December 28, 2018, we had outstanding debt of $3.0 billion and $3.1 billion, respectively. We made principal payments on our long-term debt of $2 million and $50 million during the three and nine months ended September 27, 2019, respectively, and $15 million and $59 million during the three and nine months ended September 28, 2018, respectively. This activity included principal payments on our senior secured term loans of $41 million during the nine months ended September 27, 2019 and $15 million and $46 million during the three and nine months ended September 28, 2018, respectively. There were no principal payments on our senior secured term loans for the quarter ended September 27, 2019. In April 2018, we made a required debt prepayment of $10 million on our senior secured term loans. The prepayment was a result of the annual excess cash flow calculation clause in our credit agreements. The notes outstanding as of September 27, 2019, contain financial covenants and customary restrictive covenants. We were in compliance with all covenants as of September 27, 2019.

We paid dividends of $101 million during the nine months ended September 27, 2019, and $48 million and $151 million during the three and nine months ended September 28, 2018, respectively. Our quarterly dividend for the three months ended September 27, 2019, was paid on September 30, 2019.

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

Summary of Cash Flows

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

	Three Months Ended		Nine Months Ended	
	September 27, 2019	September 28, 2018	**September 27, 2019**	September 28, 2018
	(in millions)			
Net cash provided by operating activities	**$ 349**	$ 371	**$ 823**	$ 664
Net cash (used in) provided by investing activities	**(102)**	15	**119**	(94)
Net cash used in financing activities	**(204)**	(134)	**(565)**	(417)
Net increase in cash, cash equivalents and restricted cash	**$ 43**	$ 252	**$ 377**	$ 153

Net cash provided by operating activities decreased $22 million for the three months ended September 27, 2019, when compared to the prior year quarter, primarily due to $60 million of proceeds received from the termination of interest rates swaps in the prior year quarter, the prefunding of our quarterly dividend and higher tax payments. These activities were partially offset by more favorable timing of working capital changes and $59 million received for the Greek arbitration award.

Net cash provided by operating activities increased $159 million for the nine months ended September 27, 2019, when compared to the prior year, primarily due to more favorable timing of working capital changes, $59 million received for the Greek arbitration award, lower payments for integration and restructuring costs and $24 million of cash paid in the prior year related to our 2016 acquisition. These activities were partially offset by higher tax payments, $60 million of proceeds received from the termination of interest rates swaps in the prior year and the prefunding of our quarterly dividend.

Net cash used in investing activities increased $117 million for the three months ended September 27, 2019, when compared to the prior year quarter, primarily due to $94 million of cash paid related to the acquisition of IMX and $40 million of proceeds received from the settlement of a promissory note in the prior year quarter, partially offset by $12 million of net proceeds received for the divestiture of our health staff augmentation business.

Net cash provided by investing activities increased $213 million for the nine months ended September 27, 2019, when compared to the prior year, primarily due to $183 million of proceeds received for the dispositions of our commercial cybersecurity and health staff augmentation businesses, $96 million of proceeds received for the sale of real estate properties and $81 million of cash paid in the prior year related to our 2016 acquisition. These activities were partially offset by $94 million of cash paid related to the acquisition of IMX, $40 million of proceeds from the settlement of a promissory note in the prior year quarter and higher purchases of equipment and software.

Net cash used in financing activities increased $70 million for the three months ended September 27, 2019, when compared to the prior year quarter, primarily due to a $137 million increase in stock repurchases, partially offset by the timing of dividend and debt payments.

Net cash used in financing activities increased $148 million for the nine months ended September 27, 2019, when compared to the prior year, primarily due to a $248 million increase in stock repurchases, partially offset by the timing of dividend payments and $23 million of cash paid related to a tax indemnification in the prior year.

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 21–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 20–Contingencies" and "Note 21–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 December 28, 2018. However, we revised our significant accounting policies for the adoption of Accounting Standards Update 2016-02 (see "Note 3–Significant Accounting Policies").

Recently Adopted and Issued Accounting Standards

For a discussion of these items, see "Note 2–Accounting Standards" of the notes to the condensed consolidated financial statements contained within this Quarterly Report on Form 10-Q.

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

There were no material changes in our market risk exposure from those discussed in our Annual Report on Form 10-K for the year ended December 28, 2018.

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 September 27, 2019. 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

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 20–Contingencies" of the notes to the condensed consolidated financial statements contained within this Quarterly Report on Form 10-Q.

Item 1A. *Risk Factors.*

There were no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 28, 2018.

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

(a) None

(b) None

(c) Purchases of Equity Securities by the Company

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 September 27, 2019:

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
June 29, 2019 - June 30, 3019	—	$ —	—	10,349,982
July 1, 2019 - July 31, 2019	1,847	79.56	—	10,349,982
August 1, 2019 - August 31, 2019	1,950,440	84.25	1,948,842	8,401,140
September 1, 2019 - September 27, 2019	430,814	84.29	424,885	7,976,255
Total	2,383,101	$ 84.25	2,373,727	

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

Item 3. *Defaults Upon Senior Securities.*

None.

Item 4. *Mine Safety Disclosures.*

Not applicable.

Item 5. *Other Information.*

None.

Item 6. ***Exhibits.***

Exhibit Number	Description of Exhibit
10.1	Amended and Restated Executive Severance Plan.
31.1	Certification of Chairman and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of 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.

LEIDOS HOLDINGS, INC.

SIGNATURES

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

Date: October 29, 2019

Leidos Holdings, Inc.

/s/ James C. Reagan

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

LEIDOS HOLDINGS, INC.
Executive Severance Plan

Effective July 25, 2019

Establishment of Plan and Purpose.

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

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

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

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

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

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

(b) the Eligible Employee willfully engages in illegal conduct or gross misconduct that is significantly injurious to the Company, including an Eligible Employee's material breach of his or her obligations under any written Company policy, including any code of ethics or conduct, which is not cured, if curable, within ten (10) days after the Company notifies

Eligible Employee of such breach; however, no act or failure to act on the Eligible Employee's part shall be considered "willful" unless done or omitted to be done by the Eligible Employee not in good faith and without reasonable belief that his or her action or omission was in the best interest of the Company, or

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

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

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

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

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

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

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

Notwithstanding the foregoing, the term Eligible Officer shall include any other Eligible Employee designated by the Compensation Committee as eligible for benefits under Appendices A and/or B of the Plan.

"Eligible Employee" means an individual who meets the criteria set forth in both subsections (a) and (b) below:

(a) Is an active, full-time employee of the Company; and

(b) Is (i) an Eligible Officer, as defined above, who meets the additional eligibility criteria set forth in Appendices A or B, or (ii) as of the date of Notice of Termination is in a job code that is mapped to the "Executive" Career Stream, levels E1 or E2, but is not an Eligible Officer and meets the additional eligibility criteria set forth in Appendix C.

"Executive Layoff Event" means the termination of Employment of an Eligible Employee that is (i) initiated by the Company (including under a separation window program offered by the Company that incorporates the terms of this Plan or a portion thereof and that meets the applicable exception from Code section 409A and the accompanying Treasury Regulations) for reasons other than for Cause, or (ii) is initiated by an Eligible Officer for Good Reason; and (iii) is designated by the CHRO as an Executive Layoff Event.

Notwithstanding the foregoing, an Executive Layoff Event can only be initiated by an Eligible Employee for Good Reason under Appendix B of this Plan (benefits for Eligible Officers after a Change in Control of the Company).

