Leidos Holdings, Inc.
Form 10-KT
February 26, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)
o ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
or
x TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from January 31, 2015 to January 1, 2016

Leidos Holdings, Inc.
Leidos, Inc.
(Exact names of registrants as specified in their charters)

Delaware	20-3562868 and 95-3630868
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Nos.)
11951 Freedom Drive, Reston, Virginia	20190
(Address of principal executive offices)	(Zip Code)

(571) 526-6000
(Registrants' telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Leidos Holdings, Inc. Yes x No o
Leidos, Inc. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Leidos Holdings, Inc. Yes o No x
Leidos, Inc. Yes o No x
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.
Leidos Holdings, Inc. Yes x No o
Leidos, Inc. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Leidos Holdings, Inc.   Yes x   No o

Leidos, Inc.   Yes x   No o

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

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

Leidos Holdings, Inc.   Large accelerated filer x   Accelerated filer o   Non-accelerated filer o   Smaller reporting company o

Leidos, Inc.   Large accelerated filer o   Accelerated filer o   Non-accelerated filer x   Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Leidos Holdings, Inc.   Yes o   No x

Leidos, Inc.   Yes o   No x

As of July 3, 2015, which was the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of Leidos Holdings, Inc. common stock (based upon the closing price of the stock on the New York Stock Exchange) held by non-affiliates of the registrant was $2,892,032,677.

The number of shares issued and outstanding of each registrant's classes of common stock as of February 17, 2016 was as follows:

Leidos Holdings, Inc.	72,164,921 shares of common stock ($.0001 par value per share)
Leidos, Inc.	5,000 shares of common stock ($.01 par value per share) held by Leidos Holdings, Inc.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III that is not set forth herein will be included in an amendment to this Transition Report on Form 10-K or incorporated by reference from Leidos Holdings, Inc.'s definitive Proxy Statement to be filed pursuant to Regulation 14A ("2016 Proxy Statement").

Explanatory Note

This Transition Report on Form 10-K is a combined report being filed by Leidos Holdings, Inc. (“Leidos”) and Leidos, Inc. Leidos is a holding company and Leidos, Inc. is a direct, 100%-owned subsidiary of Leidos. Each of Leidos and Leidos, Inc. is filing on its own behalf all of the information contained in this report that relates to such company. Where information or an explanation is provided that is substantially the same for each company, such information or explanation has been combined in this report. Where information or an explanation is not substantially the same for each company, separate information and explanation has been provided. In addition, separate consolidated financial statements for each company, along with combined notes to the consolidated financial statements, are included in this report. Unless indicated otherwise, references in this report to the “Company,” “we,” “us,” and “our” refer collectively to Leidos Holdings, Inc., Leidos, Inc., and its consolidated subsidiaries.

LEIDOS HOLDINGS, INC.
LEIDOS, INC.
FORM 10-K TRANSITION REPORT
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Item 1. Business

Our Company

Leidos Holdings, Inc. ("Leidos") is a holding company. Its principal operating company, Leidos, Inc., was formed in 1969 by a small group of scientists led by physicist Dr. Robert Beyster. Since our founding 47 years ago, we have applied our expertise in science, research and engineering in rapidly evolving technologies and markets to solve complex problems of national concern.

Leidos is an applied technology company delivering services and solutions to national security, health and engineering markets. We bring domain-specific capability and cross-market innovations to customers in each of these markets by leveraging five core capabilities: C4ISR, cybersecurity, systems engineering, large-scale agile software development and data analytics. Applying our technically advanced solutions to help solve our customers' most difficult problems has enabled us to build strong relationships with our key customers. These customers include agencies of the U.S. Department of Defense ("DoD"), the intelligence community, the U.S. Department of Homeland Security ("DHS"), other U.S. Government civil agencies, state and local government agencies and government agencies of U.S. allies abroad. With a focus on delivering mission-critical solutions, Leidos generates over 76% of our total revenues from U.S. Government contracts. A majority of that work supports the U.S. Intelligence Community.

Building on our foundation in offering innovative services and solutions to U.S. Government customers, Leidos is expanding into international government and broader commercial markets. By leveraging expertise in multiple disciplines, tailoring our solutions to the particular needs of our targeted markets and using advanced analytics, we work to securely deliver solutions that not only meet customers' current goals, but also support their future endeavors. For additional discussion and analysis related to recent business developments, see "Business Environment and Trends" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of this Transition Report on Form 10-K.

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

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

As a result of this change, the Company is filing this Annual Report on Form 10-K, which covers the 11-month period which began on January 31, 2015 and ended on January 1, 2016, as its transition report. This change does not impact the Company's prior reported fiscal years (each covering a 12-month period), each of which ended on the Friday closest to January 31. For example, fiscal 2015 began on February 1, 2014 and ended on January 30, 2015.

Our Business Segments

Our business is aligned into three reportable segments: National Security Solutions (NSS), Health and Engineering (HES) and Corporate and Other. While each reportable segment is organized around the markets served and the nature of the products and services provided to customers in those markets, we provide a wide array of scientific, engineering and technical services and solutions across these reportable segments. Substantially all of our revenues and tangible long-lived assets are generated by or owned by entities located in the United States.

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National Security Solutions

National Security Solutions is focused on rapidly deploying agile, cost-effective solutions to meet the ever-changing missions of our customers in the areas of intelligence surveillance and reconnaissance, integrated systems and cybersecurity and global services. We provide a diverse portfolio of national security solutions and systems for air, land, sea, space and cyberspace for the U.S. Intelligence Community, the DoD, military services, DHS, government agencies of U.S. allies abroad and other federal, civilian and commercial customers in the national security industry. Our solutions deliver innovative technology, large-scale intelligence systems, command and control, data analytics, logistics and cybersecurity solutions, as well as intelligence analysis and operations support to critical missions around the world. National Security Solutions represented 68%, 71% and 70% of total revenues for the 11-month period ended January 1, 2016, fiscal 2015 and fiscal 2014, respectively.

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

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

Health and Engineering

Our Health and Engineering businesses capitalize on our knowledge and experience in technology and innovation. Major customers of Health and Engineering primarily include the U.S. federal government, state and local governmental agencies, foreign governments, healthcare providers and commercial enterprises in various industries. Health and Engineering represented 32%, 29% and 30% of total revenues for the 11-month period ended January 1, 2016, fiscal 2015 and fiscal 2014, respectively.

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

- Federal Health - We developed, fielded and currently maintain a full end-to-end Electronic Health Record ("EHR") system and numerous behavior health services—healthcare beyond the clinic—for the DoD. We are currently working on developing the next generation EHR system that will be deployed to DoD hospitals and other sites worldwide. Within the DoD, we serve the Defense Health Agency, which provides healthcare to active duty and retired military personnel and their dependents. We also provide information technology solutions, scientific support and behavioral health services to the Veterans Administration, National Institutes of Health and other government customers. We strive to improve the availability, quality and cost effectiveness of healthcare for our military service members and their families.

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- Commercial Health - We implement and optimize EHR systems at commercial hospitals. In addition, we provide consulting services and operational support focused on addressing health care legislation for Meaningful Use and ICD-10 transition, IT strategy, revenue cycle management, accountable care transformation, risk management, technology infrastructure and project management. Our teams are staffed with clinical subject matter experts who draw upon their deep experience and knowledge of healthcare and IT systems.
- Life Sciences - We provide life science research and development support to the National Institutes of Health, Center for Disease Control, Army Medical Research community, commercial biotech companies and the Frederick National Laboratory for Cancer Research, where we employ about 1,900 scientists, technicians, administrators and support staff. Our professionals operate a wide range of leading-edge research and development laboratories in the areas of genetics and genomics, proteins and proteomics, advanced biomedical computing and information technology, biopharmaceutical development and manufacturing, nanotechnology characterization and clinical trials management.

Our Engineering business leverages technology and skills in process engineering, engineering design and systems integration to create innovative and cost effective solutions for our customers. We carry out our engineering business in five key areas of expertise:

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

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Corporate and Other

The Corporate and Other business segment includes the operations of various corporate activities, certain expense items that are not reimbursed by our U.S. Government customers and certain other revenue and expense items excluded from a reportable segment's performance. Corporate and Other represented an immaterial percentage of revenue for the 11-month period ended January 1, 2016, fiscal 2015 and fiscal 2014.

For additional information regarding our reportable segments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II and Note 18 of the combined notes to consolidated financial statements contained within this Transition Report on Form 10-K.

Acquisitions and Dispositions

Our key management initiatives are to achieve annual revenue and earnings growth while maintaining high cash flow efficiency. To achieve these objectives, we routinely conduct due-diligence on acquisition targets and potential divestitures allowing us to ensure the Company possesses an optimal set of capabilities, customer relationships and contract vehicles to compete effectively in the markets we serve. In addition, on January 26, 2016, we entered into a definitive agreement whereby the Information Systems & Global Solutions business (IS&GS) of Lockheed Martin will be merged with a wholly-owned subsidiary of Leidos (the "Lockheed Martin Transaction"). See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations–Lockheed Martin Transaction" for a further description of the Lockheed Martin Transaction.

Over the past three fiscal years, while we did not have any material acquisitions, we did divest of seven businesses. Four of these non-strategic dispositions were reclassified as discontinued operations on a retrospective basis. Additionally, in fiscal 2014, we completed the strategic spin-off of our technical services and enterprise information technology services business into an independent, publicly traded company named Science Applications International Corporation ("New SAIC"). The results of operations for New SAIC were reclassified as discontinued operations on a retrospective basis.

Key Customers

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

The percentage of total revenues for the U.S. Government, its agencies and other customers comprising more than 10% of total revenues in any of the years for the 11-month period ended January 1, 2016, fiscal 2015 and fiscal 2014, were as follows:

	11 Months Ended		12 Months Ended			
	January 1, 2016		January 30, 2015		January 31, 2014	
U.S. Government	76	%	79	%	78	%
U.S. DoD	64	%	67	%	68	%
U.S. Army	14	%	16	%	19	%
Maryland Procurement Office	10	%	10	%	8	%

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

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Employees

As of January 1, 2016, we employed approximately 18,000 full and part-time employees worldwide. The experience and expertise of our employees makes Leidos capable of solving our customers' most challenging technical problems. Approximately 40% of our employees have degrees in Science, Technology, Engineering or Mathematics fields, close to 1,000 employees have doctoral degrees and nearly 50% of our employees possess security clearances.

Research and Development

We conduct research and development activities under customer-funded contracts and with company-funded internal research and development ("IR&D") funds. IR&D efforts consist of projects involving basic research, applied research, development and systems and other concept formulation studies. IR&D expenses are included in selling, general and administrative expenses and are generally allocated to U.S. Government contracts. For the 11-month period ended January 1, 2016, fiscal 2015 and fiscal 2014, our company-funded IR&D expense was $29 million, $37 million and $45 million, respectively, which as a percentage of sales was 0.6%, 0.7% and 0.8%, respectively. We charge expenses for research and development activities performed under customer contracts directly to cost of revenues for those contracts.

Patents and Proprietary Information

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

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

Competition

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

- the engineering and technical services divisions of large defense contractors that provide U.S. Government IT services in addition to other hardware systems and products, including companies such as The Boeing Company, General Dynamics Corporation, Lockheed Martin Corporation, Northrop Grumman Corporation, BAE Systems plc, L-3 Communications Corporation and Raytheon Company;
- contractors focused principally on technical services, including U.S. Government IT services, such as Booz Allen Hamilton Inc., Engility Holdings, Inc., CACI International Inc., ManTech International Corporation, Serco Group plc and MITRE Corporation;
- diversified commercial and U.S. Government IT providers, such as Accenture plc, CSRA, Inc., HP Enterprise Services, International Business Machines Corporation ("IBM") and Unisys Corporation;
- contractors that provide engineering, consulting, design and construction services, such as Jacobs Engineering Group, AECOM, KBR, Inc. and CH2M Hill Companies Ltd.;
- contractors focused on supplying homeland security product solutions, including American Science and Engineering, Inc., OSI Systems, Inc., L-3 Communications Corporation, Morpho (Safran) and Smiths Group plc;

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- contractors providing supply chain management and other logistics services, including Agility Logistics Corp.; and
- companies focused on providing health solutions and services to the U.S. Government and hospitals, including Accenture plc, IBM, CSRA, Inc., Lockheed Martin Corporation, Epic Systems and Medical Information Technology, Inc. ("Meditech").

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

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

Contract Procurement

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

- Definitive Award Contracts. U.S. Government agencies may procure services and products through single definitive award contracts which specify the scope of services or products purchased and identify the contractor that will provide the specified services or products. When an agency has a requirement, the agency will issue a solicitation or request for proposal to which interested contractors can submit a proposal. The process of issuing solicitations or request for proposals and evaluating contractor bids requires the agency to maintain a large, professional procurement staff and the bidding and selection process can take a year or more to complete. For the contractor, this method of contracting may provide greater certainty of the timing and amounts to be received at the time of contract award because it generally results in the customer contracting for a specific scope of services or products from the single definitive successful awardee.
- Indefinite Delivery/Indefinite Quantity ("IDIQ") Contracts. The U.S. Government uses IDIQ contracts to obtain commitments from contractors to provide certain services or products on pre-established terms and conditions. The U.S. Government then issues task orders under the IDIQ contracts to purchase the specific services or products it needs. IDIQ contracts are awarded to one or more contractors following a competitive procurement process. Under a single-award IDIQ contract, all task orders under that contract are awarded to one pre-established contractor. Under a multiple-award IDIQ contract, task orders can be awarded to any of the pre-established contractors, which can result in further limited competition for the award of task orders. Multiple-award IDIQ contracts that are open for any government agency to use for procurement are commonly referred to as “government-wide acquisition contracts.” IDIQ contracts often have multi-year terms and unfunded ceiling amounts, therefore enabling, but not committing, the U.S. Government to purchase substantial amounts of services or products from one or more contractors. At the time an IDIQ contract is awarded (prior to the award of any task orders), a contractor may have limited or no visibility as to the ultimate amount of services or products that the U.S. Government will purchase under the contract, and in the case of a multiple-award IDIQ, the contractor from which such purchases may be made.

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- U.S. General Services Administration ("GSA") Schedule Contracts. The GSA maintains listings of approved suppliers of services and products with agreed-upon prices for use throughout the U.S. Government. In order for a company to provide services under a GSA Schedule contract, a company must be pre-qualified and awarded a contract by the GSA. When an agency uses a GSA Schedule contract to meet its requirements, the agency, or the GSA on behalf of the agency, conducts the procurement. The user agency, or the GSA on its behalf, evaluates the user agency's requirements and initiates a competition limited to GSA Schedule qualified contractors. GSA Schedule contracts are designed to provide the user agency with reduced procurement time and lower procurement costs. Similar to IDIQ contracts, at the time a GSA Schedule contract is awarded, a contractor may have limited or no visibility as to the ultimate amount of services or products that the U.S. Government will purchase under the contract.

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

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

Contract Types

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

- Cost-reimbursement contracts provide for reimbursement of our direct contract costs and allocable indirect costs, plus a fee. This type of contract is generally used when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use a fixed-price contract. Cost-reimbursement contracts generally subject us to lower risk but generally require us to use our best efforts to accomplish the scope of the work within a specified time and amount of costs.
- Time-and-materials ("T&M") contracts typically provide for negotiated fixed hourly rates for specified categories of direct labor plus reimbursement of other direct costs. This type of contract is generally used when there is uncertainty of the extent or duration of the work to be performed by the contractor at the time of contract award or it is not possible to anticipate costs with any reasonable degree of confidence. On T&M contracts, we assume the risk of providing appropriately qualified staff to perform these contracts at the hourly rates set forth in the contracts over the period of performance of the contracts.
- Fixed-price-level-of-effort ("FP-LOE") contracts are substantially similar to T&M contracts except they require a specified level of effort over a stated period of time on work that can be stated only in general terms. This type of contract is generally used when the contractor is required to perform an investigation or study in a specific research and development area and to provide a report showing the results achieved based on the level of effort. Payment is based on the effort expended rather than the results achieved.
- Firm-fixed-price ("FFP") contracts provide for a fixed price for specified products, systems and/or services. This type of contract is generally used when the government acquires products and services on the basis of reasonably definitive specifications and which have a determinable fair and reasonable price. These contracts offer us potential increased profits if we can complete the work at lower costs than planned. While FFP contracts allow us to benefit from cost

savings, these contracts also increase our exposure to the risk of cost overruns.

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Our earnings and profitability may vary materially depending on changes in the proportionate amount of revenues derived from each type of contract, the nature of services or products provided, as well as the achievement of performance objectives and the stage of performance at which the right to receive fees, particularly under incentive and award fee contracts, is finally determined. Cost-reimbursement and T&M contracts generally have lower profitability than FFP contracts. For the proportionate amount of revenues derived from each type of contract for the 11-month period ended January 1, 2016, fiscal 2015 and fiscal 2014, see “Key Performance Measures—Contract Types” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II of this Transition Report on Form 10-K.

Backlog

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

Seasonality

The U.S. Government's fiscal year ends on September 30 of each year. It is not uncommon for U.S. Government agencies to award extra tasks or complete other contract actions in the timeframe leading up to the end of its fiscal year in order to avoid the loss of unexpended fiscal year funds, which may favorably impact our third fiscal quarter. In addition, as a result of the cyclical nature of the U.S. Government budget process and a greater number of holidays in our fourth fiscal quarter as compared to our third fiscal quarter, we typically experience sequentially higher revenues in our third fiscal quarter and lower revenues in our fourth fiscal quarter. For selected quarterly financial data, see Note 21 of the combined notes to consolidated financial statements contained within this Transition Report on Form 10-K.

