

## Leidos Holdings, Inc. Reports Second Quarter Fiscal Year 2016 Results

- **Revenues: \$1.29 billion**
- **Operating Income: \$75 million**
- **Diluted Earnings per Share from Continuing Operations: \$0.55**
- **Non-GAAP Diluted Earnings per Share from Continuing Operations: \$0.68**
- **Net Bookings: \$1.0 billion (book-to-bill ratio of 0.74)**

RESTON, Va., July 28, 2016 - Leidos Holdings, Inc. (NYSE: LDOS), a national security, health and infrastructure solutions company, today reported financial results for the second quarter of fiscal year 2016.

Roger Krone, Leidos Chairman and Chief Executive Officer commented: "Our second quarter results were in-line with our expectations and reflect strong organic growth in both of our business segments. Cash generation was also as expected, culminating in a strong balance sheet ahead of our impending transaction with IS&GS. I am excited by the progress we are making in driving growth, supporting our customers, and maximizing value to our shareholders."

### Summary Results

Revenues for the quarter were \$1.29 billion as compared to \$1.26 billion in the prior year, reflecting a growth of 2%.

Operating income from continuing operations for the quarter was \$75 million compared to \$64 million in the prior year, a growth of 17%. Operating margin increased to 5.8% from 5.1% in the prior year. The current year quarter included \$15 million of acquisition and integration costs related to the Lockheed Martin Transaction, while the prior year quarter included a non-cash asset impairment charge of \$29 million related to our former Plainfield Renewable Energy facility ("Plainfield facility").

Diluted earnings per share ("EPS") from continuing operations for the quarter was \$0.55 compared to \$0.50 in the prior year. The diluted share count for the quarter was 74 million, which is consistent with the prior year.

Non-GAAP diluted EPS from continuing operations for the quarter was \$0.68 compared to \$0.77 in the prior year.

### National Security Solutions

National Security Solutions revenues for the quarter increased \$36 million, or 4%, compared to the prior year. The revenue growth was primarily attributable to revenues associated with our new United Kingdom Ministry of Defense logistics program.

National Security Solutions operating income margin for the quarter was 6.7%, down from 8.4% in the prior year primarily due to lower program fees and contract mix.

### Health and Infrastructure Sector

Health and Infrastructure Sector revenues for the quarter decreased \$6 million, or 2%, compared to the prior year. The revenue decline is primarily due to the divestiture of our design, build and heavy construction engineering services business in the second quarter and the sale of the Plainfield Renewable Energy facility, which closed in the prior year quarter. The impact of these divestitures was primarily offset by revenue growth in our health business mainly due to our Defense Electronic Health Record system modernization program, and higher revenues from the sale of our security products.

Health and Infrastructure Sector operating income margin for the quarter was 10.5%, up from (1.8)% in the prior year. The prior year quarter included a non-cash asset impairment charge of \$29 million related to our former Plainfield facility. The current quarter benefited from improved fee performance from our federal and commercial health businesses.

## Cash Flow Summary

Cash flows provided by operating activities of continuing operations for the quarter was \$72 million compared to \$151 million in the prior year. The lower operating cash inflows were primarily due to timing of collections in the year ago quarter.

Cash flows provided by investing activities of continuing operations for the quarter was \$19 million compared to \$14 million used in the prior year. The \$33 million increase was primarily due to \$23 million of proceeds from the divestiture of our design, build and heavy construction engineering services business and payment of \$13 million, in connection with a prior acquisition in the prior year, that did not recur in fiscal 2016.

Cash flows used in financing activities of continuing operations for the quarter was \$30 million compared to \$149 million in the prior year. The lower financing cash outflows were primarily due to a \$100 million reduction in share repurchases and a \$17 million reduction in the repurchases of term notes from the prior year.

As of July 1, 2016, the Company had \$670 million in cash and cash equivalents and \$1.1 billion in long-term debt.

## New Business Awards

Net business bookings totaled \$1.0 billion in the quarter, representing a book-to-bill ratio of 0.74.

