

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

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

Date of Report (Date of Earliest Event Reported): July 30, 2019

LEIDOS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

001-33072
(Commission File Number)

20-3562868
(I.R.S. Employer Identification No.)

11951 Freedom Drive, Reston, Virginia
(Address of principal executive office)

20190
(Zip Code)

(571) 526-6000
(Registrants' telephone number, including area code)

Not Applicable
(Former Name or Former Address, If Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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 is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Item 2.02. Results of Operations and Financial Condition.

On July 30, 2019, Leidos Holdings, Inc. (the "Company") issued a press release announcing its financial results for the second fiscal quarter ended June 28, 2019. A copy of the press release is furnished as Exhibit 99.1 to this report.

The Company's management will discuss operations and financial results in an earnings conference call beginning at 8:00 a.m. eastern on July 30, 2019. A live audio broadcast of the conference call along with a supplemental presentation will be available to the public through links on the Investor Relations section of the Company's web site (<http://investors.leidos.com>).

The information contained in Item 2.02 of this report and Exhibit 99.1 shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), or otherwise subject to the liabilities of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit 99.1 [Press Release dated July 30, 2019, issued by Leidos Holdings, Inc.](#)

SIGNATURE

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 hereunto duly authorized.

LEIDOS HOLDINGS, INC.

Date: July 30, 2019

By: /s/ James C. Reagan
James C. Reagan
Its: Executive Vice President and Chief Financial Officer

Leidos Holdings, Inc. Reports Second Quarter Fiscal Year 2019 Results

- **Revenues: \$2.73 billion, year-over-year growth of 8%**
- **Diluted Earnings per Share: \$0.93; Non-GAAP Diluted Earnings per Share: \$1.16**
- **Net Bookings: \$3.0 billion (book-to-bill ratio of 1.1)**
- **Increases quarterly dividend by 6% to \$0.34 per share**

RESTON, Va., July 30, 2019 – Leidos Holdings, Inc. (NYSE: LDOS), a FORTUNE 500® science and technology leader, today reported financial results for the second quarter of fiscal year 2019.

Roger Krone, Leidos Chairman and Chief Executive Officer, commented: "Our growth momentum continues to accelerate through the second quarter, with nearly 9% organic revenue growth, a record backlog position, and strong win-rates. Our success in executing against our pipeline and driving growth across all segments of our business enables us to raise our full-year guidance for both revenue and earnings. In addition, our recently announced dividend increase demonstrates the confidence of the board of directors and management team in the strength of the Company's cash flow generation and ability to sustainably generate value for our shareholders."

Summary Results

Revenues for the quarter were \$2.73 billion, compared to \$2.53 billion in the prior year quarter, reflecting a 7.9% increase. Revenues grew 8.8% when adjusting for the commercial cybersecurity business that was sold during the first quarter of 2019.

Operating income for the quarter was \$210 million, compared to \$199 million in the prior year quarter. Operating income margin decreased to 7.7% from 7.9% in the prior year quarter. Non-GAAP operating income margin for the quarter was 9.4%, compared to 10.3% in the prior year quarter, primarily attributable to lower net profit write-ups in the current quarter.

Diluted earnings per share ("EPS") attributable to Leidos common stockholders for the quarter was \$0.93, compared to \$0.94 in the prior year quarter. Non-GAAP diluted EPS for the quarter was \$1.16, compared to \$1.12 in the prior year quarter. The weighted average diluted share count for the quarter was 146 million compared to 154 million in the prior year quarter, primarily due to stock repurchases in the first quarter of 2019 and fourth quarter of 2018.

Defense Solutions

Defense Solutions revenues for the quarter of \$1,346 million increased by \$84 million, or 6.7%, compared to the prior year quarter. The revenue increase was primarily attributable to new awards, partially offset by the completion of certain contracts and lower net profit write-ups in the current quarter.

Defense Solutions operating income margin for the quarter was 7.5%, compared to 7.4% in the prior year quarter. On a non-GAAP basis, operating income margin for the quarter was 8.6%, compared to 8.8% in the prior year quarter, primarily attributable to lower net profit write-ups in the current quarter.

Civil

Civil revenues for the quarter of \$881 million increased by \$65 million, or 8.0%, compared to the prior year quarter. The revenue increase 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 in the first quarter of 2019 and lower net profit write-ups in the current quarter.