Regulation

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

- require certification and disclosure of all cost and pricing data in connection with certain contract negotiations;
- define allowable and unallowable costs and otherwise govern our right to reimbursement under various cost-type U.S. Government contracts;
- require compliance with U.S. Government Cost Accounting Standards ("CAS");
- require reviews by the Defense Contract Audit Agency ("DCAA"), Defense Contract Management Agency ("DCMA") and other U.S. Government agencies of compliance with government requirements for a contractor’s

business systems;

- restrict the use and dissemination of unclassified contract-related information and information classified for national security purposes and the export of certain products and technical data; and
- require us not to compete for work if an actual or potential organizational conflict of interest, as defined by these laws and regulations, related to such work exists and/or cannot be appropriately mitigated, neutralized or avoided.

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

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

Environmental Matters

Our operations are subject to various foreign, federal, state and local environmental protection and health and safety laws and regulations. In addition, our operations may become subject to future laws and regulations, including those related to climate change and environmental sustainability. Failure to comply with these laws and regulations could result in civil, criminal, regulatory, administrative or contractual sanctions, including fines, penalties or suspension or debarment from contracting with the U.S. Government, or could cause us to incur costs to change, upgrade, remediate and/or close some of our operations or properties. Some environmental laws hold current or previous owners or operators of businesses and real property liable for hazardous substance releases, even if they did not know of and were not responsible for the releases. Our services and operations involve the assessment or remediation of environmental hazards, as well as using, handling or disposing of hazardous substances. Environmental laws may impose liability on any person who disposes, transports or arranges for the disposal or transportation of hazardous substances to any site. In addition, we may face liability for personal injury, property damage and natural resource damages relating to hazardous substance releases for which we are otherwise liable or relating to exposure to or the mishandling of hazardous substances in connection with our current and former operations or services, including our current and prior ownership of properties. Although we do not currently anticipate that the costs of complying with, or the liabilities associated with, environmental laws will materially and adversely affect us, we cannot ensure that we will not incur material costs or liabilities in the future.

Company Website and Information

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

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

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

PART I

Item 1A. Risk Factors

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

Risks Relating to Our Business

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

We generated over 76% of our total revenues during the 11-month period ended January 1, 2016, fiscal 2015, and fiscal 2014, from contracts with the U.S. Government (including all branches of the U.S. military), either as a prime contractor or a subcontractor to other contractors engaged in work for the U.S. Government. We generated more than 10% of our total revenues during the 11-month period ended January 1, 2016, fiscal 2015, and fiscal 2014, from the U.S. Army. We expect to continue to derive most of our revenues from work performed under U.S. Government contracts. Our reputation and relationship with the U.S. Government, and in particular with the agencies of the DoD and the U.S. Intelligence Community, are key factors in maintaining and growing our revenues. Negative press reports or publicity, which could pertain to employee or subcontractor misconduct, conflicts of interest, poor contract performance, deficiencies in services, reports, products or other deliverables, information security breaches or other aspects of our business, regardless of accuracy, could harm our reputation, particularly with these agencies. If our reputation is negatively affected, or if we are suspended or debarred from contracting with government agencies for any reason, the amount of business with government and other customers would decrease and our future revenues and growth prospects would be adversely affected.

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

Revenues under contracts with the DoD, either as a prime contractor or subcontractor to other contractors, represented approximately 64% of our total revenues for the 11-month period ended January 1, 2016. Levels of DoD spending are difficult to predict and subject to significant risk. Our operating results could be adversely affected by spending caps or changes in the budgetary priorities of the U.S. Government or the DoD, as well as delays in program starts or the award of contracts or task orders under contracts. Current U.S. Government spending levels for defense-related programs may not be sustained and future spending and program authorizations may not increase or may decrease or shift to programs in areas in which we do not provide services or are less likely to be awarded contracts. Such changes in spending authorizations and budgetary priorities may occur as a result of uncertainty surrounding the federal budget, increasing political pressure and legislation, shifts in spending priorities from defense-related programs as a result of competing demands for federal funds, the number and intensity of military conflicts or other factors.

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

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

The funding of U.S. Government programs is subject to an annual congressional budget authorization and appropriation process. In years when the U.S. Government does not complete its budget process before the end of its fiscal year on September 30, government operations are typically funded pursuant to a "continuing resolution," which allows federal government agencies to operate at spending levels approved in the previous budget cycle, but does not authorize new spending initiatives. When the U.S. Government operates under a continuing resolution, delays can occur in the procurement of the products, services and solutions that we provide and may result in new initiatives being canceled. We have from time to time experienced a decline in revenues in our fourth quarter ending the Friday nearest the end of January for prior years and ending the Friday nearest the end of December for the 11-month period ended January 1, 2016 and beyond as a result of this annual budget cycle, and we could experience similar declines in revenues from future delays in the budget process. In years when the U.S. Government fails to complete its budget process or to provide for a continuing resolution, a federal government shutdown may result. A federal government shutdown could, in turn, result in our incurrence of substantial labor or other costs without reimbursement under customer contracts, or the delay or cancellation of key programs, which could have a negative effect on our cash flows and adversely affect our future results. In addition, when supplemental appropriations are required to operate the U.S. Government or fund specific programs and passage of legislation needed to approve any supplemental appropriation bill is delayed, the overall funding environment for our business could be adversely affected.

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

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

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

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

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

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

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

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

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

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

Our indirect cost audits by the DCAA remain open for fiscal 2011 and subsequent fiscal years. Although we have recorded contract revenues subsequent to and including fiscal 2011 based upon our estimate of costs that we believe will be approved upon final audit or review, we do not know the outcome of any ongoing or future audits or reviews and adjustments and, if future adjustments exceed our estimates, our profitability would be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PART I

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

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

As of January 1, 2016, our total backlog was $9.9 billion including $2.5 billion in funded backlog. Due to the U.S. Government's ability to not exercise contract options or to terminate, modify or curtail our programs or contracts and the rights of our non-U.S. Government customers to cancel contracts and purchase orders in certain circumstances, we may realize less than expected or may never realize revenues from some of the contracts that are included in our backlog. Our unfunded backlog, in particular, contains management's estimate of amounts expected to be realized on unfunded contract work that may never be realized as revenues. If we fail to realize as revenues amounts included in our backlog, our future revenues, profitability and growth prospects could be adversely affected.

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

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

Our profitability is adversely affected when we incur contract costs that we cannot bill to our customers. To varying degrees, each of our contract types involves some risk that we could underestimate the costs and resources necessary to fulfill the contract. While FFP contracts allow us to benefit from cost savings, these contracts also increase our exposure to the risk of cost overruns. Revenues from FFP contracts represented approximately 27% of our total revenues for the 11-month period ended January 1, 2016. When making proposals on these types of contracts, we rely heavily on our estimates of costs and timing to complete the associated projects, as well as assumptions regarding technical issues. In each case, our failure to accurately estimate costs or the resources and technology needed to perform our contracts or to effectively manage and control our costs during performance could result, and in some instances has resulted, in reduced profits or in losses. More generally, any increased or unexpected costs or unanticipated delays in the performance of our contracts, including costs and delays caused by contractual disputes or other factors outside of our control, such as performance failures of our subcontractors, natural disasters or other force majeure events, could make our contracts less profitable than expected or unprofitable.

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

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

PART I

Legal disputes could require us to pay potentially large damage awards and could be costly to defend, which would adversely affect our cash balances and profitability, and could damage our reputation.
We are subject to a number of lawsuits and claims described in “Legal Proceedings” in Part I of this Transition Report on Form 10-K, as may be updated in our future filings with the SEC, including our Quarterly Reports on Form 10-Q. We are also subject to, and may become a party to, a variety of other litigation or claims and suits that arise from time to time in the ordinary course of our business. Adverse judgments or settlements in some or all of these legal disputes may result in significant monetary damages, penalties or injunctive relief against us. Any claims or litigation could be costly to defend, and even if we are successful or if fully indemnified or insured, could damage our reputation and make it more difficult to compete effectively or obtain adequate insurance in the future. Litigation and other claims, including those described in “Legal Proceedings,” are subject to inherent uncertainties and management’s view of these matters may change in the future.
Our business and operations expose us to numerous legal and regulatory requirements, and any violation of these requirements could harm our business.
We are subject to numerous federal, state and foreign legal requirements on matters as diverse as data privacy and protection, employment and labor relations, immigration, taxation, anticorruption, import/export controls, trade restrictions, internal and disclosure control obligations, securities regulation and anti-competition. Compliance with diverse and changing legal requirements is costly, time-consuming and requires significant resources. We also conduct business in certain identified growth areas, such as health information technology, energy and environmental services, which are highly regulated and may expose us to increased compliance risk. Violations of one or more of these diverse legal requirements in the conduct of our business could result in significant fines and other damages, criminal sanctions against us or our officers, prohibitions on doing business and damage to our reputation. Violations of these regulations or contractual obligations related to regulatory compliance in connection with the performance of customer contracts could also result in liability for significant monetary damages, fines and/or criminal prosecution, unfavorable publicity and other reputational damage, restrictions on our ability to compete for certain work and allegations by our customers that we have not performed our contractual obligations.
Our business and financial results could be negatively affected by cyber or other security threats.
As a U.S. Government contractor and a provider of information technology services operating in multiple regulated industries and geographies, we handle sensitive information. Therefore, we are continuously exposed to cyber attacks and other security threats, including physical break-ins. Any electronic or physical break-in or other security breach or compromise may jeopardize security of information stored or transmitted through our information technology systems and networks. This could lead to disruptions in mission-critical systems, unauthorized release of confidential or otherwise protected information and corruption of data. Although we have implemented policies, procedures and controls to protect against, detect and mitigate these threats, we face advanced and persistent attacks on our information systems and attempts by others to gain unauthorized access to our information technology systems are becoming more sophisticated. These attempts include covertly introducing malware to our computers and networks and impersonating authorized users, among others, and may be perpetrated by well-funded organized crime or state sponsored efforts. We seek to detect and investigate all security incidents and to prevent their occurrence or recurrence. We continue to invest in and improve our threat protection, detection and mitigation policies, procedures and controls. In addition, we work with other companies in the industry and government participants on increased awareness and enhanced protections against cybersecurity threats. However, because of the evolving nature and sophistication of these security threats, which can be difficult to detect, there can be no assurance that our policies, procedures and controls have or will detect or prevent any of these threats and we cannot predict the full impact of any such past or future incident. We may experience similar security threats to the information technology systems that we develop, install or maintain under customer contracts. Although we work cooperatively with our customers and other business partners to seek to minimize the impacts of cyber and other security threats, we must rely on the safeguards put in place by those entities. Any remedial costs or other liabilities related to cyber or other security threats may not be fully insured or indemnified by other means. Occurrence of any of these security threats could expose us to claims,

contract terminations and damages and could adversely affect our reputation, ability to work on sensitive U.S. Government contracts, business operations and financial results.

PART I

Internal system or service failures could disrupt our business and impair our ability to effectively provide our services and products to our customers, which could damage our reputation and adversely affect our revenues and profitability.
Any system or service disruptions, including those caused by ongoing projects to improve our information technology systems and the delivery of services, whether through our shared services organization or outsourced services, if not anticipated and appropriately mitigated, could have a material adverse effect on our business including, among other things, an adverse effect on our ability to bill our customers for work performed on our contracts, collect the amounts that have been billed and produce accurate financial statements in a timely manner. We are also subject to systems failures, including network, software or hardware failures, whether caused by us, third-party service providers, cybersecurity threats, natural disasters, power shortages, terrorist attacks or other events, which could cause loss of data and interruptions or delays in our business, cause us to incur remediation costs, subject us to claims and damage our reputation. In addition, the failure or disruption of our communications could cause us to interrupt or suspend our operations or otherwise adversely affect our business. Our property and business interruption insurance may be inadequate to compensate us for all losses that may occur as a result of any system or operational failure or disruption and, as a result, our future results could be adversely affected.
Customer systems failures could damage our reputation and adversely affect our revenues and profitability.
Many of the systems and networks that we develop, install and maintain for our customers involve managing and protecting personal information and information relating to national security and other sensitive government functions. While we have programs designed to comply with relevant privacy and security laws and restrictions, if a system or network that we develop, install or maintain were to fail or experience a security breach or service interruption, whether caused by us, third-party service providers, cybersecurity threats or other events, we may experience loss of revenue, remediation costs or face claims for damages or contract termination. Any such event could cause serious harm to our reputation and prevent us from having access to or being eligible for further work on such systems and networks. Our errors and omissions liability insurance may be inadequate to compensate us for all of the damages that we may incur and, as a result, our future results could be adversely affected.
Many of our contracts contain performance obligations that require innovative design capabilities, are technologically complex, or are dependent upon factors not wholly within our control. Failure to meet these obligations could adversely affect our profitability and future prospects.
We design and develop technologically advanced and innovative products and services applied by our customers in a variety of environments. Problems and delays in development or delivery as a result of issues with respect to design, technology, licensing and patent rights, labor, learning curve assumptions or materials and components could prevent us from achieving contractual requirements.
In addition, our offerings cannot be tested and proven in all situations and are otherwise subject to unforeseen problems that could negatively affect revenue and profitability such as problems with quality and workmanship, country of origin, delivery of subcontractor components or services and unplanned degradation of product performance. Among the factors that may affect revenue and profits could be unforeseen costs and expenses not covered by insurance or indemnification from the customer, diversion of management focus in responding to unforeseen problems, loss of follow-on work, and, in the case of certain contracts, repayment to the government customer of contract cost and fee payments we previously received.
We have contracts with the U.S. Government that are classified, which may limit investor insight into portions of our business.
We derive a portion of our revenues from programs with the U.S. Government that are subject to security restrictions (classified programs), which preclude the dissemination of information that is classified for national security purposes. We are limited in our ability to provide information about these classified programs, their risks or any disputes or claims relating to such programs. As a result, investors have less insight into our classified programs than our other businesses and therefore less ability to fully evaluate the risks related to our classified business.

PART I

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

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

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

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

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

Goodwill and other intangible assets represent approximately 36% of our total assets and any impairment of these assets could negatively impact our results of operations.

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

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

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

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

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We provide professional engineering and other services, including engineering-procurement-construction, design build, project delivery and commissioning, in connection with complex projects that involve significant risks and may require long-term capital.
In connection with certain projects, we may commit to a specific completion date or performance standards, which may expose us to significant additional costs and reputational damage if we miss the completion date or fail to achieve the performance standards, including agreed upon financial damages. Project performance can be affected by a number of factors beyond our control, including delays from governmental inaction, public opposition, inability to obtain financing, weather, unavailability or increased price of materials, changes in project scope, accidents, environmental hazards, labor disruptions and other factors. If we assume risks related to these events, such risks may not be insurable or may only be insurable on unacceptable terms. If these events occur, the total project costs could exceed our estimates and we could experience reduced profits or, in some cases, incur a loss on a project, which may reduce or eliminate overall profitability and have an adverse effect on our financial position and cash flows.
We sold our biomass-powered generating facility in Plainfield, Connecticut with consideration consisting of a secured promissory note. A default on the note by the buyer could result in a write-off of a portion or entire value of the note and may adversely affect our profitability.
On July 24, 2015, we completed the sale of our Plainfield Renewable Energy biomass-powered generating facility, with consideration received at closing that included a secured promissory note for approximately $73 million, net of discount (the "Note"). Even though we have no reason to believe a credit risk currently exists, there is a possibility that the buyer could default. In the event of a default, we may need to write-off up to the full value of the Note, which could have an adverse effect on our consolidated financial position, results of operations or cash flows.
Our services and operations sometimes involve using, handling or disposing of hazardous substances, which could expose us to potentially significant liabilities.
Some of our services and operations involve the assessment or remediation of environmental hazards, as well as the use, handling or disposal of hazardous substances. These activities and our operations generally subject us to extensive foreign, federal, state and local environmental protection and health and safety laws and regulations, which, among other things, require us to incur costs to comply with these regulations and could impose liability on us for handling or disposing of hazardous substances. Furthermore, failure to comply with these environmental protection and health and safety laws and regulations could result in civil, criminal, regulatory, administrative or contractual sanctions, including fines, penalties or suspension or debarment from contracting with the U.S. Government. Our current and previous ownership and operation of real property also subjects us to environmental protection laws, some of which hold current or previous owners or operators of businesses and real property liable for hazardous substance releases, even if they did not know of and were not responsible for the releases. If we have any violations of, or incur liabilities pursuant to these laws or regulations, our financial condition and operating results could be adversely affected.

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

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

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

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

We face risks associated with our international business.

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

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

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

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

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

Business disruptions caused by natural disasters and other crises could adversely affect our profitability and our overall financial position.

We have significant operations located in regions of the United States that may be exposed to damaging storms and other natural disasters, such as hurricanes, tornadoes, blizzards, flooding, wildfires or earthquakes. Our business could also be disrupted by pandemics and other national or international crises. Although preventative measures may help mitigate the damage from such occurrences, the damage and disruption to our business resulting from any of these events may be significant. If our insurance and other risk mitigation mechanisms are not sufficient to recover all costs, including loss of revenues from sales to customers, we could experience a material adverse effect on our financial position and results of operations. Performance failures and disruptions by our subcontractors due to these types of events may also adversely affect our ability to perform our obligations on a prime contract, which could reduce our profitability due to damages or other costs that may not be fully recoverable from the subcontractor or the customer and could result in a termination of the prime contract and have an adverse effect on our ability to compete for future contracts.