Notable recent awards received include:

- **Hawaii Public Utilities Commission:** Leidos was awarded a single-award, prime contract by the Hawaii Public Utilities Commission to administer the Hawaii Energy conservation and efficiency program. The contract has a three-year base period worth \$85 million followed by two successive three-year extensions.
- **U.S. Army:** Leidos was awarded a prime contract by the U.S. Army to provide Intelligence, Surveillance and Reconnaissance Research and Development - Analytic Software to the Army Research Laboratory Sensors Electron Devices Directorate. The multiple-award indefinite-delivery/indefinite-quantity cost-plus fixed-fee contract has a one-year base period of performance, four one-year options, and a total contract value of approximately \$250 million for all awardees, if all options are exercised.
- **VA T4-NextGen:** Leidos was awarded a prime contract by the Department of Veterans Affairs ("VA") to provide technical solutions under the VA Transformation Twenty-One Total Technology Next Generation (T4NG) program. The multiple-award indefinite-delivery/indefinite-quantity contract has a five-year base period of performance, one five-year option period, and a total contract value of approximately \$22 billion for all awardees, if the option is exercised. Leidos is one of 24 contractors eligible to compete for work under the contract.
- **Intelligence Community:** The Company was awarded contracts valued at \$343 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 of signed business orders at the end of the quarter was \$9.0 billion, of which \$2.4 billion was funded.

## Forward Guidance

As a result of the Company's year-to-date performance and updated expectations for the second half, the Company is updating guidance for revenues and non-GAAP diluted earnings per share from continuing operations. The updated guidance, which is based on a 12-month period from January 2, 2016, to December 30, 2016, is as follows:

- Revenues of \$5.1 billion to \$5.2 billion versus the prior range of \$5.1 billion to \$5.3 billion;
- Non-GAAP diluted earnings per share from continuing operations of \$2.85 to \$3.05, up from the previous range of \$2.75 to \$2.95; and
- Cash flows provided by operating activities from continuing operations at or above \$275 million.

Fiscal year 2016 guidance excludes the impact of the potential transaction with Lockheed Martin, including the impact of any acquisition related costs incurred prior to closing, and any other future acquisitions, divestitures, or other non-ordinary course items.

Non-GAAP diluted earnings per share excludes amortization of acquired intangible assets, impairment charges, restructuring expenses, acquisition and integration related costs, gains and losses on disposal of assets and businesses and adjustments to the income tax provision to reflect non-GAAP exclusions. See Leidos' non-GAAP financial measures and the related reconciliation included elsewhere in this release.

## Conference Call Information

Leidos management will discuss operations and financial results in an earnings conference call beginning at 8 A.M. eastern time on July 28, 2016. Analysts and institutional investors may participate by dialing +1 (877) 869-3847 (U.S. dial-in) or +1 (201) 689-8261 (international dial-in).

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) and entering conference ID 13640498.

## Investor Day Information

Leidos will host an Investor Day on Monday, August 1 at the NYSE in New York City. The event will provide the investment community with an opportunity to hear from Leidos' senior management team about its strategy, operations, and financial targets, including updates related to the proposed combination with Lockheed Martin's IS&GS business. Speakers will include Roger Krone, Chairman and Chief Executive Officer, James Reagan, Chief Financial Officer, and others.

A live webcast of the event and presentation will be accessible to the general public at approximately 12:30 p.m. on August 1 on the Investor Relations section of the Company's website, [ir.leidos.com](http://ir.leidos.com). A replay of the webcast and full copy of the presentation will be available later that day following the completion of the event, also accessible on the Investor Relations section of the Company's website, [ir.leidos.com](http://ir.leidos.com), and will remain available until May 1, 2017.

## About Leidos

Leidos is a science and technology solutions leader working to address some of the world's toughest challenges in national security, health and infrastructure. The Company's 18,000 employees support vital missions for government and commercial customers, develop innovative solutions to drive better outcomes and defend our digital and physical infrastructure from 'new world' threats. Headquartered in Reston, Virginia, Leidos reported annual revenues of approximately \$5.09 billion for the 12 months ended January 1, 2016.