Civil operating income margin for the quarter was 7.7%, compared to 7.4% in the prior year quarter. On a non-GAAP basis, operating income margin for the quarter was 9.9%, compared to 10.3% in the prior year quarter, primarily attributable to lower net profit write-ups in the current quarter.

Health

Health revenues for the quarter of \$501 million increased by \$50 million, or 11.1%, compared to the prior year quarter. The revenue increase was primarily attributable to a net increase in program volumes and new awards, partially offset by the completion of certain contracts.

Health operating income margin for the quarter was 12.2%, compared to 15.1% in the prior year quarter. On a non-GAAP basis, operating income margin for the quarter was 14.4%, compared to 17.7% in the prior year quarter, primarily attributable to reduced margins on awarded re-compete contracts and the completion of certain contracts.

Cash Flow Summary

Net cash provided by operating activities for the quarter was \$186 million compared to \$271 million in the prior year quarter. The decrease was primarily due to less favorable timing of working capital changes and higher tax payments.

Net cash used in investing activities for the quarter was \$16 million compared to \$13 million in the prior year quarter. The increase in cash outflows was due to higher purchases of equipment and software.

Net cash used in financing activities for the quarter was \$64 million compared to \$192 million in the prior year quarter. The decrease was primarily due to prior year quarter stock repurchases and cash paid related to a tax indemnification in the prior year quarter.

As of June 28, 2019, the Company had \$660 million in cash and cash equivalents and \$3.0 billion of debt.

New Business Awards

Net bookings totaled \$3.0 billion in the quarter, representing a book-to-bill ratio of 1.1.

Notable recent awards received include:

- **NASA End-User Services & Technologies**: The Company was awarded a contract by the National Aeronautics and Space Administration ("NASA") to provide information technology ("IT") end-user services to support the agency's mission. Under the contract, Leidos will provide, manage, secure and maintain essential IT services that support the agency's core business, scientific, research and computational abilities. The single-award, firm-fixed-price contract has a two-year, three-month base period of performance and one two-year option period and six one-year option periods with a total potential value of \$2.9 billion.
- **Air Combat Command Intelligence, Surveillance, and Reconnaissance Support Services program**: The Company was awarded a task order by the U.S. Air Force Air Combat Command ("ACC") to support the Intelligence, Surveillance, and Reconnaissance ("ISR") Support Services program. Under the contract, Leidos will provide full-spectrum ISR support to the warfighter through intelligence gathering, analysis, distribution and training across the ACC enterprise. The single award, cost-plus-award-fee task order has a one-year base period of performance, four one-year options and a total ceiling of approximately \$900 million if all options are exercised.
- **U.S. Intelligence Community**: The Company was awarded contracts valued at \$392 million, if all options are exercised, by U.S. national security and intelligence clients. Though the specific nature of these contracts is classified, they all encompass mission-critical services that help to counter global threats and strengthen national security.

The Company's backlog at the end of the quarter was \$21.7 billion, of which \$6.3 billion was funded.

Forward Guidance

As a result of the Company's year-to-date performance and updated expectations, the Company is revising its fiscal year 2019 guidance as follows:

- Revenues of \$10.65 billion to \$10.95 billion, up from previous guidance of \$10.50 billion to \$10.90 billion;
- Adjusted EBITDA margins of 9.9% to 10.1%;
- Non-GAAP diluted EPS of \$4.50 to \$4.75, up from previous guidance of \$4.30 to \$4.65; and
- Cash flows provided by operating activities at or above \$825 million.

Non-GAAP diluted EPS excludes amortization of acquired intangible assets and an equity method investment, asset impairment charges, integration and restructuring costs, gain (loss) on sale of business and other tax adjustments. See Leidos' non-GAAP financial measures and the related reconciliation to GAAP measures included elsewhere in this release.

The Company does not provide a reconciliation of forward-looking adjusted EBITDA margins (non-GAAP) or non-GAAP diluted EPS to GAAP net income, due to the inherent difficulty in forecasting and quantifying certain amounts that are necessary for such reconciliation. Because certain deductions for non-GAAP exclusions used to calculate projected net income may vary significantly based on actual events, the Company is not able to forecast on a GAAP basis with reasonable certainty all deductions needed in order to provide a GAAP calculation of projected net income at this time. The amounts of these deductions may be material and, therefore, could result in projected GAAP net income and diluted EPS being materially less than projected adjusted EBITDA margins (non-GAAP) and non-GAAP diluted EPS.