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Our financial results may vary significantly from period-to-period.
Our financial results may fluctuate as a result of a number of factors, many of which are outside of our control. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our financial results may be negatively affected by any of the risk factors listed in this "Risk Factors" section and other matters described elsewhere in this Transition Report on Form 10-K.
We use estimates in accounting for many of our programs and changes in our estimates could adversely affect our future financial results.
Accounting for many of our programs requires judgment relative to assessing risks, including risks associated with estimating directed delays and reductions in scheduled deliveries, unfavorable resolutions of claims and contractual matters, judgments associated with estimating contract revenues and costs, and assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenues and cost at completion is complicated and subject to many variables. For example, we must make assumptions regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials, consider whether the intent of entering into multiple contracts was effectively to enter into a single project in order to determine whether such contracts should be combined or segmented, consider incentives or penalties related to performance on contracts in estimating revenue and profit rates, and record them when there is sufficient information for us to assess anticipated performance; and use estimates of award fees in estimating revenue and profit rates based on actual and anticipated awards. Because of the significance of the judgments and estimation processes involved in accounting for construction and production type contracts, materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect our future results of operations and financial condition.
The spin-off of our technical, engineering and enterprise information technology services business could result in substantial tax liability to us and our stockholders.
We received a private letter ruling from the IRS and an opinion of tax counsel substantially to the effect that, for U.S. federal income tax purposes, the spin-off and certain related transactions qualify for tax-free treatment under certain sections of the Internal Revenue Code. However, if the factual assumptions or representations made in the private letter ruling request or the opinion are inaccurate or incomplete in any material respect, including those relating to the past and future conduct of our business, we will not be able to rely on the ruling or the opinion. Furthermore, the opinion covered certain matters on which the IRS does not rule and will not be binding on the IRS or the courts. Accordingly, the IRS or the courts may challenge the conclusions stated in the opinion and such challenge could prevail.
If, notwithstanding receipt of the private letter ruling and opinion, the spin-off and certain related transactions are determined to be taxable, we would be subject to a substantial tax liability. In addition, if the spin-off transaction is taxable, each holder of our common stock who received shares of the new company would generally be treated as receiving a taxable distribution of property in an amount equal to the fair market value of the shares received, thereby potentially increasing such holder's tax liability.
Even if the spin-off otherwise qualified as a tax-free transaction, the distribution could be taxable to us (but not to our stockholders) in certain circumstances if future significant acquisitions of our stock or the stock of the new company are deemed to be part of a plan or series of related transactions that include the spin-off. In this event, the resulting tax liability could be substantial. In connection with the spin-off, we entered into a tax matters agreement with the new company, under which it agreed not to enter into any transaction without our consent that could cause any portion of the spin-off to be taxable to us and to indemnify us for any tax liabilities resulting from such transactions. These obligations and potential tax liabilities may discourage, delay or prevent a change of control of our company.

We may be unable to satisfy the conditions or obtain the approvals required to complete the Lockheed Martin Transaction or such approvals may contain material restrictions or conditions.

The consummation of the Lockheed Martin Transaction is subject to numerous conditions, including, among others, (1) the consummation of the Separation and the Distribution in accordance with the Separation Agreement, (2) the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the receipt of any necessary regulatory approvals in other jurisdictions, (3) the effectiveness of registration statements to be filed with the SEC, (4) the approval by Leidos' stockholders of the issuance of Leidos common stock in the Merger (the "Share Issuance"), (5) the receipt by Lockheed Martin of an opinion of tax counsel as to the tax-free nature of the Distribution to Lockheed Martin and its stockholders and the receipt by Leidos and Lockheed Martin of opinions of their respective tax counsel regarding the treatment of the Merger as a "reorganization" for U.S. federal income tax purposes, and (6) the receipt by Leidos, Lockheed Martin and Abacus Innovations Corporation, a Delaware corporation and a wholly owned subsidiary of Lockheed Martin ("Spinco"), of solvency opinions customary in transactions of this type. We can make no assurances that the Lockheed Martin Transaction will be consummated on the terms or timeline currently contemplated, or at all. We have and will continue to expend management's time and resources and incur legal, advisory and financial services fees related to the Lockheed Martin Transaction. These expenses must be paid regardless of whether the Merger is consummated.

Governmental agencies may not approve the Lockheed Martin Transaction or may impose conditions to the approval of the Lockheed Martin Transaction or require changes to the terms of the Lockheed Martin Transaction. Any such conditions or changes could have the effect of delaying completion of the Lockheed Martin Transaction, imposing costs on or limiting the revenues of the combined company following the Lockheed Martin Transaction or otherwise reducing the anticipated benefits of the Lockheed Martin Transaction. Any condition or change which results in a material adverse effect on Lockheed Martin's business and/or us under the merger agreement may cause Lockheed Martin and/or us to restructure or terminate the Lockheed Martin Transaction.

Leidos and Spinco will need to obtain debt financing to complete the Lockheed Martin Transaction. Although commitment letters have been obtained from various lenders, the obligations of the lenders under the commitment letters are subject to the satisfaction or waiver of customary conditions. Accordingly, there can be no assurance that these conditions will be satisfied or, if not satisfied, waived by the lenders. If Leidos is not able to obtain alternative financing on commercially reasonable terms, it could prevent the consummation of the Lockheed Martin Transaction or materially and adversely affect Leidos' business, liquidity, financial condition and results of operations if the Lockheed Martin Transaction is ultimately consummated.

If completed, the Lockheed Martin Transaction may not be successful or achieve its anticipated benefits.

We entered into the Lockheed Martin Transaction with the expectation that it would result in various benefits to us and our stockholders. The success of the Lockheed Martin Transaction will depend, in part, on the ability of the combined company to realize anticipated growth opportunities. The combined company's success in realizing these growth opportunities, and the timing of this realization, depends in part on the successful integration of our business and operations with the newly merged business and operations. After the Lockheed Martin Transaction, we will have significantly more revenue, expenses, assets and employees than we did prior to the Lockheed Martin Transaction. We may not successfully or cost-effectively integrate the acquired business and operations into our business and operations. Even if the combined company is able to integrate the merged businesses and operations successfully, this integration may not result in the realization of the full benefits of the growth opportunities that we currently expect from the Lockheed Martin Transaction within the anticipated time frame, or at all.

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The merger agreement contains provisions that may discourage other companies from trying to acquire us.
The merger agreement contains provisions that may discourage a third party from submitting a business combination proposal to us prior to the closing of the Lockheed Martin Transaction that might result in greater value to Leidos' stockholders than the Lockheed Martin Transaction. The merger agreement generally prohibits us from soliciting any alternative transaction proposal, although we may terminate the merger agreement in order to accept an unsolicited alternative transaction proposal that our Board of Directors determines is superior to the Lockheed Martin Transaction. In addition, before our board may withdraw or modify its recommendation or we may terminate the merger agreement to enter into a transaction that our board determines is superior to the Lockheed Martin Transaction, Lockheed Martin has the opportunity to negotiate with us to modify the terms of the Lockheed Martin Transaction in response to any competing acquisition proposals that may be made. If the merger agreement is terminated by us or Lockheed Martin in certain limited circumstances, we may be obligated to pay a termination fee to Lockheed Martin, which would represent an additional cost for a potential third party seeking a business combination with us.
Failure to complete the Lockheed Martin Transaction could adversely affect the market price of Leidos common stock as well as our business, financial condition and results of operations.
If the Lockheed Martin Transaction is not completed for any reason, the price of Leidos common stock may decline, or the company's business, financial condition and results of operations may be impacted to the extent that the market price of Leidos common stock reflects positive market assumptions that the Lockheed Martin Transaction will be completed and the related benefits will be realized; based on significant expenses, such as legal, advisory and financial services which generally must be paid regardless of whether the Lockheed Martin Transaction is completed; based on potential disruption of the business of Leidos and distraction of its workforce and management team; and the requirement in the merger agreement that, under certain limited circumstances, we must pay Lockheed Martin a termination fee or reimburse Lockheed Martin for expenses relating to the Lockheed Martin Transaction.
Investors holding shares of Leidos common stock immediately prior to the completion of the Lockheed Martin Transaction will, in the aggregate, have a significantly reduced ownership and voting interest in us after the Lockheed Martin Transaction and will exercise less influence over management.
Investors holding shares of Leidos common stock immediately prior to the completion of the Lockheed Martin Transaction will, in the aggregate, own a significantly smaller percentage of the combined company immediately after the completion of the Lockheed Martin Transaction. Immediately following the completion of the Lockheed Martin Transaction, it is expected that Lockheed Martin shareholders will hold approximately 50.5% of the outstanding shares of Leidos common stock. Leidos' existing stockholders will continue to hold the remaining approximately 49.5% of the outstanding shares of Leidos common stock. Consequently, Leidos stockholders, collectively, will be able to exercise less influence over the management and policies of the combined company than they will be able to exercise over the management and our policies immediately prior to the completion of the Lockheed Martin Transaction.
We are required to abide by potentially significant restrictions which could limit our ability to undertake certain corporate actions (such as the issuance of Leidos common stock or the undertaking of a merger or consolidation) that otherwise could be advantageous.
The merger agreement and the tax matters agreement impose certain ongoing restrictions on us to ensure that applicable statutory requirements under the Internal Revenue Code of 1986, as amended, and applicable Treasury regulations are met so that the Lockheed Martin Transaction qualifies as tax-free to Lockheed Martin and its shareholders. As a result of these restrictions, our ability to engage in certain transactions may be limited.
If we take any actions that would cause the Lockheed Martin Transaction to become taxable, we generally will be required to bear the cost of any resulting tax liability. If the Lockheed Martin Transaction became taxable, Lockheed Martin would be expected to recognize a substantial amount of income, which would result in a material amount of taxes. Any such taxes allocated to us would be expected to be material to us, and could cause our business, financial condition and operating results to suffer. These restrictions may reduce our ability to engage in certain business transactions that otherwise might be advantageous to us.

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Leidos expects to incur new indebtedness in connection with the Lockheed Martin Transaction, and the degree to which Leidos will be leveraged following completion of the transaction may have a material adverse effect on Leidos' business, financial condition or results of operations and cash flows.

On January 26, 2016, we and certain financial institutions executed commitment letters pursuant to which the financial institutions have agreed to provide financing to Spinco to finance the amount of the Spinco debt and to provide financing to Leidos to fund the special dividend of approximately $1.03 billion to its stockholders. Leidos' ability to make payments on and to refinance its indebtedness, including the debt incurred pursuant to the Lockheed Martin Transaction, as well as any future debt that Leidos may incur, will depend on, among other things, Leidos' ability to generate cash in the future from operations, financings or asset sales. Leidos' ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond Leidos' control.

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

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

Risks Relating to Our Stock

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

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

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

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

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Our certificate of incorporation provides that our bylaws and certain provisions of our certificate of incorporation may be amended by only two-thirds or more voting power of all of the outstanding shares entitled to vote. These supermajority voting requirements could impede our stockholders' ability to make changes to our certificate of incorporation and bylaws.

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- Our certificate of incorporation contains certain supermajority voting provisions, which generally provide that mergers and certain other business combinations between us and a related person be approved by the holders of securities having at least 80% of our outstanding voting power, as well as by the holders of a majority of the voting power of such securities that are not owned by the related person.
- Our stockholders may not act by written consent. As a result, a holder, or holders, controlling a majority of our capital stock are limited in their ability to take certain actions other than in connection with its annual stockholders' meeting or a special meeting called at the request of qualified stockholders as provided in our certificate of incorporation and bylaws.
- Our Board of Directors may issue, without stockholder approval, shares of undesignated preferred stock. The ability to authorize undesignated preferred stock makes it possible for our Board of Directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

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

Forward-Looking Statement Risks

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

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

- developments in the U.S. Government defense budget, including budget reductions, sequestration, implementation of spending limits or changes in budgetary priorities, or delays in the U.S. Government budget process or approval of raising the debt ceiling;
- delays in the U.S. Government contract procurement process or the award of contracts and delays or loss of contracts as a result of competitor protests;
- changes in U.S. Government procurement rules, regulations, and practices;
- our compliance with various U.S. Government and other government procurement rules and regulations;
- governmental reviews, audits and investigations of our company;
- our ability to effectively compete and win contracts with the U.S. Government and other customers;
- our reliance on information technology spending by hospitals/health care organizations;
- our reliance on infrastructure investments by industrial and natural resources organizations;
- energy efficiency and alternative energy sourcing investments;

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- investments by U.S. Government and commercial organizations in environment impact and remediation projects;
- our ability to attract, train and retain skilled employees, including our management team, and to obtain security clearances for our employees;
- our ability to accurately estimate costs associated with our firm-fixed-price and other contracts;
- resolution of legal and other disputes with our customers and others or legal or regulatory compliance issues;
- cybersecurity, data security or other security threats, system failures or other disruptions of our business;
- our ability to effectively acquire businesses and make investments;
- our ability to maintain relationships with prime contractors, subcontractors and joint venture partners;
- our ability to manage performance and other risks related to customer contracts, including complex engineering or design build projects;
- the failure of our inspection or detection systems to detect threats;
- the adequacy of our insurance programs designed to protect us from significant product or other liability claims;
- our ability to manage risks associated with our international business;
- 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;
- our ability to declare future dividends based on our earnings, financial condition, capital requirements and other factors, including compliance with applicable law and our agreements;
- risks associated with the spin-off of our technical, engineering and enterprise information technology services business, such as unknown liabilities and risks associated with joint performance;
- our ability to grow our commercial health and engineering businesses, which could be negatively affected by budgetary constraints faced by hospitals and by developers of energy and infrastructure projects; and
- our ability to execute our business plan and long-term management initiatives effectively and to overcome these and other known and unknown risks that we face.

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

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of January 1, 2016, we conducted our operations in approximately 190 offices located in 40 states, the District of Columbia and various foreign countries. We consider our facilities suitable and adequate for our present needs. We occupy approximately 4.6 million square feet of floor space. Of this amount, we own approximately 0.7 million square feet, and the remaining balance is leased. Our major locations are in the Washington, D.C., metropolitan area, where we occupy a combination of leased and owned floor space of approximately 2.3 million square feet. We also have employees working at customer sites throughout the United States and in other countries. As of January 1, 2016, we owned the following properties:

Location	Number of buildings	Square footage	Acreage
San Diego, California	2	262,000	13.5
Columbia, Maryland	1	95,000	7.3
Colorado Springs, Colorado	1	86,000	14.1
Orlando, Florida	1	85,000	8.5
Oak Ridge, Tennessee	1	83,000	8.4
Reston, Virginia	1	62,000	2.6

The nature of our business is such that there is no practicable way to relate occupied space to our reportable segments. See Note 16 of the combined notes to consolidated financial statements contained within this Transition Report on Form 10-K for information regarding commitments under leases.

Item 3. Legal Proceedings

We have provided information about legal proceedings in which we are involved in Note 19 of the combined notes to the consolidated financial statements contained within this Transition Report on Form 10-K.

In addition to the matters disclosed in Note 19, we are routinely subject to investigations and reviews relating to compliance with various laws and regulations. Additional information regarding such investigations and reviews is set forth in "Note 20—Other Commitments and Contingencies–Government Investigations and Reviews” of the combined notes to the consolidated financial statements contained within this Transition Report on Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

PART I

Executive Officers of the Registrant

The following is a list of the names and ages (as of February 26, 2016) of our executive officers, indicating all positions and offices held by each such person and each such person’s business experience during at least the past five years. All such persons have been elected to serve until their successors are elected and qualified or until their earlier resignation or removal.

PART I

Name of officer	Age	Position(s) with the company and prior business experience
Sarah K. Allen	57	Executive Vice President and Chief Human Resources Officer since 2013. Prior to joining Leidos in September 2008, Ms. Allen served as the Director of Human Resources in the TASC Business Unit of Northrop Grumman Corporation. Earlier in her career, she held positions with TRW Environmental Safety Systems, Honeywell and Hewlett-Packard Company.
S. Gulu Gambhir	47	Chief Technology Officer and Executive Vice President since 2013. Prior to that time, Mr. Gambhir served as National Security Sector Chief Technology Officer and Senior Vice President since 2009. Before joining Leidos Mr. Gambhir served as Director of Northrop Grumman's Science and Technology Operating Unit of TASC, holding a variety of technical and managerial roles since 1991. Previously, he worked at Space Applications Corporation and COMSAT Laboratories.
Roger A. Krone	59	Chief Executive Officer since July 2014, Mr. Krone is also Chairman of the Board. He brings more than 36 years of operational, strategic, and financial execution experience for some of the nation’s most prominent names in aerospace. Mr. Krone has held senior program management and finance positions at The Boeing Company, McDonnell Douglas Corp., and General Dynamics. Mr. Krone is currently a member of the Georgia Tech Foundation Board of Trustees and a member of the board of WETA Public Television and Radio in Washington, D.C. He is a long-time supporter of the Urban League, and currently serves on the board of the Greater Washington chapter. He is also a member of the Executive Council of the Aerospace Industries Association (AIA) and a member of the AOPA Foundation's Board of Visitors.
Michael E. Leiter	46	Executive Vice President for Business Development and Strategy since November 2014. Prior to joining Leidos, Mr. Leiter served as Head of Global Government & Commercial Cyber Operations, and Senior Counselor to the Chief Executive Officer, of Palantir Technologies from 2011 to 2014. Before entering the private sector, he served as the Director of the National Counterterrorism Center (NCTC) from 2007 until 2011.
Vincent A. Maffeo	65	Executive Vice President and General Counsel since June 2010. Prior to joining Leidos, from 1977 to 2009, Mr. Maffeo was with ITT Corporation, a high-technology engineering and manufacturing company, where he served as Senior Vice President and General Counsel from 1995 until 2009. He held various other increasingly responsible legal positions at ITT Corporation in the telecommunications, defense and automotive businesses, and at the European Headquarters of ITT Europe, before becoming General Counsel.
James C. Reagan	57	Executive Vice President, Chief Financial Officer since July 2015 and Principal Accounting Officer since January 2016. Prior to joining Leidos, from 2012 to 2015, Mr. Reagan was with Vencore, Inc. (formerly The SI Organization, Inc.), a provider of information solutions, and engineering and analysis services to the U.S. Intelligence Community, Department of Defense, and federal and civilian agencies, where he served as Senior Vice President and Chief Financial Officer. From 2011 to 2012, Mr. Reagan was Executive Vice President and Chief Financial Officer of PAE, Inc., a provider of mission support services to the U.S. Government. Mr. Reagan is a Certified Public Accountant.