For more information, visit [www.leidos.com](http://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, operating income, earnings, earnings per share, charges, backlog, outstanding shares and cash flows, 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 the guidance and other forward-looking statements made in this release depending on a variety of factors, including: changes to our reputation and relationships with government agencies, developments in the U.S. Government defense budget, including budget reductions, implementation of spending cuts (sequestration) or changes in budgetary priorities; delays in the U.S. Government budget process; 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 ability to attract, train and retain skilled employees, including our management team, and to obtain security clearances for our employees; factors relating to the satisfaction of the conditions to the proposed transaction with Lockheed Martin, including regulatory approvals and the required approvals of our stockholders; our and Lockheed Martin's ability to meet expectations regarding the timing, completion and accounting and tax treatments of the transaction with Lockheed Martin; the possibility that we may be unable to achieve expected synergies and operating efficiencies in connection with the transaction with Lockheed Martin within the expected time-frames or at all; the integration of the Information Systems & Global Solutions business being acquired from Lockheed Martin being more difficult, time-consuming or costly than expected; the effect of any changes resulting from the proposed transaction in customer, supplier and other business relationships; general market perception of the proposed transaction with Lockheed Martin; exposure to lawsuits and contingencies associated with Lockheed Martin's Information Systems & Global Solutions business; 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 or design build projects; the failure of our inspection or detection systems to detect threats; the adequacy of our insurance programs designed to protect us from significant product or other liability claims; our ability to manage risks associated with our international business; 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; 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 prospectus included in the registration statement on Form S-4 filed by the Company on July 11, 2016 (which was declared effective by the SEC on July 11, 2016), our definitive proxy statement for the Company's annual meeting of stockholders filed on July 7, 2016, and the “Risk Factors,” “Management's Discussion and Analysis of Financial Condition and Results of Operations” and “Legal Proceedings” sections of our latest Transition 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](http://www.leidos.com).

All information in this release is as of July 28, 2016. 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	
	July 1, 2016	July 3, 2015	July 1, 2016	July 3, 2015
Revenues	\$ 1,288	\$ 1,257	\$ 2,600	\$ 2,503
Costs and expenses:				
Cost of revenues	1,141	1,113	2,295	2,206
Selling, general and administrative expenses	57	51	117	126
Acquisition and integration costs	15	—	24	—
Asset impairment charges	—	29	—	69
Operating income	<u>75</u>	<u>64</u>	<u>164</u>	<u>102</u>
Non-operating expense:				
Interest expense, net	(13)	(14)	(24)	(28)
Other (expense) income, net	(2)	2	(2)	1
Income from continuing operations before income taxes	<u>60</u>	<u>52</u>	<u>138</u>	<u>75</u>
Income tax expense	(19)	(15)	(44)	(15)
Income from continuing operations	<u>41</u>	<u>37</u>	<u>94</u>	<u>60</u>
Discontinued operations:				
Income tax benefit	—	—	—	18
Income from discontinued operations	<u>—</u>	<u>—</u>	<u>—</u>	<u>18</u>
Net income	<u>\$ 41</u>	<u>\$ 37</u>	<u>\$ 94</u>	<u>\$ 78</u>
Earnings per share:				
Basic:				
Income from continuing operations	\$ 0.56	\$ 0.51	\$ 1.31	\$ 0.82
Income from discontinued operations	—	—	—	0.25
	<u>\$ 0.56</u>	<u>\$ 0.51</u>	<u>\$ 1.31</u>	<u>\$ 1.07</u>
Diluted:				
Income from continuing operations	\$ 0.55	\$ 0.50	\$ 1.27	\$ 0.80
Income from discontinued operations	—	—	—	0.24
	<u>\$ 0.55</u>	<u>\$ 0.50</u>	<u>\$ 1.27</u>	<u>\$ 1.04</u>
Weighted average number of common shares outstanding:				
Basic	73	73	72	73
Diluted	74	74	74	75
Cash dividends declared per share	<u>\$ 0.32</u>	<u>\$ 0.32</u>	<u>\$ 0.64</u>	<u>\$ 0.64</u>