"Full Release" means the written Release of All Claims and Potential Claims set forth in Appendix D of the Plan. The Company must have obtained a Full Release, timely executed so that it is fully effective as of the date of payment pursuant to the relevant Plan Appendix, as a condition to payment of benefits under the Plan.

"Notice of Termination" means a written notice from the Company to the Eligible Employee of the termination of the Eligible Employee's employment which indicates the specific termination provision in this Plan relied upon and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Eligible Employee's employment under the provision so indicated. For purposes of this Plan, no such purported termination will be effective without a Notice of Termination.

"Person" has the meaning as defined in Section 3(a)(9) of the Securities Exchange Act and used in Section 13(d) or 14(d) of the Securities Exchange Act, and will include any "group" as such term is used in such sections.

"Pro Rata Bonus" means:

(a) For Eligible Officers eligible for benefits described in Appendix A, the bonus based on the target annual cash incentive established by the Compensation Committee for the year in which the Termination Date occurs (or the target annual bonus established by the Compensation Committee for the most recently completed fiscal year if the Termination Date occurs prior to the establishment of an annual target bonus for the fiscal year in which the Termination Date occurs) with the payout amount calculated based only on the financial performance results (no personal performance) multiplied by a fraction, the numerator of which is the number of days elapsed in the then fiscal year through and including the Termination Date and the denominator of which is the number of days in the Company's fiscal year.

(b) For Eligible Officers eligible for benefits described in Appendix B, the bonus based on the target annual cash incentive established by the Compensation Committee for the year in which the Termination Date occurs (or the target annual bonus established by the Compensation Committee for the most recently completed fiscal year if the Termination Date occurs prior to the establishment of an annual target bonus for the fiscal year in which the Termination Date occurs) (no financial or personal performance) multiplied by a fraction, the numerator of which is the number of days elapsed in the then fiscal year through and including the Termination Date and the denominator of which is the number of days in the Company's fiscal year.

(c) For Executives eligible for benefits described in Appendix C, the bonus based on the target annual cash incentive established by the Company under the Executive Incentive Plan for the year in which the Termination Date occurs (or the target annual bonus established by the Compensation Committee for the most recently completed fiscal year if the Termination Date occurs prior to the establishment of an annual target bonus for the fiscal year in which the Termination Date occurs), with the payout amount calculated based only on the financial performance results (no personal performance) multiplied by a fraction, the numerator of which is the number of days elapsed in the then fiscal year through and including the Termination Date and the denominator of which is the number of days in the Company's fiscal year.

"Securities Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Subsidiary" means any corporation with respect to which another specified corporation has the power under ordinary circumstances to vote or direct the voting of sufficient securities to elect a majority of the directors.

"Successor" means a corporation or other entity acquiring all or substantially all the assets and business of the Company, whether by operation of law, by assignment or otherwise.

"Termination Date" means:

(a) in the case of the Eligible Employee's death, the Eligible Employee's date of death,

(b) in the case of the termination of the Eligible Officer's employment with the Company by the Eligible Officer for Good Reason, the date the Company's 30-day cure period expires if the Company has failed to cure the applicable Good Reason event, or

(c) in all other cases, the date specified in the Notice of Termination.

Notwithstanding anything to the contrary herein, to the extent necessary to comply with Code Section 409A, an Eligible Employee's employment shall be considered to have terminated if the Eligible Employee has experienced a "separation from service," as defined in Code Section 409A and the regulations thereunder.

SECTION 2.*Administration of Plan; Amendment and Termination*

2.1. This Plan shall be administered by the Administrator.

2.2. The Administrator has the power and authority to amend and/or terminate the Plan, and to interpret Plan provisions and develop administrative procedures, policies and guidance to aid it in the operation of the Plan. However, the Administrator is required to provide one hundred and eighty (180) days advance written notice to Eligible Employees before terminating the Plan, and is required to provide ninety (90) days written notice to Eligible Employees before amending the Plan in a way which would adversely impact their rights or benefits under the Plan. The Administrator may at any time "freeze" the Plan and not allow new Eligible Employees to participate after a particular date. Notwithstanding the foregoing, the Administrator may not terminate the Plan or take any adverse action that would take effect during the period of time beginning 3 months prior to the Change in Control, and ending 24 months following a Change in Control, as that term is defined in Appendix B.

2.3. With respect to responsibilities for (a) amending or terminating the Plan, (b) or interpreting the provisions in Appendices A and B relating to Eligible Officers, or prescribing, revising or rescinding any rules or guidance relating to the benefits under Appendices A and B, the Administrator shall be the Compensation Committee or its delegate. With respect to interpreting the provisions in Appendix C, including determinations of eligibility, or prescribing, revising or rescinding any rules or guidance relating to the benefits provided under Appendix C, the Administrator shall be the Chief Executive Officer or his/her delegate.

2.2 All decisions of the Administrator shall be final and binding upon all Participants.

SECTION 3.*Benefits*

3.1 Executive Layoff Events. If the Eligible Employee's termination of employment with the Company meets the definition of an Executive Layoff Event as defined in this Plan, the Eligible Employee shall be entitled to the benefits described in Appendices A, B or C of this Plan, provided they meet the additional eligibility criteria set forth in the applicable Appendix.

3.2 Other Terminations. If the Eligible Employee's employment with the Company is terminated (i) by the Company for Cause or Disability, (ii) by reason of the Eligible Employee's death or (iii) by an Eligible Officer other than for Good Reason, the Company will pay to the Eligible Employee the Accrued Compensation only. If such termination is by the Company for Disability, or by reason of the Eligible Employee's death, the Company will also pay a Pro Rata Bonus.

3.3 No Duty to Mitigate. The Eligible Employee will not be required to mitigate the amount of any payment provided for in this Plan by seeking other employment or otherwise, and no such payment will be offset or reduced by the amount of any compensation or benefits provided to the Eligible Employee in any subsequent employment, except as specifically provided in the applicable Appendix.

3.4 Exclusivity of Benefits. Except as otherwise noted herein, the compensation to be paid to the Eligible Employee in accordance with this Section 3 and pursuant to the applicable Appendix will be in lieu of any similar severance or termination compensation (i.e., compensation based directly on the Eligible Employee's annual or weekly rate of salary or annual salary and bonus or statutory severance to which the Eligible Employee is entitled) to which the Eligible Employee may be entitled under any other Company severance or termination Plan, plan, program, policy, practice or arrangement. The Eligible Employee's entitlement to any compensation or benefits of a type not provided in this Plan will be determined in accordance with the Company's employee benefit plans and other applicable programs, policies and practices as in effect from time to time.

SECTION 4. ***Excise Tax Adjustments***.