Jonathan W. Scholl	54	President, Health and Engineering Sector since June 2015. Prior to joining Leidos, Mr. Scholl served for five years as the Chief Strategy Officer for Texas Health Resources, one of the largest nonprofit health care delivery systems in the country. Prior to that, he spent 15 years with The Boston Consulting group and served as Head of their North American Healthcare Provider Practice and leader of their Lean Six Sigma initiative for hospitals. He also served as vice president for applications development for the TenFold HealthCare Group in Dallas. Mr. Scholl served five years in the U.S. Navy as a nuclear submarine officer and nuclear power plant instructor.

Pursuant to General Instruction G(3) of General Instructions to Form 10-K, the list above is included as an unnumbered Item in Part I of this Transition Report on Form 10-K in lieu of being included in an amendment to this Transition Report on Form 10-K or incorporated by reference from Leidos' 2016 Proxy Statement.

PART II

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

Leidos’ common stock is listed on the New York Stock Exchange ("NYSE") under the ticker symbol “LDOS.” Leidos, Inc. is a wholly-owned subsidiary of Leidos and there is no public trading market for common stock of Leidos, Inc. The range of high and low sales prices at closing of Leidos' common stock on the NYSE for the 11-month period ended January 1, 2016, and fiscal 2015 are presented below.

Historical Stock Prices

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

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

	12 Months Ended January 30, 2015	
Fiscal Quarter	High	Low
1st quarter (February 1, 2014 to May 2, 2014)	$46.07	$34.64
2nd quarter (May 3, 2014 to August 1, 2014)	$40.72	$36.66
3rd quarter (August 2, 2014 to October 31, 2014)	$38.20	$33.21
4th quarter (November 1, 2014 to January 30, 2015)	$44.41	$36.64

Holders of Common Stock

As of February 17, 2016, there were approximately 24,153 holders of record of Leidos common stock. The number of stockholders of record of Leidos common stock is not representative of the number of beneficial owners due to the fact that many shares are held by depositories, brokers, or nominees. Leidos is the holder of record of all Leidos, Inc.'s common stock.

Dividend Policy

During the 11-month period ended January 1, 2016, and fiscal 2015, Leidos declared and paid quarterly dividends totaling $1.28 per share of Leidos common stock in each period. Leidos currently intends to continue paying dividends on a quarterly basis, although the declaration of any future dividends will be determined by Leidos’ Board of Directors and will depend on many factors, including available cash, estimated cash needs, earnings, financial condition, operating results, and capital requirements, as well as limitations in our contractual agreements, applicable law, regulatory constraints, industry practice and other business considerations that the Board of Directors considers relevant. Our ability to declare and pay future dividends on Leidos stock may be restricted by the provisions of Delaware law and covenants in our then-existing indebtedness arrangements.

In connection with the Lockheed Martin Transaction, prior to the consummation of the transaction, and subject to applicable law, Leidos shall declare and pay a special dividend of approximately $1.03 billion to its stockholders, conditioned on completion of the Lockheed Martin Transaction. The special dividend will be funded by a combination of new borrowing and cash on hand.

Leidos, Inc. has not declared or paid cash dividends to Leidos Holdings, Inc. Leidos, Inc. may declare and pay cash dividends to Leidos Holdings, Inc. from time to time, but there is no present intention to do so.

PART II

Stock Performance Graph

In fiscal 2015, we chose to use the Standard & Poor's MidCap 400 index to replace the Standard & Poor's 500 index. The market cap composition of the Standard & Poor's MidCap 400 index more closely aligns with Leidos' market cap, as compared to the Standard & Poor's 500 index, while similarly providing a broad market representation of industries.

The following graph compares the total cumulative five-year return on Leidos common stock through January 1, 2016 to two indices: (i) the Standard & Poor’s MidCap 400 index and (ii) the Standard & Poor’s North American Technology Services index. The graph assumes an initial investment of $100 on December 31, 2010, and that dividends, if any, have been reinvested. On September 27, 2013, we completed the spin-off of New SAIC. Our stockholders received one share of New SAIC common stock for every seven shares of our common stock held on the record date (September 19, 2013). The effect of the spin-off is reflected in the cumulative total return as a reinvested dividend. The comparisons in the graph are required by the SEC, based upon historical data and are not intended to forecast or be indicative of possible future performance of Leidos common stock.

Purchases of Equity Securities

In December 2013, our Board of Directors authorized a stock repurchase program ("2013 Stock Repurchase Program") under which we may repurchase up to 20 million shares of Leidos common stock. This share repurchase authorization replaced the March 2012 share repurchase authorization of 10 million shares. Stock repurchases may be made on the open market or in privately negotiated transactions with third parties including through accelerated share repurchase agreements. Whether repurchases are made and the timing and actual number of shares repurchased depends on a variety of factors including price, corporate capital requirements, other market conditions and regulatory requirements. The repurchase program may be accelerated, suspended, delayed or discontinued at any time.

PART II

The following table presents repurchases of Leidos common stock during the quarter ended January 1, 2016:

Period	(a) Total Number of Shares (or Units) Purchased[1]	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Repurchase Plans or Programs [2]	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs [2]
October 3, 2015 - October 31, 2015	19,503	$ 50.23	—	5,718,172
November 1, 2015 - November 30, 2015	20,307	54.31	—	5,718,172
December 1, 2015 - December 31, 2015	4,160	56.40	—	5,718,172
As of January 1, 2016	—	—	—	5,718,172
Total	43,970	$ 52.70	—	

(1) The total number of shares purchased includes: (i) shares surrendered to satisfy statutory tax withholdings obligations related to vesting of restricted stock awards; and (ii) shares surrendered in payment of the exercise price of non-qualified stock options and/or to satisfy statutory tax withholdings obligations.

(2) We may repurchase up to 20 million shares of Leidos common stock under the 2013 Stock Repurchase Program, which was publicly announced in December 2013.

Item 6. Selected Financial Data

The selected financial data for the five-year period set forth below is derived from our consolidated financial statements for the 11-month period ended January 1, 2016, and for the fiscal years 2015 through 2012. As Leidos Holdings, Inc. is a holding company and it consolidates Leidos, Inc. for financial statement purposes, the following financial data relates to both companies, except where otherwise indicated. Leidos, Inc.’s revenues and expenses comprise 100% of Leidos Holdings, Inc.'s revenues and operating expenses. In addition, Leidos, Inc. comprises approximately the entire balance of Leidos Holdings, Inc.’s assets, liabilities and operating cash flows, except for an interest-bearing note between Leidos, Inc. and Leidos Holdings, Inc.

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

PART II

	11 Months Ended[1]	12 Months Ended[1]			
	January 1, 2016[2]	January 30, 2015[3]	January 31, 2014[4]	January 31, 2013	January 31, 2012[5]
	(in millions, except for per share amounts)				
Consolidated Statement of Income Data:					
Leidos Holdings, Inc.:					
Revenues	$4,712	$5,063	$5,755	$6,449	$5,804
Operating income (loss)	320	(214)	163	421	(64)
Income (loss) from continuing operations	243	(330)	84	323	(239)
(Loss) income from discontinued operations, net of tax	(1)	7	80	202	298
Net income (loss)	$242	$(323)	$164	$525	$59
Earnings (loss) per share:					
Basic:					
Income (loss) from continuing operations	$3.33	$(4.46)	$0.98	$3.81	$(2.85)
(Loss) income from discontinued operations	(0.01)	0.10	0.96	2.38	3.53
	$3.32	$(4.36)	$1.94	$6.19	$0.68
Diluted:					
Income (loss) from continuing operations	$3.28	$(4.46)	$0.98	$3.81	$(2.85)
(Loss) income from discontinued operations	(0.01)	0.10	0.96	2.38	3.53
	$3.27	$(4.36)	$1.94	$6.19	$0.68
Cash dividend per common share	$1.28	$1.28	$5.60	$1.92	$—
Leidos, Inc.:					
Revenues	$4,712	$5,063	$5,755	$6,449	$5,804
Operating income (loss)	320	(214)	163	421	(64)
Income (loss) from continuing operations	249	(324)	86	324	(242)
(Loss) income from discontinued operations	(1)	7	80	202	298
Net income (loss)	$248	$(317)	$166	$526	$56

	January 1, 2016	January 30, 2015	January 31, 2014	January 31, 2013	January 31, 2012
	(in millions)				
Consolidated Balance Sheet Data:					
Leidos Holdings, Inc.:					
Total assets	$3,377	$3,281	$4,162	$5,875	$6,667
Notes payable and long-term debt, including current portion	$1,088	$1,166	$1,333	$1,295	$1,845
Other long-term liabilities	$183	$168	$227	$170	$158

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

(2)

Reflects the 11-month period of January 31, 2015, through January 1, 2016 as a result of the change in our fiscal year end. All other periods presented include twelve months as originally reported. For further information see, Note 1 "Summary of Significant Accounting Policies—Reporting Periods" of the combined notes to the consolidated financial statements contained within this Transition Report on Form 10-K. The 11-month period ended January 1, 2016, results include a gain on a real estate sale of $82 million, tangible asset impairment charges of $29 million, intangible asset impairment charges of $4 million and bad debt expense of $8 million. For further information see, Note 16 "Leases—Sale and Leaseback Agreement", Note 3 "Acquisitions", Note 4 "Goodwill and Intangible Assets" and Note 5 "Receivables" of the combined notes to the consolidated financial statements contained within this Transition Report on Form 10-K.

(3) Fiscal 2015 results include goodwill impairment charges of $486 million, intangible asset impairment charges of $41 million and a tangible asset impairment charge of $40 million. For further information see, Note 4 "Goodwill and Intangible Assets" and Note 3 "Acquisitions" of the combined notes to the consolidated financial statements contained within this Transition Report on Form 10-K.

PART II

(4) Fiscal 2014 results include intangible asset impairment charges of $51 million, bad debt expense of $44 million, and separation transaction and restructuring expenses of $65 million. For further information see, Note 4 "Goodwill and Intangible Assets", Note 5 "Receivables" and Note 1 "Summary of Significant Accounting Policies—Separation Transaction and Restructuring Expenses" of the combined notes to the consolidated financial statements contained within this Transition Report on Form 10-K.

(5) Fiscal 2012 results include a $540 million loss provision recorded in connection with resolution of the CityTime matter described in Note 19 "Legal Proceedings" of the combined notes to consolidated financial statements contained within this Transition Report on Form 10-K.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following combined discussion and analysis of Leidos Holdings, Inc.'s ("Leidos") and Leidos, Inc.'s financial condition and results of operations and quantitative and qualitative disclosures about market risk should be read in conjunction with our consolidated financial statements and related combined notes. As Leidos is a holding company and consolidates Leidos, Inc. for financial statement purposes, disclosures that relate to activities of Leidos, Inc. also apply to Leidos, unless otherwise noted. Leidos, Inc.'s revenues and operating expenses comprise 100% of Leidos’ revenues and operating expenses. In addition, Leidos, Inc. comprises approximately the entire balance of Leidos’ assets, liabilities and operating cash flows. Therefore, the following qualitative discussion is applicable to both Leidos and Leidos, Inc., unless otherwise noted.

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

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

Effective in fiscal 2014, we changed our fiscal year to a 52/53 week fiscal year ending on the Friday closest to January 31, with fiscal quarters typically consisting of 13 weeks.

On March 20, 2015, our Board of Directors approved the amendment and restatement of our bylaws to change both Leidos' and Leidos, Inc.'s year end from the Friday nearest the end of January to the Friday nearest the end of December. As a result of this change, we are filing this Annual Report on Form 10-K, which covers the 11-month period which began on January 31, 2015 and ended on January 1, 2016, as our transition report. This change does not impact our prior reported fiscal years (covering a 12-month period) which ended on the Friday closest to January 31. For example, fiscal 2015 began on February 1, 2014 and ended on January 30, 2015.

The information presented in the Results of Operations compares the 11-month transition period ended January 1, 2016 (January 31, 2015 - January 1, 2016) to the 11-month period ended January 2, 2015 (February 1, 2014 - January 2, 2015) and compares fiscal 2015 (February 1, 2014 - January 30, 2015) to fiscal 2014 (February 1, 2013 - January 31, 2014).

The following discussion contains forward-looking statements, including statements regarding our intent, belief, or current expectations with respect to, among other things, trends affecting our financial condition or results of operations, backlog, our industry, government budgets and spending, the impact of competition, and the performance and carrying value of our assets. Such statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. See “Risk Factors—Forward-Looking Statement Risks” in Part I of this Transition Report on Form 10-K. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Transition Report on Form 10-K, particularly in “Risk Factors.” Due to such uncertainties and risks, you are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to update these factors or to publicly announce the results of any changes to our forward-looking statements due to future events or developments.

Overview

We are an applied technology company delivering services and solutions that leverage expertise in the national security, health and engineering markets. We provide these services and solutions to government and commercial customers, both domestically and internationally. These customers include agencies of the U.S. Department of Defense ("DoD"), the intelligence community, the U.S. Department of Homeland Security ("DHS"), other U.S. Government civil agencies, government agencies of U.S. allies abroad and state and local government agencies. Substantially all of our revenues and tangible long-lived assets are generated by or owned by entities located in the United States. We operate in the following segments: National Security Solutions, Health and Engineering and Corporate and Other.

PART II

For additional information regarding our reportable segments, see “Business” in Part I and Note 18 of the combined notes to consolidated financial statements contained within this Transition Report on Form 10-K.
Our National Security Solutions segment is focused on rapidly deploying agile, cost-effective solutions to meet the ever-changing missions of our customers in the areas of intelligence surveillance and reconnaissance, integrated systems and cybersecurity and global services. We provide a diverse portfolio of national solutions and systems for air, land, sea, space and cyberspace for the U.S. Intelligence Community, the DoD, military services, the U.S. Department of Homeland Security, government agencies of U.S. allies abroad, and other federal, civilian, and commercial customers in the national security industry. Our solutions deliver innovative technology, large-scale intelligence systems, command and control, data analytics, logistics, and cybersecurity solutions, as well as intelligence analysis and operations support to critical missions around the world.
Within our Health and Engineering segment, our Health business provides services and solutions to commercial hospitals, the DoD, and other U.S. Government agencies focused on information technology, and behavioral health and life sciences offerings. Our healthcare business is focused on the overall availability and quality of electronic health data, clinical care optimization, and life sciences research and development that ultimately improves the quality of care while lowering cost for our customers. Our Engineering business leverages technology and skills in process engineering, engineering design and systems integration to create innovative and cost effective solutions for our customers.
Our significant management initiatives include the following:

- achieving internal, or non-acquisition related, annual revenue growth through internal collaboration and better leveraging of key differentiators across our company and the deployment of resources and investments into higher growth markets;
- increasing the growth of our operating profits through improving the quality of our revenues and contract profitability, continued improvement in our information technology ("IT") systems infrastructure and related business processes for greater effectiveness and efficiency across all business functions;
- disciplined deployment of our cash resources and use of our capital structure to enhance shareholder value while retaining an appropriate amount of financial leverage, through internal growth initiatives, stock repurchases, dividends, strategic acquisitions, debt level management and other uses to achieve our goals; and
- the proposed transaction with Lockheed Martin in which Lockheed Martin will divest and merge its Information Systems & Global Solutions business ("IS&GS") with a wholly-owned subsidiary of Leidos as discussed in section below–"Lockheed Martin Transaction." Completion of the transaction is anticipated to occur in 2016. During 2016, we expect to incur significant integration and transaction costs in connection with the Lockheed Martin Transaction and related transactions.

Sales Trend. For the 11-month period ended January 1, 2016, revenues increased by $22 million, or less than 1%, to $4.71 billion compared to the 11-month period ended January 2, 2015, primarily due to growth in our engineering construction business as well as recent awards in our federal health business and for an international logistics program. This increase was partially offset by a decline in contract activities associated with support of Overseas Contingency Operations ("OCO Contracts") and continued decline in our commercial health business. For fiscal 2015, revenues decreased by $692 million, or 12.0%, to $5.06 billion compared to fiscal 2014 primarily due to a decline in contract activities associated with OCO Contracts and a decline within our engineering services and commercial health businesses. See "Results of Operations" below for further discussion of our segment results.
For the 11-month period ended January 1, 2016, revenues associated with OCO Contracts were 3.7% of total revenues, compared to 7.6% for the 11-month period ended January 2, 2015. For fiscal 2015, revenues associated with OCO Contracts were 7.5% of total revenue, compared to 12.0% in fiscal 2014. Management expects revenue related to OCO Contracts to remain relatively consistent to current year levels with further growth from our recent awards partially offset by a decline in revenue from our design build business. Our recent awards have contributed to a book-to-bill ratio for the 11-month period ended January 1, 2016, of over one time revenue, increasing our total backlog to $9.9 billion as of January 1, 2016.

PART II

Operating Income Trend. For the 11-month period ended January 1, 2016, our operating income was $320 million, a $511 million increase compared to the 11-month period ended January 2, 2015. For the 11-month period ended January 1, 2016, our operating income margin was 6.8% compared to a negative operating margin of 4.1% for the 11-month period ended January 2, 2015. This increase in operating income and margin was primarily due to prior year goodwill and asset impairment charges and increased program margins coupled with improved product mix of higher margin security product sales. For fiscal 2015, our operating loss was $214 million, a $377 million decrease compared to fiscal 2014. For fiscal 2015, our negative operating margin was 4.2% compared to an operating income margin of 2.8% for fiscal 2014. This decrease in operating income and margin was due to a decrease in revenues and an increase in goodwill and asset impairment charges for fiscal 2015, which were partially offset by a decrease in separation transaction and restructuring expenses. See "Results of Operations" below for further discussion of our segment results.

From a macroeconomic perspective, our industry is under general competitive pressures due to declining spending from our largest customer and has required and will require a higher level of cost management focus to allow us to remain competitive. We continue to review our cost structure against our anticipated sales and undertake cost management actions and efficiency initiatives where necessary.