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

	July 1, 2016	January 1, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 670	\$ 656
Receivables, net	924	921
Inventory, prepaid expenses and other current assets	223	216
Total current assets	<u>1,817</u>	<u>1,793</u>
Property, plant and equipment, net	131	142
Goodwill and intangible assets, net	1,228	1,232
Deferred income taxes	7	8
Other assets	218	195
	<u>\$ 3,401</u>	<u>\$ 3,370</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 720	\$ 769
Accrued payroll and employee benefits	269	268
Notes payable and long-term debt, current portion	1	2
Liabilities of discontinued operations	—	1
Total current liabilities	<u>990</u>	<u>1,040</u>
Notes payable and long-term debt, net of current portion	1,092	1,079
Other long-term liabilities	195	183
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.0001 par value, 10 million shares authorized and no shares issued and outstanding at July 1, 2016 and January 1, 2016	—	—
Common stock, \$.0001 par value, 500 million shares authorized, 73 million and 72 million shares issued and outstanding at July 1, 2016 and January 1, 2016, respectively	—	—
Additional paid-in capital	1,358	1,353
Accumulated deficit	(230)	(277)
Accumulated other comprehensive loss	(4)	(8)
Total stockholders' equity	<u>1,124</u>	<u>1,068</u>
	<u>\$ 3,401</u>	<u>\$ 3,370</u>

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

	Three Months Ended		Six Months Ended	
	July 1, 2016	July 3, 2015	July 1, 2016	July 3, 2015
Cash flows from operations:				
Net income	\$ 41	\$ 37	\$ 94	\$ 78
Income from discontinued operations	—	—	—	(18)
Adjustments to reconcile net income to net cash provided by operations:				
Depreciation and amortization	9	12	17	24
Stock-based compensation	8	8	16	14
Asset impairment charges	—	29	—	69
Other	(5)	—	(3)	(1)
Change in assets and liabilities, net of effects of acquisitions and dispositions:				
Receivables	(28)	46	(76)	63
Inventory, prepaid expenses and other current assets	4	19	(7)	(10)
Accounts payable and accrued liabilities	(11)	(16)	7	14
Accrued payroll and employee benefits	53	39	2	(20)
Deferred income taxes and income taxes receivable/payable	(2)	(13)	7	(88)
Other long-term assets/liabilities	3	(10)	1	(16)
Total cash flows provided by operating activities of continuing operations	<u>72</u>	<u>151</u>	<u>58</u>	<u>109</u>
Cash flows from investing activities:				
Expenditures for property, plant and equipment	(3)	(5)	(7)	(8)
Payments on accrued purchase price related to prior acquisition	—	(13)	—	(13)
Net proceeds from sale of assets	—	5	3	5
Proceeds from disposition of business	23	—	23	—
Other	(1)	(1)	(1)	—
Total cash flows provided by (used in) investing activities of continuing operations	<u>19</u>	<u>(14)</u>	<u>18</u>	<u>(16)</u>
Cash flows from financing activities:				
Payments of notes payable and long-term debt	(1)	(18)	(2)	(47)
Sales of stock and exercises of stock options	4	2	6	3
Repurchases of stock and stock received for tax withholdings	(10)	(109)	(19)	(115)
Dividend payments	(23)	(24)	(46)	(48)
Other	—	—	—	1
Total cash flows used in financing activities of continuing operations	<u>(30)</u>	<u>(149)</u>	<u>(61)</u>	<u>(206)</u>
Increase (decrease) in cash and cash equivalents from continuing operations	<u>61</u>	<u>(12)</u>	<u>15</u>	<u>(113)</u>
Cash flows from discontinued operations:				
Cash provided by operating activities of discontinued operations	—	—	—	13
Cash (used in) provided by investing activities of discontinued operations	—	—	(1)	6
(Decrease) increase in cash and cash equivalents from discontinued operations	—	—	(1)	19
Total increase (decrease) in cash and cash equivalents	<u>61</u>	<u>(12)</u>	<u>14</u>	<u>(94)</u>
Cash and cash equivalents at beginning of period	<u>609</u>	<u>377</u>	<u>656</u>	<u>459</u>
Cash and cash equivalents at end of period	<u>\$ 670</u>	<u>\$ 365</u>	<u>\$ 670</u>	<u>\$ 365</u>



