

LEIDOS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Less than 10% of the Company's income before income taxes for fiscal 2019, 2018 and 2017 was earned outside of the United States. The provision for income taxes for the periods presented included the following:

| | Year Ended | | |
|---------------------|--------------------|----------------------|----------------------|
| | January 3, 2020 | December 28, 2018 | December 29, 2017 |
| | (in millions) | | |
| Current: | | | |
| Federal and foreign | \$ 147 | \$ 54 | \$ 130 |
| State | 31 | 23 | 30 |
| Deferred: | | | |
| Federal and foreign | 21 | (39) | (141) |
| State | (3) | (10) | 10 |
| Total | <u>\$ 196</u> | <u>\$ 28</u> | <u>\$ 29</u> |

A reconciliation of the provision for income taxes to the amount computed by applying the statutory federal income tax rate to income before income taxes for the periods presented was as follows:

| | Year Ended | | |
|--|--------------------|----------------------|----------------------|
| | January 3, 2020 | December 28, 2018 | December 29, 2017 |
| | (in millions) | | |
| Amount computed at the statutory federal income tax rate | \$ 182 | \$ 128 | \$ 138 |
| State income taxes, net of federal tax benefit | 22 | 10 | 31 |
| Excess tax benefits from stock-based compensation | (11) | (9) | (12) |
| Research and development credits | (11) | (9) | (7) |
| Change in valuation allowance for deferred tax assets | 6 | (49) | 7 |
| Stock basis in subsidiary held for sale | 5 | (16) | — |
| Change in accruals for uncertain tax positions | 4 | 1 | — |
| Dividends paid to employee stock ownership plan | (2) | (2) | (4) |
| Impact of foreign operations | 2 | — | (4) |
| Taxable conversion of a subsidiary | — | (17) | — |
| Change in statutory federal tax rate | — | (10) | (125) |
| Capitalized transaction costs | — | — | 9 |
| Other | (1) | 1 | (4) |
| Total | <u>\$ 196</u> | <u>\$ 28</u> | <u>\$ 29</u> |
| Effective income tax rate | <u>22.6%</u> | <u>4.6%</u> | <u>7.4%</u> |

The Company's effective tax rate for fiscal 2019 was favorably impacted primarily by excess tax benefits related to employee stock-based payment transactions and federal research tax credits, partially offset by an increase in valuation allowances arising from foreign withholding tax and an increase in taxes related to the sale of the commercial cybersecurity business.

The Company's effective tax rate for fiscal 2018 was favorably impacted primarily by a decrease in valuation allowances arising from the taxable conversion of a subsidiary and the utilization of capital losses, an increase in deferred tax assets related to stock basis of a subsidiary held for sale, excess tax benefits related to employee stock-based payment transactions and federal research tax credits.

The Company's effective tax rate for fiscal 2017 was favorably impacted primarily by the Tax Act's reduction of the federal corporate tax rate from 35% to 21% applied to the Company's fiscal 2017 year-end deferred tax balances and excess tax benefits related to employee stock-based payment transactions.