Lockheed Martin Transaction

On January 26, 2016, Leidos Holdings, Inc. announced that it had entered into a definitive agreement (the "Merger Agreement"), dated January 26, 2016, with Lockheed Martin Corporation ("Lockheed Martin"), Abacus Innovations Corporation, a Delaware corporation and a wholly owned subsidiary of Lockheed Martin (“Spinco”), and Lion Merger Co., a Delaware corporation and a wholly owned subsidiary of Leidos (“Merger Sub”), pursuant to which Leidos will combine with Lockheed Martin’s realigned Information Systems & Global Solutions business ("IS&GS") (collectively, the "ISGS Business") in a Reverse Morris Trust transaction (the "Lockheed Martin Transaction"). In connection with the Merger Agreement, Lockheed Martin and Spinco entered into a Separation Agreement dated January 26, 2016 (the "Separation Agreement"), pursuant to which Lockheed Martin will separate the ISGS Business.

In the transactions contemplated by the Merger Agreement and the Separation Agreement, (i) Lockheed Martin will transfer the ISGS Business to Spinco, (ii) Lockheed Martin will distribute Spinco’s stock to Lockheed Martin’s stockholders, at Lockheed Martin’s option, by way of a pro rata dividend or an exchange offer (the "Distribution"), and (iii) Merger Sub will merge with and into Spinco, with Spinco as the surviving corporation (the "Merger") and a wholly owned subsidiary of Leidos. Upon consummation of the transactions contemplated by the Merger Agreement and the Separation Agreement, Lockheed Martin shareholders will receive approximately 77 million shares of Leidos common stock, which represent approximately 50.5% of the outstanding shares of Leidos common stock. Leidos' existing stockholders will continue to hold the remaining approximately 49.5% of the outstanding shares of Leidos common stock.

Prior to the Distribution, Spinco will incur third-party debt financing in an aggregate principal amount of approximately $1.8 billion (the "Spinco Debt") and immediately thereafter, Lockheed Martin will transfer the Spinco Assets to Spinco and Spinco will make a special cash payment to Lockheed Martin of $1.8 billion, subject to adjustment based on Spinco's cash and working capital at the time of the Distribution (the "Special Cash Payment"). Spinco has entered into commitment letters with certain financial institutions to provide for the Spinco Debt.

The Merger Agreement also provides that, prior to the Merger and subject to applicable law, Leidos shall declare and pay a special dividend of approximately $1.03 billion to its stockholders, conditioned on completion of the Merger. The special dividend will be funded by a combination of new borrowing and cash on hand.

On January 26, 2016, we and certain financial institutions executed commitment letters pursuant to which the financial institutions have agreed to provide financing to Spinco to finance the amount of the Spinco Debt and to provide financing to Leidos to fund the special dividend of approximately $1.03 billion to its stockholders.

We expect to incur significant integration and transaction costs in connection with the Lockheed Martin Transaction and related transactions during fiscal 2016 and fiscal 2017.

PART II

Completion of the Lockheed Martin Transaction is expected in 2016. Consummation of the Lockheed Martin Transaction is subject to customary closing conditions, including, among others, (1) the consummation of the Separation and the Distribution in accordance with the Separation Agreement, (2) the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the receipt of any necessary regulatory approvals in other jurisdictions, (3) the effectiveness of registration statements to be filed with the U.S. Securities and Exchange Commission ("SEC"), (4) the approval by Leidos' stockholders of the issuance of Leidos common stock in the Merger (the "Share Issuance"), (5) the receipt by Lockheed Martin of an opinion of tax counsel as to the tax-free nature of the Distribution to Lockheed Martin and its stockholders and the receipt by Leidos and Lockheed Martin of opinions of their respective tax counsel regarding the treatment of the Merger as a "reorganization" for U.S. federal income tax purposes, and (6) the receipt by Leidos, Lockheed Martin and Spinco of solvency opinions customary in transactions of this type. There can be no assurance the Lockheed Martin Transaction will be consummated. See "Item 1A. Risk Factors." We may be unable to satisfy the conditions or obtain the approvals required to complete the Lockheed Martin Transaction or such approvals may contain material restrictions or conditions."

The Merger Agreement contains certain termination rights for both Lockheed Martin and Leidos and further provides that Leidos must pay to Lockheed Martin a termination fee of $150 million under certain circumstances. In addition, if the Merger Agreement is terminated because approval is not obtained at the Leidos stockholder meeting called for such purpose, Leidos has agreed to reimburse Lockheed Martin for its expenses up to a maximum amount of $37.5 million.

In connection with the transactions contemplated by the Merger Agreement and the Separation Agreement, certain additional agreements have been or will be entered into, including, among others an employee matters agreement, a tax matters agreement, transition services agreements, an intellectual property matters agreement, agreements relating to certain government contracts matters, supply agreements and certain real estate related agreements.

Spin-off Transaction

In accordance with a distribution agreement, on September 27, 2013 (the "Distribution Date"), Leidos completed a spin-off of its technical services and enterprise information technology services business into an independent, publicly traded company named Science Application International Corporation ("New SAIC"). The spin-off was effected through a tax-free distribution to Leidos' stockholders of 100% of the shares of New SAIC's common stock. As a result of the spin-off, the assets, liabilities, results of operations and cash flows of New SAIC have been classified as discontinued operations for all periods presented. In anticipation of the spin-off, in fiscal 2014 we initiated a program to align our cost structure and incurred severance and lease termination costs recorded in separation transaction and restructuring expenses in our consolidated statements of income.

In fiscal 2014, we incurred approximately $46 million in expenses related to lease termination costs, facility consolidation costs and other costs in connection with vacating facilities that were not necessary for our future requirements as well as $10 million of severance costs and $9 million of other separation transaction and restructuring expenses.

We do not expect to incur significant additional separation transaction and restructuring expenses related to the spin-off transaction.

Dispositions

Discontinued Operations (non-strategic)

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

In July 2014, we committed to plans to dispose of a business, historically included in our Health and Engineering segment, that primarily focused on full service emergency management consulting for disaster preparedness, response, recovery, and mitigation. The sale transaction was completed in the third quarter of fiscal 2015 with cash proceeds received of $19 million, resulting in an immaterial gain on sale.

PART II

In February 2015, we sold Cloudshield Technologies, Inc. ("Cloudshield"), historically included in our National Security Solutions segment, which was previously acquired in fiscal 2011 and primarily focused on producing a suite of cybersecurity hardware and associated software and services. We received cash proceeds of $5 million upon the sale, resulting in a preliminary immaterial gain on sale for the 11-month period ended January 1, 2016, subject to customary working capital adjustments.

In August 2013, we committed to plans to dispose of a business, historically included in our National Security Solutions segment, that primarily focused on technology used to detect if an individual is concealing explosive devices or other hidden weapons. In the first quarter of fiscal 2015, we adjusted the carrying values of the business's assets to their fair value based on the estimated selling price of the business. The carrying value exceeded the fair value which resulted in approximately $12 million of impairment charges recorded in discontinued operations, of which $9 million related to fixed assets and inventory and the remainder related to intangible assets. The sale transaction was completed in the second quarter of fiscal 2015 with insignificant cash proceeds received, resulting in an immaterial loss on sale.

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

	11 Months Ended	12 Months Ended	
	January 1, 2016	January 30, 2015	January 31, 2014
	(in millions)		
Revenues	$17	$68	$2,745
Costs and expenses:			
Cost of revenues	17	60	2,480
Selling, general and administrative expenses (including impairment charges of $9 million for the fiscal year ended January 30, 2015)	2	29	67
Intangible asset impairment charges	—	3	2
Separation transaction and restructuring expenses	—	—	55
Operating (loss) income	$(2)	$(24)	$141
Non-operating income (expense)	$1	$11	$(1)
(Loss) income from discontinued operations before income taxes	$(1)	$(13)	$140

Business Environment and Trends

U.S. Government Markets

For the 11-month period ended January 1, 2016, we generated approximately 76% of our total revenues from contracts with the U.S. Government, either as a prime contractor or a subcontractor to other contractors engaged in work for the U.S. Government. Revenues under contracts with the DoD, including subcontracts under which the DoD is the ultimate purchaser, represented approximately 64% of our total revenues for the 11-month period ended January 1, 2016. Accordingly, our business performance is affected by the overall level of U.S. Government spending, especially national security, homeland security, and intelligence spending, and the alignment of our service and product offerings and capabilities with current and future budget priorities of the U.S. Government.

In February 2015, the FY16 federal budget cycle started with the Executive Branch delivering its requested budget to Congress. The FY16 budget request sought an increase in defense and non-defense spending, including $534 billion for the DoD annual budget and an additional $51 billion for OCO. The requested funding was $35 billion more than the spending limits within the Budget Control Act (the "BCA").

On September 30, 2015, the U.S. Congress passed a short-term continuing resolution to fund government operations through December 11, 2015. The continuing resolution funded most projects and activities at FY15 levels and provided appropriations to federal agencies for the length of the continuing resolution or until approval of the FY16 federal budget and its respective appropriations. On October 30, 2015, Congress approved the FY16 federal budget through a two-year budget deal that lifted the caps put in place by the continuing resolution and increased overall funding by approximately $80 billion over the two-year period. This additional discretionary budget will be divided evenly between defense and domestic programs, thereby providing an additional $40 billion for military spending.

PART II

Before reaching final agreement on the funding bills for FY16, two additional short-term continuing resolutions were necessary. The first, passed December 10, 2015, funded the government through December 16, 2015, and the second, passed December 16, 2015, funded the government through December 22, 2015. On December 16, 2015, the $1.2 trillion Omnibus package was released, and on December 18, 2015, the funding measure was approved by Congress and signed into law by the President. The FY16 spending bill funds federal agencies through September 2016 and adheres to the bipartisan budget agreement passed in October. It appropriated $1.1 trillion in base discretionary budget authority and $74 billion for OCO, including $514 billion in base DoD spending, $59 billion for DoD OCO, and $41 billion for DHS.

The Temporary Debt Limit Extension Act suspended the statutory limit on the amount of permissible federal debt (the "debt ceiling") until March 15, 2015. On March 16, 2015, the Treasury Department began taking “extraordinary measures” to finance the government. During October 2015, the Treasury Department notified Congress that the federal debt limit needed to be raised by the first week in November in order to allow the government to meet its obligations. On October 30, 2015, Congress approved legislation to suspend the debt ceiling through March 2017, thus avoiding an impending default which could have resulted in delays in payments to government contractors, federal workers, and other legal obligees.

We believe that the two-year bipartisan budget agreement, which passed Congress in October 2015, should allow for the passage of the FY17 appropriation bills to be considered in a timely manner as overall spending levels for defense and domestic programs for FY17 have already been settled and the debt ceiling has been raised until March of that year. We anticipate a speedier budget process during FY16 that may have spending bills presented to the House by this spring, which is earlier than previous years, when these bills have not been presented until the summer or later. However, there are obstacles that could still cause delays to the budget process. Congress will have a shortened legislative calendar due to the election year. Additionally, Congress has a history of delayed budget passage in recent years. Despite these obstacles, we believe that Congress will pass all twelve appropriation bills, thereby avoiding a shutdown of the government and the imposition of sequestration.

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

Commercial and International Markets

Sales to customers in commercial markets (approximately 19% of total revenues for the 11-month period ended January 1, 2016) and international markets help to diversify us from reliance upon U.S. Government business. The commercial and international markets we serve include healthcare, engineering, environmental, security products, command and control, training, cybersecurity and logistics services.

Sales to customers in international markets have historically been an insignificant portion of our revenues. Our recent international contract award in the United Kingdom will lessen our reliance upon U.S. Government business, but will also increase our exposure to these markets and the associated international regulatory and geopolitical risks therein.

Key Performance Measures

The primary financial performance measures we use to manage our business and monitor results of operations are revenue, operating income, cash flows from operations and diluted EPS. We also believe that bookings and backlog are useful measures for management and investors to evaluate our potential future revenues. In addition, we consider contract types to be a useful measure to management and investors in evaluating our operating income and margin performance.

PART II

Bookings and Backlog. We had net bookings worth an estimated $6.8 billion and $3.6 billion during the 11-month period ended January 1, 2016, and fiscal 2015, respectively. Net bookings represent the estimated amount of revenue to be earned in the future from funded and unfunded contract awards that were received during the year, net of any adjustments to previously awarded backlog amounts. We calculate net bookings as the year's ending backlog plus the year's revenues less the prior year's ending backlog and less the backlog obtained in acquisitions during the year. Backlog represents the estimated amount of future revenues to be recognized under negotiated contracts as work is performed. We segregate our backlog into two categories as follows:

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

The estimated value of our total backlog for the 11-month period ended January 1, 2016, and fiscal 2015, respectively, was as follows:

	January 1, 2016	January 30, 2015
	(in millions)	
National Security Solutions:		
Funded backlog	$1,472	$1,596
Negotiated unfunded backlog	6,554	4,491
Total National Security Solutions backlog	$8,026	$6,087
Health and Engineering:		
Funded backlog	$1,049	$1,061
Negotiated unfunded backlog	820	645
Total Health and Engineering backlog	$1,869	$1,706
Total:		
Funded backlog	$2,521	$2,657
Negotiated unfunded backlog	7,374	5,136
Total backlog	$9,895	$7,793

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

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

PART II

Contract Types. Our earnings and profitability may vary materially depending on changes in the proportionate amount of revenues derived from each type of contract. For a discussion of the types of contracts under which we generate revenue, see "Business—Contract Types" in Part I of this Transition Report on Form 10-K. The following table summarizes revenues by contract type as a percentage of our total revenue for the 11-month period ended January 1, 2016, and fiscal 2015 and fiscal 2014:

	11 Months Ended		12 Months Ended			
	January 1, 2016		January 30, 2015		January 31, 2014	
Cost-reimbursement	51	%	48	%	47	%
Time and materials (T&M) and fixed-price-level-of-effort (FP-LOE)	22		25		26	
Firm-fixed-price (FFP)	27		27		27	
Total	100	%	100	%	100	%

The percentage of revenue derived from cost-reimbursement contracts increased by 3% for the 11-month period ended January 1, 2016, from fiscal 2015 due to performance on large contracts awarded in the current year in our federal health business and an international logistics program. The percentage of revenue derived from T&M and FP-LOE contracts decreased by 3% for the 11-month period ended January 1, 2016, from fiscal 2015 due to a decrease in revenue from our commercial health business. The percentage of revenues generated from FFP contracts remained consistent.

Geographic Location. Substantially all of our revenues and tangible long-lived assets are generated by or located in the United States.

PART II

Results of Operations

The following table summarizes our results of operations for the 11-month periods ended January 1, 2016, and January 2, 2015, and fiscal 2015 and fiscal 2014:

	11 Months Ended				12 Months Ended			
	January 1, 2016	January 2, 2015	Dollar change	Percent change	January 30, 2015	January 31, 2014	Dollar change	Percent change
	(dollars in millions)							
Revenues	$4,712	$4,690	$22	—%	$5,063	$5,755	$(692)	(12)%
Cost of revenues	4,146	4,069	77	2%	4,392	4,992	(600)	(12)%
Selling, general and administrative expenses:								
General and administrative (G&A)	105	182	(77)	(42)%	205	325	(120)	(37)%
Bid and proposal (B&P)	67	64	3	5%	68	70	(2)	(3)%
Internal research and development (IR&D)	29	34	(5)	(15)%	37	45	(8)	(18)%
Bad debt expense	8	4	4	100%	5	44	(39)	(89)%
Goodwill impairment charges	—	486	(486)	(100)%	486	—	486	100%
Asset impairment charges	33	41	(8)	(20)%	81	51	30	59%
Separation transaction and restructuring expenses	4	1	3	NM	3	65	(62)	(95)%
Operating income (loss)	320	(191)	511	NM	(214)	163	(377)	NM
Operating income (loss) margin	6.8%	(4.1)%			(4.2)%	2.8%		
Non-operating income (expense), net	35	(65)	100	154%	(69)	(75)	6	8%
Income (loss) from continuing operations before income taxes	355	(256)	611	NM	(283)	88	(371)	NM
Income tax expense	(112)	(67)	(45)	67%	(47)	(4)	(43)	NM
Income (loss) from continuing operations	243	(323)	566	175%	(330)	84	(414)	NM
(Loss) income from discontinued operations, net of tax	(1)	(11)	10	91%	7	80	(73)	(91)%
Net income (loss)	$242	$(334)	$576	172%	$(323)	$164	$(487)	NM

NM - Not meaningful

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

PART II

Long-Lived Asset Impairment Evaluations.
Goodwill Impairment Evaluation. In the second quarter of fiscal 2015, our Health Solutions and Engineering reporting units within the Health and Engineering reportable segment were adversely impacted by certain unexpected events that caused us to reassess that year and future years performance expectations for both reporting units. Based on significant declines in forecasted revenue volumes and delayed award decisions, we conducted an interim goodwill impairment test using the two-step quantitative approach.
Based on the first step of the two-step quantitative goodwill impairment test performed during the second quarter of fiscal 2015, we determined that the carrying value of both the Health Solutions and Engineering reporting units were greater than the respective estimated fair values of the reporting units, and the second step of the two-step quantitative goodwill impairment test was performed in order to determine the amount of the impairment of the respective reporting units.
As a result of the second step evaluation, we recorded goodwill impairment charges in the Health Solutions and Engineering reporting units of $369 million and $117 million, respectively, during the second quarter of fiscal 2015. There were no other goodwill impairment charges as part of the interim goodwill impairment test recorded for the remaining reporting units. See Note 4 within our combined notes to the consolidated financial statements for further information.
Asset Impairment. In March 2015, we entered into a definitive Membership Interest Purchase Agreement (the "Agreement") to sell 100% of our equity membership interest in Plainfield Renewable Energy Holdings, LLC ("Plainfield"). We adjusted the carrying values of Plainfield's assets to their fair values based on the estimated selling price of the business pursuant to the terms of the agreement. The carrying value exceeded the fair value, which resulted in approximately $40 million of impairment charges in fiscal 2015. In the second quarter of the 11-month period ended January 1, 2016, further negotiations occurred related to the sale of Plainfield resulting in approximately $29 million of impairment charges. We adjusted the carrying values of Plainfield's assets to their fair values based on the estimated selling price of the business pursuant to the terms of the amended Agreement that was amended on July 17, 2015. On July 24, 2015, we completed the sale. See Note 3—Acquisitions within our combined notes to the consolidated financial statements for further information on the sale.
Restructuring Expenses. As part of our broader cost competitiveness program we continue to focus on improving our cost profile, including rationalizing our real estate footprint and monetizing investments made in real estate by vacating facilities that are underutilized and not necessary for our future requirements. Related to these efforts, during the 11-month period ended January 1, 2016 we exited real estate leases and incurred restructuring charges of $5 million consisting of various facility consolidation expenses such as lease termination fees, asset impairments charges and lease vacancy reserves. We continue to evaluate options to further rationalize and restructure our leased real estate portfolio.
Reportable Segment Results. The following table summarizes changes in National Security Solutions revenues and operating income for the 11-month periods ended January 1, 2016, and January 2, 2015, and fiscal 2015 and fiscal 2014:

National Security Solutions	11 Months Ended January 1, 2016	11 Months Ended January 2, 2015	Dollar change	Percent change	12 Months Ended January 30, 2015	12 Months Ended January 31, 2014	Dollar change	Percent change
	(dollars in millions)							
Revenues	$3,210	$3,337	$(127)	(4)%	$3,594	$4,049	$(455)	(11)%
Operating income	263	270	(7)	(3)%	286	292	(6)	(2)%
Operating income margin	8.2%	8.1%			8.0%	7.2%		

National Security Solutions revenues decreased $127 million, or 4%, for the 11-month period ended January 1, 2016, as compared to the 11-month period ended January 2, 2015. The revenue contraction was primarily attributable to contract activities associated with OCO Contracts ($183 million) which includes a reduction of airborne programs that support intelligence collection ($116 million). Excluding the revenue declines associated with OCO Contracts, the remaining revenue for the National Securities Solutions segment increased by 2% primarily due to an increase in our logistics program ($62 million). OCO Contracts contributed approximately $175 million in revenues for the 11-month period ended January 1, 2016.