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

During the first quarter, the Company renamed the reportable segment of Health and Engineering as Health and Infrastructure Sector to better focus our engineering efforts in the utility and broader infrastructure markets.

The segment information for the periods presented was as follows:

	Three Months Ended				Six Months Ended			
	July 1, 2016	July 3, 2015	Dollar change	Percent change	July 1, 2016	July 3, 2015	Dollar change	Percent change
<b>Revenues:</b>								
National Security Solutions	\$ 915	\$ 879	\$ 36	4.1 %	\$ 1,813	\$ 1,741	\$ 72	4.1 %
Health and Infrastructure Sector	373	379	(6)	(1.6)%	787	764	23	3.0 %
Corporate and Other	—	(1)	1	NM	—	(2)	2	NM
Total	<u>\$ 1,288</u>	<u>\$ 1,257</u>	<u>\$ 31</u>	<u>2.5 %</u>	<u>\$ 2,600</u>	<u>\$ 2,503</u>	<u>\$ 97</u>	<u>3.9 %</u>
<b>Operating income (loss):</b>								
National Security Solutions	\$ 61	\$ 74	\$ (13)	(17.6)%	\$ 133	\$ 136	\$ (3)	(2.2)%
Health and Infrastructure Sector	39	(7)	46	NM	75	(14)	89	NM
Corporate and Other	(25)	(3)	(22)	NM	(44)	(20)	(24)	NM
Total	<u>\$ 75</u>	<u>\$ 64</u>	<u>\$ 11</u>	<u>17.2 %</u>	<u>\$ 164</u>	<u>\$ 102</u>	<u>\$ 62</u>	<u>60.8 %</u>
<b>Operating income (loss) margin:</b>								
National Security Solutions	6.7%	8.4 %			7.3%	7.8 %		
Health and Infrastructure Sector	10.5%	(1.8)%			9.5%	(1.8)%		
Total	5.8%	5.1 %			6.3%	4.1 %		

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 as work is performed. Backlog estimates are subject to change and may be affected by factors including modifications of contracts and foreign currency movements.

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 agencies 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 (1) contracts for which funding has not been appropriated and (2) unexercised priced contract options. Negotiated unfunded backlog does not include future potential task orders expected to be awarded under indefinite delivery/indefinite quantity, General Services Administration Schedule or other master agreement contract vehicles.

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

	July 1, 2016	January 1, 2016
<b>National Security Solutions:</b>		
Funded backlog	\$ 1,523	\$ 1,472
Negotiated unfunded backlog	5,765	6,554
Total National Security Solutions backlog	<u>\$ 7,288</u>	<u>\$ 8,026</u>
<b>Health and Infrastructure Sector:</b>		
Funded backlog	\$ 868	\$ 1,049
Negotiated unfunded backlog	811	820
Total Health and Infrastructure Sector backlog	<u>\$ 1,679</u>	<u>\$ 1,869</u>
<b>Total:</b>		
Funded backlog	\$ 2,391	\$ 2,521
Negotiated unfunded backlog	6,576	7,374
Total backlog	<u>\$ 8,967</u>	<u>\$ 9,895</u>

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

The Company uses and refers to non-GAAP operating income, adjusted EBITDA, non-GAAP income from continuing operations, and non-GAAP EPS from continuing operations, which are not measures of financial performance under generally accepted accounting principles in the U.S. ("GAAP") 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 income (loss) from continuing operations: (i) other income (expense), net; (ii) interest expense; (iii) interest income; (iv) income tax (expense) benefit adjusted to reflect non-GAAP adjustments; and (v) the following discrete items:

- Acquisition and integration costs - Represents costs related to the Lockheed Martin transaction and integration of the acquired business.
- Amortization of acquired intangible assets - Represents the amortization expense associated with acquired intangible assets.
- Restructuring expenses - Represents costs associated with lease termination and facility consolidation, including costs related to the Company's September 2013 spin-off of its former technical services and enterprise IT business.
- Gains and losses on disposal of assets and businesses - Represents the gains or losses on certain sales of real estate and businesses.
- Asset impairment charges - Represents impairments of long-lived intangible and tangible assets.

**Adjusted EBITDA** is computed by excluding the following items from income (loss) from continuing operations: (i) discrete items as identified above; (ii) interest expense; (iii) interest income; (iv) depreciation expense; and (v) income tax (expense) benefit, adjusted to reflect the non-GAAP adjustments.

**Non-GAAP income from continuing operations** is computed by excluding the discrete items as identified above from income (loss) from continuing operations and adjusting income tax (expense) benefit for the effect of such exclusions.

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

The following table presents the reconciliation of the non-GAAP measures identified above to the most directly comparable GAAP measures, income from continuing operations and diluted EPS from continuing operations:

	Three Months Ended		Six Months Ended	
	July 1, 2016	July 3, 2015 <sup>(2)</sup>	July 1, 2016	July 3, 2015 <sup>(2)</sup>
<b>Non-GAAP operating income from continuing operations</b>	<b>\$ 93</b>	<b>\$ 96</b>	<b>\$ 192</b>	<b>\$ 178</b>
Depreciation expense	7	9	14	19
Other (expense) income, net	(5)	2	(7)	1
<b>Adjusted EBITDA</b>	<b>\$ 95</b>	<b>\$ 107</b>	<b>\$ 199</b>	<b>\$ 198</b>
Depreciation expense	(7)	(9)	(14)	(19)
Interest expense, net	(13)	(14)	(24)	(28)
Income tax expense adjusted to reflect non-GAAP adjustments	(25)	(27)	(54)	(44)
<b>Non-GAAP income from continuing operations</b>	<b>\$ 50</b>	<b>\$ 57</b>	<b>\$ 107</b>	<b>\$ 107</b>
Acquisition and integration costs	(15)	—	(24)	—
Amortization of acquired intangible assets	(2)	(3)	(3)	(5)
Gain on sale of a business	3	—	3	—
Restructuring expenses	(1)	—	(1)	(2)
Gain on a real estate sale	—	—	2	—
Asset impairment charges	—	(29)	—	(69)
Adjustment to the income tax provision to reflect non-GAAP adjustments <sup>(1)</sup>	6	12	10	29
<b>GAAP income from continuing operations</b>	<b>\$ 41</b>	<b>\$ 37</b>	<b>\$ 94</b>	<b>\$ 60</b>
Non-GAAP diluted EPS from continuing operations	<b>\$ 0.68</b>	<b>\$ 0.77</b>	<b>\$ 1.45</b>	<b>\$ 1.43</b>
Total adjustments from non-GAAP income from continuing operations	(0.13)	(0.27)	(0.18)	(0.63)
GAAP diluted EPS from continuing operations	<b>\$ 0.55</b>	<b>\$ 0.50</b>	<b>\$ 1.27</b>	<b>\$ 0.80</b>
Diluted shares (for computing non-GAAP EPS)	<b>74</b>	<b>74</b>	<b>74</b>	<b>75</b>

<sup>(1)</sup> Calculation uses an estimated statutory rate on non-GAAP tax deductible adjustments.

<sup>(2)</sup> Prior period has been recast to reflect amortization of acquired intangible assets as a non-GAAP adjustment.