Conference Call Information

Leidos management will discuss operations and financial results in an earnings conference call beginning at 8:00 A.M. eastern time on July 30, 2019. Analysts and institutional investors may participate by dialing +1 (877) 869-3847 (toll-free U.S.) or +1 (201) 689-8261 (international callers).

A live audio broadcast of the conference call along with a supplemental presentation will be available to the public through links on the Leidos Investor Relations website (<http://ir.leidos.com>).

After the call concludes, an audio replay can be accessed on the Leidos Investor Relations website or by dialing +1 (877) 660-6853 (toll-free U.S.) or +1 (201) 612-7415 (international callers) and entering conference ID 13689387.

About Leidos

Leidos is a Fortune 500[®] information technology, engineering, and science solutions and services leader working to solve the world's toughest challenges in the defense, intelligence, homeland security, civil and health markets. The company's 33,000 employees support vital missions for government and commercial customers. Headquartered in Reston, Virginia, Leidos reported annual revenues of approximately \$10.19 billion for the fiscal year ended December 28, 2018.

For more information, visit www.leidos.com.

Forward-Looking Statements

Certain statements in this release contain or are based on "forward-looking" information within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by words such as "expects," "intends," "plans," "anticipates," "believes," "estimates," "guidance" and similar words or phrases. Forward-looking statements in this release include, among others, estimates of future revenues, adjusted EBITDA margins, diluted EPS (including on a non-GAAP basis) and cash flows provided by operating activities, as well as statements about future dividends, share repurchases, acquisitions and dispositions. These statements reflect our belief and assumptions as to future events that may not prove to be accurate.

Actual performance and results may differ materially from those results anticipated by our guidance and other forward-looking statements made in this release depending on a variety of factors, including but not limited to: changes to our reputation and relationships with government agencies, developments in the U.S. government defense budget, including budget reductions, implementation of spending limits (sequestration) or changes in budgetary priorities; delays in the U.S. government budget process or approval of raises to the debt ceiling; delays in the U.S. government contract procurement process or the award of contracts; delays or loss of contracts as a result of competitor protests; changes in U.S. government procurement rules, regulations and practices; changes in interest rates and other market factors out of our control; our compliance with various U.S. government and other government procurement rules and regulations; governmental reviews, audits and investigations of our Company; our ability to effectively compete for and win contracts with the U.S. government and other customers; our reliance on information technology spending by hospitals/healthcare organizations; our reliance on infrastructure investments by industrial and natural resources organizations; energy efficiency and alternative energy sourcing investments; investments by the U.S. government and commercial organizations in environmental impact and remediation projects; our ability to attract, train and retain skilled employees, including our management team, and to obtain security clearances for our employees; the mix of our contracts and our ability to accurately estimate costs associated with our firm-fixed-price and other contracts; our ability to realize as revenues the full amount of our backlog; cybersecurity, data security or other security threats, systems failures or other disruptions of our business; resolution of legal and other disputes with our customers and others or legal or regulatory compliance issues; our ability to effectively acquire businesses and make investments; our ability to maintain relationships with prime contractors, subcontractors and joint venture partners; our ability to manage performance and other risks related to customer contracts, including complex engineering projects; the failure of our inspection or detection systems to detect threats; the adequacy of our insurance programs designed to protect us from significant product or other liability claims; our ability to manage risks associated with our international business; exposure to lawsuits and contingencies associated with the IS&GS Business; our ability to declare future dividends based on our earnings, financial condition, capital requirements and other factors, including compliance with applicable laws and contractual agreements; our ability to grow our commercial health and infrastructure business, which could be negatively affected by our budgetary constraints faced by hospitals and by developers of energy and infrastructure projects; and our ability to execute our business plan and long-term management initiatives effectively and to overcome these and other known and unknown risks that we face. These are only some of the factors that may affect the forward-looking statements contained in this release. For further information concerning risks and uncertainties associated with our business, please refer to the filings we make from time to time with the U.S. Securities and Exchange Commission ("SEC"), including the "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Legal Proceedings" sections of our latest Annual Report on Form 10-K and quarterly reports on Form 10-Q, all of which may be viewed or obtained through the Investor Relations section of our website at www.leidos.com.