PART II

National Security Solutions revenues decreased $455 million, or 11%, for fiscal 2015 as compared to fiscal 2014. Revenue contraction was primarily attributable to contract activities associated with OCO Contracts ($320 million) which includes a reduction of airborne programs that support intelligence collection ($153 million) and the ramp down of the Joint Logistics Integration program for tactical and mine resistant ambush protected vehicles ($82 million). The remainder of the decline was primarily driven by overall reductions in defense and U.S. government spending resulting from sequestration and budget cuts, and higher competition resulting in lower contract awards.

National Security Solutions operating income decreased $7 million, or 3%, for the 11-month period ended January 1, 2016, as compared to the 11-month period ended January 2, 2015. This decrease in operating income was primarily attributable to a decrease in revenues ($10 million).

National Security Solutions operating income decreased $6 million, or 2%, for fiscal 2015 as compared to fiscal 2014. This decrease was primarily attributable to a decrease in revenues ($32 million), partially offset by net favorable changes in contract estimates ($19 million), as compared to net unfavorable changes in contract estimates the prior year ($6 million).

The following table summarizes changes in Health and Engineering revenues and operating income (loss) for the 11-month periods ended January 1, 2016, and January 2, 2015, and fiscal 2015 and fiscal 2014:

Health and Engineering	11 Months Ended January 1, 2016	11 Months Ended January 2, 2015	Dollar change	Percent change	12 Months Ended January 30, 2015	12 Months Ended January 31, 2014	Dollar change	Percent change
	(dollars in millions)							
Revenues	$1,496	$1,366	$130	10 %	$1,485	$1,718	$(233)	(14)%
Operating income (loss)	76	(442)	518	117 %	(472)	20	(492)	NM
Operating income (loss) margin	5.1 %	(32.4)%			(31.8)%	1.2 %		

NM - Not meaningful

Health and Engineering revenues increased $130 million, or 10%, for the 11-month period ended January 1, 2016, as compared to the 11-month period ended January 2, 2015. The revenue growth reflects increased revenues in our engineering construction business ($191 million), higher sales in the Federal Health business primarily due to our new Electronic Health Record system modernization program ($33 million), and timing of security product shipments ($10 million), which was partially offset by decreased volume in the commercial health business ($114 million).

Health and Engineering revenues decreased $233 million, or 14%, for fiscal 2015 as compared to fiscal 2014. The revenue contraction reflects a decline in engineering services ($92 million) primarily due to the completion of two energy design-build construction projects in fiscal 2014, lower sales in our health business primarily related to lower hospital electronic health care record implementations ($82 million), and lower sales volumes in our security products business due to the completion of an international support contract for the Army ($39 million) and timing of product shipments ($20 million).

Health and Engineering operating income was $76 million for the 11-month period ended January 1, 2016, as compared to operating loss of $442 million for the 11-month period ended January 2, 2015. The increase in operating income was primarily due to a decrease in asset impairment charges in our commercial health and engineering businesses ($480 million), primarily due to a goodwill impairment charge during fiscal 2015 of $486 million as well as higher operating income generated from our security products business due to an impairment charge in fiscal 2015 on our Reveal line of security products ($14 million), increased volume of higher margin security products and lower indirect costs ($18 million). The increase in operating income was partially offset by bad debt expense ($11 million) associated with a renewable energy power generation facility design build project that was completed in 2013.

PART II

Health and Engineering operating loss was $472 million for fiscal 2015 as compared to operating income of $20 million for fiscal 2014. The increase in operating loss was due to an increase in impairment charges for goodwill for our health business ($369 million) and engineering business ($117 million), an impairment charge to adjust the carrying values of the Plainfield plant's assets to their fair values based on the estimated selling price of the business ($40 million), and an operating loss due to power generation shortfalls at the Plainfield plant ($25 million) that all occurred in fiscal 2015. The increase in operating loss was partially offset by a decrease of bad debt expense for certain receivables primarily related to two energy design-build construction projects ($44 million) that occurred in fiscal 2014 and an increase of favorable contract estimates ($20 million) from fiscal 2014 to fiscal 2015.

The following table summarizes changes in Corporate and Other operating loss for the 11-month periods ended January 1, 2016, and January 2, 2015, and fiscal 2015 and fiscal 2014:

Corporate and Other	11 Months Ended January 1, 2016	January 2, 2015	Dollar change	Percent change	12 Months Ended January 30, 2015	January 31, 2014	Dollar change	Percent change
	(dollars in millions)							
Operating loss	$(19)	$(19)	$—	— %	$(28)	$(149)	$121	81 %

Corporate and Other operating loss represents corporate costs that are unallowable under U.S. Government Cost Accounting Standards and the net effect of various items that are not directly related to the operating performance of the reportable segments. Corporate and Other operating loss was approximately $19 million for both the 11-month period ended January 1, 2016, and the 11-month period ended January 2, 2015, respectively.

Corporate and Other operating loss for fiscal 2015 decreased by $121 million, or 81%, as compared to fiscal 2014. The decrease was driven primarily by a decrease in separation transaction and restructuring expenses ($62 million) associated with the separation which was completed in fiscal 2014 and a decrease of costs to establish the infrastructures for two separate companies ($35 million). In addition, there was an insurance settlement ($15 million) in fiscal 2015.

Non-Operating Income (Expense).

Leidos Holdings, Inc.

During the year ended January 30, 2015, we entered into interest rate swap agreements on our $450 million fixed rate 4.45% notes maturing in December 2020. The interest rate swap agreements effectively converted a portion of our fixed-rate debt to floating-rate debt tied to the changes in the six-month LIBOR benchmark interest rate.

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

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

Non-operating expense for fiscal 2015 decreased $6 million as compared to fiscal 2014. This decrease was primarily attributable to the following:

- a decrease in interest expense of $7 million, which decreased due to interest expense reductions from the swap agreements and due to the repurchase of $183 million of outstanding debt;
- an increase in other income of $13 million, primarily due to an early termination fee and write-offs in fiscal 2014 associated with the early payoff of the notes acquired as part of the Plainfield Renewable Energy Project of $8 million and a gain on extinguishment of debt in fiscal 2015 of $5 million, offset by; and
- a decrease in interest income of $14 million, primarily due to the collection or forgiveness of deferred receivables for commercial customers related to certain construction contracts in fiscal 2014.

Leidos, Inc.
Interest income on Leidos, Inc.'s note with Leidos decreased $1 million for the 11-month period ended January 1, 2016, as compared to the 11-month period ended January 2, 2015, and increased $6 million for fiscal 2015 as compared to fiscal 2014. This note may fluctuate significantly from year to year based on changes in the underlying note balance and interest rates throughout the fiscal year.

Provision for Income Taxes. Our provision for income taxes as a percentage of income from continuing operations before income taxes was positive 31.5% and negative 26.2% in the 11-month period ended January 1, 2016, and in the 11-month period ended January 2, 2015, respectively. In fiscal 2015 and fiscal 2014, our provision for income taxes as a percentage of income from continuing operations before income taxes was negative 16.6% and positive 4.5%, respectively. In fiscal 2015 and in the 11-month period ended January 2, 2015, we had a loss from continuing operations before income taxes resulting in negative tax rates. The effective tax rate for the 11-month period ended January 1, 2016, was favorably impacted by the release of the valuation allowance related to the utilization of a capital loss carryforward for capital gains recognized during the current year as well as the favorable resolution of certain tax contingencies with the tax authorities. The effective tax rate for the 11-month period ended January 2, 2015, was negatively impacted by the goodwill impairment charge of $486 million recorded in the quarter ended August 1, 2014, which was mostly not deductible.

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

Our valuation allowance for deferred tax assets was $102 million and $120 million as of January 1, 2016, and January 30, 2015, respectively. The decrease in the valuation allowance over the prior year was due primarily to the utilization of a capital loss carryforward of $22 million, partially offset by a $4 million increase in the valuation allowance on certain state tax carryforward attributes because the associated benefits may not be realized.

Liquidity and Capital Resources

Overview of Liquidity

We had $656 million in cash and cash equivalents at January 1, 2016, which were primarily comprised of cash held in investments in several large institutional money market funds and bank deposits. We anticipate our principal sources of liquidity for at least the next 12 months will be our existing cash and cash equivalents and cash flows from operations. We may also borrow under our revolving credit facility. The available borrowing capacity under the revolving credit facility is $500 million as of January 1, 2016.

Our revolving credit facility is backed by a number of financial institutions and, by its terms, can be accessed on a same-day basis. The original maturity date of the credit facility was March 2017. In January 2016, the Company amended the credit facility to extend the maturity date by one year to March 2018. We anticipate our principal uses of cash for the next 12 months and beyond will be for operating expenses, capital expenditures, and dividends. In addition other potential uses of cash for the next 12 months and beyond are for stock repurchases (see discussion below in "Stock Repurchase Programs"), debt retirement and acquisitions of businesses.

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

PART II

Summary of Cash Flows

The following table summarizes cash flow information for the 11-month period ended January 1, 2016, fiscal 2015 and fiscal 2014:

	11 Months Ended	12 Months Ended	
	January 1, 2016	January 30, 2015	January 31, 2014
	(in millions)		
Cash provided by operating activities of continuing operations	$399	$396	$191
Cash provided by investing activities of continuing operations	64	51	297
Cash used in financing activities of continuing operations	(249)	(478)	(894)
Cash (used in) provided by operating activities of discontinued operations	(7)	15	118
Cash provided by (used in) investing activities of discontinued operations	6	29	(17)
Total increase (decrease) in cash and cash equivalents	$213	$13	$(305)

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

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

Cash flows provided by operating activities of continuing operations increased $205 million in fiscal 2015 as compared to fiscal 2014. The increase was primarily due to changes in working capital of $217 million. Collections on accounts receivable for fiscal 2014 were negatively impacted by our name change and our system shutdown to effect the spin-off of New SAIC, which caused delays in our customer invoicing. Days sales outstanding were 70 days for the three months ended January 30, 2015, as compared to 76 days for the corresponding period in the prior year.

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

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

We generated $297 million of cash in support of investing activities of continuing operations in fiscal 2014, including a $295 million dividend from New SAIC, $65 million of proceeds from the sale of facilities, $12 million of proceeds from the sale of cost method investments, partially offset by a $26 million capital contribution to New SAIC and $53 million to purchase property, plant and equipment.

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

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We used $47 million of cash in support of financing activities of continuing operations for the month of January 2015, including the repayment and retirement of debt of $23 million and the payment of dividends of $24 million.
We used $478 million of cash in support of financing activities of continuing operations in fiscal 2015, including the repurchase and retirement of debt of $175 million, the payment of dividends of $95 million and $200 million to repurchase shares of our stock from the fiscal 2015 ASR, partially offset by $7 million in proceeds from the sale of stock under our employee stock purchase plan (ESPP) and exercise of stock options.
We used $894 million of cash from financing activities of continuing operations in fiscal 2014, including $477 million to pay dividends on Leidos stock ($342 million from our special cash dividend, see section below), $152 million to pay off notes assumed as part of the acquisition of Plainfield (an additional $13 million of costs to pay off these notes was included in cash flows from operating activities), and $300 million to repurchase shares of our stock from the accelerated stock repurchase program, partially offset by consideration received of $38 million related to the real estate financing transaction and $13 million in proceeds from the sale of stock under our ESPP and exercises of stock options. New SAIC received proceeds from the issuance of debt of $500 million, prior to the spin-off, and retained the debt obligation after spin-off.
Cash Flows from Discontinued Operations.
Cash (Used in) Provided by Operating Activities of Discontinued Operations. Cash flows provided by operating activities of discontinued operations decreased $22 million for the 11-month period ended January 1, 2016, as compared to fiscal 2015 primarily due to a decrease of net income adjusted for non-cash items of $12 million and a decrease in working capital of approximately $8 million. Cash flows provided by operating activities of discontinued operations was $20 million in the month of January 2015, primarily due to a tax benefit of $18 million from the conversion of one of our domestic subsidiaries held in discontinued operations. Cash flows provided by operating activities of discontinued operations decreased $103 million in fiscal 2015 as compared to fiscal 2014, primarily due to a decrease in net income of $73 million and a decrease of cash flows provided by operating activities of $22 million for New SAIC.
Cash Provided by (Used in) Investing Activities of Discontinued Operations. Cash flows provided by investing activities of discontinued operations were $6 million for the 11-month period ended January 1, 2016, due to cash proceeds received primarily for the sale of a component of our business focused on producing a suite of cybersecurity hardware and associated software and services completed in February 2015. There were no cash flows from investing activities of discontinued operations in the month of January 2015. Cash flows provided by investing activities of discontinued operations were $29 million for fiscal 2015 due to cash proceeds received for the sale of certain components of our business in fiscal 2015. Cash flows used in investing activities of discontinued operations were $17 million for fiscal 2014 for the purchase of property, plant, and equipment.
Leidos, Inc.'s Cash Flows. Any differences in cash flows from operating activities of continuing operations for Leidos, Inc. as compared to Leidos are primarily attributable to interest impacts (which have generally reduced cash flows from operating activities of Leidos, Inc., but may increase cash flows due to changes in note position) incurred by Leidos, Inc. on its note with Leidos and changes in excess tax benefits related to stock-based compensation (which reduce cash flows from operating activities for Leidos). Any differences between cash flows from investing and financing activities of continuing operations for Leidos, Inc. as compared to Leidos relate to issuances of stock (or repurchases of stock) by Leidos to employees of Leidos, Inc. and its subsidiaries, payment of certain obligations on behalf of Leidos and any loan repayments. These activities are reflected in cash flows from investing activities for Leidos, Inc. as proceeds and payments on obligations of Leidos Holdings, Inc.; whereas these activities, excluding loan repayments, are reflected in cash flows from financing activities for Leidos.
Special Cash Dividend
In fiscal 2014, Leidos' Board of Directors declared a special cash dividend of $4.00 per share of Leidos common stock and paid an aggregate of $342 million to stockholders as of the record date of June 14, 2013.
In connection with the Lockheed Martin Transaction, prior to the consummation of the transaction, and subject to applicable law, Leidos shall declare and pay a special dividend of approximately $1.03 billion to its stockholders,

conditioned on completion of the Lockheed Martin Transaction. The special dividend will be funded by a combination of new borrowing and cash on hand.

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Stock Repurchase Programs

In fiscal 2014, our Board of Directors authorized a stock repurchase program ("2013 Stock Repurchase Program") under which we may repurchase up to 20 million shares of Leidos common stock. This share repurchase authorization replaces the March 2012 share repurchase authorization of 10 million shares. Stock repurchases may be made on the open market or in privately negotiated transactions with third parties including through accelerated share repurchase agreements. Whether repurchases are made and the timing and actual number of shares repurchased depends on a variety of factors including price, corporate capital requirements, other market conditions and regulatory requirements. The repurchase program may be accelerated, suspended, delayed or discontinued at any time.

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

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

In fiscal 2014, we entered into an ASR agreement with a financial institution to repurchase shares of our outstanding common stock for an aggregate purchase price of $300 million, resulting in an initial delivery of 5.6 million shares of our outstanding shares of common stock for an aggregate value of $255 million. The final delivery of approximately 1.0 million shares for a total value of $45 million under the program was completed during the first quarter of fiscal 2015.