4.1 In the event that an Eligible Officer who is an Eligible Employee becomes entitled to receive the benefits provided in Appendix B (Executive Layoff Event after a Change in Control of the Company), and the Company determines that such benefits (the "Total Payments") will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code, or any similar tax that may hereafter be imposed, the Company shall compute the "Net After-Tax Amount," and the "Reduced Amount," and shall adjust the Total Payments as described below. The Net After-Tax Amount shall mean the present value of all amounts payable to the Eligible Employee hereunder, net of all federal income, excise and employment taxes imposed on the Eligible Employee by reason of such payments. The Reduced Amount shall mean the largest aggregate amount of the Total Payments that if paid to the Eligible Employee would result in the Eligible Employee receiving a Net After-Tax Amount that is equal to or greater than the Net After-Tax Amount that the Eligible Employee would have received if the Total Payments had been made. If the Company determines that there is a Reduced Amount, the Total Payments will be reduced to the Reduced Amount. Such reduction to the Total Payments shall be made by first reducing or eliminating any cash severance benefits, then by reducing or eliminating any accelerated vesting of stock options where the value of the underlying share of Leidos Holding, Inc. common stock is less than the exercise or strike price of the option ("underwater options"), then by reducing or eliminating any accelerated vesting of options that are not underwater options, then by reducing or eliminating any accelerated vesting of other equity awards, then by reducing or eliminating any other remaining Total Payments, in each case in reverse order beginning with the payments which are to be paid the farthest in time from the date of the transaction triggering the Excise Tax.

4.2 For purposes of determining whether the Total Payments will be subject to the Excise Tax and the amounts of such Excise Tax and for purposes of determining the Reduced Amount and the Net After-Tax Amount:

(a) Any other payments or benefits received or to be received by the Eligible Employee in connection with a Change in Control of the Company or the Eligible Employee's termination of employment (whether pursuant to the terms of this Plan or any other plan, arrangement, or Plan with the Company, or with any individual, entity, or group of individuals or entities (individually and collectively referred to in this subsection (a) as "Persons") whose actions result in a change in control of the Company or any Person affiliated with the Company or such Persons) shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) of the Code shall be treated as subject to the Excise Tax, unless in the opinion of a tax advisor selected by the Company and reasonably acceptable to the Eligible Employee ("Tax Counsel"), such other payments or benefits (in whole or in part) should be treated by the courts as representing reasonable compensation for services actually rendered (within the meaning of Section 280G(b)(4)(B) of the Code), or otherwise not subject to the Excise Tax;

(b) The amount of the Total Payments that shall be treated as subject to the Excise Tax shall be equal to the lesser of (i) the total amount of the Total Payments; or (ii) the amount of excess parachute payments within the meaning of Section 280G(b)(1) of the Code (after applying clause (a) above);

(c) In the event that the Eligible Employee disputes any calculation or determination made by the Company, the matter shall be determined by Tax Counsel, the fees and expenses of which shall be borne solely by the Company; and

(d) The Eligible Employee shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Change in Control of the Company occurs, and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Eligible Employee's residence on the effective date of the Change in Control of the Company, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes, taking into account the reduction in itemized deduction under Section 68 of the Code.

SECTION 5. ***Covenants of the Eligible Employee***. As a condition to receiving the benefits described in Appendices A, B and C (as applicable), the Eligible Employee must sign and comply with a form of Post-Employment Conduct Agreement as acceptable to the Company, and attached to this Plan as Appendix E.

SECTION 6. ***Successors; Binding Plan***.

This Plan will be binding upon and will inure to the benefit of the Company and its Successors, and the Company will require any Successors to expressly assume and agree to perform this Plan in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Neither this Plan nor any right or interest hereunder will be assignable or transferable by the Eligible Employee or by the Eligible Employee's beneficiaries or legal representatives, except by will or by the laws of descent and distribution.

SECTION 7. ***Fees and Expenses of Eligible Officers***.

The Company will pay as promptly as practicable all reasonable legal fees and related expenses (including the reasonable costs of experts) incurred by Eligible Officers, as defined in the Plan, who in good faith, seek to obtain or enforce any right or benefit provided by this Plan, provided that the Eligible Officer prevails on a least one material claim.. If the dispute is resolved by a final decision of an arbitrator pursuant to Section 13 in the favor of the Company, the Eligible Employee shall reimburse the Company for all such legal fees and related expenses (including costs of experts) paid by the Company on behalf of the Eligible Employee. To the extent necessary to comply with Code Section 409A, any reimbursements pursuant to this Section 7 shall be paid to the Eligible Employee on or before the last day of the Eligible Employee's taxable year following the taxable year in which the related expense was incurred. Such reimbursements are not subject to liquidation or exchange for another benefit and the amount of such benefits and reimbursements that the Eligible Employee receives in one taxable year shall not affect the amount of such benefits or reimbursements that the Eligible Employee receives in any other taxable year.

SECTION 8. ***Notice***.

For the purposes of this Plan, notices and all other communications provided for in the Plan (including the Notice of Termination) will be in writing and will be deemed to have been duly given (i) when personally delivered, (ii) upon acknowledgment of receipt when sent by e-mail or other electronic transmission (excluding acknowledgements generated automatically without an affirmative act by the recipient), or (iii) when sent by certified mail, return receipt requested, postage prepaid, addressed to the respective addresses last given by each party to the other, provided that all notices to the Company will be directed to the attention of the Board with a copy to the Secretary of the Company. All notices and communications will be deemed to have been received on the date of delivery thereof or on the third business day after the mailing thereof, except that notice of change of address will be effective only upon receipt.

SECTION 9.***Nonexclusivity of Rights***.

Nothing in this Plan will prevent or limit the Eligible Employee's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Company for which the Eligible Employee may qualify, nor will anything herein limit or reduce such rights as the Eligible Employee may have under any other Plans with the Company (except for any severance or termination Plan). Amounts which are vested benefits or which the Eligible Employee is otherwise entitled to receive under any plan or program of the Company will be payable in accordance with such plan or program, except as specifically modified by this Plan.

SECTION 10. ***No Set-Off***.

The Company's obligation to make the payments provided for in this Plan and otherwise to perform its obligations hereunder will not be affected by any circumstances, including any right of set-off, counterclaim, recoupment, defense or other right which the Company may have against the Eligible Employee or others. Notwithstanding the foregoing, the Company has the unilateral right to offset the payment of benefits under this Plan against amounts due from the Eligible Employee under the Company's clawback/recoupment policy as in effect from time to time.

SECTION 11. ***Miscellaneous***.

No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Plan to be performed by such other party will be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreement or representation, oral or otherwise, express or implied, with respect to the subject matter hereof has been made by either party which is not expressly set forth in this Plan.

SECTION 12. ***Governing Law and Binding Arbitration***.

The Plan shall be governed by the substantive laws (excluding the conflict of laws rules) of the State of Virginia. All disputes relating to this Plan and attached restrictive covenants, including its enforceability, shall be resolved by final and binding arbitration before an arbitrator appointed by, and in accordance with the rules and procedures of arbitration of, the Judicial Arbitration and Mediation Service (JAMS), with the arbitration to be held in Fairfax County, Virginia. Judgment upon the award may be entered in any court having jurisdiction thereof.

SECTION 13. ***Code Section 409A***.

It is intended that any amounts payable under this Plan shall either be exempt from or comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) ("**Code Section 409A**") so as not to subject the Eligible Employee to payment of any interest or additional tax imposed under Code Section 409A. To the extent that any amount payable under this Plan would trigger the additional tax, penalty or interest imposed by Code Section 409A, this Plan shall be modified to avoid such additional tax, penalty or interest yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Eligible Employee. If the Eligible Employee is a "specified employee" within the meaning of Treasury Regulation Section 1.409A-1(i) as of the Termination Date, the Eligible Employee shall not be entitled to any payment or benefit pursuant to the applicable Plan Appendix until the earlier of (i) the date which is six months after the Termination Date, or (ii) the date of the Eligible Employee's death. The provisions of this Section 13 shall only apply if, and to the extent, required to avoid the imputation of any tax, penalty or interest pursuant to Code Section 409A. Any amounts otherwise payable to the Eligible Employee upon or in the six month period following the Eligible Employee's Termination Date that are not so paid by reason of this Section 13 shall be paid (without interest) as soon as practicable (and in all events within five days) after the date that is six months after the Eligible Employee's Termination Date (or, if earlier, as soon as practicable, and in all events within five days, after the date of the Eligible Employee's death).

Appendix A

Schedule of Benefits for Eligible Officers
Executive Layoff Event

A.I. Eligibility. Only Eligible Officers who meet each of the additional eligibility requirements set forth in subsections A.I.1 to A.I.6 below are eligible to receive the benefits described in Section A.II:

A.I.1. The Eligible Officer is an Eligible Employee, as defined in the Plan, and is not classified as "part-time" or a "consulting employee." Part-time and consulting employees are not eligible for benefits under the Plan.

A.I.2. The Eligible Officer is not covered by another plan, program, agreement, contract or arrangement providing severance or similar benefits on account of termination of employment.

A.I.3. The Eligible Officer has not waived coverage under the Plan.

A.I.4. The Company has communicated by a Notice of Termination its intention to terminate the Eligible Officer's employment.

A.I.5. The Notice of Termination referenced in Section A.I.4 must specify that the termination has been determined to be an Executive Layoff Event.

A.I.6. The Eligible Officer must execute a Full Release and a Post-Employment Conduct Agreement or "PECA" (by which the Eligible Officer agrees to comply with certain restrictive covenants for a period of 12 months) as a condition to receiving all benefits described in Section A.II of the Plan except "Accrued Compensation" under Section A.II.1 below. The language of the PECA may vary by state and other applicable standards and requirements and may be modified with the approval of the General Counsel or his/her designee

A.II. Severance Benefits. Eligible Officers who meet the eligibility requirements set forth in the subsections of A.I. above are eligible to receive the following benefits from the Company:

A.II.1. all Accrued Compensation and a Pro Rata Bonus;

A.II.2. a single lump sum cash payment in an amount equal to one (1) times the Eligible Officer's Base Salary Amount. The "Base Salary Amount" means the Eligible Employee's annual base salary at the rate in effect on the Notice of Termination date;

A.II.3. a single lump sum cash payment equal to the cost of employee premiums for twelve (12) months of continuation coverage under the medical, dental and vision plans sponsored by the Company that the Eligible Officer and the Eligible Officer's dependents are enrolled in as of the Termination Date. The employee premiums shall be calculated as the cost of continuation coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA").

Other than continuation coverage under COBRA (with the cost to be paid by the Eligible Officer), no other insurance type benefits or continuation of coverage shall be offered to the Eligible Officer, in lieu of or in addition to these benefits. The Eligible Officer will be responsible for the payment of any taxes related to the single lump sum cash payment under this Section A.II.3, and the Company will provide no amount to the Eligible Officer for the gross-up of any such taxes;

A.II.4. outplacement services suitable to the Eligible Officer's position for a period of six months or, if earlier, until the first acceptance by the Eligible Officer of an offer of employment; and

A.II.5. any such other acceleration of vesting and other benefits as provided in other Company plans or Plans regarding options to purchase Company stock, restricted stock, deferral of stock or other equity compensation awards granted to or otherwise applicable to the Eligible Officer.

The payments calculated under Sections A.II.2 and A.II.3 shall be made within 55 days after the Termination Date, provided that such payment will be made no later than the last date to be considered a short-term deferral of compensation within the meaning of Treasury Regulation Section 1.409A-1(a)(4). No right to in-kind benefits, such as the outplacement services in section A.II.4, may be subject to liquidation or exchange for any other benefit.

Appendix B

Schedule of Benefits for Eligible Officers
Executive Layoff Event after a Change in Control

The Company recognizes that the possibility of a Change in Control of the Company exists and that the threat of or occurrence of a Change in Control may result in the distraction of its Eligible Officers because of the uncertainties inherent in such a situation relating to the Eligible Officers employment. Furthermore, the Company seeks to retain the services of its Eligible Officers in the event of the threat or occurrence of a Change in Control and to ensure the continued dedication and efforts of such Officers without undue concern for their personal financial and employment security.

Therefore, the Company has determined that it is essential and in the best interests of the Company and its stockholders to approve a separate set of benefits, as set forth in Appendix B, to be paid in the case of an Executive Layoff Event for an Eligible Officer that occurs within three months prior to or within 24 months following a Change in Control.

Such benefits as described in Appendix B of the Plan shall be paid in lieu of and not in addition to the benefits set forth in Appendix A of the Plan.

Definitions. For purposes of this Appendix B, the following terms when capitalized shall have the meaning set forth below:

"Beneficial Owner" has the meaning as used in Rule 13d-3 promulgated under the Securities Exchange Act. The terms "Beneficially Owned" and "Beneficial Ownership" each have a correlative meaning.

"Bonus Amount" means the target annual cash incentive amount established for the Eligible Officer by the Compensation Committee with respect to the fiscal year in which the Termination Date occurs (or the actual annual cash incentive paid or payable in respect of the most recently completed fiscal year if the Termination Date occurs prior to the establishment of an annual target incentive for the fiscal year in which the Termination Date occurs). The Bonus Amount refers specifically to the annual cash incentive at target (no personal or financial performance factors shall be applied) and excludes equity incentives such as restricted stock awards, performance shares, stock options or other long-term incentive compensation awarded to the Eligible Officer.

"Change in Control" of the Company means, and shall be deemed to have occurred upon, any of the following events:

(a) The acquisition by any Person of Beneficial Ownership of twenty-five percent (25%) or more of the outstanding voting power; provided, however, that the following acquisitions shall not constitute a Change in Control for purposes of this subparagraph (a): (A) any acquisition directly from the Company; (B) any acquisition by the Company or any of its Subsidiaries; (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its Subsidiaries; or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subparagraph (c) below; or

(b) Individuals who at the beginning of any two year period constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual who becomes a director of the Company during such two year period and whose election, or whose nomination for election by the Company's stockholders, to the Board was either (i) approved by a vote of at least a majority of the directors then comprising the Incumbent Board or (ii) recommended by a nominating committee comprised entirely of directors who are then Incumbent Board members shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act), other actual or threatened solicitation of proxies or consents or an actual or threatened tender offer; or

(c) Consummation of a reorganization, merger, or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case unless following such Business Combination, (i) all or substantially all of the Persons who were the Beneficial Owners, respectively, of the outstanding shares and outstanding voting securities immediately prior to such Business Combination own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the Company, as the case may be, of the entity resulting from the Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the outstanding voting securities (provided, however, that for purposes of this clause (i) any shares of common stock or voting securities of such resulting entity received by such Beneficial Owners in such Business Combination other than as the result of such Beneficial Owners' ownership of outstanding shares or outstanding voting securities immediately prior to such Business Combination shall not be considered to be owned by such Beneficial Owners for the purposes of calculating their percentage of ownership of the outstanding common stock and voting power of the resulting entity); (ii) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such entity resulting from the Business Combination) beneficially owns, directly or indirectly, twenty-five percent (25%) or more of the combined voting power of the then outstanding voting securities of such entity resulting from the Business Combination unless such Person owned twenty-five percent (25%) or more of the outstanding shares or outstanding voting securities immediately prior to the Business Combination; and (iii) at least a majority of the members of the Board of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial Plan, or the action of the Board, providing for such Business Combination; or

(d) Approval by the Company's stockholders of a complete liquidation or dissolution of the Company.

For purposes of clause (c), any Person who acquires outstanding voting securities of the entity resulting from the Business Combination by virtue of ownership, prior to such Business Combination, of outstanding voting securities of both the Company and the entity or entities with which the Company is combined shall be treated as two Persons after the Business Combination, who shall be treated as owning outstanding voting securities of the entity resulting from the Business Combination by virtue of ownership, prior to such Business Combination of, respectively, outstanding voting securities of the Company, and of the entity or entities with which the Company is combined.

"Good Reason" means the occurrence of any of the events or conditions described in clauses (a) through (f) hereof, without the Eligible Officer's prior written consent:

(a) any material adverse change in the Eligible Officer's authority, duties or responsibilities (including reporting responsibilities) from the Eligible Officer's authority, duties or responsibilities as in effect at any time within 90 days preceding the date of the Change in Control or at any time thereafter, or (ii) in the case of an Eligible Officer who is an Eligible Officer of the Company a significant portion of whose responsibilities relate to the Company's status as a public company, the failure of such Eligible Officer to continue to serve as an Eligible Officer of a public company, in each case except in connection with the termination of the Eligible Officer's employment for Disability, Cause, as a result of the Eligible Officer's death or by the Eligible Officer other than for Good Reason;

(b) a material reduction in Eligible Officer's base salary or any failure to pay the Eligible Officer any cash compensation to which the Eligible Officer is entitled within 15 days after the date when due;

(c) the imposition of a requirement (other than for reasonably required travel on Company business which is not materially greater in frequency or duration than prior to the Change in Control) that the Eligible Officer be based (i) at any place outside a 50-mile radius from the Eligible Officer's principal place of employment immediately prior to the Change in Control and which has a material adverse effect on the Eligible Officer's commuting requirements, or (ii) at any location other than the Company's corporate headquarters or, if applicable, the headquarters of the business unit by which he or she was employed immediately prior to the Change in Control, and which has a material adverse effect on the Eligible Officer's commuting requirements;

(d) any material breach by the Company of any provision of this Plan;

(e) any purported termination of the Eligible Officer's employment for Cause by the Company which does not comply with the definition in this Plan; or

(f) the failure of the Company to obtain, as contemplated in Section 6, agreement from any Successor to assume the obligations and liabilities under this Plan.

Notwithstanding anything to the contrary in this Plan, no termination will be deemed to be for Good Reason hereunder unless (i) the Eligible Officer provides written notice to the Company identifying the applicable event or condition within 120 days of the occurrence of the event or the initial existence of the condition, and (ii) the Company fails to remedy the event or condition within a period of 30 days following such notice.

B.I. Eligibility. Only Eligible Officers who meet each of the additional eligibility requirements set forth in subsections B.I.1 to B.I.6 below are eligible to receive the benefits d I escribed in Section B.II:

B.I.1. The Eligible Officer is an Eligible Officer, as defined in the Plan, and is not classified as "part-time" or a "consulting employee." Part-time and consulting employees are not eligible for benefits under the Plan.

B.I.2. The Eligible Officer is not covered by another plan, program, agreement, contract or arrangement providing severance or similar benefits on account of termination of employment.

B.I.3. The Eligible Officer has not waived coverage under the Plan.

B.I.4. The Company has communicated by a Notice of Termination its intention to terminate the Eligible Officer's employment, or the Eligible Officer terminates for Good Reason. Eligible

B.I.5. If applicable, the Notice of Termination referenced in Section A.I.4 must specify that the termination has been determined to be an Executive Layoff Event.

B.I.6. The Eligible Officer must execute a Full Release and a Post-Employment Conduct Agreement or "PECA" (by which the Eligible Officer agrees to comply with certain restrictive covenants for a period of 18 months) as a condition to receiving all benefits described in Section B.II of the Plan, except for "Accrued Compensation" under Section B.II.1 below. The language of the PECA may vary by state and other applicable standards and requirements and may be modified with the approval of the General Counsel or his/her designee.

B.II. Severance Benefits. Eligible Officers who meet the eligibility requirements set forth in the subsections of B.I. above are eligible to receive the following benefits from the Company:

B.II.1. all Accrued Compensation and a Pro Rata Bonus;

B.II.2. a single lump sum cash payment in an amount equal to one and one-half (1 ½) times the sum of (A) the Base Salary Amount and (B) the Bonus Amount. The Base Salary Amount means the greater of the Eligible Officer's annual base salary (a) at the rate in effect on the Termination Date, or (b) at the highest rate in effect at any time during the 180-day period prior to a Change in Control, and will include all amounts of the Eligible Officer's base salary that are deferred under any qualified or non-qualified employee benefit plan of the Company or any other Plan or arrangement. ;

B.II.3. a single lump sum cash payment equal to the cost of employee premiums for eighteen (18) months of continuation coverage under the medical, dental and vision plans sponsored by the Company that the Eligible Officer and the Eligible Officer's dependents are enrolled in as of the date of Termination. The employee premiums shall be calculated as the cost of continuation coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA").

Other than continuation coverage under COBRA (with the cost to be paid by the Eligible Officer), no other insurance type benefits or continuation of coverage shall be offered to the Eligible Officer, in lieu of or in addition to these benefits. The Eligible Officer will be responsible for the payment of any taxes related to the single lump sum cash payment under this Section A.II.3, and the Company will provide no amount to the Eligible Officer for the gross-up of any such taxes;

B.II.4. outplacement services suitable to the Eligible Officer's position for a period of 12 months or, if earlier, until the first acceptance by the Eligible Officer of an offer of employment; and

B.II.5. any such other acceleration of vesting and other benefits as provided in other Company plans or Plans regarding options to purchase Company stock, restricted stock, deferral of stock or other equity compensation awards granted to or otherwise applicable to the Eligible Officer.

The payments calculated under Sections B.II.2 and B.II.3 shall be made within 55 days after the Termination Date, provided that such payment will be made no later than the last date to be considered a short-term deferral of compensation within the meaning of Treasury Regulation Section 1.409A-1(a)(4). No right to in-kind benefits, such as the outplacement services in section B.II.4, may be subject to liquidation or exchange for any other benefit.

Appendix C

Schedule of Benefits for Executives
Executive Layoff Event

C.I. Eligibility. Only Executives who meet each of the additional eligibility requirements set forth in subsections C.I.1 to C.I.6 below are eligible to receive the benefits described in Section C.II:

C.I.1. The Executive is not classified as "part-time" or a "consulting employee." Part-time and consulting employees are not eligible for benefits under the Plan.

C.I.2. The Executive is not covered by another plan, program, agreement, contract or arrangement providing severance or similar benefits on account of termination of employment.

C.I.3. The Executive has not waived coverage under the Plan.

C.I.4. The Company has communicated by a Notice of Termination its intention to terminate the Executive's employment.

C.I.5. The Notice of Termination referenced in Section C.I.4 must specify that the termination has been determined to be an Executive Layoff Event.

C.I.6. The Executive must execute a Full Release and a Post-Employment Conduct Agreement or "PECA" (by which the Executive agrees to comply with certain restrictive covenants for a period of 6 months as a condition to receiving all benefits described in Section C.II of the Plan, except for "Accrued Compensation" under Section C.II.1 below. The language of the PECA may vary by state and other applicable standards and requirements and may be modified with the approval of the General Counsel or his/her designee.

C.II. Severance Benefits. Executives who meet the eligibility requirements set forth in the subsections of C.I. above are eligible to receive the following benefits from the Company:

C.II.1. all Accrued Compensation and a Pro Rata Bonus;

C.II.2. a single lump sum cash payment in an amount equal to twenty-six (26) weeks of base salary, as determined by Leidos payroll as of the date of Notice of Termination;

C.II.3. outplacement services suitable to the Executive's position for a period of 6 months or, if earlier, until the first acceptance by the Executive of an offer of employment; and

C.II.4. any such other acceleration of vesting and other benefits provided in other Company plans or Plans regarding options to purchase Company stock, restricted stock, deferral of stock or other equity compensation awards granted to or otherwise applicable to the Executive.

The payments calculated under Sections C.II.2 shall be made within 55 days after the Termination Date, provided that such payment will be made no later than the last date to be considered a short-term deferral of compensation within the meaning of Treasury Regulation Section 1.409A-1(a)(4). No right to in-kind benefits, such as the outplacement services in section C.II.4, may be subject to liquidation or exchange for any other benefit.

C.III. Exceptions.

The Administrator may designative any other employee of the Company as an "Executive" under this Appendix C. Exceptions to eligibility, or to any of the other provisions set forth in this Appendix C, require the written approval of the Chief Executive Officer or his/her delegate.

(a)

Appendix D

Release of all Claims and Potential Claims

1. This Release of All Claims and Potential Claims (“Release”) is entered into by and between ______________________ (the “Employee”) and Leidos Holdings, Inc. (the “Company”). In consideration of the promises made herein and the consideration due Employee under Leidos Holdings, Inc. Executive Severance Plan (the “Plan”), this Release is entered into between the parties.

2. (a) The purposes of this Release is to settle completely and release the Company, its individual and/or collective officers, directors, stockholders, agents, parent companies, subsidiaries, affiliates, predecessors, successors, assigns, employees (including all former employees, officers, directors, stockholders and/or agents), attorneys, representatives and employee benefit programs (including the trustees, administrators, fiduciaries and insurers of such programs) (referred to collectively as “Releasees”) in a final and binding manner from every claim and potential claim for relief, cause of action and liability of any and every kind, nature and character whatsoever, known or unknown, that Employee has or may have against Releasees arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities arising out of, relating to or resulting from the employment relationship between Employee and the Company and its subsidiaries, affiliates and predecessors, and/or the termination of that relationship including any and all claims and rights under the Age Discrimination in Employment Act, and any personal gain with respect to any claim arising under the qui tam provisions of the False Claims Act, 31 U.S.C. 3730, but excluding any rights or benefits to which Employee is entitled under the Plan.

(b) This is a compromise settlement of all such claims and potential claims, known or unknown, and therefore this Release does not constitute either an admission of liability on the part of Employee and the Company or an admission, directly or by implication, that Employee and/or the Company, its subsidiaries, affiliates or predecessors, have violated any law, rule, regulation, contractual right or any other duty or obligation. The parties hereto specifically deny that they have violated any law, rule, regulation, contractual right or any other duty or obligation.

(c) This Release is entered into freely and voluntarily by Employee and the Company solely to avoid further costs, risks and hazards of litigation and to settle all claims and potential claims and disputes, known or unknown, in a final and binding manner.

3. For and in consideration of the promises and covenants made by Employee to the Company and the Company to Employee, contained herein, Employee and the Company have agreed and do agree as follows:

(a) Employee waives, releases and forever discharges Releasees from any claims and potential claims for relief, causes of action and liabilities, known or unknown, that [he/she] has or may have against Releasees arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities of any and every kind, nature and character whatsoever, known or unknown, arising out of, relating to or resulting from the employment relationship between Employee and the Company and its subsidiaries, affiliates and predecessors, and the termination of that relationship including any and all claims and rights under the Age Discrimination in Employment Act, and any personal gain with respect to any claim arising under the qui tam provisions of the False Claims Act, 31 U.S.C. 3730 but excluding any rights or benefits to which is entitled under the Plan. In addition, this Release does not cover, and nothing in this Release shall be construed to cover, any claim that cannot be so released as a matter of applicable law.

(b) Employee agrees that [he/she] will not directly or indirectly institute any legal proceedings against Releasees before any court, administrative agency, arbitrator or any other tribunal or forum whatsoever by reason of any claims and potential claims for relief, causes of action and liabilities of any and every kind, nature and character whatsoever, known or unknown, arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities arising out of, relating to or resulting from the employment relationship between Employee and the Company and its subsidiaries, affiliates and predecessors, and/or the termination of that relationship including any and all claims and rights under the Age Discrimination in Employment Act.

(c) Employee is presently unaware of any injuries that [he/she] may have suffered as a result of working at the Company or its subsidiaries, affiliates or predecessors, and has no present intention of filing a workers' compensation claim. Should any such claim arise in the future, Employee waives and releases any right to proceed against the Company or its subsidiaries, affiliates or predecessors, for such a claim. Employee also waives any right to bring any disability claim against the Company or its subsidiaries, affiliates or predecessors, or its or their carriers.

4. As a material part of the consideration for this Plan, Employee and [his/her] agents and attorneys, agree to keep completely confidential and not disclose to any person or entity, except immediate family, attorney, accountant, or tax preparers, or in response to a court order or subpoena, the terms and/or conditions of this Release and/or any understandings, Plans, provisions and/or information contained herein or with regard to the employment relationship between Employee and the Company and its subsidiaries, affiliates and predecessors.

5. Any dispute, claim or controversy of any kind or nature, including but not limited to the issue of arbitrability, arising out of or relating to this Release, or the breach thereof, or any disputes which may arise in the future, shall be settled in a final and binding before an arbitrator appointed by the Judicial Arbitration and Mediation Service in accordance with the rules and procedures of arbitration under the Company's Dispute Resolution Program, attached hereto as Exhibit A. The prevailing party shall be entitled to recover all reasonable attorneys' fees, costs and necessary disbursements incurred in connection with the arbitration proceeding. Judgment upon the award may be entered in any court having jurisdiction thereof.

6. It is further understood and agreed that Employee has not relied upon any advice whatsoever from the Company and/or its attorneys individually and/or collectively as to the taxability, whether pursuant to Federal, State or local income tax statutes or regulations, or otherwise, of the consideration transferred hereunder and that [he/she] will be solely liable for all of [his/her]

tax obligations. Employee understands and agrees that the Company or its subsidiaries, affiliates or predecessors, may be required by law to report all or a portion of the amounts paid to [him/her] and/or [his/her] attorney in connection with this Release to federal and state taxing authorities. Employee waives, releases, forever discharges and agrees to indemnify, defend and hold the Company harmless with respect to any actual or potential tax obligations imposed by law.

7. Employee acknowledges that [he/she] has read, understood and truthfully completed the Business Ethics and Conduct Disclosure Statement attached hereto as Appendix F.

8. It is further understood and agreed that Releasees and/or their attorneys shall not be further liable either jointly and/or severally to Employee and/or [his/her] attorneys individually or collectively for costs and/or attorneys' fees, including any provided for by statute, nor shall Employee and/or [his/her] attorneys be liable either jointly and/or severally to the Company and/or its attorneys individually and/or collectively for costs and/or attorneys' fees, including any provided for by statute.

9. Employee understands and agrees that if the facts with respect to which this Release are based are found hereafter to be other than or different from the facts now believed by [him/her] to be true, [he/she] expressly accepts and assumes the risk of such possible difference in facts and agrees that this Release shall be and remain effective notwithstanding such difference in facts.

10. Employee understands and agrees that there is a risk that the damage and/or injury suffered by Employee may become more serious than [he/she] now expects or anticipates. Employee expressly accepts and assumes this risk, and agrees that this Release shall be and remains effective notwithstanding any such misunderstanding as to the seriousness of said injuries or damage.

11. Employee understands and agrees that if [he/she] hereafter commences any suit arising out of, based upon or relating to any of the claims and potential claims for relief, cause of action and liability of any and every kind, nature and character whatsoever, known or unknown, [he/she] has released herein, Employee agrees to pay Releasees, and each of them, in addition to any other damages caused to Releasees thereby, all attorneys' fees incurred by Releasees in defending or otherwise responding to said suit.

12. It is further understood and agreed that this Release shall be binding upon and will inure to the benefit of Employee's spouse, heirs, successors, assigns, agents, employees, representatives, executors and administrators and shall be binding upon and will inure to the benefit of the individual and/or collective successors and assigns of Releasees and their successors, assigns, agents and/or representatives.

13. This Release shall be construed in accordance with and governed for all purposes by the laws of the State of Virginia.

14. Employee agrees that [he/she] will not seek future employment with, nor need to be considered for any future openings with the Company, any division thereof, or any subsidiary or related corporation or entity.

15. ________ and Releasees waive all rights under Section 1542 of the California Civil Code, which section has been fully explained to them by their respective legal counsel and which they fully understand, and any other similar provision or the law of any other state or jurisdiction. Section 1542 provides as follows:

> **A general release does not extend to claims which the creditor does not know or suspect to exist in [his/her] favor at the time of executing the release, which if known by [him/her] must have materially affected [his/her] settlement with the debtor.**

16. Notwithstanding anything in this Plan to the contrary, ________ does not waive, release or discharge any rights to indemnification for actions occurring through [his/her] affiliation with the Company or its subsidiaries, affiliates or predecessors, whether those rights arise from statute, corporate charter documents or any other source nor does __________ waive, release or discharge any right ________ may have pursuant to any insurance policy or coverage provided or maintained by the Company or its subsidiaries, affiliates or predecessors.

17. If any part of this Plan is found to be either invalid or unenforceable, the remaining portions of this Plan will still be valid.

18. This Plan is intended to release and discharge any claims of __________ under the Age Discrimination and Employment Act. To satisfy the requirements of the Older Workers' Benefit Protection Act, 29 U.S.C. section 626(f), the parties agree as follows:

A. _________ acknowledges that [he/she] has read and understands the terms of this Plan.

B. __________ acknowledges that [he/she] has been advised in writing to consult with an attorney, if desired, concerning this Plan and has received all advice [he/she] deems necessary concerning this Plan.

C. __________ acknowledges that [he/she] has been given twenty-one (21) days to consider whether or not to enter into this Plan, has taken as much of this time as necessary to consider whether to enter into this Plan, and has chosen to enter into this Plan freely, knowingly and voluntarily.

D. For a seven day period following the execution of this Plan, _________ may revoke this Plan by delivering a written revocation to at the Company. This Plan shall not become effective and enforceable until the revocation period has expired.

19. ________ acknowledges that [he/she] has been encouraged to seek the advice of an attorney of [his/her] choice with regard to this Release. Having read the foregoing, having understood and agreed to the terms of this Release, and having had the opportunity to and having been advised by independent legal counsel, the parties hereby voluntarily affix their signatures.

20. This Plan is to be interpreted without regard to the draftsperson. The terms and intent of the Plan shall be interpreted and construed on the express assumption that all parties participated equally in its drafting.

21. This Release constitutes a single integrated contract expressing the entire Plan of the parties hereto. Except for the Plan, which defines certain obligations on the part of both parties, and this Release, there are no Plans, written or oral, express or implied, between the parties hereto, concerning the subject matter herein.

Dated: ____________________, 20__

____
[Signature]

____
[Print Name]

Leidos Holdings, Inc.

By: __

Name: __

Its: __

Appendix E

Post-Employment Conduct Agreement

This Post Employment Conduct Plan dated ___, (this "PECA"), together with the Release of All Claims and Potential Claims in Appendix D being entered into contemporaneous with this PECA, is entered into in consideration of the payments and other benefits ("Severance Benefit") to be made to me under the Leidos Holdings, Inc. Eligible Employee Severance Plan (the "Plan").

By signing below, I agree as follows:

(1) Restrictions Following Termination of Employment.

(a) Covenant Not to Compete – Without the express written consent of the Chief Executive Officer of the Company or his/her designee, during the [18/12/6]- month period following the termination of my employment ("Termination Date"), I will not, directly or indirectly, be employed by, or provided services to, a "Competitive Company", whether as an employee, advisor, director, officer, partner or consultant, or in any other position, function or role that, in any such case, (i) oversees, controls or affects the design, operation, research, manufacture, marketing, sale or distribution of "Competitive Products or Services" (as defined herein) of or by the Competitive Company, or (ii) would involve a substantial risk that the "Confidential or Proprietary Information" could be used to the disadvantage of the Company.

Capitalized terms not defined in this PECA have the meaning given to them in the Plan, as applicable. For purposes of this PECA, the following terms have the meanings given below:

i. "Competitive Company" means those entities listed as principal competitors of the Company in the most recent 10k filed by the Company with the SEC immediately prior to the Termination Date.

ii. "Competitive Products or Services" means products or services that compete with, or are an alternative or potential alternative to, products sold or services provided by a subsidiary, business area, division or operating unit or business of the Company as of the Termination Date and at any time within the two-year period ending on the Termination Date; provided, that, (a) if I had direct responsibility for the business of, or function with respect to, a subsidiary, or for a business area, division or operating unit or business of the Company at any time within the two- year period ending on the Termination Date, Competitive Products or

Services includes the products so sold or the services so provided during that two-year period by the subsidiary, business area, division or operating unit of the Company for which I had responsibility, and (b) if I did not have direct responsibility for the business of, or function with respect to, a subsidiary, or for a business area, division or operating unit or business of the Company at any time within the two-year period ending on the Termination Date, Competitive Products or Services includes the products so sold or the services so provided by a subsidiary, business area, division or operating unit of the Company for which I had access (or was required or permitted such access in the performance of my duties or responsibilities with the Company) to Confidential or Proprietary Information of the Company at any time during the two-year period ending on the Termination Date.

(b) Non-Solicit- Without the express written consent of [the Chief Executive Officer of the Company/or the Compensation Committee with respect to Eligible Officers of the Company], during the [18/12/6]-month period following the Termination Date, I will not directly or indirectly (i) interfere with any contractual relationship between the Company and any customer, supplier, distributor or manufacturer of or to the Company to the detriment of the Company or (ii) hire directly or indirectly by inducing or attempting to induce any person who is an employee of the Company to perform work or services for any entity other than the Company.

(c) Protection of Proprietary Information- Except to the extent required by law, following my Termination Date, I will have a continuing obligation to comply with the terms of any non-disclosure or similar Plans that I signed while employed by the Company committing to hold confidential the "Confidential or Proprietary Information" (as defined below) of the Company or any of its affiliates, subsidiaries, related companies, joint ventures, partnerships, customers, suppliers, partners, contractors or agents, in each case in accordance with the terms of such Plans. I will not use or disclose or allow the use or disclosure by others to any person or entity of Confidential or Proprietary Information of the Company or others to which I had access or that I was responsible for creating or overseeing during my employment with the Company. In the event I become legally compelled (by deposition, interrogatory, request for documents, subpoena, civil investigative demand or otherwise) to disclose any proprietary or confidential information, I will immediately notify the Company's Executive Vice President and General Counsel as to the existence of the obligation and will cooperate with any reasonable request by the Company for assistance in seeking to protect the information. All materials to which I have had access, or which were furnished or otherwise made available to me in connection with my employment with the Company shall be and remain the property of the Company. For purposes of this PECA, "Confidential or Proprietary Information" means any and all confidential and/or proprietary knowledge, data or information of the Company, its affiliates, parents and subsidiaries, which has economic value as a result of its remaining confidential, whether having existed, now existing, or to be developed during my employment, including information developed by me. Confidential or Proprietary Information may include, but is not limited to:

(i) existing and contemplated business, marketing and financial business information such as business plans and methods, marketing information, cost estimates, forecasts, financial data, cost or pricing data, bid and proposal information, customer identification, sources of supply, contemplated product lines, proposed business alliances, and information about customers or competitors, or

(ii) existing or contemplated technical information and documentation pertaining to technology, know how, equipment, machines, devices and systems, computer hardware and software, compositions, formulas, products, processes, methods, designs, specifications, mask works, testing or evaluation procedures, manufacturing processes, or production processes.

Notwithstanding the foregoing, you shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that: (1) is made in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; (2) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal, or (3) is made in a lawsuit alleging retaliation for reporting a suspected violation of law, if such filing is made under seal.

(d) No disparagement- Following the Termination Date, I will not make any statements, whether verbal or written, that disparage or reasonably may be interpreted to disparage the Company or its stockholders, directors, officers, employees, agents, attorneys, representatives, technology, products or services with respect to any matter whatsoever.

(e) Cooperation in Litigation and Investigations- Following the Termination Date, I will, to the extent reasonably requested, cooperate with the Company in any pending or future litigation (including alternative dispute resolution proceedings) or investigations in which the Company or any of its subsidiaries or affiliates is a party or is required or requested to provide testimony and regarding which, as a result of my employment with the Company, I reasonably could be expected to have knowledge or information relevant to the litigation or investigation. Notwithstanding any other provision of this PECA, nothing in this PECA shall affect my obligation to cooperate with any governmental inquiry or investigation or to give truthful testimony in court.

(2) Consideration and Release of Claims. I acknowledge and agree that the Severance Benefit being made to me is in addition to the payments or benefits that otherwise are or would be owed to me by the Company and that the Severance Benefit being provided to me is in consideration for my entering into this PECA and the Release of Claims attached to this PECA. I acknowledge that the scope and duration of the restrictions in Section 1 are necessary to be effective and are fair and reasonable in light of the value of the payments being made to me. I further acknowledge and agree that as a result of the high level Eligible Employee and management positions I have held within the Company and the access to and extensive knowledge of the Company's Confidential or Proprietary Information, employees, suppliers and customers, these restrictions are reasonably required for the protection of the Company's legitimate business interests.

(3) Remedies for Breach of Section 1; Additional Remedies of Clawback and Recoupment.

(a) I agree, upon demand by the Company, to repay the Severance Benefit to the Company in the event any of the following occur:

(i) I breach any of the covenants in Section 1;

(ii) The Company determines that either (a) my intentional misconduct or gross negligence, or (b) my failure to report another person's intentional misconduct or gross negligence of which I had knowledge during the period I was employed by the Company, or breach of the Company's clawback/recoupment policy in effect from time to time, contributed to the Company having to restate all or a portion of its financial statements filed for any period with the Securities and Exchange Commission; or

(iii) The Company determines that I engaged in fraud, bribery or any other illegal act or that my intentional misconduct or gross negligence (including the failure to report the acts of another person of which I had knowledge during the period I was employed by the Company) contributed to another person's fraud, bribery or other illegal act, which in any such case adversely affected the Company's financial position or reputation.

(b) The remedy provided in Section 3(a) shall not be the exclusive remedy available to the Company for any of the conduct described in Section 3(a) and shall not limit the Company from seeking damages or injunctive relief.

(4) Injunctive Relief. I acknowledge that the Company's remedies at law may be inadequate to protect the Company against any actual or threatened breach of the provisions of Section 1 or the conduct described in Section 3(a), and, therefore, without prejudice to any other rights and remedies otherwise available to the

Company at law or in equity (including but not limited to, an action under Section 3(a)), the Company shall be entitled to the granting of injunctive relief in its favor and to specific performance without proof of actual damages and without the requirement of the posting of any bond or similar security.

(5) Invalidity; Unenforceability. It is the desire and intent of the parties that the provisions of this PECA shall be enforced to the fullest extent permissible. Accordingly, if any particular provision of this PECA is adjudicated to be invalid or unenforceable, this PECA shall be deemed amended to delete the portion adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of this provision in the particular jurisdiction in which such adjudication is made.

(6) Miscellaneous

(a) The Severance Plan, and this PECA along with the attached Release of All Claims and Potential Claims in Appendix D, constitutes the entire Plan governing the terms of the Severance Benefit and supersedes all other prior Plans and understandings, both written and oral, between me and the Company or any employee, officer or director of the Company concerning payments on account of my termination of employment.

(b) This PECA shall be governed by Virginia law, without regard to its provisions governing conflicts of law.

(c) This PECA shall inure to the benefit of the Company's successors and assigns and may be assigned by the Company without my consent.

SIGNED this __day of __, 2____.

____
(Signature)

____
(Printed Name)

____
(Title)

FOR LEIDOS HOLDINGS, INC.

____
(Signature)

____
(Printed Name)

____
(Title)

____
(Date)

Appendix F
Business Ethics and Conduct Disclosure Statement

Are you aware of any illegal or unethical practices or conduct anywhere within Leidos Holdings, Inc. or its subsidiaries, affiliates or predecessors (the “Company”) (including, but not limited to, improper charging practices, or any violations of the Company’s Code of Conduct)?

Yes ¨ No ¨

(Your answer to all questions on this form will not have any bearing on the fact or terms of your Release with the Company.)

If the answer to the preceding question is “yes,” list here, in full and complete detail, all such practices or conduct. (Use additional pages if necessary.)

Have any threats or promises been made to you in connection with your answers to the questions on this form?

Yes ¨ No ¨

If “yes,” please identify them in full and complete detail. Also, notify the Company’s General Counsel at (571) 526-6300 immediately.

I declare under penalty of perjury, under the laws of the State of Virginia and of the United States, that the foregoing is true and correct.

Executed this ____ of ___________________, 20__, at ___________________.

____
[Signature]

Exhibit 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 September 27, 2019, 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: October 29, 2019

/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 September 27, 2019, 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: October 29, 2019

/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 September 27, 2019, 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: October 29, 2019

/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 September 27, 2019, 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: October 29, 2019

/s/ James C. Reagan

James C. Reagan
Executive Vice President and Chief Financial Officer