All information in this release is as of July 30, 2019. The Company expressly disclaims any duty to update the guidance or any other forward-looking statement provided in this release to reflect subsequent events, actual results or changes in the Company's expectations. The Company also disclaims any duty to comment upon or correct information that may be contained in reports published by investment analysts or others.

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LEIDOS HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Revenues	\$ 2,728	\$ 2,529	\$ 5,305	\$ 4,972
Cost of revenues	2,348	2,152	4,569	4,238
Selling, general and administrative expenses	175	174	341	352
Integration and restructuring costs	1	8	3	25
Asset impairment charges	—	—	—	7
Equity earnings of non-consolidated subsidiaries	(6)	(4)	(10)	(8)
Operating income	210	199	402	358
Non-operating (expense) income:				
Interest expense, net	(33)	(35)	(71)	(69)
Other income, net	2	1	94	1
Income before income taxes	179	165	425	290
Income tax expense	(41)	(20)	(98)	(43)
Net income	138	145	327	247
Less: net income attributable to non-controlling interest	2	1	2	1
Net income attributable to Leidos common stockholders	\$ 136	\$ 144	\$ 325	\$ 246
Earnings per share:				
Basic	\$ 0.94	\$ 0.95	\$ 2.26	\$ 1.62
Diluted	0.93	0.94	2.23	1.60
Weighted average number of common shares outstanding:				
Basic	144	152	144	152
Diluted	146	154	146	154
Cash dividends declared per share	\$ 0.32	\$ 0.32	\$ 0.64	\$ 0.64

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

	June 28, 2019	December 28, 2018
ASSETS		
Cash and cash equivalents	\$ 660	\$ 327
Receivables, net	1,842	1,877
Other current assets	412	543
Assets held for sale	—	92
Total current assets	2,914	2,839
Property, plant and equipment, net	216	237
Intangible assets, net	571	652
Goodwill	4,861	4,860
Operating lease right-of-use assets, net	383	—
Other assets	382	182
	\$ 9,327	\$ 8,770
LIABILITIES AND EQUITY		
Accounts payable and accrued liabilities	\$ 1,710	\$ 1,491
Accrued payroll and employee benefits	471	473
Long-term debt, current portion	65	72
Liabilities held for sale	—	23
Total current liabilities	2,246	2,059
Long-term debt, net of current portion	2,954	3,052
Operating lease liabilities	285	—
Deferred tax liabilities	185	170
Other long-term liabilities	295	178
Stockholders' equity:		
Common stock, \$.0001 par value, 500 million shares authorized, 144 million and 146 million shares issued and outstanding at June 28, 2019 and December 28, 2018, respectively	—	—
Additional paid-in capital	2,780	2,966
Retained earnings	652	372
Accumulated other comprehensive loss	(73)	(30)
Total Leidos stockholders' equity	3,359	3,308
Non-controlling interest	3	3
Total equity	3,362	3,311
	\$ 9,327	\$ 8,770

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

	Three Months Ended		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Cash flows from operations:				
Net income	\$ 138	\$ 145	\$ 327	\$ 247
Adjustments to reconcile net income to net cash provided by operations:				
Loss (gain) on sale of business	1	—	(87)	—
Depreciation and amortization	57	66	115	129
Stock-based compensation	13	12	25	23
Asset impairment charges	—	—	—	7
Other	—	3	3	10
Change in assets and liabilities, net of effects of dispositions:				
Receivables	53	120	32	36
Other current assets	39	30	(16)	(33)
Accounts payable and accrued liabilities	(176)	(127)	64	(67)
Accrued payroll and employee benefits	108	72	—	(35)
Deferred income taxes and income taxes receivable/payable	(46)	(38)	8	(10)
Other long-term assets/liabilities	(1)	(12)	3	(14)
Net cash provided by operating activities	186	271	474	293
Cash flows from investing activities:				
Proceeds from disposition of business	—	—	171	—
Net proceeds from sale of assets	—	—	96	—
Payments for property, equipment and software	(16)	(13)	(46)	(28)
Acquisitions of businesses	—	—	—	(81)
Net cash (used in) provided by investing activities	(16)	(13)	221	(109)
Cash flows from financing activities:				
Repurchases of stock and other	(5)	(94)	(227)	(116)
Dividend payments	(47)	(51)	(101)	(103)
Payments of long-term debt	(17)	(27)	(48)	(44)
Proceeds from issuances of stock	5	4	15	8
Payment of tax indemnification liability	—	(23)	—	(23)
Other	—	(1)	—	(5)
Net cash used in financing activities	(64)	(192)	(361)	(283)
Net increase (decrease) in cash, cash equivalents and restricted cash	106	66	334	(99)
Cash, cash equivalents and restricted cash at beginning of period	597	257	369	422
Cash, cash equivalents and restricted cash at end of period	\$ 703	\$ 323	\$ 703	\$ 323

LEIDOS HOLDINGS, INC.
UNAUDITED SEGMENT OPERATING RESULTS
(in millions)

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.

The segment information for the periods presented was as follows:

	Three Months Ended				Six Months Ended			
	June 28, 2019	June 29, 2018	Dollar change	Percent change	June 28, 2019	June 29, 2018	Dollar change	Percent change
Revenues:								
Defense Solutions	\$ 1,346	\$ 1,262	\$ 84	6.7 %	\$ 2,613	\$ 2,451	\$ 162	6.6 %
Civil	881	816	65	8.0 %	1,728	1,645	83	5.0 %
Health	501	451	50	11.1 %	964	876	88	10.0 %
Total	\$ 2,728	\$ 2,529	\$ 199	7.9 %	\$ 5,305	\$ 4,972	\$ 333	6.7 %

Operating income (loss):								
Defense Solutions	\$ 101	\$ 94	\$ 7	7.4 %	\$ 190	\$ 184	\$ 6	3.3 %
Civil	68	60	8	13.3 %	141	129	12	9.3 %
Health	61	68	(7)	(10.3)%	106	110	(4)	(3.6)%
Corporate	(20)	(23)	3	NM	(35)	(65)	30	NM
Total	\$ 210	\$ 199	\$ 11	5.5 %	\$ 402	\$ 358	\$ 44	12.3 %

Operating income margin:								
Defense Solutions	7.5%	7.4%			7.3%	7.5%		
Civil	7.7%	7.4%			8.2%	7.8%		
Health	12.2%	15.1%			11.0%	12.6%		
Total	7.7%	7.9%			7.6%	7.2%		

NM - Not Meaningful

LEIDOS HOLDINGS, INC.
UNAUDITED BACKLOG BY REPORTABLE SEGMENT
(in millions)

Backlog represents the estimated amount of future revenues to be recognized under negotiated contracts. Backlog value is based on management's estimates about volume of services, availability of customer funding and other factors, and excludes contracts that are under protest. Our estimate of backlog comprises both funded and negotiated unfunded backlog. Backlog estimates are subject to change and may be affected by several factors including modifications of contracts, non-exercise of options, foreign currency movements, etc.

Funded backlog for contracts with the U.S. government represents the value on contracts for which funding is appropriated less revenues previously recognized on these contracts. Funded backlog for contracts with non-U.S. government entities and commercial customers represents the estimated value on contracts, which may cover multiple future years, under which Leidos is obligated to perform, less revenue previously recognized on the contracts.

Negotiated unfunded backlog represents estimated amounts of revenue to be earned in the future from contracts for which funding has not been appropriated and unexercised priced contract options. Negotiated unfunded backlog does not include future potential task orders expected to be awarded under indefinite delivery/indefinite quantity ("IDIQ"), General Services Administration Schedule or other master agreement contract vehicles, with the exception of certain IDIQ contracts where task orders are not competitively awarded or 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.

The estimated value of backlog as of the dates presented was as follows:

	June 28, 2019	December 28, 2018
Defense Solutions⁽¹⁾:		
Funded backlog	\$ 2,817	\$ 2,821
Negotiated unfunded backlog	7,268	6,925
Total Defense Solutions backlog	\$ 10,085	\$ 9,746
Civil⁽¹⁾:		
Funded backlog	\$ 2,388	\$ 2,304
Negotiated unfunded backlog	4,798	5,045
Total Civil backlog	\$ 7,186	\$ 7,349
Health:		
Funded backlog	\$ 1,063	\$ 1,254
Negotiated unfunded backlog	3,362	2,483
Total Health backlog	\$ 4,425	\$ 3,737
Total:		
Funded backlog	\$ 6,268	\$ 6,379
Negotiated unfunded backlog	15,428	14,453
Total backlog	\$ 21,696	\$ 20,832

⁽¹⁾ Prior year amounts have been recast for the contracts that were reassigned between the Defense Solutions and Civil reportable segments.

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.

LEIDOS HOLDINGS, INC.
UNAUDITED NON-GAAP FINANCIAL MEASURES
(in millions, except per share amounts)

The Company uses and refers to non-GAAP operating income, non-GAAP operating margin, adjusted EBITDA, adjusted EBITDA margin and non-GAAP EPS, which are not measures of financial performance under generally accepted accounting principles in the U.S. and, accordingly, these measures should not be considered in isolation or as a substitute for the comparable GAAP measures and should be read in conjunction with the Company's consolidated financial statements prepared in accordance with GAAP.

Management believes that these non-GAAP measures provide another measure of the Company's results of operations and financial condition, including its ability to comply with financial covenants. These non-GAAP measures are frequently used by financial analysts covering Leidos and its peers. The Company's computation of its non-GAAP measures may not be comparable to similarly titled measures reported by other companies, thus limiting their use for comparability.

Non-GAAP operating income is computed by excluding the following items from net income: (i) non-operating expense, net; (ii) income tax expense; and (iii) the following discrete items and the related tax impacts:

- Integration and restructuring costs – Represents integration, lease termination and severance costs related to the Company's acquisitions.
- Amortization of acquired intangible assets – Represents the amortization of the fair value of the acquired intangible assets.
- Amortization of equity method investment – Represents the amortization of the fair value of the acquired equity method investment.
- Gain (loss) on sale of business – Represents the net gain on sale of business.
- Asset impairment charges – Represents impairments of long-lived tangible assets.
- Other tax adjustments – Represents discrete tax items.

Non-GAAP operating margin is computed by dividing non-GAAP operating income by revenue.

Adjusted EBITDA is computed by excluding the following items from income before income taxes: (i) discrete items as identified above; (ii) interest expense; (iii) interest income; (iv) depreciation expense; and (v) amortization of intangibles.

Adjusted EBITDA margin is computed by dividing adjusted EBITDA by revenue.

Non-GAAP EPS is computed by dividing net income, adjusted for the discrete items as identified above and the related tax impacts, by the diluted weighted average number of common shares outstanding.

LEIDOS HOLDINGS, INC.
UNAUDITED NON-GAAP FINANCIAL MEASURES [CONTINUED]
(in millions, except per share amounts)

The following tables present the reconciliation of the non-GAAP measures identified above to the most directly comparable GAAP measures:

	Three Months Ended June 28, 2019					
	As reported	Integration and restructuring costs	Amortization of intangibles	Amortization of equity method investment	Loss on sale of business	Non-GAAP results
Operating income	\$ 210	\$ 1	\$ 43	\$ 2	\$ —	\$ 256
Non-operating expense, net	(31)	—	—	—	1	(30)
Income before income taxes	179	1	43	2	1	226
Income tax expense ⁽¹⁾	(41)	—	(11)	(1)	(1)	(54)
Net income	138	1	32	1	—	172
Less: net income attributable to non-controlling interest	2	—	—	—	—	2
Net income attributable to Leidos common stockholders	\$ 136	\$ 1	\$ 32	\$ 1	\$ —	\$ 170
Diluted EPS attributable to Leidos common stockholders	\$ 0.93	\$ —	\$ 0.22	\$ 0.01	\$ —	\$ 1.16
Diluted shares	146	146	146	146	146	146

	Three Months Ended June 28, 2019					
	As reported	Integration and restructuring costs	Amortization of intangibles	Amortization of equity method investment	Loss on sale of business	Non-GAAP results
Income before income taxes	\$ 179	\$ 1	\$ 43	\$ 2	\$ 1	\$ 226
Depreciation expense	14	—	—	—	—	14
Amortization of intangibles	43	—	(43)	—	—	—
Amortization of equity method investment	2	—	—	(2)	—	—
Interest expense, net	33	—	—	—	—	33
EBITDA	\$ 271	\$ 1	\$ —	\$ —	\$ 1	\$ 273
EBITDA margin	9.9%					10.0%

⁽¹⁾ Calculation uses an estimated statutory tax rate on non-GAAP adjustments.

LEIDOS HOLDINGS, INC.
UNAUDITED NON-GAAP FINANCIAL MEASURES [CONTINUED]
(in millions, except per share amounts)

	Three Months Ended June 29, 2018					
	As reported	Integration and restructuring costs	Amortization of intangibles	Amortization of equity method investment	Other tax adjustments	Non-GAAP results
Operating income	\$ 199	\$ 8	\$ 51	\$ 2	\$ —	\$ 260
Non-operating expense, net	(34)	—	—	—	—	(34)
Income before income taxes	165	8	51	2	—	226
Income tax expense ⁽¹⁾	(20)	(1)	(13)	(1)	(18)	(53)
Net income	145	7	38	1	(18)	173
Less: net loss attributable to non-controlling interest	1	—	—	—	—	1
Net income attributable to Leidos common stockholders	\$ 144	\$ 7	\$ 38	\$ 1	\$ (18)	\$ 172
Diluted EPS attributable to Leidos common stockholders	\$ 0.94	\$ 0.04	\$ 0.25	\$ 0.01	\$ (0.12)	\$ 1.12
Diluted shares	154	154	154	154	154	154

	Three Months Ended June 29, 2018					
	As reported	Integration and restructuring costs	Amortization of intangibles	Amortization of equity method investment	Non-GAAP results	
Income before income taxes	\$ 165	\$ 8	\$ 51	\$ 2	\$ 226	
Depreciation expense	15	—	—	—	15	
Amortization of intangibles	51	—	(51)	—	—	
Amortization of equity method investment	2	—	—	(2)	—	
Interest expense, net	35	—	—	—	35	
EBITDA	\$ 268	\$ 8	\$ —	\$ —	\$ 276	
EBITDA margin		10.6%			10.9%	

⁽¹⁾ Calculation uses an estimated statutory tax rate on non-GAAP adjustments.

LEIDOS HOLDINGS, INC.
UNAUDITED NON-GAAP FINANCIAL MEASURES [CONTINUED]
(in millions, except per share amounts)

Six Months Ended June 28, 2019

	As reported	Integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Gain on sale of business	Other tax adjustments	Non-GAAP results
Operating income	\$ 402	\$ 3	\$ 85	\$ 5	\$ —	\$ —	\$ 495
Non-operating income (expense), net	23	—	—	—	(87)	—	(64)
Income before income taxes	425	3	85	5	(87)	—	431
Income tax (expense) benefit ⁽¹⁾	(98)	(1)	(22)	(1)	22	7	(93)
Net income	327	2	63	4	(65)	7	338
Less: net income attributable to non-controlling interest	2	—	—	—	—	—	2
Net income attributable to Leidos common stockholders	\$ 325	\$ 2	\$ 63	\$ 4	\$ (65)	\$ 7	\$ 336
Diluted EPS attributable to Leidos common stockholders	\$ 2.23	\$ 0.01	\$ 0.43	\$ 0.03	\$ (0.45)	\$ 0.05	\$ 2.30
Diluted shares	146	146	146	146	146	146	146

Six Months Ended June 28, 2019

	As reported	Integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Gain on sale of business	Non-GAAP results
Income before income taxes	\$ 425	\$ 3	\$ 85	\$ 5	\$ (87)	\$ 431
Depreciation expense	29	—	—	—	—	29
Amortization of intangibles	86	—	(85)	—	—	1
Amortization of equity method investment	5	—	—	(5)	—	—
Interest expense, net	71	—	—	—	—	71
EBITDA	\$ 616	\$ 3	\$ —	\$ —	\$ (87)	\$ 532
EBITDA margin	11.6%					10.0%

⁽¹⁾ Calculation uses an estimated statutory tax rate on non-GAAP adjustments.

LEIDOS HOLDINGS, INC.
UNAUDITED NON-GAAP FINANCIAL MEASURES [CONTINUED]
(in millions, except per share amounts)

Six Months Ended June 29, 2018

	As reported	Integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Asset impairment charges	Other tax adjustments	Non-GAAP results
Operating income	\$ 358	\$ 25	\$ 101	\$ 5	\$ 7	\$ —	\$ 496
Non-operating expense, net	(68)	—	—	—	—	—	(68)
Income before income taxes	290	25	101	5	7	—	428
Income tax expense ⁽¹⁾	(43)	(6)	(26)	(1)	(2)	(18)	(96)
Net income	247	19	75	4	5	(18)	332
Less: net income attributable to non-controlling interest	1	—	—	—	—	—	1
Net income attributable to Leidos common stockholders	\$ 246	\$ 19	\$ 75	\$ 4	\$ 5	\$ (18)	\$ 331

Diluted EPS attributable to Leidos common stockholders	\$ 1.60	\$ 0.12	\$ 0.49	\$ 0.03	\$ 0.03	\$ (0.12)	\$ 2.15
Diluted shares	154	154	154	154	154	154	154

Six Months Ended June 29, 2018

	As reported	Integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Asset impairment charges	Non-GAAP results
Income before income taxes	\$ 290	\$ 25	\$ 101	\$ 5	\$ 7	\$ 428
Depreciation expense	28	—	—	—	—	28
Amortization of intangibles	101	—	(101)	—	—	—
Amortization of equity method investment	5	—	—	(5)	—	—
Interest expense, net	69	—	—	—	—	69
EBITDA	\$ 493	\$ 25	\$ —	\$ —	\$ 7	\$ 525
EBITDA margin	9.9%					10.6%

⁽¹⁾ Calculation uses an estimated statutory tax rate on non-GAAP adjustments.

LEIDOS HOLDINGS, INC.
UNAUDITED NON-GAAP FINANCIAL MEASURES [CONTINUED]
(in millions, except per share amounts)

The following tables present the reconciliation of the non-GAAP operating income by reportable segment and Corporate:

	Three Months Ended June 28, 2019					
	Operating income (loss)	Integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Non-GAAP operating income (loss)	Non-GAAP operating margin
Defense Solutions	\$ 101	\$ —	\$ 15	\$ —	\$ 116	8.6%
Civil	68	—	17	2	87	9.9%
Health	61	—	11	—	72	14.4%
Corporate	(20)	1	—	—	(19)	NM
Total	\$ 210	\$ 1	\$ 43	\$ 2	\$ 256	9.4%

	Three Months Ended June 29, 2018					
	Operating income (loss)	Integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Non-GAAP operating income (loss)	Non-GAAP operating margin
Defense Solutions ⁽¹⁾	\$ 94	\$ —	\$ 17	\$ —	\$ 111	8.8%
Civil ⁽¹⁾	60	—	22	2	84	10.3%
Health	68	—	12	—	80	17.7%
Corporate	(23)	8	—	—	(15)	NM
Total	\$ 199	\$ 8	\$ 51	\$ 2	\$ 260	10.3%

	Six Months Ended June 28, 2019					
	Operating income (loss)	Integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Non-GAAP operating income (loss)	Non-GAAP operating margin
Defense Solutions	\$ 190	\$ —	\$ 30	\$ —	\$ 220	8.4%
Civil	141	—	34	5	180	10.4%
Health	106	—	21	—	127	13.2%
Corporate	(35)	3	—	—	(32)	NM
Total	\$ 402	\$ 3	\$ 85	\$ 5	\$ 495	9.3%

	Six Months Ended June 29, 2018						
	Operating income (loss)	Integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Asset impairment charges	Non-GAAP operating income (loss)	Non-GAAP operating margin
Defense Solutions ⁽¹⁾	\$ 184	\$ —	\$ 34	\$ —	\$ —	\$ 218	8.9%
Civil ⁽¹⁾	129	—	44	5	—	178	10.8%
Health	110	—	23	—	—	133	15.2%
Corporate	(65)	25	—	—	7	(33)	NM
Total	\$ 358	\$ 25	\$ 101	\$ 5	\$ 7	\$ 496	10.0%

NM - Not Meaningful

⁽¹⁾ Prior year amounts have been recast for the contracts that were reassigned between the Defense Solutions and Civil reportable segments.