Outstanding Indebtedness

During fiscal 2015, we entered into interest rate swap agreements to hedge the fair value with respect to all of the $450 million aggregate principal outstanding on our fixed rate 4.45% 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), which effectively converted the debt into floating interest rate debt. Under the terms of the interest rate swap agreements, we will receive semi-annual interest payments at the coupon rate of 4.45% and will pay variable interest based on the six-month LIBOR rate. The counterparties to these agreements are financial institutions.

Our outstanding notes payable and long-term debt consisted of the following:

	Stated interest rate	Effective interest rate	January 1, 2016	January 30, 2015
	(dollars in millions)			
Leidos Holdings, Inc. senior unsecured notes:				
$450 million notes issued in fiscal 2011, which mature in December 2020 [1]	4.45 %	4.53 %	$457	$466
$300 million notes issued in fiscal 2011, which mature in December 2040	5.95 %	6.03 %	218	232
Leidos, Inc. senior unsecured notes:				
$250 million notes issued in fiscal 2003, which mature in July 2032	7.13 %	7.43 %	248	248
$300 million notes issued in fiscal 2004, which mature in July 2033	5.50 %	5.88 %	159	182
Capital leases and other notes payable due on various dates through fiscal 2020	0%-5.55%	Various	6	38
Total notes payable and long-term debt			1,088	1,166
Less current portion			2	2
			$1,086	$1,164

Total notes payable and long-term debt, net of current portion		
Fair value of notes payable and long-term debt	$1,060	$1,152

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(1) As a result of executing the interest rate swap agreements, the carrying values of $457 million and $466 million include fair value adjustments of $9 million and $17 million, respectively, attributable to changes in the benchmark interest rate, the six-month LIBOR rate, for the 11-month period ended January 1, 2016, and the fiscal year ended January 30, 2015, respectively.

During the 11-month period ended January 1, 2016, we repurchased in the open market and retired principal amounts of $14 million on our $300 million 5.95% notes issued by Leidos Holdings, Inc. maturing in December 2040 and $23 million on our $300 million 5.50% notes issued by Leidos, Inc. maturing in July 2033. We recorded an immaterial gain on extinguishment of debt for the Leidos Holdings, Inc. and Leidos, Inc. notes as part of the partial repayment of the respective notes. The total combined gain of $1 million represents the difference between the repurchase price of $36 million and the net carrying amount of the notes. The net carrying amount was reduced by the write-off of a portion of the unamortized debt discount and deferred financing costs on a pro-rata basis to the reduction of debt. We recorded the gain (loss) on extinguishment of debt in "Other income (expense), net" in our consolidated statements of income.

During fiscal 2015, we repurchased in the open market and retired principal amounts of $67 million on our $300 million 5.95% notes issued by Leidos Holdings, Inc. maturing in December 2040 and $116 million on our $300 million 5.50% notes issued by Leidos, Inc. maturing in July 2033. We recorded a $3 million gain on extinguishment of debt for the Leidos Holdings, Inc. notes and a $2 million gain for the Leidos, Inc. notes as part of the partial repayment of the respective notes. The total combined gain of $5 million represents the difference between the repurchase price of $175 million and the net carrying amount of the notes repurchased. The net carrying amount was reduced by the write-off of a portion of the unamortized debt discount and deferred financing costs on a pro-rata basis to the reduction of debt. We recorded the gain (loss) on extinguishment of debt in "Other income (expense), net" in our consolidated statements of income.

The notes payable outstanding as of January 1, 2016, contain financial covenants and customary restrictive covenants, including, among other things, restrictions on our ability to create liens and enter into sale and leaseback transactions. We were in compliance with all covenants as of January 1, 2016. For additional information on our notes payable and long-term debt, see Note 9 of the combined notes to consolidated financial statements contained within this Transition Report on Form 10-K.

Credit Facility. We have a revolving credit facility, fully and unconditionally guaranteed by Leidos, Inc., which had provided for $750 million in unsecured borrowing capacity at interest rates determined, at our option, based on either LIBOR plus a margin or a defined base rate. During fiscal 2015, we amended the credit facility to, among other things, change the ratio of consolidated funded debt to EBITDA that we are required to maintain. In connection with the amendment to the credit facility, we exercised our right under the credit agreement to voluntarily reduce the combined commitment of the lenders from $750 million to $500 million. The original maturity date of the facility was March 2017. In January 2016, we amended the facility to extend the maturity date by one year to March 2018. As of January 1, 2016, and January 30, 2015, there were no borrowings outstanding under the credit facility.

The credit facility contains certain customary representations and warranties, as well as certain affirmative and negative covenants. The financial covenants contained in the amended credit facility require that, for a period of four trailing fiscal quarters, we maintain a ratio of consolidated funded debt, including borrowings under this facility, to EBITDA (adjusted for other items as defined in the credit facility) of not more than 4.0 to 1.0 no later than January 29, 2016, and 3.75 to 1.0 thereafter and a ratio of EBITDA (adjusted for certain items as defined in the credit facility) to interest expense of greater than 3.5 to 1.0. We were in compliance with these financial covenants as of January 1, 2016. A failure to meet these financial covenants in the future could eliminate our borrowing capacity under the credit facility.

The available borrowing capacity on the credit facility may vary each quarter based on the trailing four quarters of EBITDA. If our trailing four quarters of EBITDA declines below a certain threshold in relation to outstanding debt, the borrowing capacity available under the credit facility is reduced. Our available borrowing capacity based on the results of our trailing four quarters of EBITDA as of January 1, 2016, is $500 million.

For additional information on our credit facility, see Note 9 of the combined notes to consolidated financial statements contained within this Transition Report on Form 10-K.

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Off-Balance Sheet Arrangements

We have outstanding performance guarantees and cross-indemnity agreements in connection with certain of our unconsolidated joint venture investments. We also have letters of credit outstanding principally related to guarantees on contracts with foreign government customers and surety bonds outstanding principally related to performance and payment bonds as described in Note 20 of the combined notes to consolidated financial statements contained within this Transition Report on Form 10-K. These arrangements have not had, and management does not believe it is likely that they will in the future have, a material effect on our liquidity, capital resources, operations or financial condition.

Contractual Obligations

The following table summarizes, as of January 1, 2016, our obligations to make future payments pursuant to certain contracts or arrangements and provides an estimate of the fiscal years in which these obligations are expected to be satisfied:

	Payments Due by Fiscal Year						
	Total	2016	2017	2018	2019	2020	2021 & Thereafter
	(in millions)						
Contractual obligations[1]:							
Long-term debt (including current portion)[2]	$1,974	$60	$60	$59	$60	$59	$ 1,676
Operating lease obligations	349	84	69	58	45	31	62
Capital lease obligations	6	2	2	1	1	—	—
Other long-term liabilities[3]	41	6	6	6	6	6	11
Total contractual obligations	$2,370	$152	$137	$124	$112	$96	$ 1,749

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

(2) Includes total interest payments on our outstanding debt. Interest payments represent the entire balance for fiscal 2016-2020 and $589 million of our obligations in fiscal 2021 and thereafter. The total interest payments on our outstanding debt are calculated based on the stated fixed rates of the senior unsecured notes and do not reflect the variable interest component due to the interest rate swap agreements.

(3) Other long-term liabilities were allocated by fiscal year as follows: liabilities under deferred compensation arrangements are based upon the average annual payments in prior years upon termination of employment by participants and other liabilities are based on the fiscal year that the liabilities are expected to be realized. The table above does not include income tax liabilities for uncertain tax positions of $5 million and $4 million of additional tax liabilities, as we are not able to reasonably estimate the timing of payments in individual years due to uncertainties in the timing of audit outcomes and when settlements will become due. There is no obligation included for our foreign defined benefit pension plan, as the plan is overfunded by $2 million as of January 1, 2016. For a discussion of potential changes in these pension obligations, see Note 15 of the combined notes to consolidated financial statements contained within this Transition Report on Form 10-K.

Commitments and Contingencies

We are subject to a number of reviews, investigations, claims, lawsuits and other uncertainties related to our business. For a discussion of these items, see Notes 19 and 20 of the combined notes to the consolidated financial statements contained within this Transition Report on Form 10-K.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Management evaluates these estimates and assumptions on an ongoing basis. Our estimates and assumptions have been prepared by management on the basis of the most current reasonably available information. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions and conditions.

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

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

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

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

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

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

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

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

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

We also evaluate contracts for multiple elements, and when appropriate, separate the contracts into separate units of accounting for revenue recognition.

We provide for anticipated losses on contracts by recording an expense during the period in which the losses are determined. Amounts billed and collected but not yet recognized as revenues under contracts are deferred. Contract costs incurred for U.S. Government contracts, including indirect costs, are subject to audit and adjustment through negotiations between us and government representatives. We have agreed upon and settled indirect contract costs through fiscal 2010. Revenues on U.S. Government contracts have been recorded in amounts that are expected to be realized upon final settlement.

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

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

Changes in Estimates on Contracts. Changes in estimates related to certain types of contracts accounted for using the percentage of completion method of accounting are recognized in the period in which such changes are made for the inception-to-date effect of the changes. Changes in these estimates can routinely occur over the contract performance period for a variety of reasons, including changes in contract scope, contract cost estimates and estimated incentive or award fees. Favorable contract performance resulted in a net increase to income from continuing operations of $18 million and an increase of $0.14 per diluted share for the 11-month period ended January 1, 2016, and a net decrease to loss from continuing operations of $24 million and a decrease of $0.20 to diluted loss per share for fiscal 2015. Unfavorable contract performance resulted in a net decrease to income from continuing operations of $21 million and a decrease of $0.15 per diluted share for fiscal 2014.

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

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

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

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

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

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

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

We estimate the fair value of each reporting unit using both market and income approaches.

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

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

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

Our annual goodwill impairment analysis for the 11-month period ended January 1, 2016, indicated the estimated fair value of all of our reporting units were substantially in excess of their carrying values. Accordingly, no goodwill impairment charges were recorded as part of the annual goodwill impairment analysis.

The carrying value of goodwill as of January 1, 2016, was $1.2 billion. We face continued uncertainty in our business environment due to the substantial fiscal and economic challenges facing the U.S. Government, our primary customer, as well as challenges in the commercial healthcare industry, compounded by lower levels of U.S. Government reimbursements, including reductions in Medicare reimbursements which in turn impact hospital IT spending. Adverse changes in fiscal and economic conditions could adversely impact our future revenues and profitability. These circumstances could result in an impairment of goodwill and/or other intangibles. Also adverse equity market conditions that result in a decline in market multiples and our stock price could result in an impairment of goodwill and/or other intangibles.

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

In the 11-month period ended January 1, 2016, fiscal 2015 and fiscal 2014, we recognized intangible asset impairment charges of $4 million, $41 million and $51 million respectively. The carrying value of intangible assets as of January 1, 2016, was $25 million.

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

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

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

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In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Taxes. This update requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. During the 11-month period ended January 1, 2016, we early adopted ASU 2015-17 on a prospective basis. This resulted in a reclassification of our net current deferred tax assets of $13 million, of which $12 million was reclassified to net non-current deferred tax liabilities and $1 million to net non-current deferred tax assets in our consolidated balance sheets as of January 1, 2016. No prior periods were retrospectively adjusted.

We also recognize liabilities for uncertain tax positions when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement. We have experienced years when liabilities for uncertain tax positions were settled for amounts different from recorded amounts as described in Note 14 of the combined notes to the consolidated financial statements contained within this Transition Report on Form 10-K.

Stock-Based Compensation. We account for stock-based compensation in accordance with the accounting standard for stock compensation. Under the fair value recognition provisions of this standard, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is generally the vesting period, net of an estimated forfeiture rate.

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

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

Prior to our separation transaction, the expected term of the stock option awards granted was derived from our historical experience with the exception of stock option awards granted to our outside directors prior to fiscal 2013 which were derived utilizing the “simplified” method presented in SEC Staff Accounting Bulletin Nos. 107 and 110, “Share-Based Payment.” Expected volatility was based on an average of the historical volatility of Leidos' stock and the implied volatility from traded options on Leidos stock. The risk-free interest rate was based on the yield curve of a zero-coupon U.S. Treasury bond with a maturity equal to the expected term of the stock option on the date of grant. We used historical data to estimate forfeitures.

After the separation transaction, the expected term for all stock option awards granted was derived utilizing the “simplified” method due to the lack of historical experience post separation. Expected volatility was estimated as of each grant date during fiscal 2014 and 2015, based on a weighted average historical volatility of a group of publicly-traded peer companies for a period consistent with the expected option term due to lack of historical volatility post separation. In the 11-month period ended January 1, 2016, the expected volatility was estimated using a blended volatility method for a period consistent with the expected term based more significantly on the weighted average historical volatility of a group of publicly-traded peer companies and the weighted average implied volatility from traded options on Leidos stock for a time period prior to the grant date. We will continue to use peer group volatility information, until sufficient historical volatility of our common stock is relevant, to measure expected volatility for future option grants. The risk-free rate is derived in the same manner as prior to the separation transaction. We use historical data to estimate forfeitures.

For the 11-month period ended January 1, 2016, and fiscal 2015 we assumed a weighted average volatility of 24.5% and 25.1%, respectively. For fiscal 2014, we assumed weighted average volatilities of 25.0% for stock option awards granted prior to the separation transaction and 30.1% for stock option awards granted after the separation transaction. If other assumptions are held constant, an increase or decrease by 10% in our 11-month period ended January 1, 2016, volatility assumptions would have changed the grant-date fair value of our stock options awarded during the 11-month period ended January 1, 2016, by approximately 12%.

Recently Adopted and Issued Accounting Pronouncements

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

Effects of Inflation

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investments and long-term debt obligations. We have established an investment policy that prioritizes our objectives to minimize principal exposure, maximize liquidity and generate after-tax returns. This policy establishes guidelines regarding acceptability of instruments and maximum maturity dates and requires diversification in the investment portfolios by establishing maximum amounts that may be invested in designated instruments and issuers. Our policy authorizes, with Board of Directors' approval, the limited use of derivative instruments to hedge specific interest rate risks.

Debt obligations and derivatives. At January 1, 2016, and January 30, 2015, we had $1.1 billion and $1.2 billion, respectively, of fixed rate debt. During fiscal 2015, we entered into interest rate swap agreements with respect to all of the $450 million aggregate principal outstanding on our fixed rate 4.45% notes maturing in December 2020. The interest rate swap agreements effectively converted a portion of our fixed-rate debt to floating-rate debt tied to the changes in the six-month LIBOR benchmark interest rate. As a result, we may experience fluctuations in interest expense.

As of January 1, 2016, and January 30, 2015, the fair value of our interest rate swaps was $8 million and $17 million, respectively. Under the terms of the interest rate swap agreements, we will receive semi-annual interest payments at the coupon rate of 4.45% and will pay variable interest based on the six-month LIBOR rate. The counterparties to these agreements are financial institutions. We do not hold or issue derivative financial instruments for trading or speculative purposes. We cannot predict future market fluctuations in interest rates and their impact on our interest rate swaps due to the payment of variable rate interest in comparison to the fixed amount paid. For the 11-month period ended January 1, 2016, and fiscal 2015, a hypothetical 10% movement in the six-month LIBOR rate would have less than a $4 million and $2 million impact, respectively, on our annual interest expense due to the interest rate swaps in comparison to the fixed rate 4.45% notes. For additional information related to our interest rate swap agreements and debt, see Notes 8 and 9, respectively, to the consolidated financial statements contained in this Transition Report.

Cash and Cash Equivalents. As of January 1, 2016, and January 30, 2015, our cash and cash equivalents included investments in several large institutional money market funds and bank deposits. A 10% interest rate movement would not materially impact the value of the holdings or on interest income.

Foreign Currency Risk

Although the majority of our transactions are denominated in U.S. dollars, some of our transactions are denominated in foreign currencies. Our foreign currency exchange rate risk relates to receipts from customers, payments to suppliers and certain intercompany transactions denominated in currencies other than our (or one of our subsidiaries') functional currency. Our foreign operations are growing but remain immaterial and therefore do not have a material impact on our consolidated statements of income and consolidated statements of cash flows.

PART II

Item 8. Financial Statements and Supplementary Data
See our consolidated financial statements attached hereto and listed on the Index to Consolidated Financial Statements set forth on page F-1 of this Transition Report on Form 10-K.
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure
None.
Item 9A. Controls and Procedures
Evaluation of Disclosure Controls and Procedures
Our management, with the participation of our principal executive officer (our Chief Executive Officer) and principal financial officer (our Executive Vice President and Chief Financial Officer), has evaluated the effectiveness of Leidos' and Leidos, Inc.'s disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) as of January 1, 2016, and our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities Exchange Commission. 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 Leidos' or Leidos, Inc.'s internal control over financial reporting that occurred in the fourth quarter of the 11-month period ended January 1, 2016, covered by this Transition Report that materially affected, or are reasonably likely to materially affect, Leidos' or Leidos, Inc.'s internal control over financial reporting.
Management's Report on Internal Control Over Financial Reporting
Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.
Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of Leidos' and Leidos, Inc.'s internal control over financial reporting as of January 1, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management has assessed the effectiveness of our internal control over financial reporting as of January 1, 2016, and has concluded that our internal control over financial reporting as of that date was effective.
Deloitte & Touche LLP, an independent registered public accounting firm, audited our consolidated financial statements included in this Transition Report on Form 10-K and our internal control over financial reporting, and that firm's reports on our internal control over financial reporting are set forth below.

February 26, 2016

PART II

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Leidos Holdings, Inc.
Reston, Virginia

We have audited the internal control over financial reporting of Leidos Holdings, Inc. and subsidiaries (the “Company”) as of January 1, 2016, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2016, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the 11-month period ended January 1, 2016 of the Company and our report dated February 26, 2016 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the fiscal year end change.

/s/ Deloitte & Touche LLP
McLean, Virginia
February 26, 2016

PART II

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of
Leidos, Inc.
Reston, Virginia

We have audited the internal control over financial reporting of Leidos, Inc. and subsidiaries (the “Company”) as of January 1, 2016, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2016, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the 11-month period ended January 1, 2016 of the Company and our report dated February 26, 2016 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the fiscal year end change.

