

Leidos Holdings, Inc.
 Form 10-Q
 September 09, 2014

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

Form 10-Q

(Mark One)

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

For the quarterly period ended August 1, 2014

or

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

For the transition period from _____ to _____

Commission File Number	Exact Name of Registrant as Specified in its Charter, Address of Principal Executive Offices and Telephone Number	State or other jurisdiction of incorporation or organization	I.R.S. Employer Identification No.
001-33072	Leidos Holdings, Inc. 11951 Freedom Drive, Reston, Virginia 20190 (571) 526-6000	Delaware	20-3562868
000-12771	Leidos, Inc. 11951 Freedom Drive, Reston, Virginia 20190 (571) 526-6000	Delaware	95-3630868

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 No

Leidos, Inc. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 No

Leidos, Inc. Yes No

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 Accelerated filer Non-accelerated filer Smaller reporting company

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

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

Leidos Holdings, Inc.

Yes No

Leidos, Inc.

Yes No

The number of shares issued and outstanding of each issuer's classes of common stock as of August 29, 2014 was as follows:

Leidos Holdings, Inc. 74,038,021 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.

Explanatory Note

This Quarterly Report on Form 10-Q 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 condensed consolidated financial statements for each company, along with combined notes to the condensed 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, Leidos, Inc., and its consolidated subsidiaries.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	August 1, 2014	January 31, 2014
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$358	\$430
Receivables, net	1,094	1,082
Inventory, prepaid expenses and other current assets	236	256
Assets of discontinued operations	25	39
Total current assets	1,713	1,807
Property, plant and equipment (less accumulated depreciation and amortization of \$324 million and \$341 million at August 1, 2014 and January 31, 2014, respectively)	372	482
Intangible assets, net	59	93
Goodwill	1,207	1,693
Deferred income taxes	19	15
Other assets	111	72
	\$3,481	\$4,162
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$682	\$716
Accrued payroll and employee benefits	296	285
Notes payable and long-term debt, current portion	3	2
Liabilities of discontinued operations	10	6
Total current liabilities	991	1,009
Notes payable and long-term debt, net of current portion	1,329	1,331
Other long-term liabilities	204	227
Commitments and contingencies (Notes 11 and 12)		
Stockholders' equity:		
Preferred stock, \$.0001 par value, 10 million shares authorized and no shares issued and outstanding at August 1, 2014 and January 31, 2014	—	—
Common stock, \$.0001 par value, 500 million shares authorized, 74 million and 80 million shares issued and outstanding at August 1, 2014 and January 31, 2014, respectively	—	—
Additional paid-in capital	1,426	1,576
Accumulated (deficit) earnings	(463	) 25
Accumulated other comprehensive loss	(6	) (6
Total stockholders' equity	957	1,595
	\$3,481	\$4,162

See accompanying combined notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	August 1, 2014	August 2, 2013	August 1, 2014	August 2, 2013
	(in millions, except per share amounts)			
Revenues	\$1,306	\$1,457	\$2,618	\$3,050
Costs and expenses:				
Cost of revenues	1,119	1,293	2,260	2,666
Selling, general and administrative expenses	87	105	170	232
Goodwill impairment charges	486	—	486	—
Intangible asset impairment charges	24	30	24	32
Separation transaction and restructuring expenses	—	19	1	33
Operating (loss) income	(410	) 10	(323	) 87
Non-operating income (expense):				
Interest income	1	6	1	10
Interest expense	(20	) (18	) (40	) (38
Other (expense) income, net	(1	) —	1	1
(Loss) income from continuing operations before income taxes	(430	) (2	) (361	) 60
Income tax (expense) benefit	(9	) 6	(33	) (15
(Loss) income from continuing operations	(439	) 4	(394	) 45
Discontinued operations (Note 2):				
Income (loss) from discontinued operations before income taxes	2	60	(11	) 125
Income tax (expense) benefit	(1	) (22	) 4	(47
Income (loss) from discontinued operations	1	38	(7	) 78
Net (loss) income	\$(438	) \$42	\$(401	) \$123
(Loss) earnings per share (Note 8):				
Basic:				
(Loss) income from continuing operations	(5.93	) 0.05	(5.25	) 0.50
Income (loss) from discontinued operations	0.01	0.45	(0.10	) 0.93
	\$(5.92	) \$0.50	\$(5.35	) \$1.43
Diluted:				
(Loss) income from continuing operations	\$(5.93	) \$0.05	\$(5.25	) \$0.50
Income (loss) from discontinued operations	0.01	0.45	(0.10	) 0.93
	\$(5.92	) \$0.50	\$(5.35	) \$1.43
Cash dividends declared per share	\$0.32	\$0.48	\$0.64	\$4.96

See accompanying combined notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	August 1, 2014	August 2, 2013	August 1, 2014	August 2, 2013
	(in millions)			
Net (loss) income	\$(438	) \$42	\$(401	) \$123
Other comprehensive income, net of tax	—	—	—	—
Comprehensive (loss) income	\$(438	) \$42	\$(401	) \$123

See accompanying combined notes to condensed consolidated financial statements.

LEIDOS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Shares of common stock	Additional paid-in capital	Accumulated earnings (deficit)	Accumulated other comprehensive loss	Total
	(in millions, except for share amounts)				
Balance at January 31, 2014	80	\$1,576	\$ 25	\$(6	) \$1,595
Net loss	—	—	(401	) —	(401)
Other comprehensive income, net of tax	—	—	—	—	—
Issuances of stock, net of cancellations	—	7	—	—	7
Shares repurchased and retired or withheld for tax withholdings on equity awards	(6	) (175	) (37	) —	(212)
Dividends of \$0.64 per share	—	—	(50	) —	(50)
Adjustments for income tax benefits (deficiency)from stock-based compensation	—	(5	) —	—	(5)
Stock-based compensation	—	23	—	—	23
Balance at August 1, 2014	74	\$1,426	\$(463	) \$(6	) \$957

See accompanying combined notes to condensed consolidated financial statements.

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

	Six Months Ended	
	August 1, 2014	August 2, 2013
	(in millions)	
Cash flows from operations:		
Net (loss) income	\$(401	) \$123
Loss (income) from discontinued operations	7	(78)
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	34	51
Stock-based compensation	23	30
Goodwill impairment charges	486	—
Intangible asset impairment charges	24	32
Restructuring charges, net	1	12
Other	4	3
Change in assets and liabilities, net of effects of acquisitions and dispositions:		
Receivables	(56	) (126)
Inventory, prepaid expenses and other current assets	9	48
Other assets	(1	) 6
Accounts payable and accrued liabilities	(35	) (27)
Accrued payroll and employee benefits	12	(40)
Income taxes receivable/payable	11	—
Other long-term liabilities	(3	) (2)
Total cash flows provided by operating activities of continuing operations	115	32
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(22	) (30)
Proceeds from sale of assets	—	65
Proceeds from U.S. Treasury cash grant	80	—
Other	—	1
Total cash flows provided by investing activities of continuing operations	58	36
Cash flows from financing activities:		
Payments of notes payable and long-term debt		