/s/ Deloitte & Touche LLP
McLean, Virginia
February 26, 2016

PART II

Item 9B. Other Information
None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

For certain information required by Item 10 with respect to executive officers, see "Executive and Other Key Officers of the Registrant" at the end of Part I of this Transition Report on Form 10-K. For additional information required by Item 10 with respect to executive officers and directors, including audit committee and audit committee financial experts, procedures by which stockholders may recommend nominees to the Board of Directors, and compliance with Section 16(a) of the Securities Exchange Act of 1934, see the information included in an amendment to this Transition Report on Form 10-K or incorporated by reference from the 2016 Proxy Statement.

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

Item 11. Executive Compensation

For information required by Item 11 with respect to executive compensation and director compensation, see the information included in an amendment to this Transition Report on Form 10-K or incorporated by reference from the 2016 Proxy Statement.

For information required by Item 11 with respect to compensation committee interlocks and insider participation, see the information included in an amendment to this Transition Report on Form 10-K or incorporated by reference from the 2016 Proxy Statement.

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

For information required by Item 12 with respect to the security ownership of certain beneficial owners and management, see the information included in an amendment to this Transition Report on Form 10-K or incorporated by reference from the 2016 Proxy Statement.

Information with respect to our equity compensation plans as of January 1, 2016, is set forth below:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights		(b) Weighted-average exercise price of outstanding options, warrants and rights		(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))	
Equity compensation plans approved by security holders (1)	4,944,548	(2)	$ 38.21	(3)	18,488,827	(4)
Equity compensation plans not approved by security holders (5)	—		—		—	(5)
Total	4,944,548		$ —	(3)	18,488,827	

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

(2) Represents (i) 2,302,550 shares of Leidos common stock reserved for future issuance for performance-based awards assuming achievement of the target level of performance for unearned performance-based awards (does not include an additional 103,490 shares if the maximum level of performance is achieved) and other stock awards under the 2006 Equity Incentive Plan, (ii) 246,716 shares of Leidos common stock issuable pursuant to dividend equivalent rights and (iii) 2,395,282 shares of Leidos common stock reserved for future issuance upon the exercise of outstanding options awarded under the 2006 Equity Incentive Plan. Does not include shares to be issued

pursuant to purchase rights under the 2006 Employee Stock Purchase Plan.

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

PART III

(4) Represents 13,830,850 shares of Leidos common stock under the 2006 Employee Stock Purchase Plan and 4,657,976 shares of Leidos common stock under the 2006 Equity Incentive Plan. The maximum number of shares initially available for issuance under the 2006 Employee Stock Purchase Plan was 2.3 million. The 2006 Employee Stock Purchase Plan provides for an automatic increase to the share reserve on the first day of each fiscal year in an amount equal to the lesser of (i) 2.3 million shares, (ii) two percent of the number of shares of Leidos common stock outstanding on the last day of the immediately preceding fiscal year or (iii) a number determined by the compensation committee of the Board of Directors. The 2006 Equity Incentive Plan was amended in June 2012 to provide that the maximum number of shares available for issuance thereunder is 12.5 million. Those shares (i) that are issued under the 2006 Equity Incentive Plan that are forfeited or repurchased at the original purchase price or less or that are issuable upon exercise of awards granted under the plan that expire or become unexercisable for any reason after their grant date without having been exercised in full, (ii) that are withheld from an option or stock award pursuant to a Company-approved net exercise provision, or (iii) that are not delivered to or are award shares surrendered by a holder in consideration for applicable tax withholding will continue to be available for issuance under the plan.

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

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

Summary of the Stock Compensation Plans

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

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

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

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

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

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

For information required by Item 13 with respect to certain relationships and related transactions and the independence of directors and nominees, see the information included in an amendment to this Transition Report on Form 10-K or incorporated by reference from the 2016 Proxy Statement.

PART III

Item 14. Principal Accounting Fees and Services

For information required by Item 14 with respect to principal accounting fees and services, see the information included in an amendment to this Transition Report on Form 10-K or incorporated by reference from the 2016 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules
(a) Documents filed as part of the report:
1. Financial Statements
Our consolidated financial statements are attached hereto and listed on the Index to Consolidated Financial Statements set forth on page F-1 of this Transition Report on Form 10-K.
2. Financial Statement Schedules
Financial statement schedules are omitted because they are not applicable or the required information is shown in our consolidated financial statements or the notes thereto.
3. Exhibits

Exhibit Number	Description of Exhibit
2.1	Distribution Agreement dated September 25, 2013. Incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on October 1, 2013.
2.2	Agreement and Plan of Merger, dated January 26, 2016, among Leidos Holdings, Inc., Lockheed Martin Corporation, Abacus Innovations Corporation, and Lion Merger Co. Incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on January 28, 2016.
2.3	Separation Agreement, dated January 26, 2016, between Lockheed Martin Corporation and Abacus Innovations Corporation. Incorporated by reference to Exhibit 2.2 to our Current Report on Form 8-K filed with the SEC on January 28, 2016.
3.1	Amended and Restated Certificate of Incorporation of Leidos Holdings, Inc. Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed with the SEC on October 1, 2013.
3.2	Amended and Restated Bylaws of Leidos Holdings, Inc. Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed with the SEC on March 25, 2015.
3.3	Amended and Restated Certificate of Incorporation of Leidos, Inc. Incorporated by reference to Exhibit 3.3 to our Current Report on Form 8-K filed with the SEC on October 1, 2013.
3.4	Amended and Restated Bylaws of Leidos, Inc. Incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed with the SEC on March 25, 2015.
4.1	Indenture dated June 28, 2002, between Leidos, Inc. and JPMorgan Chase Bank, as trustee. Incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K as filed on July 3, 2002, with the SEC. (SEC File No. 000-12771)
4.2	First Supplemental Indenture, dated October 13, 2006, by and among Leidos, Inc., Leidos Holdings, Inc. and The Bank of New York Trust Company, N.A., as successor trustee to JPMorgan Chase Bank, N.A. Incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K as filed on October 17, 2006, with the SEC. (SEC File No. 001-33072)
4.3	Indenture dated as of December 20, 2010, among Leidos Holdings, Inc., Leidos, Inc., and The Bank of New York Mellon Trust Company, N.A. as Trustee. Incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K as filed on December 22, 2010, with the SEC.

10.1*	Leidos Holdings, Inc.'s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.1 to our Annual Report on Form 10-K as filed with the SEC on March 27, 2014.
10.2*	Leidos, Inc. Stock Compensation Plan. Incorporated by reference to Exhibits 10.2 to our Annual Report on Form 10-K as filed with the SEC on March 27, 2014.
10.3*	Leidos, Inc.'s Management Stock Compensation Plan. Incorporated by reference to Exhibit 10.3 to our Annual Report on Form 10-K as filed with the SEC on March 27, 2014.
10.4*	Amended and Restated Leidos, Inc.'s Keystaff Deferral Plan.
10.5*	Amended and Restated Leidos, Inc.'s Key Executive Stock Deferral Plan.

PART IV

Exhibit Number	Description of Exhibit
10.6*	Leidos Holdings, Inc.'s 2006 Employee Stock Purchase Plan. Incorporated by reference to Exhibit 10.6 to our Annual Report on Form 10-K as filed with the SEC on March 27, 2014.
10.7*	Leidos, Inc.'s 401(k) Excess Deferral Plan. Incorporated by reference to Exhibit 10.7 to our Annual Report on Form 10-K as filed with the SEC on March 27, 2014.
10.8*	Form of Stock Award Agreement of Leidos Holdings, Inc.'s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2009, as filed on December 9, 2009, with the SEC.
10.9*	Form of Stock Award Agreement (Non-Employee Directors) of Leidos Holdings, Inc.'s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.7 to our Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2009, as filed on December 9, 2009,with the SEC.
10.10*	Form of Nonstatutory Stock Option Agreement of Leidos Holdings, Inc.'s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.10 to our Annual Report on Form 10-K as filed with the SEC on March 27, 2014.
10.11*	Form of Nonstatutory Stock Option Agreement (Non-Employee Directors) of Leidos Holdings, Inc.'s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.11 to our Annual Report on Form 10-K as filed with the SEC on March 27, 2014.
10.12*	Form of Performance Share Award Agreement of Leidos Holdings, Inc.'s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2011, as filed on June 3, 2011, with the SEC.
10.13*	Form of Amendment to Performance Share Award Agreement of Leidos Holdings, Inc.'s 2006 Equity Incentive Plan (for Performance Share Award Agreements entered into prior to March 22, 2012). Incorporated by reference to Exhibit 10.10 to our Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2012, as filed on June 1, 2012, with the SEC.
10.14*	Form of Restricted Stock Unit Award Agreement of Leidos Holdings, Inc.'s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.14 to our Annual Report on Form 10-K as filed with the SEC on March 27, 2014.
10.15*	Form of Restricted Stock Unit Award Agreement (Non-Employee Directors) of Leidos Holdings, Inc.'s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.15 to our Annual Report on Form 10-K as filed with the SEC on March 27, 2014.
10.16*	Form of Restricted Unit Award Agreement (Management) of Leidos Holdings, Inc.'s 2006 Equity Incentive Plan. Incorporated by reference to Exhibit 10.16 to our Annual Report on Form 10-K filed as with the SEC on March 27, 2014.
10.17*	Form of Recoupment Policy and Non-Solicitation Acknowledgment and Agreement. Incorporated by reference to Exhibit 10.1 to Leidos Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarterly

	period ended April 30, 2010, as filed on June 4, 2010, with the SEC.
10.18	Amended and Restated Four Year Credit Agreement, dated March 11, 2011, among Leidos Holdings, Inc., as borrower, Leidos, Inc., as guarantor, Citibank, N.A., as administrative agent, Bank of America, N.A., as syndication agent, Morgan Stanley Bank, N.A., The Bank of Nova Scotia and Wells Fargo Bank, National Association, as co-documentation agents, and the other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Leidos Holdings, Inc.'s Current Report on Form 8-K as filed on March 15, 2011, with the SEC.
10.19*	Form of Indemnification Agreement. Incorporated by reference to Exhibit 10.19 to our Annual Report on Form 10-K filed with the SEC on March 25, 2015.
10.20*	Form of Severance Protection Agreement.
10.21	Deferred Prosecution Agreement between Leidos, Inc. and the U.S. Attorney's Office for the Southern District of New York effective March 14, 2012. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on March 14, 2012, with the SEC.

PART IV

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

10.34*	Employment Offer Letter dated June 9, 2015. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on June 15, 2015.
10.35	Amendment to Membership Interest Purchase Agreement by and among Leidos Engineering, LLC, Greenleaf Power Consolidated, LLC and Plainfield Renewable Energy, LLC dated July 17, 2015. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on July 23, 2015.
10.36	Fourth Amendment to Purchase and Sale Agreement dated August 31, 2015. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on September 8, 2015.
10.37	Amendment No. 3 to the Amended and Restated Four Year Credit Agreement dated as of March 11, 2011, as amended by Amendment No. 1 dated April 19, 2013, and Amendment No. 2 dated as of October 17, 2014, among Leidos Holdings, Inc., as borrower and Leidos, Inc., as guarantor, Citibank, N.A., as administrative agent and the other lending institutions party thereto. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on January 28, 2016.
18	Preferability Letter.

PART IV

Exhibit Number	Description of Exhibit
21	Subsidiaries of Registrants.
23.1	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Patent License and Assignment Agreement dated as of August 12, 2005, between Leidos, Inc. and VirnetX, Inc. Incorporated by reference to Exhibit 99.1 to Leidos Holdings, Inc.'s Annual Report on Form 10-K as filed on April 1, 2010, with the SEC.
99.2†	Amendment No. 1 dated as of November 2, 2006, to Patent License and Assignment Agreement between Leidos, Inc. and VirnetX, Inc. Incorporated by reference to Exhibit 99.2 to Leidos Holdings, Inc.'s Annual Report on Form 10-K as filed on April 1, 2010, with the SEC.
99.3	Amendment No. 2 dated as of March 12, 2008, to Patent License and Assignment Agreement between Leidos, Inc. and VirnetX, Inc. Incorporated by reference to Exhibit 99.3 to Leidos Holdings, Inc.'s Annual Report on Form 10-K as filed on April 1, 2010, with the SEC.
99.4†	Professional Services Contract effective September 7, 1999, between Leidos, Inc. and In-Q-Tel, Inc. (f/k/a In-Q-It, Inc.). Incorporated by reference to Exhibit 99.4 to Leidos Holdings, Inc.'s Annual Report on Form 10-K as filed on April 1, 2010, with the SEC.
101	Interactive Data File.

* Executive Compensation Plans and Arrangements

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

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Leidos Holdings, Inc.

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

Dated: February 26, 2016

Leidos, Inc.

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

Dated: February 26, 2016

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

Signature	Title	Date
/s/ Roger A. Krone Roger A. Krone	Principal Executive Officer	February 26, 2016
/s/ James C. Reagan James C. Reagan	Principal Financial Officer and Principal Accounting Officer	February 26, 2016
/s/ David G. Fubini David G. Fubini	Director	February 26, 2016
/s/ John J. Hamre John J. Hamre	Director	February 26, 2016
/s/ Miriam E. John Miriam E. John	Director	February 26, 2016
/s/ John P. Jumper John P. Jumper	Director	February 26, 2016
/s/ Harry M. J. Kraemer, Jr. Harry M. J. Kraemer, Jr.	Director	February 26, 2016
/s/ Gary S. May Gary S. May	Director	February 26, 2016
/s/ Lawrence C. Nussdorf Lawrence C. Nussdorf	Director	February 26, 2016
/s/ Robert S. Shapard	Director	February 26, 2016

Robert S. Shapard

/s/ Noel B. Williams Noel B. Williams	Director	February 26, 2016

LEIDOS HOLDINGS, INC.
LEIDOS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

Leidos Holdings, Inc. Transition Report - F-1

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

To the Board of Directors and Stockholders of
Leidos Holdings, Inc.
Reston, Virginia

We have audited the accompanying consolidated balance sheets of Leidos Holdings, Inc. and subsidiaries (the "Company") as of January 1, 2016, and January 30, 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the 11-month period ended January 1, 2016, and for each of the fiscal years ended January 30, 2015, and January 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Leidos Holdings, Inc. and subsidiaries as of January 1, 2016 and January 30, 2015, and the results of their operations and their cash flows for the 11-month period ended January 1, 2016 and for each of the fiscal years ended January 30, 2015 and January 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

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

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 1, 2016, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2016, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
McLean, Virginia
February 26, 2016

LEIDOS HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

	January 1, 2016	January 30, 2015
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$656	$443
Receivables, net	921	896
Inventory, prepaid expenses and other current assets	216	273
Assets of discontinued operations	—	6
Total current assets	1,793	1,618
Property, plant and equipment, net	142	308
Goodwill and intangible assets, net	1,232	1,244
Deferred income taxes	8	14
Other assets	202	97
	$3,377	$3,281
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$769	$675
Accrued payroll and employee benefits	268	264
Notes payable and long-term debt, current portion	2	2
Liabilities of discontinued operations	1	10
Total current liabilities	1,040	951
Notes payable and long-term debt, net of current portion	1,086	1,164
Other long-term liabilities	183	168
Commitments and contingencies (Notes 16,19 and 20)		
Stockholders' equity:		
Preferred stock, $.0001 par value,10 million shares authorized and no shares issued and outstanding at January 1, 2016 and January 30, 2015	—	—
Common stock, $.0001 par value, 500 million shares authorized, 72 million and 74 million shares issued and outstanding at January 1, 2016 and January 30, 2015, respectively	—	—
Additional paid-in capital	1,353	1,433
Accumulated deficit	(277)	(424)
Accumulated other comprehensive loss	(8)	(11)
Total stockholders' equity	1,068	998
	$3,377	$3,281

See accompanying combined notes to consolidated financial statements.

LEIDOS HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME

	11 Months Ended		12 Months Ended	
	January 1, 2016	January 2, 2015 (unaudited)	January 30, 2015	January 31, 2014
	(in millions, except per share amounts)			
Revenues	$4,712	$4,690	$5,063	$5,755
Costs and expenses:				
Cost of revenues	4,146	4,069	4,392	4,992
Selling, general and administrative expenses	201	280	310	440
Bad debt expense	8	4	5	44
Goodwill impairment charges	—	486	486	—
Asset impairment charges	33	41	81	51
Separation transaction and restructuring expenses	4	1	3	65
Operating income (loss)	320	(191)	(214)	163
Non-operating income (expense):				
Interest income	4	1	1	15
Interest expense	(53)	(71)	(75)	(82)
Other income (expense), net	84	5	5	(8)
Income (loss) from continuing operations before income taxes	355	(256)	(283)	88
Income tax expense	(112)	(67)	(47)	(4)
Income (loss) from continuing operations	243	(323)	(330)	84
Discontinued operations (Note 2):				
(Loss) income from discontinued operations before income taxes	(1)	(14)	(13)	140
Income tax benefit (expense)	—	3	20	(60)
(Loss) income from discontinued operations	(1)	(11)	7	80
Net income (loss)	$242	$(334)	$(323)	$164
Earnings (loss) per share (Note 12):				
Basic:				
Income (loss) from continuing operations	$3.33	$(4.36)	$(4.46)	$0.98
(Loss) income from discontinued operations	(0.01)	(0.15)	0.10	0.96
	$3.32	$(4.51)	$(4.36)	$1.94
Diluted:				
Income (loss) from continuing operations	$3.28	$(4.36)	$(4.46)	$0.98
(Loss) income from discontinued operations	(0.01)	(0.15)	0.10	0.96
	$3.27	$(4.51)	$(4.36)	$1.94

See accompanying combined notes to consolidated financial statements.

LEIDOS HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME