Leidos Holdings, Inc.
Form S-4
April 18, 2016
Table of Contents

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 18, 2016

REGISTRATION NO. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

LEIDOS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**11951 Freedom Drive, Reston, Virginia** **(571) 526-6000**	**20-3562868** **(I.R.S. Employer** **Identification Number)**

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Vincent A. Maffeo

Executive Vice President and General Counsel

Leidos Holdings, Inc.

11951 Freedom Drive

Reston, Virginia 20190

(571) 526-6000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Robert B. Pincus

Skadden, Arps, Slate, Meagher & Flom LLP

One Rodney Square, 920 N. King Street

Wilmington, Delaware 19801

Glenn C. Campbell

Hogan Lovells US LLP

100 International Dr., Suite 2000

Baltimore, Maryland 21202

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable on or after the effective date of this registration statement and after all other conditions to the completion of the exchange offer and merger described herein have been satisfied or waived.

If the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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 (check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered(1)**	**Proposed maximum offering price per unit(2)**	**Proposed maximum aggregate offering price(2)**	**Amount of registration fee(2)**
Common stock ($.0001 par value per share)	76,958,918	$50.90	$3,917,208,926.20	$394,462.94

(1) Represents an estimate of the maximum number of shares of Leidos Holdings, Inc. (Leidos) common stock, par value $.0001 per share, issuable upon completion of the transactions contemplated by the Agreement and Plan of Merger dated as of January 26, 2016, among Lockheed Martin Corporation (Lockheed Martin), Abacus Innovations Corporation (Splitco), Leidos and Lion Merger Co. (the Merger Agreement), as described in this registration statement. Pursuant to Rule 416 under the Securities Act of 1933, as amended, this registration statement also covers an indeterminate number of additional shares of Leidos as may be issuable as a result of stock splits, stock dividends or similar transactions.

(2) Calculated pursuant to Rule 457(c) and Rule 457(f) under the Securities Act of 1933, as amended, based on the average of the high and low prices of shares of common stock of Leidos, into which shares of common stock of Splitco will be converted, as reported on The New York Stock Exchange on April 11, 2016 and

based on the expected merger exchange ratio.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

EXPLANATORY NOTE

On January 26, 2016, Leidos Holdings, Inc. (Leidos) 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 (Splitco), 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). Leidos is filing this registration statement on Form S-4 (Reg. No. 333-) to register the offer and sale of its shares of its common stock, par value $.0001 per share, which will be issued in the merger (the Merger) of Merger Sub with and into Splitco, whereby the separate corporate existence of Merger Sub will cease and Splitco will continue as the surviving company and a wholly-owned subsidiary of Leidos. The shares of Splitco common stock will be immediately converted into shares of Leidos common stock in the Merger. Splitco will file a registration statement on Form S-4 and Form S-1 (Reg. No. 333-) to register the offer and sale of its shares of its common stock, par value $0.001 per share, which common shares will be distributed to Lockheed Martin stockholders in connection with the Merger.

Based on market conditions prior to the closing of the Merger, Lockheed Martin will determine whether the shares of Splitco common stock will be distributed to Lockheed Martin stockholders in a spin-off or a split-off. In a spin-off, all Lockheed Martin stockholders would receive a pro rata number of shares of Splitco common stock. In a split-off, Lockheed Martin would offer its stockholders the option to exchange their shares of Lockheed Martin common stock for shares of Splitco common stock in an exchange offer, which shares would be converted immediately into shares of Leidos common stock in the Merger, resulting in a reduction in Lockheed Martin s outstanding shares. If the exchange offer is undertaken and consummated but the exchange offer is not fully subscribed because less than all shares of Splitco common stock owned by Lockheed Martin are exchanged, the remaining shares of Splitco common stock owned by Lockheed Martin would be distributed on a pro rata basis to Lockheed Martin stockholders whose shares of Lockheed Martin common stock remain outstanding after the consummation of the exchange offer. Leidos is filing this registration under the assumption that the shares of Splitco common stock will be distributed to Lockheed Martin stockholders pursuant to a split-off. This registration statement also assumes that the shares of Splitco common stock will be distributed to Lockheed Martin stockholders pursuant to a split-off. Once a final decision is made regarding the manner of distribution of the shares, this registration statement, and Splitco s registration statement on Form S-4 and Form S-1 will be amended to reflect that decision, if necessary.

Table of Contents

The information in this document may change. The exchange offer and issuance of securities being registered pursuant to the registration statement of which this document forms a part may not be completed until the registration statement is effective. This document is not an offer to sell these securities, and it is not soliciting an offer to buy these securities, in any state where such offer or sale is not permitted.

SUBJECT TO COMPLETION

DATED APRIL 18, 2016

PRELIMINARY PROSPECTUS OFFER TO EXCHANGE

LOCKHEED MARTIN CORPORATION

Offer to Exchange All Shares of Common Stock of

Abacus Innovations Corporation

which are owned by Lockheed Martin Corporation

and will be converted into Shares of Common Stock of

Leidos Holdings, Inc.

for

Shares of Common Stock of Lockheed Martin Corporation

Lockheed Martin Corporation (Lockheed Martin) is offering to exchange all shares of common stock of Abacus Innovations Corporation (Splitco) owned by Lockheed Martin for shares of common stock of Lockheed Martin that are validly tendered and not properly withdrawn. None of Lockheed Martin, Splitco, Leidos Holdings, Inc. (Leidos), any of their respective directors or officers or any of their respective representatives makes any recommendation as to whether you should participate in this exchange offer. You must make your own decision after reading this document and consulting with your advisors.

Immediately following the consummation of this exchange offer, a special purpose merger subsidiary of Leidos named Lion Merger Co. (Merger Sub) will be merged with and into Splitco, and Splitco, as the surviving company, will become a wholly-owned subsidiary of Leidos (the Merger). In the Merger, each issued and outstanding share of Splitco common stock will be converted into the right to receive one share of Leidos common stock. Accordingly, shares of Splitco common stock will not be transferred to participants in this exchange offer; participants instead will receive shares of Leidos common stock in the Merger. No trading market currently exists or will ever exist for shares of Splitco common stock.

The value of Lockheed Martin common stock and Splitco common stock (by reference to Leidos common stock) will be determined by Lockheed Martin by reference to the simple arithmetic average of the daily volume-weighted average prices on each of the last three trading days ending on and including the third trading day preceding the expiration date of the exchange offer period (the Valuation Dates) of Lockheed Martin common stock and Leidos common stock on the New York Stock Exchange (NYSE). In the case of Splitco common stock, the value will be reduced by $ per share, which approximates the per-share amount of the special dividend that Leidos will declare prior to the closing of the Merger. Based on an expiration date of , 2016, the Valuation Dates are expected to be , 2016, , 2016 and , 2016.

This exchange offer is designed to permit you to exchange your shares of Lockheed Martin common stock for a number of shares of Splitco common stock that corresponds to a percent discount in value, calculated as set forth in this document, to the equivalent amount of Leidos common stock based on the Merger exchange ratio described above.

For each $100 in value of Lockheed Martin common stock accepted in this exchange offer, you will receive approximately $ in value of Splitco common stock, subject to an upper limit of shares of Splitco common stock per share of Lockheed Martin common stock. This exchange offer does not provide for a lower limit or minimum exchange ratio. If the upper limit is in effect, then the exchange ratio will be fixed at that limit. IF THE UPPER LIMIT IS IN EFFECT, UNLESS YOU PROPERLY WITHDRAW YOUR SHARES, YOU ULTIMATELY WILL RECEIVE LESS THAN $ IN VALUE OF SPLITCO COMMON STOCK FOR EACH $100 IN VALUE OF LOCKHEED MARTIN COMMON STOCK THAT YOU TENDER, AND YOU COULD RECEIVE MUCH LESS.

Lockheed Martin common stock is listed on the NYSE under the symbol LMT. Leidos common stock is listed on the NYSE under the symbol LDOS. On April 15, 2016, the last reported sale price of Lockheed Martin common stock on the NYSE was $225.81, and the last reported sale price of Leidos common stock on the NYSE was $51.92. The market price of Lockheed Martin common stock and of Leidos common stock will fluctuate prior to the completion of this exchange offer and therefore may be higher or lower at the expiration date than the prices set forth above.

THIS EXCHANGE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 8:00 A.M., NEW YORK CITY TIME, ON , 2016, UNLESS THE OFFER IS TERMINATED OR EXTENDED. SHARES OF LOCKHEED MARTIN COMMON STOCK TENDERED PURSUANT TO THIS EXCHANGE OFFER MAY BE WITHDRAWN AT ANY TIME PRIOR TO THE EXPIRATION OF THIS EXCHANGE OFFER.

Lockheed Martin s obligation to exchange shares of Splitco common stock for shares of Lockheed Martin common stock is subject to the satisfaction of certain conditions, including conditions to the consummation of the Transactions, which include approval by the stockholders of Leidos of the issuance of shares of common stock of Leidos in the Merger.

The terms and conditions of this exchange offer and the Transactions are described in this document, which you should read carefully.

In reviewing this document, you should carefully consider the risk factors set forth in the section entitled Risk Factors beginning on page 37 of this document.

Neither the Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus Offer to Exchange is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus Offer to Exchange is , 2016.

Table of Contents

This document incorporates by reference important business and financial information about Lockheed Martin and Leidos from documents filed with the SEC that have not been included in or delivered with this document. This information is available at the website that the SEC maintains at www.sec.gov, as well as from other sources. See Where You Can Find More Information; Incorporation by Reference. You also may ask any questions about this exchange offer or request copies of the exchange offer documents from Lockheed Martin, without charge, upon written or oral request to Lockheed Martin Corporation s Information Agent, Georgeson LLC, located at 1290 Avenue of the Americas, 9th Floor, New York, New York 10104, or at telephone number (866) 482-4931. To receive timely delivery of the documents, your request must be received no later than three business days prior to the , 2016 expiration date.

All information contained or incorporated by reference in this document with respect to Leidos and Merger Sub and their respective subsidiaries, as well as information about Leidos after the consummation of the Transactions, has been provided by Leidos. All other information contained or incorporated by reference in this document with respect to Lockheed Martin and Splitco and their respective subsidiaries, or the Splitco Business, and with respect to the terms and conditions of the exchange offer has been provided by Lockheed Martin. This document incorporates by reference or contains references to trademarks, trade names and service marks, including Lockheed Martin and Sikorsky, which are owned by Lockheed Martin and its related entities.

This document is not an offer to sell or exchange and it is not a solicitation of an offer to buy any shares of Lockheed Martin common stock, Splitco common stock or Leidos common stock in any jurisdiction in which the offer, sale or exchange is not permitted. Non-U.S. stockholders and U.S. stockholders residing outside of the United States should consult their advisors in considering whether they may participate in the exchange offer in accordance with the laws of their home countries or countries of residence, as applicable, and, if they do participate, whether there are any restrictions or limitations on transactions in the shares of Splitco common stock or Leidos common stock that may apply in such countries. Lockheed Martin, Splitco and Leidos cannot provide any assurance about whether such limitations may exist. See This Exchange Offer Certain Matters Relating to Non-U.S. Jurisdictions for additional information about limitations on the exchange offer outside the United States.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

Table of Contents

Table of Contents

HELPFUL INFORMATION

In this document:

2011 IPAP means the Lockheed Martin Amended and Restated 2011 Incentive Performance Award Plan;

Additional Agreements means the Assignment and Assumption Agreements, the Intellectual Property Matters Agreement, the Shared Contracts Agreements, the Subcontract Pending Novation, the Supply Agreements, the Transition Services Agreements, and the other agreements contemplated by the Separation Agreement to effect the lease, sublease, license and leaseback of various real estate used in the Splitco Business;

Assignment and Assumption Agreements means any Bills of Sale, Assignment and Assumption Agreements (Parent to Splitco), any Bills of Sale, Assignment and Assumption Agreements (Splitco to Parent) and any Assignments and Assumptions of Lease, and any similar documents entered into the effect the Transactions, each as contemplated by the Separation Agreement;

business day means, for purposes of the exchange offer, any day other than a Saturday, Sunday or U.S. federal holiday and consists of the time period from 12:00 a.m. through 12:00 midnight, New York City time;

CDI Shares means Lockheed Martin common stock in uncertificated form held under Lockheed Martin Direct Invest, the stock purchase and dividend reinvestment plan administered by Computershare Trust Company, N.A., Lockheed Martin s transfer agent;

Code means the Internal Revenue Code of 1986, as amended;

Commitment Parties means, collectively, the Leidos Commitment Parties and the Splitco Commitment Parties;

Cut-Off Time means 11:59 p.m. on the day immediately prior to the date of the Distribution;

Daily VWAP means, on any given day, the daily VWAP on the NYSE during the period beginning at 9:30 a.m., New York City time (or such other time as is the official open of trading on the NYSE) and ending at 4:00 p.m., New York City time (or such other time as is the official close of trading on the NYSE), provided that the Daily VWAP will only take into account adjustments made to reported trades included by 4:10 p.m., New York City time, as reported by Bloomberg Finance L.P. and displayed under the heading Bloomberg VWAP on the Bloomberg pages LMT UN < Equity > VWAP for Lockheed Martin and LDOS UN < Equity

> VWAP for Leidos, or their equivalent successor pages if such pages are not available;

DGCL means the General Corporation Law of the State of Delaware, as amended;

Distribution means the distribution by Lockheed Martin of the shares of Splitco common stock to Lockheed Martin stockholders by way of an exchange offer or by way of a *pro rata* dividend and, with respect to any shares of Splitco common stock that are not subscribed for in any such exchange offer, a *pro rata* dividend to the Lockheed Martin stockholders;

Employee Matters Agreement means the Employee Matters Agreement dated as of January 26, 2016, among Lockheed Martin, Leidos and Splitco;

ERISA means the Employee Retirement Income Security Act of 1974, as amended;

Exchange Act means the Securities Exchange Act of 1934, as amended;

Former Splitco Business Employee means any former employee who performed substantially all of his or her services in connection with the Splitco Business;

GAAP means generally accepted accounting principles in the United States;

HSR Act means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended;

Intellectual Property Matters Agreement means the Intellectual Property Matters agreement as contemplated by the Separation Agreement;

Internal Reorganization means the internal reorganization within Lockheed Martin of the Splitco Business in anticipation of the Distribution as contemplated by the Separation Agreement;

IRS means the United States Internal Revenue Service;

IS&GS means the Information Systems & Global Solutions business segment of Lockheed Martin;

Leidos means Leidos Holdings, Inc., a Delaware corporation, and, unless the context otherwise requires, its subsidiaries, which, after consummation of the Merger, will include Splitco and the Splitco Subsidiaries;

Leidos Board means the board of directors of Leidos;

Leidos Borrower means Leidos, Inc., a wholly-owned subsidiary of Leidos Holdings, Inc. and the borrower under the Leidos Facilities;

Leidos Bylaws means the Bylaws of Leidos, as amended;

Leidos Charter means the Amended and Restated Certificate of Incorporation of Leidos, as amended;

Leidos Commitment Letter means the Commitment Letter dated January 26, 2016, among Citigroup Global Markets Inc., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, JPMorgan Chase Bank, N.A., J.P. Morgan Securities, LLC, Goldman Sachs Bank USA and Leidos, and any associated fee letters, in respect of loans in the aggregate principal amount of $1,440,000,000, together in each case with any amendments, supplements and joinders thereto;

Leidos Commitment Parties means, collectively, Citigroup Global Markets Inc., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, JPMorgan Chase Bank, N.A., J.P. Morgan Securities, LLC, and Goldman Sachs Bank USA, together with all additional lenders added to the Commitment Letter from time to time;

Leidos common stock means the common stock, par value $0.0001 per share, of Leidos;

Leidos preferred stock means the preferred stock, par value $0.0001 per share, of Leidos;

Leidos Special Dividend means a special dividend in an amount equal to $1,029,210,261 in the aggregate to be declared by Leidos prior to the Merger, as of a record date prior to the closing date of the Merger, as described more fully in The Merger Agreement Leidos Special Dividend ;

Leidos stockholders means the holders of Leidos common stock;

Leidos Stock Plans means the Leidos 2006 Equity Incentive Plan, the Leidos 2006 Employee Stock Purchase Plan and each other employee benefit plan of Leidos providing for the grant by Leidos of stock options, restricted stock units, performance share units, stock equivalents or other equity or equity-based awards;

Leidos Tax Opinion means an opinion from Skadden, Arps, Slate, Meagher & Flom LLP, tax counsel to Leidos, to the effect that the Merger will be treated for U.S. federal income Tax purposes as a reorganization within the meaning of Section 368(a) of the Code and that each of Leidos, Merger Sub and Splitco will be a party to the reorganization within the meaning of Section 368(b) of the Code;

Lockheed Martin means Lockheed Martin Corporation, a Maryland corporation, and, unless the context otherwise requires, its subsidiaries, which, after consummation of the Distribution, will not include Splitco and the Splitco Subsidiaries;

Lockheed Martin Board means the board of directors of Lockheed Martin;

Lockheed Martin Bylaws means the Bylaws of Lockheed Martin, as amended;

Lockheed Martin Cash Distribution means the distribution of cash in an amount equal to the Splitco Special Cash Payment, by Lockheed Martin to its creditors in retirement of outstanding Lockheed Martin indebtedness, or to Lockheed Martin stockholders in repurchase of, or distribution with respect to, shares of Lockheed Martin common stock;

Lockheed Martin Charter means the Charter of Lockheed Martin, as amended;

Lockheed Martin common stock means the common stock, par value $1.00 per share, of Lockheed Martin;

Lockheed Martin Savings Plans means the Lockheed Martin Corporation Salaried Savings Plan, the Lockheed Martin Corporation Operations Support Savings Plan, the Lockheed Martin Corporation Hourly Savings Plan Plus, the Lockheed Martin Corporation Performance Sharing Plan for Bargaining Employees, the Lockheed Martin Corporation Capital Accumulation Plan, the Lockheed Martin Corporation Capital Accumulation Plan for Hourly Employees and the Lockheed Martin Corporation Basic Benefit Plan for Hourly Employees, each of which is sponsored by Lockheed Martin and for which State Street Bank and Trust Company serves as trustee;

Lockheed Martin stockholders means the holders of Lockheed Martin common stock;

Lockheed Martin Tax Opinions means opinions from Davis Polk & Wardwell LLP, tax counsel to Lockheed Martin, to the effect that (i) the Merger will be treated for U.S. federal income Tax purposes as a reorganization within the meaning of Section 368(a) of the Code and that each of Leidos, Merger Sub and Splitco will be a party to the reorganization within the meaning of Section 368(b) of the Code, and (ii) (a) the Splitco Transfer and the Distribution, taken together, will qualify as a reorganization within the meaning of Section 368(a)(1)(D) of the Code and that each of Lockheed Martin and Splitco will be a party to the reorganization within the meaning of Section 368(b) of the Code, (b) the Distribution, as such, will qualify as a distribution of Splitco common stock to Lockheed Martin stockholders pursuant to Section 355 of the Code, (c) the Merger will not cause Section 355(e) of the Code to apply to the Distribution, and (d) the Lockheed Martin Cash Distribution will qualify as money distributed to Lockheed Martin creditors or stockholders in connection with the reorganization for purposes of Section 361(b) of the Code;

MBCA means the Maryland Business Combination Act, as amended;

Merger means the merger of Merger Sub with and into Splitco, whereby the separate corporate existence of Merger Sub will cease and Splitco will continue as the surviving company and as a wholly-owned subsidiary of Leidos, as contemplated by the Merger Agreement;

MGCL means the Maryland General Corporation Law, as amended;

Merger Agreement means the Agreement and Plan of Merger dated as of January 26, 2016, among Lockheed Martin, Splitco, Leidos and Merger Sub;

Merger Sub means Lion Merger Co., a Delaware corporation and a wholly-owned subsidiary of Leidos;

NYSE means The New York Stock Exchange;

Sandia Savings Plan means the Sandia Corporation Savings and Income Plan, which is sponsored by Sandia Corporation, a wholly-owned subsidiary of Lockheed Martin and for which Fidelity Management Trust Company serves as trustee and Evercore Trust Company, N.A. serves as the independent fiduciary for certain matters (including matters relating to proxies, voting and the elections of participants to participate in this exchange offer);

SEC means the United States Securities and Exchange Commission;

Securities Act means the Securities Act of 1933, as amended;

Separation means the separation of the Splitco Business from the remaining businesses of Lockheed Martin and its subsidiaries pursuant to the Separation Agreement;

Separation Agreement means the Separation Agreement dated as of January 26, 2016, between Lockheed Martin and Splitco;

Share Issuance means the issuance of shares of Leidos common stock to the stockholders of Splitco in the Merger;

Shared Contracts Agreements means the Shared Contracts Agreement Shared Contracts (Parent Companies) and the Shared Contracts Agreements Shared Contracts (Splitco Companies), each as contemplated by the Separation Agreement;

Splitco means Abacus Innovations Corporation, a Delaware corporation, and, prior to the Distribution, a wholly-owned subsidiary of Lockheed Martin;

Splitco Business means the business and operations of IS&GS;

Splitco Business Employee means, collectively, (i) each employee who performed substantially all of his or her services in connection with the Splitco Business as of January 26, 2016, (ii) each individual hired after January 26, 2016 and before the Distribution who performs substantially all of his or her services in connection with the Splitco Business and (iii) each shared services individual who, immediately before the Distribution, performs substantially all of his or her services in connection with the Splitco Business;

Splitco Commitment Letter means the Commitment Letter dated January 26, 2016, among Citigroup Global Markets Inc., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, JPMorgan Chase Bank, N.A., J.P. Morgan Securities, LLC, Goldman Sachs Bank USA and Splitco, and any associated fee letters, in respect of loans in the aggregate principal amount of $1,841,450,000, together in each case with any amendments, supplements and joinders thereto;

Table of Contents

Splitco Commitment Parties means, collectively, Citigroup Global Markets Inc., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, JPMorgan Chase Bank, N.A., J.P. Morgan Securities, LLC, and Goldman Sachs Bank USA, together with all additional lenders added to the Commitment Letter from time to time;

Splitco common stock means the common stock, par value $0.001 per share, of Splitco;

Splitco Credit Facility means the credit facility or facilities entered into by Splitco on or before the date of the Distribution providing for indebtedness in an aggregate principal amount equal to $1,841,450,000 on the terms and conditions contemplated by the Splitco Commitment Letter;

Splitco Special Cash Payment means the cash payment from Splitco to Lockheed Martin to be made prior to the Distribution in the amount of $1,800,000,000 subject to adjustment as described in The Separation Agreement Separation of the Splitco Business Splitco Special Cash Payment ;

Splitco stockholders means the holders of Splitco common stock;

Splitco Subsidiaries means the direct and indirect subsidiaries of Splitco that, together with Splitco, will hold the transferred assets and assumed liabilities related to the Splitco Business following the Separation;

Splitco Transfer means the contribution of the Transferred Assets (as defined in the Separation Agreement) by Lockheed Martin to Splitco in consideration for the transfer of Splitco common stock, the transfer to Lockheed Martin of the Splitco Special Cash Payment and the assumption by Splitco of the Assumed Liabilities (as defined in the Separation Agreement), pursuant to and in accordance with the Separation Agreement;

Supply Agreements means the Supply Agreement (Parent to Splitco) and the Supply Agreement (Splitco to Parent), each as contemplated by the Separation Agreement;

Subcontract Pending Novation means the Subcontract Pending Novation (Parent to Splitco), as contemplated by the Separation Agreement;

Tax Matters Agreement means the Tax Matters Agreement dated as of January 26, 2016, among Lockheed Martin, Leidos and Splitco;

Transaction Documents means the Separation Agreement, the Merger Agreement, the Employee Matters Agreement and the Tax Matters Agreement, as well as the Additional Agreements (as described in The Separation Agreement Separation of the Splitco Business Additional Agreements), each of which have been entered into or will be entered into in connection with the Transactions;

Transactions means the transactions contemplated by the Merger Agreement and the Separation Agreement, which provide for, among other things, the Separation, the Distribution and the Merger, as described in The Transactions ;

Transition Services Agreements means the Transition Services Agreement (Parent to Splitco) and the Transition Services Agreement (Splitco to Parent), each as contemplated by the Separation Agreement;

Valuation Dates means each of the third, fourth and fifth trading days prior to the expiration of the exchange offer period (not including the expiration date), as it may be voluntarily extended; and

VWAP means volume-weighted average price.

Table of Contents

QUESTIONS AND ANSWERS ABOUT THIS EXCHANGE OFFER AND THE TRANSACTIONS

The following are some of the questions that stockholders may have, and answers to those questions. These questions and answers, as well as the following summary, are not meant to be a substitute for the information contained in the remainder of this document, and this information is qualified in its entirety by the more detailed descriptions and explanations contained elsewhere in this document. You are urged to read this document in its entirety prior to making any decision.

Questions and Answers About this Exchange Offer

Q: Who may participate in this Exchange Offer?

A: Any Lockheed Martin stockholders in the United States during the exchange offer period may participate in this exchange offer. Although Lockheed Martin has mailed this document to its stockholders to the extent required by U.S. law, including stockholders located outside the United States, this document is not an offer to buy, sell or exchange and it is not a solicitation of an offer to buy, sell or exchange any shares of Lockheed Martin common stock, shares of Leidos common stock or shares of Splitco common stock in any jurisdiction in which such offer, sale or exchange is not permitted.

Countries outside the United States generally have their own legal requirements that govern securities offerings made to persons resident in those countries and often impose stringent requirements about the form and content of offers made to the general public. None of Lockheed Martin, Leidos or Splitco has taken any action under non-U.S. laws or regulations to facilitate a public offer to exchange shares of Lockheed Martin common stock, shares of Leidos common stock or shares of Splitco common stock outside the United States. Accordingly, the ability of any non-U.S. person and any U.S. person residing outside of the United States to tender shares of Lockheed Martin common stock in the exchange offer will depend on whether there is an exemption available under the laws of such person s home country that would permit such person to participate in the exchange offer without the need for Lockheed Martin, Leidos or Splitco to take any action to facilitate a public offering in that country or otherwise. For example, some countries exempt transactions from the rules governing public offerings if they involve persons who meet certain eligibility requirements relating to their status as sophisticated or professional investors.

Non-U.S. stockholders and U.S. stockholders residing outside of the United States should consult their advisors in considering whether they may participate in the exchange offer in accordance with the laws of their home countries or countries of residence, as applicable, and, if they do participate, whether there are any restrictions or limitations on transactions in the shares of Lockheed Martin common stock, Splitco common stock or Leidos common stock that may apply in such countries. None of Lockheed Martin, Leidos or Splitco can provide any assurance about whether such limitations exist. See This Exchange Offer Certain Matters Relating to Non-U.S. Jurisdictions for additional information about limitations on the exchange offer outside the United States.

Lockheed Martin believes a substantial majority of its stockholders are U.S. investors and does not expect the legal limitations described in this question and answer to cause the exchange offer to be undersubscribed.

Q: How many shares of Splitco common stock will I receive for each share of Lockheed Martin common stock that I tender?

A: This exchange offer is designed to permit you to exchange your shares of Lockheed Martin common stock for shares of Splitco common stock at a percent discount, calculated as set forth in this document, to the per-share equivalent value of Splitco common stock. Stated another way, for each $100 in value of your Lockheed Martin common stock accepted in this exchange offer, you will receive approximately $ in value of Splitco common stock. The value of the Lockheed Martin common stock will be based on the calculated per-share value for the Lockheed Martin common stock on the NYSE and the value of the Splitco common stock will be based on the value for Leidos common stock on the NYSE (because each share of Splitco common stock will be exchanged for one share of Leidos common stock in the Merger), in each case determined by reference to the simple arithmetic average of the Daily VWAP on each of the Valuation Dates. In the case of Splitco common stock, the value will be reduced by $ per share, which approximates the per-share amount of the Leidos Special Dividend. Please note, however, that the number of shares you can receive is subject to an upper limit of an aggregate of shares of Splitco common stock for each share of Lockheed Martin common stock accepted in this exchange offer. The following questions and answers describe the impact of this limit on the value you receive. This exchange offer does not provide for a lower limit or minimum exchange ratio. See This Exchange Offer Terms of this Exchange Offer. Because this exchange offer is subject to proration in the event of oversubscription, Lockheed Martin in certain circumstances may accept for exchange only a portion of the shares of Lockheed Martin common stock tendered by you.

Table of Contents

Q: Is there a limit on the number of shares of Splitco common stock I can receive for each share of Lockheed Martin common stock that I tender?

A: The number of shares you can receive is subject to an upper limit of shares of Splitco common stock for each share of Lockheed Martin common stock accepted in this exchange offer. If the upper limit is in effect, you ultimately may receive less than $ in value of Splitco common stock for each $100 in value of Lockheed Martin common stock that you tender, and you could receive much less. For example, if the calculated per-share value of Lockheed Martin common stock was $ (the highest closing price for Lockheed Martin common stock on the NYSE during the three-month period prior to commencement of this exchange offer) and the calculated per-share value of Splitco common stock was $ (the lowest closing price for Leidos common stock on the NYSE during that three-month period), the value of Splitco common stock received for each $100 in value of Lockheed Martin common stock accepted for exchange would be approximately $.

Lockheed Martin set the upper limit to ensure that a change in the relative price of Lockheed Martin common stock and Leidos common stock, whether as a result of an increase in the price of Lockheed Martin common stock, a decrease in the price of Leidos common stock or a combination thereof, would not result in an unduly high number of shares of Splitco common stock being exchanged for each share of Lockheed Martin common stock accepted in this exchange offer, preventing a situation that might significantly reduce the benefits of this exchange offer to Lockheed Martin and its continuing stockholders due to a smaller number of outstanding shares being acquired by Lockheed Martin in this exchange offer.

Q: What will happen if the upper limit is in effect?

A: Lockheed Martin will announce whether the upper limit on the number of shares that can be received for each share of Lockheed Martin common stock tendered will be in effect through www. , through the toll-free number maintained by the information agent listed on the back cover of this document and by press release, no later than 9:00 a.m. New York City time, on the second trading day prior to the expiration date. If the upper limit is in effect at that time, then the exchange ratio will be fixed at the upper limit and you will receive shares of Splitco common stock for each share of Lockheed Martin common stock accepted in the exchange offer. **If the upper limit is in effect, you will receive less than $ in value of Splitco common stock for each $100 in value of Lockheed Martin common stock that you tender, and you could receive much less.**

Q: How are the calculated per-share values of Lockheed Martin common stock and Splitco common stock determined for purposes of calculating the number of shares of Splitco common stock to be received in this exchange offer?

A: The calculated per-share value of a share of Lockheed Martin common stock for purposes of this exchange offer will equal the simple arithmetic average of the Daily VWAP of Lockheed Martin common stock on the NYSE on each of the Valuation Dates. The calculated per-share value of a share of Splitco common stock for purposes of this exchange offer will equal the simple arithmetic average of the Daily VWAP of Leidos common stock on the NYSE on each of the Valuation Dates (since each share of Splitco common stock will be exchanged for one share of Leidos common stock in the Merger), minus $ per share, which approximates the per-share amount of the Leidos Special Dividend (as described in the section of this document entitled The Merger Agreement Leidos Special Dividend). Lockheed Martin will determine such calculations of the per-share values of Lockheed Martin common stock and Splitco common stock and such determination will be final.

Q: Why is the calculated per-share value for Splitco common stock based on the trading prices for Leidos common stock?

A: There is currently no trading market for Splitco common stock and no such trading market will be established in the future. Lockheed Martin believes, however, that the trading prices for Leidos common stock are an appropriate proxy for the trading prices of Splitco common stock because (a) prior to the Distribution, Splitco will issue to Lockheed Martin a number of shares of Splitco common stock such that the total number of shares of Splitco common stock outstanding immediately prior to the Merger will be 76,958,918; (b) in the Merger, each share of Splitco common stock will be converted into the right to receive one share of Leidos common stock; and (c) at the Valuation Dates, it is expected that all the major conditions to the consummation of the Merger will have been satisfied and the Merger will be expected to be consummated shortly, such that investors should be expected to be valuing Splitco common stock based on the expected value of Leidos common stock after the Merger and without the entitlement to the Leidos Special Dividend. There can be no assurance, however, that Leidos common stock after the Merger will trade on the same basis as Leidos common stock trades prior to the Merger. See Risk Factors Risks Related to the Transactions The trading prices of Leidos common stock may not be an appropriate proxy for the prices of Splitco common stock.

Q: What is the daily volume-weighted average price or Daily VWAP?

A: The daily volume-weighted average price for Lockheed Martin common stock and Leidos common stock will be the VWAP of Lockheed Martin and Leidos common stock on the NYSE during the period beginning at 9:30 a.m., New York City time (or such other time as is the official open of trading on the NYSE), and ending at 4:00 p.m., New York City time (or such other time as is the official close of trading on the NYSE), except that such data will only take into account adjustments made to reported trades included by 4:10 p.m., New York City time.

Table of Contents

The Daily VWAP will be as reported by Bloomberg Finance L.P. and displayed under the heading Bloomberg VWAP on the Bloomberg pages LMT UN < Equity > VWAP with respect to Lockheed Martin common stock and LDOS UN < Equity > VWAP with respect to Leidos common stock (or their equivalent successor pages if such pages are not available). The Daily VWAPs provided by Bloomberg Finance L.P. may be different from other sources of volume-weighted average prices or investors or security holders own calculations of volume-weighted average prices.

Q: Where can I find the Daily VWAP of Lockheed Martin common stock and Leidos common stock during the exchange offer period?

A: The information agent will maintain on Lockheed Martin s behalf a website at www.   to provide the Daily VWAP of both Lockheed Martin common stock and Leidos common stock, together with indicative calculated per-share values for shares of Lockheed Martin common stock and shares of Splitco common stock, for each day during this exchange offer. That information also will be available by contacting the information agent at the toll-free number provided on the back cover of this document during the exchange offer period.

Q: Will indicative exchange ratios be provided during the exchange offer period?

A: Yes. The website that will be maintained at www.   will provide indicative exchange ratios during the exchange offer period. Indicative exchange ratios also will be available by contacting the information agent at the toll-free number provided on the back cover of this document during the exchange offer period. Prior to the first Valuation Date, commencing on the third trading day of this exchange offer, indicative exchange ratios for each day that will be calculated on the indicative per-share values of Lockheed Martin common stock and Leidos common stock on each day (minus, in the case of Leidos common stock, $ per share, which approximates the per-share amount of the Leidos Special Dividend), calculated as though that day were the last of the three Valuation Dates for this exchange offer, will be available by 4:30 p.m., New York City time. In other words, assuming that a given day is a trading day, the indicative exchange ratio will be calculated based on the simple arithmetic average of the Daily VWAPs of Lockheed Martin common stock and Leidos common stock for that day and the two immediately preceding trading days, after taking into account the adjustment for the Leidos Special Dividend. The indicative exchange ratio also will reflect whether the upper limit on the exchange ratio, described above, would be in effect.

On the first two Valuation Dates, when the values of Lockheed Martin common stock and Leidos common stock are calculated for the purposes of this exchange offer, at the end of each day the website will be updated to show the indicative exchange ratios based on per-share values calculated by Lockheed Martin, which will be calculated as follows: (i) after the close of trading on the NYSE on the first Valuation Date, the VWAPs for that day, and (ii) after the close of trading on the NYSE on the second Valuation Date, the VWAPs for that day averaged with the VWAPs on the first Valuation Date. On the first two Valuation Dates, the indicative exchange ratios will be updated no later than 4:30 p.m., New York City time. No indicative exchange ratio will be published or announced on the third Valuation Date, but the final exchange ratio will be announced by press release and available on the website by 9:00 a.m. on the second trading day (currently expected to be   , 2016) immediately preceding the expiration date of this exchange offer.

In addition, for purposes of illustration, a table that indicates the number of shares of Splitco common stock that you would receive per share of Lockheed Martin common stock, calculated on the basis described above and taking into account the upper limit, assuming a range of averages of the Daily VWAPs of Lockheed Martin common stock and Leidos common stock on the Valuation Dates, is provided on page 49.

Q: How and when will I know the final exchange ratio?

A: The final exchange ratio showing the number of shares of Splitco common stock that you will receive for each share of Lockheed Martin common stock accepted in this exchange offer will be available at www.   and separately announced by press release no later than 9:00 a.m., New York City time, on the second trading day prior to the expiration date. In addition, as described below, you also may contact the information agent to obtain indicative exchange ratios (prior to the time the final exchange ratio becomes available) and the final exchange ratio (after the time the final exchange ratio becomes available) at the toll-free number maintained by the information agent listed on the back cover of this document.

Lockheed Martin will announce whether the upper limit on the number of shares that can be received for each share of Lockheed Martin common stock tendered is in effect at www.   and through the toll-free number maintained by the information agent listed on the back cover of this document and by press release, no later than 9:00 a.m., New York City time, on the second trading day prior to the expiration date. If the upper limit is in effect at that time, then the exchange ratio will be fixed at the upper limit.

Table of Contents

Q: What if shares of Lockheed Martin common stock or shares of Leidos common stock do not trade on any of the Valuation Dates?

A: If a market disruption event occurs with respect to Lockheed Martin common stock or Leidos common stock on any of the Valuation Dates, the calculated per-share value of Lockheed Martin common stock and Splitco common stock will be determined using the Daily VWAP of shares of Lockheed Martin common stock and shares of Leidos common stock on the preceding trading day or days, as the case may be, on which no market disruption event occurred with respect to either Lockheed Martin common stock or Leidos common stock, so that in any case the valuation averaging period would be three days. If, however, a market disruption event occurs as specified above, Lockheed Martin may terminate this exchange offer if, in its reasonable judgment, the market disruption event has impaired the benefits of this exchange offer. For specific information as to what would constitute a market disruption event, see This Exchange Offer Conditions for the Consummation of this Exchange Offer.

Q: Are there circumstances under which I would receive fewer shares of Splitco common stock than I would have received if the exchange ratio were determined using the closing prices of Lockheed Martin common stock and Leidos common stock on the last trading day of the exchange offer period?

A: Yes. For example, if the trading price of shares of Lockheed Martin common stock were to increase after the final Valuation Date during the last two trading days of the exchange offer period (currently expected to be , 2016 and , 2016), the arithmetic average of the Daily VWAP for Lockheed Martin common stock on the Valuation Dates likely would be lower than the closing price of shares of Lockheed Martin common stock on the trading day before the expiration date of the exchange offer. As a result, you may receive fewer shares of Splitco common stock for each $100 in value of Lockheed Martin common stock than you would have received if the price were calculated on the basis of the closing price of shares of Lockheed Martin common stock on the trading day before the expiration date or on the basis of an averaging period that included the last two trading days prior to the expiration of the exchange offer. Similarly, if the trading price of Leidos common stock were to decrease after the final Valuation Date during the last two trading days of the exchange offer period, the simple arithmetic average of the Daily VWAP for Leidos common stock on the Valuation Dates likely would be higher than the closing price of shares of Leidos common stock on the trading day before the expiration date of the exchange offer. This circumstance also could result in you receiving fewer shares of Splitco common stock for each $100 in value of Lockheed Martin common stock than you otherwise would have received if the price were calculated on the basis of the closing price of shares of Leidos common stock on the trading day before the expiration date of the exchange offer or on the basis of an averaging period that included the last two trading days prior to the expiration of the exchange offer.

Q: Will fractional shares of Leidos be distributed?

A: Upon the consummation of this exchange offer, the exchange agent will hold the shares of Splitco common stock as agent for the Lockheed Martin stockholders who validly tendered their shares and, in case of a *pro rata* distribution, for the holders of record of Lockheed Martin common stock for the *pro rata* distribution. Immediately following the consummation of this exchange offer, Merger Sub will be merged with and into Splitco, with Splitco surviving the Merger and becoming a wholly-owned subsidiary of Leidos. Each issued and outstanding share of Splitco common stock will be converted in the Merger into the right to receive one share of Leidos common stock. In the conversion, no fractional shares of Leidos common stock will be delivered to Splitco stockholders. All fractional shares of Leidos common stock that any Splitco stockholder otherwise would be entitled to receive as a result of the Merger will be aggregated by the exchange agent on behalf of Leidos. The exchange agent will cause the whole shares obtained thereby to be sold on behalf of the Splitco stockholders that otherwise would be entitled to receive such fractional shares of Leidos common stock in the Merger, in the open market or otherwise, in each case at then-prevailing market prices as soon as practicable after the Merger and, in any case, no later than five business days after the Merger. The exchange agent then will make available the net proceeds thereof, after deducting any brokerage or similar charges, commissions and transfer taxes, on a *pro rata* basis, without interest, but subject to any required withholding taxes, as soon as practicable to the Splitco stockholders that otherwise would be entitled to receive such fractional shares of Leidos common stock in the Merger.

Q: What is the aggregate number of shares of Splitco common stock being offered in this exchange offer?

A: In this exchange offer, subject to adjustment as provided in the Merger Agreement, Lockheed Martin is offering 76,958,918 shares of Splitco common stock, which will constitute all of the shares of Splitco common stock that will be issued and outstanding on the date of the consummation of this exchange offer.

Table of Contents

Q: What happens if insufficient shares of Lockheed Martin common stock are tendered to allow Lockheed Martin to exchange all of the shares of Splitco common stock it holds?

A: If this exchange offer is consummated but fewer than all of the issued and outstanding shares of Splitco common stock owned by Lockheed Martin are exchanged because this exchange offer is not fully subscribed, the remaining shares of Splitco common stock owned by Lockheed Martin will be distributed on a *pro rata* basis to the Lockheed Martin stockholders whose shares of Lockheed Martin common stock remain outstanding after the consummation of this exchange offer. Any Lockheed Martin stockholder who validly tenders (and does not properly withdraw) shares of Lockheed Martin common stock for shares of Splitco common stock in the exchange offer will waive their rights with respect to those tendered shares of Lockheed Martin common stock to receive, and forfeit any rights to, shares of Splitco common stock distributed on a *pro rata* basis to Lockheed Martin stockholders in the event the exchange offer is not fully subscribed. However, any Lockheed Martin stockholder who tendered less than all of their shares of Lockheed Martin common stock would be entitled to shares of Splitco common stock distributed on a *pro rata* basis to Lockheed Martin stockholders in respect of those shares that were not tendered.

Upon the consummation of this exchange offer, Lockheed Martin will deliver to the exchange agent a global certificate representing all of the Splitco common stock being distributed in this exchange offer, with irrevocable instructions to hold the shares of Splitco common stock as agent for Lockheed Martin stockholders whose shares of Lockheed Martin common stock were validly tendered and not withdrawn in this exchange offer and, in the case of a *pro rata* distribution, Lockheed Martin stockholders whose shares of Lockheed Martin common stock remain outstanding after the consummation of this exchange offer. If there is a *pro rata* distribution, the exchange agent will calculate the exact number of shares of Splitco common stock not exchanged in this exchange offer and to be distributed on a *pro rata* basis, and that number of shares of Splitco common stock will be held as agent for the Lockheed Martin stockholders whose shares of Lockheed Martin common stock remain outstanding after the consummation of this exchange offer. See This Exchange Offer Distribution of Any Shares of Splitco Common Stock Remaining After this Exchange Offer.

Q: What happens if Lockheed Martin declares a quarterly dividend during this exchange offer?

A: Historically, Lockheed Martin has declared quarterly dividends to be paid to stockholders of record as of the first trading day of the last month of each calendar quarter. All stockholders that own Lockheed Martin common stock as of the record date for the dividend are eligible to receive the dividend.

Q: Will tendering my shares affect my ability to receive the Lockheed Martin quarterly dividend?

A: No. If a dividend is declared by Lockheed Martin with a record date before the completion of this exchange offer, you will be entitled to that dividend if you owned the shares as of the close of business on the record date even if you tender your shares of Lockheed Martin common stock. Tendering your shares of Lockheed Martin common stock in this exchange offer is not a sale or transfer of those shares until they are accepted for exchange upon completion of this exchange offer.

Q: What is the Leidos Special Dividend?

A: Leidos will declare a special dividend prior to the Merger in an amount equal to $1,029,210,261 in the aggregate to the holders of record of Leidos common stock as of a record date prior to the closing date of the Merger. As of the date of this document, it is expected that the per-share Leidos common stock dividend amount will be approximately $, although the exact amount of the per-share dividend amount will be determined based on the number of shares of Leidos common stock outstanding on the record date. Stockholders of Lockheed Martin who receive Splitco common stock in the Distribution (whether by tendering shares of Lockheed common stock in the exchange offer or in connection with any *pro rata* distribution of any remaining shares of Splitco common stock) that will be converted into Leidos common stock in the Merger will not be entitled to receive the Leidos Special Dividend since the record date will be prior to the date on which the Merger closes. For more information on the Leidos Special Dividend, see the section of this document entitled The Merger Agreement Leidos Special Dividend.

Q: If I participate in the exchange offer, will I be entitled to receive the Leidos Special Dividend with respect to my Splitco common stock to be converted into Leidos common stock in connection with the Merger?

A: No. The Leidos Special Dividend will be declared by Leidos prior to the Merger, as of a record date prior to the closing date of the Merger. Only those Leidos stockholders of record as of the record date will be entitled to receive payment of the Leidos Special Dividend. Each share of Splitco common stock will be converted into the right to receive one share of Leidos common stock only at the effective time of the Merger, which will occur after the record date set for payment of the Leidos Special Dividend. Unless you own Leidos common stock as of the record date set by the Leidos Board, you will not be entitled to receive payment of the Leidos Special Dividend.

Table of Contents

Q: Will all shares of Lockheed Martin common stock that I tender be accepted in this exchange offer?

A: Not necessarily. Depending on the number of shares of Lockheed Martin common stock validly tendered in this exchange offer and not properly withdrawn, and the calculated per-share values of Lockheed Martin common stock and Splitco common stock determined as described in this document, Lockheed Martin may have to limit the number of shares of Lockheed Martin common stock that it accepts in this exchange offer through a proration process. Any proration of the number of shares accepted in this exchange offer will be determined on the basis of the proration mechanics described in the section of this document entitled This Exchange Offer Terms of this Exchange Offer Proration; Tenders for Exchange by Holders of Fewer than 100 Shares of Lockheed Martin Common Stock.

An exception to proration can apply to stockholders who beneficially own odd-lots that is, fewer than 100 shares of Lockheed Martin common stock, whether held in registered form or through a broker or other nominee. Such beneficial owners of Lockheed Martin common stock who validly tender all of their shares, and request preferential treatment as described in This Exchange Offer Terms of this Exchange Offer Proration; Tenders for Exchange by Holders of Fewer than 100 Shares of Lockheed Martin Common Stock, will not be subject to proration.

In all other cases, proration for each tendering stockholder will be based on (i) the proportion that the total number of shares of Lockheed Martin common stock to be accepted bears to the total number of shares of Lockheed Martin common stock validly tendered and not properly withdrawn and (ii) the number of shares of Lockheed Martin common stock validly tendered and not properly withdrawn by that stockholder (and not on that stockholder s aggregate ownership of shares of Lockheed Martin common stock). Any shares of Lockheed Martin common stock not accepted for exchange as a result of proration will be returned to tendering stockholders promptly after the final proration factor is determined.

Q: Will I be able to sell my shares of Splitco common stock after this exchange offer is completed?

A: No. There currently is no trading market for shares of Splitco common stock and no such trading market will be established in the future. The exchange agent will hold all issued and outstanding shares of Splitco common stock as agent until the shares of Splitco common stock are converted into the right to receive shares of Leidos common stock in the Merger. See This Exchange Offer Distribution of Any Shares of Splitco Common Stock Remaining After this Exchange Offer.

Q: How many shares of Lockheed Martin common stock will Lockheed Martin accept if this exchange offer is completed?

A: The number of shares of Lockheed Martin common stock that will be accepted if this exchange offer is completed will depend on the final exchange ratio and the number of shares of Lockheed Martin common stock tendered. The largest possible number of shares of Lockheed Martin common stock that will be accepted would be equal to divided by the final exchange ratio. For example, assuming that the final exchange ratio is (based on the Daily VWAPs of Lockheed Martin common stock and Leidos common stock on , 2016, 2016 and 2016), then Lockheed Martin would accept up to a total of approximately shares of Lockheed Martin common stock.

Q: Are there any conditions to Lockheed Martin s obligation to complete this exchange offer?

A: Yes. This exchange offer is subject to various conditions listed under This Exchange Offer Conditions for the Consummation of this Exchange Offer. If any of these conditions are not satisfied or waived prior to the expiration of this exchange offer, Lockheed Martin will not be required to accept shares for exchange and may extend or terminate this exchange offer.

Lockheed Martin may waive any of the conditions to this exchange offer. For a description of the material conditions precedent to this exchange offer, including satisfaction or waiver of the conditions to the consummation of the Transactions and other conditions, see This Exchange Offer Conditions for the Consummation of this Exchange Offer. Leidos has no right to waive any of the conditions to this exchange offer, provided that the ability of Lockheed Martin to waive certain conditions, including certain conditions relating to the Merger Agreement, may require the consent of Leidos.

Q: When does this exchange offer expire?

A: The period during which you are permitted to tender your shares of Lockheed Martin common stock in this exchange offer will expire at 8:00 a.m., New York City time, on , 2016, unless Lockheed Martin extends or terminates this exchange offer. See This Exchange Offer Terms of this Exchange Offer Extension; Termination; Amendment.

Table of Contents

Q: Can this exchange offer be extended and under what circumstances?

A: Yes. Lockheed Martin can extend this exchange offer, in its sole discretion, at any time and from time to time. For instance, this exchange offer may be extended if any of the conditions for the consummation of this exchange offer listed under This Exchange Offer Conditions for the Consummation of this Exchange Offer are not satisfied or waived prior to the expiration of this exchange offer. In case of an extension of this exchange offer, Lockheed Martin will publicly announce the extension at www. , through the toll-free number maintained by the information agent listed on the back cover of this document and by press release no later than 9:00 a.m., New York City time, on the next business day following the previously scheduled expiration date.

Q: How do I participate in this exchange offer?

A: The procedures you must follow to participate in this exchange offer will depend on whether you hold your shares of Lockheed Martin common stock in certificated form, through a broker, dealer, commercial bank, trust company or similar institution or through an employee benefit plan such as the Lockheed Martin Savings Plans or the Sandia Savings Plan, or if your shares of Lockheed Martin common stock are held in book-entry via the Direct Registration System (DRS) or in uncertificated form as CDI Shares. For specific instructions about how to participate, see This Exchange Offer Terms of this Exchange Offer Procedures for Tendering.

Q: What if I participate in one of the Lockheed Martin Savings Plans or the Sandia Savings Plan?

A: If you have one or more accounts in a Lockheed Martin Savings Plan or the Sandia Savings Plan and your account(s) holds units of the Employee Stock Ownership Fund (the ESOP Fund) or the Company Stock Fund (the LM Plan Company Stock Fund) under a Lockheed Martin Savings Plan or the Company Common Stock Fund (the Sandia Plan Company Stock Fund) under the Sandia Savings Plan, you may elect either to keep or to exchange some or all of the shares attributable to the units held in your account for shares of Splitco common stock. You will receive instructions by letter or email (as permitted by the Lockheed Martin Savings Plans or the Sandia Savings Plan, as applicable) informing you how to make an election. If you do not make a timely election in accordance with the instructions by the deadline set forth in the instructions, none of the shares held for your account attributable to the units of the ESOP Fund, the LM Plan Company Stock Fund and/or the Sandia Plan Company Stock Fund will be exchanged for shares of Splitco common stock in the exchange offer and your holdings of units of the ESOP Fund, the LM Plan Company Stock Fund and/or the Sandia Plan Company Stock Fund will remain unchanged. If you timely elect to exchange shares attributable to units of the ESOP Fund, the LM Plan Company Stock Fund and/or the Sandia Plan Company Stock Fund for Splitco common stock, each such share of Splitco common stock will be converted in the Merger into Leidos common stock and you will receive units of a unitized stock fund holding Leidos common stock based on an exchange ratio of one share of Leidos common stock for each share of Splitco common stock. For a more detailed description of how to tender your shares of Lockheed Martin common stock attributable to the units held in your account if you participate in the Lockheed Martin Savings Plans and/or the Sandia Savings Plan, and the applicable deadline for directing the trustee or independent fiduciary, as applicable, to tender such shares, please refer to the specific instructions regarding how to tender such shares, if any, under the Lockheed Martin Savings Plans and/or the Sandia Savings Plan, as applicable. If you hold units in the ESOP Fund and/or the LM Plan Company Stock Fund, you will receive the instructions from Computershare on behalf of the trustee of the Lockheed Martin Savings Plans. If you hold units in the Sandia Plan Company Stock Fund, you will receive the instructions from the independent fiduciary of the Sandia Savings Plan. For specific instructions about how to participate in this exchange offer, see This Exchange Offer Terms of this Exchange Offer Procedures for Tendering Shares Held in Lockheed Martin Savings Plans, and Shares Held in the Sandia Savings Plans.

Q: How do I tender my shares of Lockheed Martin common stock after the final exchange ratio has been determined?

A: If you wish to tender your shares after the final exchange ratio has been determined, you generally will need to do so by means of delivering a notice of guaranteed delivery and complying with the guaranteed delivery procedures described in the section entitled This Exchange Offer Terms of this Exchange Offer Procedures for Tendering Guaranteed Delivery Procedures. If you hold shares of Lockheed Martin common stock through a broker, dealer, commercial bank, trust company or similar institution, that institution must tender your shares on your behalf.

If your shares of Lockheed Martin common stock are held through an institution and you wish to tender your Lockheed Martin common stock after The Depository Trust Company has closed, the institution must deliver a notice of guaranteed delivery to the exchange agent via facsimile prior to 8:00 a.m., New York City time, on the expiration date, which is , 2016, unless this exchange offer is extended or terminated.

After the final exchange ratio has been determined, to tender shares of Lockheed Martin common stock held in the Lockheed Martin Savings Plans or the Sandia Savings Plan, the trustee or the independent fiduciary, as applicable, must deliver a notice of guaranteed delivery to the exchange agent via facsimile prior to 8:00 a.m., New York City time, on the expiration date.

Table of Contents

If you hold units of the ESOP Fund, the LM Plan Company Stock Fund and/or the Sandia Plan Company Stock Fund in a Lockheed Martin Savings Plan or Sandia Savings Plan account, you must tender your shares attributable to the units by the deadline set forth in the trustee s or the special service fiduciary s instructions, as applicable. It is possible that the final exchange ratio will not have been determined at the time of such deadline.

Q: Can I tender only a portion of my shares of Lockheed Martin common stock in this exchange offer?

A: Yes. You may tender all, some or none of your shares of Lockheed Martin common stock.

Q: What do I do if I want to retain all of my shares of Lockheed Martin common stock?

A: If you want to retain all of your shares of Lockheed Martin common stock, you do not need to take any action. However, after the Transactions, the Splitco Business will no longer be owned by Lockheed Martin, and as a holder of Lockheed Martin common stock you no longer will hold shares in a company that owns the Splitco Business (unless the exchange offer is consummated but is not fully subscribed and the remaining shares of Splitco common stock are distributed on a *pro rata* basis to Lockheed Martin stockholders whose shares of Lockheed Martin common stock remain outstanding after consummation of the exchange offer).

Q: Can I change my mind after I tender my shares of Lockheed Martin common stock?

A: Yes. You may withdraw your tendered shares at any time before this exchange offer expires. See This Exchange Offer Terms of this Exchange Offer Procedures for Tendering Withdrawal Rights. If you change your mind again, you can re-tender your shares of Lockheed Martin common stock by once again following the tender procedures prior to the expiration of this exchange offer.

Q: Will I be able to withdraw the shares of Lockheed Martin common stock I tender after the final exchange ratio has been determined?

A: Yes. The final exchange ratio used to determine the number of shares of Splitco common stock that you will receive for each share of Lockheed Martin common stock accepted in this exchange offer will be announced no later than 9:00 a.m., New York City time, on the second trading day prior to the expiration date of this exchange offer, which is , 2016, unless this exchange offer is extended or terminated. You have the right to withdraw shares of Lockheed Martin common stock you have tendered at any time before 8:00 a.m., New York City time, on the expiration date, which is , 2016. See This Exchange Offer Terms of this Exchange Offer. If the upper limit on the number of shares of Splitco common stock that can be received for each share of Lockheed Martin common stock tendered is in effect at the expiration of the exchange offer period, then the exchange ratio will be fixed at the upper limit.

Q: How do I withdraw my tendered Lockheed Martin common stock after the final exchange ratio has been determined?

A: If you are a registered stockholder of Lockheed Martin common stock (which includes persons holding certificated shares and book-entry shares held through DRS or CDI Shares) and you wish to withdraw your shares after the final exchange ratio has been determined, then you must deliver a written notice of withdrawal or a facsimile transmission notice of withdrawal to the exchange agent prior to 8:00 a.m., New York City time, on the expiration date of this exchange offer. The information that must be included in that notice is specified under This Exchange Offer Terms of this Exchange Offer Procedures for Tendering Withdrawal Rights.

If you hold your shares of Lockheed Martin common stock through a broker, dealer, commercial bank, trust company or similar institution, you should consult that institution on the procedures with which you must comply and the time by which such procedures must be completed in order for that institution to provide a written notice of withdrawal or facsimile notice of withdrawal to the exchange agent on your behalf before 8:00 a.m., New York City time, on the expiration date. If you hold your shares through such an institution, that institution must deliver the notice of withdrawal with respect to any shares you wish to withdraw. In such a case, as a beneficial owner and not a registered stockholder, you will not be able to provide a notice of withdrawal for such shares directly to the exchange agent.

If you hold units of the ESOP Fund, the LM Plan Company Stock Fund and/or the Sandia Plan Company Stock Fund in a Lockheed Martin Savings Plan or Sandia Savings Plan account and you wish to withdraw shares attributable to the units that you have tendered, you must withdraw such shares by the deadline set forth in the trustee s or the independent fiduciary s instructions, as applicable, and it is possible that such deadline may occur before the final exchange ratio has been determined. You should refer to the procedures and deadlines set forth in the trustee s or the independent fiduciary s informational materials provided to you, as applicable. If you hold units of the ESOP Fund, the LM Plan Company Stock Fund and/or the Sandia Plan Company Stock Fund in a Lockheed Martin Savings Plan or Sandia Savings Plan account, the trustee or the independent fiduciary, as applicable, must deliver the notice of withdrawal with respect to any shares you wish to withdraw, and you will not be able to provide a notice of withdrawal for such shares directly to the exchange agent.

Table of Contents

If your shares of Lockheed Martin common stock are held through an institution and you wish to withdraw shares of Lockheed Martin common stock after The Depository Trust Company has closed, the institution must deliver a written notice of withdrawal to the exchange agent prior to 8:00 a.m., New York City time, on the expiration date, in the form of The Depository Trust Company s notice of withdrawal and you must specify the name and number of the account at The Depository Trust Company to be credited with the withdrawn shares and must otherwise comply with The Depository Trust Company s procedures. Shares can be properly withdrawn only if the exchange agent receives a withdrawal notice directly from the relevant institution that tendered the shares through the Depository Trust Company. See This Exchange Offer Terms of this Exchange Offer Procedures for Tendering Withdrawing Your Shares After the Final Exchange Ratio Has Been Determined.

Q: Will I be subject to U.S. federal income tax on the shares of Splitco common stock that I receive in this exchange offer or on the shares of Leidos common stock that I receive in the Merger?

A: Stockholders of Lockheed Martin generally will not recognize any gain or loss for U.S. federal income tax purposes as a result of this exchange offer or the Merger, except for any gain or loss attributable to the receipt of cash in lieu of fractional shares, if any, of Leidos common stock received in the Merger. The material U.S. federal income tax consequences of the exchange offer and the Merger are described in more detail under This Exchange Offer Material U.S. Federal Income Tax Consequences of the Distribution and the Merger.

Q: Are there any material differences between the rights of Lockheed Martin stockholders and Leidos stockholders?

A: Yes. Lockheed Martin is a Maryland corporation and Leidos is a Delaware corporation, and each is subject to different laws and organizational documents. Lockheed Martin stockholders, whose rights are currently governed by Lockheed Martin s organizational documents and Maryland law, will, with respect to shares validly tendered and exchanged immediately following this exchange offer, become stockholders of Leidos and their rights will be governed by Leidos organizational documents and Delaware law. The material differences between the rights associated with shares of Lockheed Martin common stock and shares of Leidos common stock that may affect Lockheed Martin stockholders whose shares are accepted for exchange in this exchange offer and who will obtain shares of Leidos common stock in the Merger relate to, among other things, anti-takeover provisions of the applicable state corporation law and the charters of Lockheed Martin and Leidos, removal of directors, amendment of bylaws and limitations of liability of directors and officers. For a further discussion of the material differences between the rights of Lockheed Martin stockholders and Leidos stockholders, see Comparison of Rights of Lockheed Martin Stockholders and Leidos Stockholders.

Q: Are there any appraisal rights for Lockheed Martin stockholders?

A: No. There are no appraisal rights available to Lockheed Martin stockholders in connection with this exchange offer, and no appraisal rights will be available in the Merger.

Q: What will Lockheed Martin do with the shares of Lockheed Martin common stock that are tendered, and what is the impact of the exchange offer on Lockheed Martin s share count?

A: The shares of Lockheed Martin common stock that are tendered and accepted for exchange in the exchange offer will become authorized but unissued shares of Lockheed Martin common stock. Any shares of Lockheed Martin common stock acquired by Lockheed Martin in the exchange offer will reduce the total number of shares of Lockheed Martin common stock outstanding, although Lockheed Martin s actual number of shares outstanding on a given date reflects a variety of factors, such as share repurchases, equity incentive awards and option exercises.

Q: Who do I contact for information regarding this exchange offer?

A: You may call the information agent, Georgeson LLC, at (866) 482-4931, to ask any questions about this exchange offer or to request additional documents, including copies of this document and the letter of transmittal (including the instructions thereto). Alternatively, you may contact the information agent at the following e-mail address: LockheedMartinExchange@georgeson.com.

Questions and Answers About the Transactions

Q: What are the key steps of the Transactions?

A: Below is a summary of the key steps of the Transactions. A step-by-step description of material events relating to the Transactions is set forth under The Transactions.

Lockheed Martin will transfer the Splitco Business to Splitco following the Internal Reorganization.

Table of Contents

In connection with the transfer of the Splitco Business to Splitco, Splitco will issue to Lockheed Martin additional shares of Splitco common stock. Following this issuance, subject to adjustment in accordance with the Merger Agreement, Lockheed Martin will own 76,958,918 shares of Splitco common stock, which will constitute all of the outstanding stock of Splitco. In addition, Splitco will incur new indebtedness in an aggregate principal amount of approximately $1,841,450,000. Splitco will use a portion of the proceeds of this loan to pay to Lockheed Martin the Splitco Special Cash Payment in connection with the transfer of the Splitco Business to Splitco. Splitco will use the balance to pay certain fees and expenses related to such indebtedness.

Lockheed Martin will offer to Lockheed Martin stockholders the right to exchange all or a portion of their shares of Lockheed Martin common stock for shares of Splitco common stock at a percent discount, calculated as set forth in this document, to the equivalent per-share value of Leidos common stock based on the conversion in the Merger of each share of Splitco common stock into one share of Leidos common stock. If the exchange offer is consummated but is not fully subscribed, Lockheed Martin will distribute the remaining shares of Splitco common stock on a *pro rata* basis to Lockheed Martin stockholders whose shares of Lockheed Martin common stock remain outstanding after the consummation of the exchange offer. Any Lockheed Martin stockholder who validly tenders (and does not properly withdraw) shares of Lockheed Martin common stock for shares of Splitco common stock in the exchange offer will waive their rights with respect to such tendered shares to receive, and forfeit any rights to, shares of Splitco common stock distributed on a *pro rata* basis to Lockheed Martin stockholders in the event the exchange offer is not fully subscribed.

Prior to the closing of the Merger, the Leidos Borrower will incur new indebtedness in the form of a $690,000,000 Term Loan A Facility and a $750,000,000 Revolving Credit Facility. The proceeds of the Term Loan A Facility and up to $50,000,000 of borrowings under the Revolving Credit Facility, together with cash on hand at Leidos (which shall not exceed $500,000,000), will be used to pay the Leidos Special Dividend, and additional proceeds of borrowings under the Revolving Credit Facility will be used to (i) repay in full all outstanding indebtedness for borrowed money of Splitco (if any) (other than the debt incurred by Splitco described above), (ii) repay in full all indebtedness, and terminate all commitments, under the Amended and Restated Four Year Credit Agreement, dated as of March 11, 2011, among Leidos, as borrower, Leidos, Inc., as guarantor, and Citibank, N.A., as administrative agent, the lenders, other agents and other parties party thereto from time to time and (iii) pay the fees, costs and expenses associated therewith.

Immediately after the Distribution, Merger Sub will merge with and into Splitco, whereby the separate corporate existence of Merger Sub will cease and Splitco will continue as the surviving company and as a wholly-owned subsidiary of Leidos. In the Merger, each share of Splitco common stock will be converted into the right to receive one share of Leidos common stock, as described in the section of this document entitled The Merger Agreement Merger Consideration. Immediately after the consummation of the Merger, approximately 50.5 percent of the outstanding shares of Leidos common stock is expected to be held by pre-Merger Splitco (former Lockheed Martin) stockholders and approximately 49.5 percent of the outstanding shares of Leidos common stock is expected to be held by pre-Merger Leidos stockholders on a fully diluted basis.

Q: What are the material U.S. federal income tax consequences to Leidos and its stockholders resulting from the Transactions?

A: Leidos will not recognize any gain or loss for U.S. federal income tax purposes as a result of the Merger. Because Leidos stockholders will not participate in the Distribution or the Merger, Leidos stockholders generally will not recognize gain or loss upon either the Distribution (including this exchange offer) or the Merger. The material U.S. federal income tax consequences of the Distribution and the Merger are described in more detail in This Exchange Offer Material U.S. Federal Income Tax Consequences of the Distribution and the Merger.

Q: What will Leidos stockholders receive in connection with the Merger?

A: Prior to the Merger, Leidos will declare and pay the Leidos Special Dividend, conditioned on completion of the Merger. All shares of Leidos common stock issued and outstanding immediately before the Merger will remain issued and outstanding immediately after the consummation of the Merger. Immediately after the Merger, Leidos stockholders will continue to own shares in Leidos, which will include the Splitco Business.

Q: What is the estimated total value of the consideration to be paid by Leidos in the Transactions?

A: Subject to adjustment under certain circumstances as set forth in the Merger Agreement, Leidos will issue 76,958,918 shares of Leidos common stock in the Merger. Based upon the reported closing sale price of $ per share for Leidos common stock on the NYSE on , 2016, and assuming the Leidos Special Dividend is $ per share, the total value of the shares to be issued by Leidos and the cash to be received by Lockheed Martin in the Transactions would have been approximately $. The actual value of the Leidos common stock to be issued in the Merger will depend on the market price of shares of Leidos common stock at the time of the Merger.

Table of Contents

Q: Are there possible adverse effects on the value of Leidos common stock ultimately to be received by Lockheed Martin stockholders who participate in the exchange offer?

A: This exchange offer is designed to permit Lockheed Martin stockholders to exchange their shares of Lockheed Martin common stock for a number of shares of Splitco common stock that corresponds to a percent discount, calculated as set forth in this document, to the equivalent amount of Leidos common stock based on one share of Leidos common stock for each share of Splitco common stock as specified in the Merger Agreement. The existence of a discount, along with the issuance of shares of Leidos common stock pursuant to the Merger, may affect negatively the market price of Leidos common stock. The market price of Leidos common stock also will be affected by the performance of the Splitco Business and other risks associated with the Transactions. This risk and other risk factors associated with the Transactions are described in more detail in the section of this document entitled Risk Factors.

Q: How will the Transactions impact the future liquidity and capital resources of Leidos?

A: The Splitco and Leidos indebtedness to be incurred in connection with the Transactions could materially and adversely affect the liquidity, results of operations and financial condition of Leidos. Leidos also expects to incur significant one-time costs in connection with the Transactions, which may have an adverse impact on Leidos liquidity, cash flows and operating results in the periods in which they are incurred. Finally, Leidos management will be required to devote a significant amount of time and attention to the process of integrating the operations of Leidos business and the Splitco Business. If Leidos management is not able to manage the integration process effectively, or if any significant business activities are interrupted as a result of the integration process, Leidos business could suffer and its stock price may decline. See Risk Factors for a further discussion of the material risks associated with the Transactions.

Q: How do the Transactions impact Leidos dividend policy?

A: In connection with the Transactions, prior to the consummation of the Merger and subject to applicable law, Leidos shall declare and pay the Leidos Special Dividend, conditioned on completion of the Transactions. The Leidos Special Dividend will be funded by a combination of new borrowing and cash on hand. With the exception of the payment of the Leidos Special Dividend, the Transactions are not expected to affect Leidos dividend policy. See Historical Per Share Data, Market Price and Dividend Data Leidos Dividend Policy for a further discussion of Leidos current dividend policy.

Q: What will Lockheed Martin receive in the Transactions?

A: Immediately prior to the Distribution and in connection with the transfer of the Splitco Business to Splitco, Lockheed Martin will receive the Splitco Special Cash Payment, the proceeds of which will be used to pay dividends, repurchase its stock or retire outstanding indebtedness.

Q. What will Lockheed Martin stockholders receive in the Transactions?

A. In the exchange offer, Lockheed Martin will offer to Lockheed Martin stockholders the right to exchange all or a portion of their shares of Lockheed Martin common stock for shares of Splitco common stock at a percent discount, calculated as set forth in this document, to the per-share value of Leidos common stock based on one share of Leidos common stock for each share of Splitco common stock as specified in the Merger Agreement, subject to proration in the event of oversubscription. In all cases, the exchange agent will hold all issued and outstanding shares of Splitco common stock as agent until the shares of Splitco common stock are converted into the right to receive shares of Leidos common stock in the Merger. You will not be able to trade shares of Splitco common stock during this period or at any time before or after the consummation of the Merger. In the Merger, each share of Splitco common stock will be converted into the right to receive one share of Leidos common stock, as described in the section of this document entitled The Merger Agreement Merger Consideration.

If the exchange offer is consummated but is not fully subscribed, Lockheed Martin will distribute the remaining shares of Splitco common stock owned by Lockheed Martin on a *pro rata* basis to Lockheed Martin stockholders whose shares of Lockheed Martin common stock remain outstanding after the consummation of this exchange offer. Any Lockheed Martin stockholder who validly tenders (and does not properly withdraw) shares of Lockheed Martin common stock for shares of Splitco common stock in the exchange offer will waive their rights with respect to such tendered shares to receive, and forfeit any rights to, shares of Splitco common stock distributed on a *pro rata* basis to Lockheed Martin stockholders in the event the exchange offer is not fully subscribed.

Q: Are there any conditions to the consummation of the Transactions?

A: Yes. The consummation of the Transactions is subject to a number of conditions, including:

the approval by Leidos stockholders of the Share Issuance;

the termination or expiration of the waiting period under the HSR Act (which period has expired), and the receipt of any governmental approvals required under the antitrust laws in the United Kingdom;

the approval for listing on the NYSE of the shares of Leidos common stock to be issued in the Merger;

the effectiveness under the Securities Act of Splitco s registration statement on Form S-4 and Form S-1 (Reg. No. 333-) and Leidos registration statement on Form S-4 (Reg. No. 333-), and the absence of any stop order issued by the SEC or any pending proceeding before the SEC seeking a stop order with respect thereto;

the receipt of the Lockheed Martin Tax Opinions by Lockheed Martin and the receipt of the Leidos Tax Opinion by Leidos;

the receipt by Lockheed Martin, Splitco and Leidos of customary solvency opinions;

the incurrence of debt by Splitco pursuant to the Splitco Credit Facility;

the receipt of the Splitco Special Cash Payment by Lockheed Martin;

the completion of the various transaction steps contemplated by the Merger Agreement and the Separation Agreement, including the Separation and the Distribution; and

other customary conditions.

To the extent permitted by applicable law, Lockheed Martin and Splitco, on the one hand, and Leidos and Merger Sub, on the other hand, may waive the satisfaction of the conditions to their respective obligations to consummate the Transactions. In addition, the waiver by Lockheed Martin or Splitco of conditions to their respective obligations under the Separation Agreement requires the consent of Leidos. If Leidos waives the satisfaction of a material condition to the consummation of the Transactions, Leidos will evaluate the facts and circumstances at that time and re-solicit stockholder approval of the issuance of shares of Leidos common stock in the Merger if required to do so by law or the rules of the NYSE.

This document describes these conditions in more detail under The Merger Agreement Conditions to the Merger.

Q: When will the Transactions be completed?

A: The Transactions are expected to be completed in the third or fourth quarter of 2016. However, it is possible that the Transactions could be completed at a later time or not at all, and the Merger Agreement provides that Lockheed Martin or Leidos may terminate the Merger Agreement if the Merger is not consummated on or before January 25, 2017. For a discussion of the conditions to consummate of the Transactions and the circumstances under which the Merger Agreement may be terminated by the parties, see The Merger Agreement Conditions to the Merger and The

Merger Agreement Termination, respectively.

Q: Are there risks associated with the Transactions?

A: Yes. The material risks and uncertainties associated with the Transactions are discussed in the section of this document entitled Risk Factors and the section of this document entitled Cautionary Statement on Forward-Looking Statements. Those risks include, among others, the possibility that the Transactions may not be completed or may not achieve the intended benefits, the possibility that Leidos may fail to realize the anticipated benefits of the Merger and the value of any Leidos common stock to be received in the Transactions, the uncertainty that Leidos will be able to integrate the Splitco Business successfully, the possibility that Leidos may be unable to provide benefits and services or access to equivalent financial strength and resources to the Splitco Business that historically have been provided by Lockheed Martin, the possibility that the Transactions may be treated by the IRS as taxable to Lockheed Martin and/or Lockheed Martin stockholders, the additional long-term indebtedness and liabilities that Leidos and its subsidiaries will have following consummation of the Transactions and the substantial dilution to the ownership interest of current Leidos stockholders following consummation of the Merger resulting from the Transactions.

Q: What stockholder approvals are needed in connection with the Transactions?

A: Leidos cannot complete the Transactions unless the proposal relating to the Share Issuance is approved by the affirmative vote of a majority of votes cast by Leidos stockholders on the proposal at the 2016 annual meeting.

Q: Where will the Leidos shares to be issued in the Merger be listed?

A: Leidos common stock is listed on the NYSE under the symbol LDOS. After the consummation of the Transactions, all shares of Leidos common stock issued in the Merger, and all other outstanding shares of Leidos common stock, will continue to be listed on the NYSE and trade under the same symbol.

Table of Contents

SUMMARY

The following summary contains certain information described in more detail elsewhere in this document. It does not contain all the details concerning the Transactions, including information that may be important to you. To better understand the Transactions, you should carefully review this entire document and the documents it refers to. See Where You Can Find More Information; Incorporation by Reference.

The Companies

Leidos Holdings, Inc.

11951 Freedom Drive

Reston, Virginia 20190

Leidos Holdings, Inc., incorporated in 2005, is a Delaware corporation having its principal executive offices in Reston, VA, and serves as the holding company for its principal operating company, Leidos, Inc., which was formed in 1969. Leidos is a science and technology solutions leader working to address some of the world s toughest challenges in national security, health and infrastructure. Its approximately 18,000 employees support vital missions for government and commercial customers, develop innovative solutions to drive better outcomes and defend digital and physical infrastructure from new world threats.

Lion Merger Co.

c/o Leidos Holdings, Inc.

11951 Freedom Drive

Reston, Virginia 20190

Lion Merger Co., a Delaware corporation incorporated on January 21, 2016, referred to in this document as Merger Sub, is a direct, wholly-owned subsidiary of Leidos that was organized specifically for the purpose of completing the Merger. Merger Sub has engaged in no business activities to date and it has no material assets or liabilities of any kind, other than those incident to its formation and in connection with the Transactions.

Lockheed Martin Corporation

6801 Rockledge Drive

Bethesda, Maryland 20817

Lockheed Martin Corporation, is a Maryland corporation formed in 1995 by combining the businesses of Lockheed Corporation and Martin Marietta Corporation. Lockheed Martin is a global security and aerospace company principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. Lockheed Martin also provides a broad range of management, engineering, technical, scientific, logistics and information services. It serves both U.S. and international customers with products and services that have defense, civil and commercial applications, with its principal customers being agencies of the U.S. Government. Lockheed Martin s main areas of focus are in defense, space, intelligence, homeland security and information technology, including cybersecurity.

Abacus Innovations Corporation

c/o Lockheed Martin Corporation

6801 Rockledge Drive

Bethesda, Maryland 20817

Abacus Innovations Corporation, a Delaware corporation incorporated on January 19, 2016, referred to in this document as Splitco, is a direct, wholly-owned subsidiary of Lockheed Martin that was organized specifically for the purpose of effecting the Separation. Splitco has engaged in no business activities to date and it has no material assets or liabilities of any kind, other than those incident to its formation and in connection with the Transactions. Prior to the closing of this exchange offer, Splitco will

Table of Contents

own, directly and through the Splitco Subsidiaries, the Splitco Business. The Splitco Business means the business and operations of Lockheed Martin s Information Systems & Global Solutions (IS&GS) business segment as it was reported in Lockheed Martin s Annual Report on Form 10-K for the year ended December 31, 2015, as summarized in the section of this document entitled Information on the Splitco Business.

The Transactions

On January 26, 2016, Lockheed Martin and Leidos announced that they, along with Splitco and Merger Sub, had entered into the Merger Agreement, and that Lockheed Martin and Splitco had entered into the Separation Agreement, which together provide for the combination of Leidos business and the Splitco Business. In the Transactions, Lockheed Martin will transfer the Splitco Business to Splitco. Prior to the Distribution, Splitco will incur new indebtedness and will pay to Lockheed Martin the Splitco Special Cash Payment.

On the closing date of the Merger, Lockheed Martin will distribute shares of Splitco common stock to its participating stockholders in the exchange offer. If the exchange offer is consummated but is not fully subscribed, Lockheed Martin will distribute the remaining shares of Splitco common stock on a *pro rata* basis to Lockheed Martin stockholders whose shares of Lockheed Martin common stock remain outstanding after the consummation of the exchange offer. Any Lockheed Martin stockholder who validly tenders (and does not properly withdraw) shares of Lockheed Martin common stock for shares of Splitco common stock in the exchange offer will waive their rights with respect to such tendered shares to receive, and forfeit any rights to, shares of Splitco common stock distributed on a *pro rata* basis to Lockheed Martin stockholders in the event the exchange offer is not fully subscribed. If there is a *pro rata* distribution, the exchange agent will calculate the exact number of shares of Splitco common stock not exchanged in the exchange offer and to be distributed on a *pro rata* basis, and the number of shares of Leidos common stock into which the remaining shares of Splitco common stock will be converted in the Merger will be transferred to Lockheed Martin stockholders (after giving effect to the consummation of the exchange offer) as promptly as practicable thereafter.

Immediately after the Distribution and on the closing date of the Merger, Merger Sub will merge with and into Splitco, whereby the separate corporate existence of Merger Sub will cease and Splitco will continue as the surviving company and a wholly-owned subsidiary of Leidos. In the Merger, subject to adjustment in accordance with the Merger Agreement, each share of Splitco common stock will be converted into the right to receive one share of Leidos common stock, as described in the section of this document entitled The Merger Agreement Merger Consideration.

Subject to adjustment under certain circumstances as set forth in the Merger Agreement, Leidos will issue 76,958,918 shares of Leidos common stock in the Merger. Based upon the reported closing sale price of $ per share for Leidos common stock on the NYSE on , 2016, and assuming the Leidos Special Dividend is $ per share, the total value of the shares to be issued by Leidos and the cash expected to be received by Lockheed Martin in the Transactions would have been approximately $ million. The actual value of the Leidos common stock to be issued in the Merger will depend on the market price of shares of Leidos common stock at the time of the Merger.

After the Merger, Leidos will own and operate the Splitco Business through Splitco, which will be Leidos wholly-owned subsidiary, and will also continue its current businesses. All shares of Leidos common stock, including those issued in the Merger, will be listed on the NYSE under Leidos current trading symbol LDOS.

Below is a step-by-step description of the sequence of material events relating to the Transactions.

Step 1 Separation

Lockheed Martin will transfer the Splitco Business to Splitco following the Internal Reorganization.

Table of Contents

Step 2 Issuance of Splitco Common Stock to Lockheed Martin, Incurrence of Splitco Debt and Splitco Cash Payment

In connection with the transfer of the Splitco Business to Splitco, Splitco will issue to Lockheed Martin additional shares of Splitco common stock. Following this issuance, subject to adjustment in accordance with the Merger Agreement, Lockheed Martin will own 76,958,918 shares of Splitco common stock, which will constitute all of the outstanding stock of Splitco. In addition, Splitco will incur new indebtedness in an aggregate principal amount of approximately $1,841,450,000. Splitco will use a portion of the proceeds of this loan to pay to Lockheed Martin the Splitco Special Cash Payment in connection with the transfer of the Splitco Business to Splitco. Splitco will use the balance to pay certain fees and expenses related to such indebtedness.

Step 3 Distribution Exchange Offer

Lockheed Martin will offer to Lockheed Martin stockholders the right to exchange all or a portion of their shares of Lockheed Martin common stock for shares of Splitco common stock at a percent discount, calculated as set forth in this document, to the equivalent per-share value of Leidos common stock, after giving effect to the approximate amount of the Leidos Special Dividend, based on the conversion in the Merger of each share of Splitco common stock into one share of Leidos common stock. If the exchange offer is consummated but is not fully subscribed, Lockheed Martin will distribute the remaining shares of Splitco common stock on a *pro rata* basis to Lockheed Martin stockholders whose shares of Lockheed Martin common stock remain outstanding after the consummation of the exchange offer. Any Lockheed Martin stockholder who validly tenders (and does not properly withdraw) shares of Lockheed Martin common stock for shares of Splitco common stock in the exchange offer will waive their rights with respect to such tendered shares to receive, and forfeit any rights to, shares of Splitco common stock distributed on a *pro rata* basis to Lockheed Martin stockholders in the event the exchange offer is not fully subscribed.

Step 4 Incurrence of Leidos Debt

Prior to the closing of the Merger, the Leidos Borrower will incur new indebtedness in the form of a $690,000,000 Term Loan A Facility and a $750,000,000 Revolving Credit Facility. The proceeds of the Term Loan A Facility and up to $50,000,000 of borrowings under the Revolving Credit Facility, together with cash on hand at Leidos (which shall not exceed $500,000,000), will be used to pay the Leidos Special Dividend, and additional proceeds of borrowings under the Revolving Credit Facility will be used to (i) repay in full all outstanding indebtedness for borrowed money of Splitco (if any) (other than the debt incurred by Splitco described above in Step 2), (ii) repay in full all indebtedness, and terminate all commitments, under the Amended and Restated Four Year Credit Agreement dated as of March 11, 2011, among Leidos, as borrower, Leidos, Inc., as guarantor, and Citibank, N.A., as administrative agent, the lenders, other agents and other parties party thereto from time to time and (iii) pay the fees, costs and expenses associated therewith.

Step 5 Merger

Immediately after the Distribution, Merger Sub will merge with and into Splitco, whereby the separate corporate existence of Merger Sub will cease and Splitco will continue as the surviving company and as a wholly-owned subsidiary of Leidos. In the Merger, each share of Splitco common stock will be converted into the right to receive one share of Leidos common stock, as described in the section of this document entitled The Merger Agreement Merger Consideration. Immediately after the consummation of the Merger, approximately 50.5 percent of the outstanding shares of Leidos common stock is expected to be held by pre-Merger Splitco (former Lockheed Martin) stockholders and approximately 49.5 percent of the outstanding shares of Leidos common stock is expected to be held by pre-Merger Leidos stockholders on a fully diluted basis.

Set forth below are diagrams that graphically illustrate, in simplified form, the existing corporate structures, the corporate structures immediately following the Separation and the Distribution but before the Merger and the corporate structures immediately following the consummation of the Merger.

Table of Contents

After completion of all of the steps described above, Leidos wholly-owned subsidiary, Splitco, will hold the Splitco Business directly and through its subsidiaries and will continue as the obligor under the new indebtedness to be incurred by Splitco on or about the date of the Distribution, which, after the consummation of the Merger, is expected to be guaranteed by Leidos.

In connection with the Transactions, on the date of the Distribution, Lockheed Martin or its subsidiaries and Splitco or the Splitco Subsidiaries will enter into the Additional Agreements relating to, among other things, intellectual property, real property, shared contracts, supply arrangements, contract novation and transition services. See Other Agreements Additional Agreements.

Number of Shares of Splitco Common Stock to Be Distributed to Lockheed Martin Stockholders

Lockheed Martin is offering to exchange all issued and outstanding shares of Splitco common stock for shares of Lockheed Martin common stock validly tendered and not properly withdrawn. Subject to adjustment pursuant to the Merger Agreement, 76,958,918 shares of Splitco common stock will be issued and outstanding and held by Lockheed Martin immediately prior to the Distribution. Accordingly, subject to such adjustment, the total number of shares of Splitco common stock to be exchanged for shares of Lockheed Martin common stock in this exchange offer will be equal to 76,958,918 shares.

Table of Contents

Terms of this Exchange Offer

Lockheed Martin is offering to exchange all issued and outstanding shares of Splitco common stock for shares of Lockheed Martin common stock. You may tender all, some or none of your shares of Lockheed Martin common stock. This document and related documents are being sent to persons who directly held shares of Lockheed Martin common stock on , 2016, and brokers, banks and similar persons whose names or the names of whose nominees appear on Lockheed Martin s stockholder list or, if applicable, who are listed as participants in a clearing agency s security position listing for subsequent transmittal to beneficial owners of Lockheed Martin common stock. Participants in the Lockheed Martin Savings Plans and the Sandia Savings Plan who have holdings in the ESOP Fund, the LM Plan Company Stock Fund or the Sandia Plan Company Stock Fund will receive information from the trustee or the independent fiduciary, as applicable.

Lockheed Martin common stock validly tendered and not properly withdrawn will be accepted for exchange on the terms and conditions of this exchange offer and subject to the limitations described below, including the proration provisions. See This Exchange Offer Terms of this Exchange Offer. Lockheed Martin will promptly return any shares of Lockheed Martin common stock that are not accepted for exchange following the expiration of this exchange offer and the determination of the final proration factor, if any, described in the section of this document entitled This Exchange Offer Terms of this Exchange Offer.

For the purposes of illustration, the table below indicates the number of shares of Splitco common stock that you would receive per share of Lockheed Martin common stock validly tendered and accepted in this exchange offer, calculated on the basis described in the section of this document entitled This Exchange Offer Terms of this Exchange Offer and taking into account the upper limit, assuming a range of averages of the Daily VWAP of Lockheed Martin common stock and Leidos common stock on the Valuation Dates. The first row of the table below shows the indicative calculated per-share values of Lockheed Martin common stock and Splitco common stock and the indicative exchange ratio that would have been in effect following the official close of trading on the NYSE on , 2016, based on the Daily VWAPs of Lockheed Martin common stock and Leidos common stock on , 2016, , 2016 and , 2016. In the case of Splitco common stock, the value will be reduced by $ per share, which approximates the per-share amount of the Leidos Special Dividend. The table also shows the effects of a five percent increase or decrease in either or both the calculated per-share values of Lockheed Martin common stock and Leidos common stock based on changes relative to the values as of , 2016.

Lockheed Martin common stock	Leidos common stock	Calculated per-share value of Lockheed Martin common stock	Calculated per-share value of Splitco common stock (1)	Shares of Splitco common stock to be received per share of Lockheed Martin common stock tendered	Calculated Value Ratio (2)
As of , 2016	**As of , 2016**				

	(3)

(1) The calculated per-share value of Splitco common stock for purposes of this exchange offer will equal the simple arithmetic average of the Daily VWAP of Leidos common stock on the NYSE on each of the Valuation Dates, minus $ per share, which approximates the per-share amount of the Leidos Special Dividend.

(2) The Calculated Value Ratio equals (i) the calculated per-share value of Splitco common stock multiplied by the exchange ratio, divided by (ii) the calculated per-share value of Lockheed Martin common stock.

(3) In this scenario, the upper limit is in effect. Absent the upper limit, the exchange ratio would have been shares of Splitco common stock per share of Lockheed Martin common stock validly tendered and accepted in this exchange offer. In this scenario, Lockheed Martin would announce that the upper limit on the number of shares that can be received for each share of Lockheed Martin common stock tendered is in effect at the expiration of the exchange offer period no later than 9:00 a.m., New York City time, on the second trading day prior to the expiration date and that the exchange ratio would be fixed at the upper limit.

Table of Contents

During the three-month period of , 2016 through , 2016, the highest closing price of Lockheed Martin common stock on the NYSE was $ and the lowest closing price of Leidos common stock on the NYSE was $. If the calculated per-share values of Lockheed Martin common stock and Splitco common stock were calculated based on these closing prices and after giving effect to the approximate amount of the Leidos Special Dividend, you would receive only the limit of shares of Splitco common stock for each share of Lockheed Martin common stock tendered, and the value of such shares of Splitco common stock, based on the Leidos common stock price, would have been less than the value of Lockheed Martin common stock accepted for exchange (approximately $ of Splitco common stock for each $100 in value of Lockheed Martin common stock accepted for exchange).

Extension; Amendment; Termination

This exchange offer, and your withdrawal rights, will expire at 8:00 a.m., New York City time, on , 2016, unless Lockheed Martin extends this exchange offer. You must tender your shares of Lockheed Martin common stock prior to this time if you want to participate in this exchange offer. Lockheed Martin may extend, amend or terminate this exchange offer as described in this document.

Conditions for Consummation of this Exchange Offer

Lockheed Martin s obligation to exchange shares of Splitco common stock for shares of Lockheed Martin common stock is subject to the conditions listed under This Exchange Offer Conditions for Consummation of this Exchange Offer, including the satisfaction of conditions to the Transactions and other conditions. These conditions include:

- the approval by Leidos stockholders of the Share Issuance;

- the termination or expiration of the waiting period under the HSR Act (which period has expired), and the receipt of any governmental approvals required under the antitrust laws in the United Kingdom;

- the approval for listing on the NYSE of the shares of Leidos common stock to be issued in the Merger;

- the effectiveness under the Securities Act of Splitco s registration statement on Form S-4 and Form S-1 (Reg. No. 333-) and Leidos registration statement on Form S-4 (Reg. No. 333-), and the absence of any stop order issued by the SEC or any pending proceeding before the SEC seeking a stop order with respect thereto;

- the receipt of the Lockheed Martin Tax Opinions by Lockheed Martin and the receipt of the Leidos Tax Opinion by Leidos;

- the receipt by Lockheed Martin, Splitco and Leidos of customary solvency opinions;

- the incurrence of debt by Splitco pursuant to the Splitco Credit Facility;

- the receipt of the Splitco Special Cash Payment by Lockheed Martin;

- the completion of the various transaction steps contemplated by the Merger Agreement and the Separation Agreement, including the Separation and the Distribution; and

- other customary conditions.

For a description of the material conditions precedent to the Transactions, see The Merger Agreement Conditions to the Merger.

Lockheed Martin may waive any of the conditions to this exchange offer prior to the expiration of this exchange offer. Leidos has no right to waive any of the conditions to this exchange offer, provided that the ability of Lockheed Martin to waive certain conditions, including certain conditions relating to the Merger Agreement, may require the consent of Leidos.

Table of Contents

Proration; Tenders for Exchange by Holders of Fewer than 100 Shares of Lockheed Martin Common Stock

If, upon the expiration of this exchange offer, Lockheed Martin stockholders have validly tendered and not properly withdrawn more shares of Lockheed Martin common stock than Lockheed Martin is able to accept for exchange (taking into account the exchange ratio and the total number of shares of Splitco common stock owned by Lockheed Martin), Lockheed Martin will accept for exchange the shares of Lockheed Martin common stock validly tendered and not properly withdrawn by each tendering stockholder on a *pro rata* basis, based on the proportion that the total number of shares of Lockheed Martin common stock to be accepted bears to the total number of shares of Lockheed Martin common stock validly tendered and not properly withdrawn (calculated to six decimal points), and subject to any adjustment necessary to ensure the exchange of all shares of Splitco common stock owned by Lockheed Martin, except for tenders of odd-lots, as described below.

Lockheed Martin will announce the preliminary proration factor at www. , through the toll-free number maintained by the information agent listed on the back cover of this document and by press release as promptly as practicable after the expiration date. Upon determining the number of shares of Lockheed Martin common stock validly tendered for exchange, Lockheed Martin will announce the final results, including the final proration factor.

Beneficial holders of odd-lots that is, fewer than 100 shares of Lockheed Martin common stock, whether held in registered form or through a broker or other nominee who validly tender all of their shares and request preferential treatment will not be subject to proration if this exchange offer is oversubscribed. Beneficial holders of 100 or more shares of Lockheed Martin common stock are not eligible for the foregoing odd-lots preference.

In the case of Lockheed Martin stockholders who hold their odd-lot shares in registered form, you can elect not to be subject to proration by completing the box in the applicable letter of transmittal entitled Odd-Lot Shares. If your odd-lot shares are held by a broker or other nominee for your account, you can contact the broker or nominee and request this preferential treatment. All of your odd-lot shares will be accepted for exchange without proration if Lockheed Martin completes this exchange offer. The foregoing odd-lots preference does not apply to shares of Lockheed Martin common stock held in the ESOP Fund or the LM Plan Company Stock Fund under the Lockheed Martin Savings Plans or the Sandia Plan Company Stock Fund under the Sandia Savings Plan. Thus, if a participant in a Lockheed Martin Savings Plan or the Sandia Savings Plan tenders all of his or her shares of Lockheed Martin common stock held under the plan, those shares will be subject to proration even if the participant holds units under the plan representing fewer than 100 shares.

Fractional Shares

Upon the consummation of this exchange offer, the exchange agent will hold the shares of Splitco common stock as agent for the Lockheed Martin stockholders who validly tendered their shares and, in case of a *pro rata* distribution, for the holders of record of Lockheed Martin common stock for the *pro rata* distribution. Immediately following the consummation of this exchange offer, Merger Sub will be merged with and into Splitco, with Splitco surviving the Merger and becoming a wholly-owned subsidiary of Leidos. Each issued and outstanding share of Splitco common stock will be converted in the Merger into the right to receive one share of Leidos common stock. In the conversion, no fractional shares of Leidos common stock will be delivered to Splitco stockholders. All fractional shares of Leidos common stock that any Splitco stockholder otherwise would be entitled to receive as a result of the Merger will be aggregated by the exchange agent on behalf of Leidos. The exchange agent will cause the whole shares obtained thereby to be sold on behalf of the Splitco stockholders that otherwise would be entitled to receive such fractional shares of Leidos common stock in the Merger, in the open market or otherwise, in each case at then-prevailing market prices as soon as practicable after the Merger and, in any case, no later than five business days after the Merger. The exchange agent then will make available the net proceeds thereof, after deducting any required brokerage or similar charges, commissions and transfer taxes, on a *pro rata* basis, without interest, but subject to any required withholding taxes, as soon as practicable to the Splitco stockholders that otherwise would be entitled to receive such fractional shares of Leidos common stock in the Merger.

Procedures for Tendering

For you to validly tender your shares of Lockheed Martin common stock pursuant to this exchange offer, prior to the expiration of this exchange offer:

- If you hold certificates representing shares of Lockheed Martin common stock, or if your shares of Lockheed Martin common stock are held in book-entry via DRS, or in uncertificated form as CDI Shares, you must deliver to the exchange agent at the address listed on the letter of transmittal for Lockheed Martin common stock a properly completed and duly executed letter of transmittal (or a manually executed facsimile of that document) along with any required signature guarantees and any other required documents, and in the case of shares held in certificated form, the certificates representing the shares of Lockheed Martin common stock tendered.

Table of Contents

If you hold shares of Lockheed Martin common stock through a broker, you should receive instructions from your broker on how to participate in this exchange offer. In this situation, do not complete a letter of transmittal to tender your Lockheed Martin common stock. Please contact your broker directly if you have not yet received instructions. Some financial institutions also may effect tenders by book-entry transfer through The Depository Trust Company.

If you hold units of the ESOP Fund or the LM Plan Company Stock Fund under the Lockheed Martin Savings Plans, you should receive instructions from Computershare on behalf of the trustee of the Lockheed Martin Savings Plans via letter or email (as permitted by the Lockheed Martin Savings Plans) informing you how to make an election. In this situation, do not complete a letter of transmittal to tender your shares of Lockheed Martin common stock attributable to such units. You should instead follow Computershare s instructions for making an election. Please contact the toll-free plan information line in your summary plan description to speak with a customer service associate if you have any questions.

If you hold units of the Sandia Plan Company Stock Fund under the Sandia Savings Plan, you should receive instructions from Evercore Trust Company, N.A. (Evercore Trust), the Sandia Savings Plan independent fiduciary, via letter or email (as permitted by the Sandia Savings Plan) informing you how to make an election. In this situation, do not complete a letter of transmittal to tender your shares of Lockheed Martin common stock attributable to such units. You should instead follow Evercore Trust s instructions for making an election. Please contact the toll-free plan information line in your summary plan description to speak with a customer service associate if you have any questions.

Delivery of Shares of Splitco Common Stock

Upon the consummation of this exchange offer, Lockheed Martin will deliver to the exchange agent a global certificate representing all of the Splitco common stock being distributed in this exchange offer, with irrevocable instructions to hold the shares of Splitco common stock as agent for the holders of shares of Lockheed Martin common stock validly tendered and not withdrawn in this exchange offer and, in the case of a *pro rata* distribution, Lockheed Martin stockholders whose shares of Lockheed Martin common stock remain outstanding after the consummation of this exchange offer. Leidos will deposit in a reserve account with its transfer agent for the benefit of persons who received shares of Splitco common stock in this exchange offer book-entry authorizations representing shares of Leidos common stock, with irrevocable instructions to hold the shares of Leidos common stock in trust for the Splitco stockholders. Shares of Leidos common stock will be delivered promptly following the expiration of this exchange offer, the acceptance of Lockheed Martin common stock for exchange, the determination of the final proration factor, if any, and the effectiveness of the Merger, pursuant to the procedures determined by the exchange agent and Leidos transfer agent. See This Exchange Offer Terms of this Exchange Offer Exchange of Shares of Lockheed Martin Common Stock.

Withdrawal Rights

You may withdraw your tendered shares of Lockheed Martin common stock at any time prior to the expiration of this exchange offer by following the procedures described herein. If you change your mind again, you may re-tender your Lockheed Martin common stock by once again following the exchange offer procedures prior to the expiration of this exchange offer.

If you hold units of the ESOP Fund, the LM Plan Company Stock Fund and/or the Sandia Plan Company Stock Fund in a Lockheed Martin Savings Plan or Sandia Savings Plan account and you wish to withdraw shares attributable to the units that you have tendered, you must withdraw such shares by the applicable deadlines set forth in Computershare s or Evercore Trust s instructions, as applicable, and it is possible that such deadline may occur before the final exchange ratio has been determined. You should refer to the procedures and deadlines set forth in Computershare s or Evercore Trust s informational materials provided to you, as applicable. The trustee or the independent fiduciary, as applicable, must deliver the notice of withdrawal with respect to any shares you wish to withdraw, and you will not be able to provide a notice of withdrawal for such shares directly to the exchange agent.

Table of Contents

Distribution of Any Shares of Splitco Common Stock Remaining After this Exchange Offer

If this exchange offer is consummated but fewer than all of the issued and outstanding shares of Splitco common stock are exchanged because the exchange offer is not fully subscribed, Lockheed Martin will distribute the remaining shares of Splitco common stock on a *pro rata* basis to Lockheed Martin stockholders whose shares of Lockheed Martin common stock remain outstanding after the consummation of this exchange offer. The record date for the *pro rata* distribution, if any, will be announced by Lockheed Martin. Any Lockheed Martin stockholder who validly tenders (and does not properly withdraw) shares of Lockheed Martin common stock for shares of Splitco common stock in the exchange offer will waive their rights with respect to such tendered shares to receive, and forfeit any rights to, shares of Splitco common stock distributed on a *pro rata* basis to Lockheed Martin stockholders in the event the exchange offer is not fully subscribed.

If there is a *pro rata* distribution, the exchange agent will calculate the exact number of shares of Splitco common stock not exchanged in the exchange offer and to be distributed on a *pro rata* basis, and the number of shares of Leidos common stock into which the remaining shares of Splitco common stock will be converted in the Merger will be transferred to Lockheed Martin stockholders (after giving effect to the consummation of the exchange offer) as promptly as practicable thereafter.

If this exchange offer is terminated by Lockheed Martin without the exchange of shares, but the conditions for the consummation of the Transactions have otherwise been satisfied, Lockheed Martin intends to distribute all shares of Splitco common stock owned by Lockheed Martin on a *pro rata* basis to Lockheed Martin stockholders with a record date to be announced by Lockheed Martin.

Legal Limitations; Certain Matters Relating to Non-U.S. Jurisdictions

This document is not an offer to sell or exchange and it is not a solicitation of an offer to buy any shares of Lockheed Martin common stock, Splitco common stock or Leidos common stock in any jurisdiction in which the offer, sale or exchange is not permitted. It will not be possible to trade the shares of Splitco common stock after the consummation of this exchange offer and prior to the consummation of the Merger or during any other period. Countries outside the United States generally have their own legal requirements that govern securities offerings made to persons resident in those countries and often impose stringent requirements about the form and content of offers made to the general public. None of Lockheed Martin, Splitco or Leidos have taken any action under non-U.S. regulations to facilitate a public offer to exchange shares of Lockheed Martin common stock, Splitco common stock or Leidos common stock outside the United States. Accordingly, the ability of any non-U.S. person or any U.S. person residing outside of the United States to tender shares of Lockheed Martin common stock in the exchange offer will depend on whether there is an exemption available under the laws of such person s home country or country of residence, as applicable, that would permit the person to participate in the exchange offer without the need for Lockheed Martin, Leidos or Splitco to take any action to facilitate a public offering in that country. For example, some countries exempt transactions from the rules governing public offerings if they involve persons who meet certain eligibility requirements relating to their status as sophisticated or professional investors.

Non-U.S. stockholders and U.S. stockholders residing outside of the United States should consult their advisors in considering whether they may participate in the exchange offer in accordance with the laws of their home countries or countries of residence, as applicable, and, if they do participate, whether there are any restrictions or limitations on transactions in the shares of Lockheed Martin common stock, Splitco common stock or Leidos common stock that may apply in such countries. Lockheed Martin, Leidos and Splitco cannot provide any assurance about whether such limitations may exist. See This Exchange Offer Certain Matters Relating to Non-U.S. Jurisdictions for additional information about limitations on the exchange offer outside the United States.

Table of Contents

Risk Factors

In deciding whether to tender your shares of Lockheed Martin common stock in this exchange offer, you should carefully consider the matters described in the section Risk Factors, as well as other information included in this document and the other documents to which you have been referred.

Opinion of Leidos Financial Advisor

Leidos has retained Citigroup Global Markets Inc., referred to as Citi, as its financial advisor in connection with the proposed Merger. In connection with this engagement, Citi delivered a written opinion, dated January 25, 2016, to the Leidos Board as to the fairness, from a financial point of view and as of the date of the opinion, to Leidos of the exchange ratio provided for pursuant to the Merger Agreement. For purposes of Citi s financial analyses and opinion, the term exchange ratio means, after giving effect to the Distribution and certain related transactions contemplated by the Separation Agreement, 1.020202 (which represents the number of shares of Leidos common stock to be issued in the Merger, divided by the number of fully diluted shares of Leidos common stock as of the date of Citi s opinion). The description of Citi s opinion, dated January 25, 2016, to the Leidos Board set forth below is qualified in its entirety by reference to the full text of such opinion. **Citi s opinion was provided for the information of the Leidos Board (in its capacity as such) in connection with its evaluation of the exchange ratio from a financial point of view to Leidos and did not address any other terms, aspects or implications of the Merger or any related transactions. Citi expressed no view as to, and its opinion did not address, the underlying business decision of Leidos to effect the Merger or related transactions, the relative merits of the Merger or related transactions as compared to any alternative business strategies that might exist for Leidos or the effect of any other transaction in which Leidos might engage. Citi s opinion is not intended to be and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matters relating to the proposed Merger, any related transaction or otherwise.**

Debt Financing

On January 26, 2016, in connection with their entry into the Merger Agreement, Leidos and Splitco entered into separate commitment letters with the Commitment Parties pursuant to which the Commitment Parties agreed to provide debt financing for the Transactions. Pursuant to, and subject to the terms and conditions of, the Leidos Commitment Letter, the Commitment Parties will provide a new senior secured credit facility to the Leidos Borrower in an aggregate principal amount of up to $1,440,000,000, which is currently expected to consist of a term loan A facility in an aggregate principal amount of up to $690,000,000 and a revolving credit facility in an aggregate principal amount of up to $750,000,000. Pursuant to, and subject to the terms and conditions of, the Splitco Commitment Letter, the Commitment Parties will provide a new senior secured credit facility to Splitco of up to $1,841,450,000, which is currently expected to consist of a three-year term loan A facility in an aggregate principal amount of up to $400,000,000, a five-year term loan A facility in an aggregate principal amount of up to $310,000,000 and a term loan B facility in an aggregate principal amount of up to $1,131,450,000. See Debt Financing for further information.

Interests of Leidos Directors and Executive Officers in the Transactions

Certain of Leidos directors and executive officers have financial interests in the Transactions that may be different from, or in addition to, the interests of Leidos stockholders generally. The members of the Leidos Board were aware of and considered these interests, among other matters, in reaching the determination to approve the terms of the Merger Agreement and the Transactions, including the Merger, and in recommending to Leidos stockholders that they vote to approve the Share Issuance.

Board of Directors and Management of Leidos Following the Transactions

Following the consummation of the exchange offer, Merger Sub will merge with and into Splitco, whereby the separate corporate existence of Merger Sub will cease and Splitco will continue as the surviving company and a wholly-owned subsidiary of Leidos. Directors of Leidos serving on its board of directors immediately before the consummation of the Merger are expected to continue to serve as directors of Leidos immediately following the closing of the Merger.

Table of Contents

In connection with the Transactions and following the consummation of the Merger, the size of the Leidos Board will be increased to include three additional directors to be designated by Lockheed Martin. The Merger Agreement provides that, thereafter, at the following annual election of directors of Leidos, the Leidos Board will take all actions necessary to include each of the Lockheed Martin designees as nominees for the Leidos Board for election by Leidos stockholders, subject in all events to the fiduciary duties of the Leidos Board, the requirements of the NYSE and all other applicable laws. Following the consummation of the Merger, the executive officers of Leidos immediately prior to the consummation of the Merger are expected to be the executive officers of Leidos immediately following the consummation of the Merger.

Leidos Stockholder Approval

Leidos cannot complete the Transactions unless the proposal relating to the Share Issuance is approved by the affirmative vote of a majority of votes cast on the proposal at the 2016 annual meeting, either in person or by proxy (assuming a quorum is present).

Leidos Stockholders Meeting

Under the terms of the Merger Agreement, Leidos has agreed to call, give notice of, convene and hold an annual meeting of its stockholders for the purpose of, among other things, voting upon the proposal to approve the Share Issuance. The Leidos Board has called an annual meeting of Leidos stockholders to be held on , 2016, for Leidos stockholders of record on , 2016. The definitive proxy statement was mailed to Leidos stockholders on or about , 2016.

As of , 2016, Leidos directors and executive officers held percent of the shares entitled to vote at Leidos 2016 annual meeting of stockholders. As of , 2016, Splitco s directors, executive officers and their affiliates owned an aggregate of shares of Leidos common stock entitled to vote at Leidos 2016 annual meeting of stockholders.

Accounting Treatment and Considerations

Accounting Standard Codification 805, Business Combinations, requires the use of the acquisition method of accounting for business combinations. In applying the acquisition method, it is necessary to identify both the accounting acquiree and the accounting acquiror. In a business combination effected through an exchange of equity interests, such as the Merger, the entity that issues the interests (Leidos, in this case) is generally the acquiring entity. In identifying the acquiring entity in a combination effected through an exchange of equity interests, however, all pertinent facts and circumstances must be considered, including the following:

Issuance of equity by Leidos. Leidos expects to issue approximately 77 million shares of Leidos common stock in the Merger.

Incurrence of debt by Leidos and Splitco. Approximately $2.531 billion of indebtedness is expected to be incurred under the Facilities (as defined in the section of this document entitled Debt Financing). After the Merger, Splitco will be a wholly-owned subsidiary of Leidos, Splitco s indebtedness is expected to be guaranteed by Leidos and Leidos indebtedness incurred to finance the Transactions is expected to be guaranteed by Splitco.

The relative voting interests of Leidos stockholders after the consummation of the Transactions. In this case, Lockheed Martin stockholders participating in the exchange offer (and *pro rata* distribution, if any) are expected to receive approximately 50.5 percent of the equity ownership and associated voting rights in Leidos after the consummation of the Transactions on a fully diluted basis.

The composition of the governing body of Leidos after the consummation of the Transactions. The Leidos Board currently consists of 10 directors and will increase following consummation of the Merger in accordance with the terms of the Merger Agreement, which provides that the Leidos Board will cause the number of directors comprising the Leidos Board to be increased to no more than 13 directors and cause three directors designated by Lockheed Martin to be appointed to the Leidos Board to serve until the next annual meeting of the Leidos stockholders.

The composition of the senior management of Leidos after the consummation of the Transactions. In this case, Leidos executive officers immediately following the Merger are expected to consist of Leidos executive officers immediately prior to the Merger.

Leidos management has determined that Leidos will be the accounting acquiror in the Merger based on the facts and circumstances outlined above and the detailed analysis of the relevant GAAP guidance. Consequently, Leidos will apply acquisition accounting to the assets and liabilities of Splitco acquired or assumed upon the consummation of the Merger. The historical financial statements of Leidos for periods ended prior to the consummation of the Merger will reflect only the operations and financial condition of Leidos. Subsequent to the consummation of the Merger, the financial statements of Leidos will include the combined operations and financial condition of Leidos and Splitco.

Federal Securities Law Consequences; Resale Restriction

Leidos common stock issued in the Merger will not be subject to any restrictions on transfer arising under the Securities Act, except for shares issued to any Lockheed Martin stockholder who may be deemed to be an affiliate of Splitco for purposes of Rule 145 under the Securities Act.

No Appraisal or Dissenters Rights

None of Leidos, Merger Sub, Lockheed Martin or Splitco stockholders will be entitled to exercise appraisal rights or to demand payment for their shares in connection with the Transactions.

Material U.S. Federal Income Tax Consequences of the Distribution and the Merger

It is intended that the Distribution, together with certain related transactions, will qualify as a tax-free reorganization within the meaning of Section 368(a)(1)(D) of the Code and a tax-free distribution within the meaning of Section 355 of the Code and that the Merger will qualify as a tax-free reorganization within the meaning of Section 368(a) of the Code. On the basis that the Distribution and the Merger are so treated, U.S. Holders (as defined in This Exchange Offer Material U.S. Federal Income Tax Consequences of the Distribution and the Merger) of Lockheed Martin common stock generally will not recognize gain or loss for U.S. federal income tax purposes by reason of the Distribution or the Merger, in each case, except for any gain or loss recognized with respect to any cash received in lieu of a fractional share of Leidos common stock.

The consummation of the Distribution, the Merger and the related transactions are conditioned upon the receipt of opinions of tax counsel to the effect that such transactions qualify for their intended tax treatment. An opinion of tax counsel neither binds the IRS nor precludes the IRS or the courts from adopting a contrary position. Lockheed Martin does not intend to obtain a ruling from the IRS on the tax consequences of the Distribution or the Merger. If the Distribution and/or the Merger fails to qualify for the intended tax treatment, Lockheed Martin and/or its stockholders will be subject to substantial U.S. federal income taxes.

The tax consequences to you of the Distribution and Merger will depend on your particular circumstances. You should read the discussion in the section of this document entitled This Exchange Offer Material U.S. Federal Income Tax Consequences of the Distribution and the Merger and consult your own tax advisor for a full understanding of the tax consequences to you of the Distribution and Merger.

Table of Contents

SUMMARY HISTORICAL, PRO FORMA AND SUPPLEMENTAL FINANCIAL DATA

The following summary combined financial data of the Splitco Business and summary consolidated financial data of Lockheed Martin and Leidos are being provided to help you in your analysis of the financial aspects of the Transactions. You should read this information in conjunction with the financial information included elsewhere and incorporated by reference in this document. See Management s Discussion and Analysis of Financial Condition and Results of Operations for the Splitco Business, Where You Can Find More Information; Incorporation by Reference, Information on the Splitco Business, Information on Lockheed Martin, Information on Leidos, Selected Historical Financial Data and Unaudited Pro Forma Combined Consolidated Financial Statements and Supplemental Combined Consolidated Statement of Income.

Summary Historical Combined Financial Data of the Splitco Business

The following data of the Splitco Business as of December 31, 2015 and 2014, and for the three years in the period ending December 31, 2015, have been derived from the audited combined financial statements of the Splitco Business. The data below as of December 31, 2013 have been derived from the unaudited combined balance sheet of the Splitco Business not included or incorporated by reference in this document. This information is only a summary and should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations for the Splitco Business, the financial statements of the Splitco Business and the notes thereto and the unaudited pro forma combined consolidated financial statements of Leidos and the Splitco Business included elsewhere in this document.

(in millions)	**2015**	**2014**	**2013**
Combined Statement of Earnings Data:			
Revenues	$ 5,626	$ 5,702	$ 6,158
Earnings before income taxes (a)	471	438	365
Net earnings (a)	309	292	246
Less: Net earnings attributable to non-controlling interest	5	5	6
Net earnings attributable to parent (a)	$ 304	$ 287	$ 240
Combined Balance Sheet Data:			
Total assets (b)	$ 4,180	$ 4,251	$ 3,829

(a) Earnings before income taxes, net earnings and net earnings attributable to parent were affected by severance charges of $20 million ($13 million after tax) in 2015 and $45 million ($29 million after tax) in 2013.

(b) The increase in total assets from 2013 to 2014 was primarily attributable to the acquisitions of Systems Made Simple, Inc., Industrial Defender, Inc. and Beontra AG in 2014.

Summary Historical Consolidated Financial Data of Lockheed Martin

The following summary historical consolidated financial data of Lockheed Martin as of December 31, 2015 and 2014 and for the three years in the period ending December 31, 2015, have been derived from Lockheed Martin s audited consolidated financial statements incorporated by reference in this document. The summary historical consolidated financial data of Lockheed Martin as of December 31, 2013 has been derived from Lockheed Martin s audited consolidated financial statements not included in or incorporated by reference in this document.

Table of Contents

This information is only a summary and should be read in conjunction with the financial statements of Lockheed Martin and the notes thereto and the Management s Discussion and Analysis of Financial Condition and Results of Operations section contained in Lockheed Martin s Annual Report on Form 10-K for the year ended December 31, 2015, which is incorporated by reference in this document. See Where You Can Find More Information; Incorporation By Reference.

(in millions, except per-share data)	**2015**	**2014**	**2013**
Operating results			
Net sales	$ 46,132	$ 45,600	$ 45,358
Operating profit (a)(b)	5,436	5,592	4,505
Net earnings from continuing operations (a)(b)	3,605	3,614	2,950
Net earnings (a)(b)	3,605	3,614	2,981
Net earnings from continuing operations per common share			
Basic (a)(b)	11.62	11.41	9.19
Diluted (a)(b)	11.46	11.21	9.04
Net earnings per common share			
Basic (a)(b)	11.62	11.41	9.29
Diluted (a)(b)	11.46	11.21	9.13
Cash dividends declared per common share	$ 6.15	$ 5.49	$ 4.78
Balance sheet			
Total assets (c)	$ 49,128	$ 37,046	$ 36,163
Total debt, net (d)	15,261	6,142	6,127
Total liabilities (b)(d)	46,031	33,646	31,245
Stockholders equity (b)	3,097	3,400	4,918

(a) Operating profit, earnings and earnings per share were affected by severance charges of $102 million ($66 million or $.21 per share, after tax) in 2015 and $201 million ($130 million or $.40 per share, after tax) in 2013; a non-cash goodwill impairment charge of $119 million ($107 million or $.33 per share, after tax) in 2014; and a non-cash goodwill impairment charge of $195 million ($176 million or $.54 per share, after tax) in 2013.

(b) The impact of Lockheed Martin s postretirement benefit plans can cause its operating profit, net earnings, cash flows and amounts recorded on its Balance Sheets to fluctuate. Accordingly, Lockheed Martin s earnings were affected by FAS/CAS pension income of $471 million and $376 million in 2015 and 2014 and expense of $482 million in 2013. Lockheed Martin had $5 million in pension contributions in 2015 (for Sikorsky plans), as compared to $2.0 billion in 2014 and $2.25 billion in 2013.

(c) The increase in total assets from 2014 to 2015 was primarily attributable to Lockheed Martin s acquisition of Sikorsky Aircraft Corporation (Sikorsky), a global company primarily engaged in the design, manufacture and support of military and commercial helicopters, from United Technologies Corporation, which resulted in an increase in total assets of $11.7 billion.

(d) The increase in total debt and total liabilities from 2014 to 2015 was primarily a result of the debt incurred to fund the Sikorsky acquisition, as well as the issuance of debt in February of 2015 for general corporate purposes.

Summary Historical Consolidated Financial Data of Leidos

The following summary historical consolidated financial data of Leidos, as of and for the 11-month period ended January 1, 2016, and as of January 30, 2015 and for the years ended January 30, 2015 and January 31, 2014, have been derived from Leidos audited consolidated financial statements, which are incorporated by reference herein from the Transition Report on Form 10-K for the 11-month period ended January 1, 2016. The summary historical consolidated financial data of Leidos as of January 31, 2014 have been derived from Leidos audited consolidated financial statements which are not included in or incorporated by reference into this document. The summary historical consolidated financial data presented below is not necessarily indicative of the results of operations or financial condition that may be expected for any future period or date. This information is only a summary and should be read in conjunction with the financial statements of Leidos and the notes thereto and the Management s Discussion and Analysis of Financial Condition and Results of Operations section contained in Leidos Transition Report on Form 10-K for the 11-month period ended January 1, 2016, which is incorporated by reference in this document. See Where You Can Find More Information; Incorporation By Reference.

Table of Contents

As indicated in Leidos   Transition Report on Form 10-K for the 11 months ended January 1, 2016, Leidos   Board of Directors approved the amendment and restatement of Leidos   bylaws to change Leidos   year end from the Friday nearest the end of January to the Friday nearest the end of December. As a result of this change, Leidos filed a Transition Report on Form 10-K with the SEC on February 26, 2016, which covers the 11-month period that began on January 31, 2015 and ended on January 1, 2016. This change did not impact Leidos   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.

(in millions, except per share data)	**11 Months Ended [(a)]** January 1, 2016 [(b)*]	**12 Months Ended [(a)*]** January 30, 2015 [(c)*]	January 31, 2014 [(d)*]
Consolidated Statement of Income Data:			
Revenues	$ 4,712	$ 5,063	$ 5,755
Operating income (loss)	320	(214)	163
Income (loss) from continuing operations	243	(330)	84
(Loss) income from discontinued operations, net of tax	(1)	7	80
Net income (loss)	$ 242	$ (323)	$ 164
Earnings (loss) per share:			
Basic:			
Income (loss) from continuing operations	$ 3.33	$ (4.46)	$ 0.98
(Loss) income from discontinued operations	(0.01)	0.10	0.96
	$ 3.32	$ (4.36)	$ 1.94
Diluted:			
Income (loss) from continuing operations	3.28	(4.46)	0.98
(Loss) income from discontinued operations	(0.01)	0.10	0.96
	$ 3.27	$ (4.36)	$ 1.94
Cash dividend per common share	$ 1.28	$ 1.28	$ 5.60

(in millions)	**January 1, 2016**	**January 30, 2015**	**January 31, 2014**
Consolidated Balance Sheet Data:			
Total assets	$ 3,377	$ 3,281	$ 4,162
Notes payable and long-term debt, including current portion	$ 1,088	$ 1,166	$ 1,333
Other long-term liabilities and deferred income taxes	$ 183	$ 168	$ 227

* References in the following notes refer to Leidos Transition Report on Form 10-K for the 11-month period ended January 1, 2016.

(a) References to financial data are to Leidos continuing operations, unless otherwise noted. During the year ended January 31, 2014, Leidos completed the spin-off of Science Applications International Corporation. The operating results of Science Applications International Corporation are included in discontinued operations.

(b) Reflects the 11-month period of January 31, 2015 through January 1, 2016 as a result of the change in Leidos 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 the 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 the Transition Report on Form 10-K.

(c) 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 the Transition Report on Form 10-K.

(d) 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 the Transition Report on Form 10-K.

Table of Contents

Summary Unaudited Pro Forma Combined Consolidated Financial Data

The following summary unaudited pro forma combined consolidated financial data present the pro forma financial position and results of operations of Leidos based upon the historical financial statements of each of Leidos and the Splitco Business, after giving effect to the Merger and other Transactions as further described in the section of this document entitled The Transactions. The unaudited pro forma combined consolidated financial data are intended to reflect the impact of the Merger and the other Transactions on Leidos consolidated financial statements as if the relevant transactions occurred on January 30, 2015 for purposes of the unaudited combined consolidated pro forma statement of income data and January 1, 2016 for purposes of the unaudited combined consolidated pro forma balance sheet. The unaudited pro forma combined consolidated financial statements have been prepared using, and should be read in conjunction with, the audited consolidated financial statements of Leidos as of and for the 11-month period ended January 1, 2016, which are incorporated by reference in this document, and the audited combined financial statements of the Splitco Business as of and for the year ended December 31, 2015, which are included elsewhere in this document. The unaudited pro forma combined consolidated financial data is presented for illustrative purposes only and does not purport to be indicative of the actual results that would have been achieved by Leidos if the Merger and other Transactions had been consummated for the period presented or that will be achieved in the future. This information is only a summary and has been derived from and should be read in conjunction with the more detailed unaudited pro forma combined consolidated financial statements and the notes thereto, included elsewhere in this document, which have been prepared in accordance with Article 11 of Regulation S-X. See Where You Can Find More Information; Incorporation by Reference, Unaudited Pro Forma Combined Consolidated Financial Statements and Supplemental Combined Consolidated Statement of Income and the audited combined financial statements of the Splitco Business and notes thereto included elsewhere in this document.

Unaudited Pro Forma Combined Consolidated Statement of Income Data

	Historical				
(in millions)	**Leidos for the 11 Months Ended January 1, 2016**	**Splitco Business for the Year Ended December 31, 2015**	**Less: Splitco Business for the One Month Ended January 31, 2015**	**Pro Forma Adjustments**	**Pro Forma Combined**
Revenues	$ 4,712	$ 5,626	$ (431)	$ (38)	$ 9,869
Income from continuing operations before income taxes	355	471	(39)	(157)	630
Income tax expense	(112)	(162)	10	47	(217)
Income from continuing operations	243	309	(29)	(110)	413
Less: Net income attributable to noncontrolling interest		5			5
Income from continuing operations attributable to the company	$ 243	$ 304	$ (29)	$ (110)	$ 408

Table of Contents

Unaudited Pro Forma Combined Consolidated Balance Sheet Data

(in millions)	Historical Leidos as of January 1, 2016	Historical Splitco Business as of December 31, 2015	Pro Forma Adjustments	Pro Forma Combined
Total assets	$ 3,377	$ 4,180	$ 1,830	$ 9,387
Notes payable and long-term debt, including current portion[(1)]	$ 1,088	$	$ 2,474	$ 3,562

(1) The pro forma adjustment to notes payable and long-term debt is net of $57 million in deferred financing costs.

Summary Unaudited Supplemental Combined Consolidated Statement of Income Data

The following summary unaudited supplemental combined consolidated statement of income data combine the historical consolidated statement of income of Leidos for the 11 months ended January 1, 2016, the unaudited historical statement of income of Leidos for the one month ended January 30, 2015 and the historical combined statement of earnings of the Splitco Business for the year ended December 31, 2015, after giving effect to the Merger and other Transactions as further described in the section of this document entitled The Transactions. The unaudited supplemental combined consolidated statement of income data are intended to reflect the impact of the Merger and the other Transactions on Leidos consolidated financial statements as if the relevant transactions occurred on January 3, 2015. The unaudited supplemental combined consolidated statement of income has been prepared using, and should be read in conjunction with, the audited consolidated financial statements of Leidos as of and for the 11-month period ended January 1, 2016, which are incorporated by reference in this document, and the audited combined financial statements of the Splitco Business as of and for the year ended December 31, 2015, which are included elsewhere in this document. The unaudited supplemental combined consolidated statement of income data is presented for illustrative purposes only and does not purport to be indicative of the actual results that would have been achieved by Leidos if the Merger and other Transactions had been consummated for the period presented or that will be achieved in the future. This information is only a summary and has been derived from and should be read in conjunction with the more detailed unaudited supplemental combined consolidated statement of income and the notes thereto included elsewhere in this document. See Where You Can Find More Information; Incorporation by Reference, Unaudited Pro Forma Combined Consolidated Financial Statements and Supplemental Combined Consolidated Statement of Income and the audited combined financial statements of the Splitco Business and notes thereto included elsewhere in this document.

(in millions)	Historical Leidos for the 11 Months Ended January 1, 2016	Historical Leidos for the One Month Ended January 30, 2015	Historical Splitco Business for the Year Ended December 31, 2015	Adjustments	Supplemental Combined for the 12 Months Ended January 1, 2016
Revenues	$ 4,712	$ 374	$ 5,626	$ (41)	$ 10,671
Income (loss) from continuing operations before	355	(27)	471	(171)	628

income taxes										
Income tax (expense) benefit		(112)		20		(162)		51		(203)
Income (loss) from continuing operations		243		(7)		309		(120)		425
Less: Net income attributable to noncontrolling interest						5				5
Income (loss) from continuing operations attributable to the company	$	243	$	(7)	$	304	$	(120)	$	420

Table of Contents

Summary Comparative Historical, Pro Forma and Supplemental Per Share Data

The following table sets forth certain historical, pro forma and supplemental per share data for Leidos. The Leidos historical data has been derived from and should be read together with Leidos audited consolidated financial statements and related notes thereto contained in Leidos Transition Report on Form 10-K for the 11-month period ended January 1, 2016, which is incorporated by reference in this document. See Where You Can Find More Information; Incorporation by Reference.

The pro forma data as of and for the 11 months ended January 1, 2016 has been derived from the unaudited pro forma combined consolidated financial statements included elsewhere in this document. The supplemental data as of and for the 12 months ended January 1, 2016 has been derived from the unaudited supplemental combined consolidated statement of income included elsewhere in this document. See Unaudited Pro Forma Combined Consolidated Financial Statements and Supplemental Combined Consolidated Statement of Income.

This summary comparative historical, pro forma and supplemental per share data is being presented for illustrative purposes only. Leidos and the Splitco Business may have performed differently had the Transactions occurred prior to the periods or at the date presented. You should not rely on the pro forma and supplemental per share data presented as being indicative of the results that would have been achieved had Leidos and the Splitco Business been combined during the periods or at the date presented or of the future results or financial condition of Leidos or the Splitco Business to be achieved following the consummation of the Transactions.

	As of and for the 11 Months Ended January 1, 2016		For the 12 Months Ended January 1, 2016
(shares in millions)	**Leidos Historical**	**Pro Forma**	**Supplemental**
Earnings per share:			
Income from continuing operations Basic	$ 3.33	$ 2.72	$ 2.80
Income from continuing operations Diluted	$ 3.28	$ 2.70	$ 2.78
Weighted average common shares outstanding Basic	73	150	150
Weighted average common shares outstanding Diluted	74	151	151
Book value per share of common stock	$ 14.83	$ 19.56	NM(i)
Dividends declared per share of common stock	$ 1.28	$ 1.28	$ 1.28

(i) NM = Not meaningful

Historical Common Stock Market Price and Dividend Data

Historical market price data for Splitco has not been presented as the Splitco Business is currently operated by Lockheed Martin and there is no established trading market in Splitco common stock. Shares of Splitco common stock do not currently trade separately from Lockheed Martin common stock.

Shares of Lockheed Martin common stock currently trade on the NYSE under the symbol LMT. On January 25, 2016, the last trading day before the announcement of the Transactions, the last sale price of Lockheed Martin common stock reported by the NYSE was $211.01. On , the last trading day prior to this document, the last sale price of Lockheed Martin common stock reported by the NYSE was $.

Shares of Leidos common stock currently trade on the NYSE under the symbol LDOS. On January 25, 2016, the last trading day before the announcement of the Transactions, the last sale price of Leidos common stock reported by the NYSE was $53.66. On , the last trading day prior to this document, the last sale price of Leidos common stock reported by the NYSE was $.

The following table sets forth the high and low sale prices of Lockheed Martin common stock and Leidos common stock on the NYSE for the periods indicated as well as the dividends per share paid by Lockheed Martin to Lockheed Martin stockholders and by Leidos to Leidos stockholders for these periods. The quotations are as reported in published financial sources.

	Lockheed Martin Per Share Dividends	Lockheed Martin Common Stock High	Lockheed Martin Common Stock Low
Year Ending December 31, 2016			
First Quarter	$ 1.65	$ 223.19	$ 200.47
Second Quarter (through April 15, 2016)		$ 228.00	$ 218.34
Year Ended December 31, 2015			
First Quarter	$ 1.50	$ 207.06	$ 186.01
Second Quarter	$ 1.50	$ 206.19	$ 185.65
Third Quarter	$ 1.50	$ 213.34	$ 181.91
Fourth Quarter	$ 1.65	$ 227.91	$ 199.01
Year Ended December 31, 2014			
First Quarter	$ 1.33	$ 168.41	$ 144.69
Second Quarter	$ 1.33	$ 168.87	$ 153.54
Third Quarter	$ 1.33	$ 182.27	$ 156.23
Fourth Quarter	$ 1.50	$ 198.72	$ 166.28
Year Ended December 31, 2013			
First Quarter	$ 1.15	$ 96.59	$ 85.88
Second Quarter	$ 1.15	$ 109.26	$ 94.00
Third Quarter	$ 1.15	$ 131.60	$ 105.54
Fourth Quarter	$ 1.33	$ 149.99	$ 121.52

Table of Contents

	Leidos Per Share Dividends	Leidos Common Stock High	Low
Year Ending December 30, 2016			
First Quarter	$ 0.32	$ 59.45	$ 40.15
Second Quarter (through April 15, 2016)		$ 52.15	$ 49.36
11 months ended January 1, 2016			
First Quarter	$ 0.00	$ 46.76	$ 41.30
Second Quarter	$ 0.32	$ 43.20	$ 39.63
Third Quarter	$ 0.32	$ 45.03	$ 38.05
Fourth Quarter	$ 0.64(3)	$ 59.05	$ 43.42
Year Ended January 30, 2015			
First Quarter	$ 0.32	$ 46.07	$ 34.64
Second Quarter	$ 0.32	$ 40.72	$ 36.66
Third Quarter	$ 0.32	$ 38.20	$ 33.21
Fourth Quarter	$ 0.32	$ 44.41	$ 36.64
Year Ended January 31, 2014(1)			
First Quarter	$ 0.48	$ 59.76	$ 45.28
Second Quarter	$ 4.48	$ 62.60	$ 51.68
Third Quarter (August 3, 2013 to September 27, 2013)	$	$ 64.12(2)	$ 57.32
Third Quarter (September 28, 2013 to November 1, 2013)	$ 0.32	$ 47.51(2)	$ 45.30
Fourth Quarter	$ 0.32	$ 49.02	$ 40.60

(1) Leidos paid a special cash dividend of $4.00 per share on June 28, 2013, to Leidos stockholders of record as of June 14, 2013.

(2) On September 27, 2013, Leidos effectuated a one-for-four reverse stock split of its shares of common stock, so that every four shares of Leidos common stock issued and outstanding were combined and converted into one share of Leidos common stock. The high and low prices for the third and fourth quarters reflect the price of Leidos common stock after the spin-off of Science Applications International Corporation by Leidos effective on September 27, 2013.

(3) Leidos declared a dividend of $0.32 on September 21, 2015, payable to stockholders of record as of October 15, 2015, payable on October 30, 2015. In March 2015, Leidos announced a change in 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, Leidos anticipated future quarterly dividends to be paid on or about the 30th day of the last month of each calendar quarter, one month earlier than previously paid, beginning with a quarterly dividend announced on December 4, 2015, payable to stockholders of record as of December 15, 2015, payable on December 30, 2015. As a result, Leidos stockholders received dividends of $0.64 during the fourth quarter of 2015.

Table of Contents

RISK FACTORS

You should carefully consider each of the following risks and all of the other information contained and incorporated by reference in this document and the exhibits hereto. Some of the risks described below relate principally to the Transactions, while others relate principally to the business and the industry in which Leidos, including Splitco and the Splitco Subsidiaries, will operate after the Transactions. The remaining risks relate principally to the securities markets generally and ownership of shares of Leidos common stock. The risks described below are not the only risks that Leidos currently faces or will face after the Transactions. Additional risks and uncertainties not currently known or that are currently expected to be immaterial also may materially and adversely affect Leidos business and financial condition or the price of Leidos common stock following the consummation of the Transactions. In addition, you should consider the risks associated with Leidos business that appear in its Transition Report on Form 10-K for the 11-month period ended January 1, 2016, which is incorporated by reference into this prospectus.

The Transactions may not be completed on the terms or timeline currently contemplated, or at all, as Leidos and Lockheed Martin may be unable to satisfy the conditions or obtain the approvals required to complete the Transactions or such approvals may contain material restrictions or conditions.

The consummation of the Transactions is subject to numerous conditions, including, among other things, (1) the consummation of the Internal Reorganization 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 (which period has expired), and the receipt of any necessary regulatory approvals in the United Kingdom, (3) the effectiveness of registration statements to be filed with the SEC, (4) the approval by Leidos stockholders of the Share Issuance in the Merger, (5) the receipt by Lockheed Martin of the Lockheed Martin Tax Opinions and the receipt by Leidos of the Leidos Tax Opinion, (6) the receipt by Leidos, Lockheed Martin and Splitco of solvency opinions customary in transactions of this type and (7) other customary closing conditions. There is no assurance that the Transactions will be consummated on the terms or timeline currently contemplated, or at all. Leidos and Lockheed Martin have and will continue to expend time and resources of management and incur legal, advisory and financial services fees related to the Transactions. These expenses must be paid regardless of whether the Transactions are consummated.

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

Completion of the transfer of certain of the U.S. government contracts, bids and proposals, and related assets contemplated in the Transactions will depend on obtaining post-closing governmental approvals, particularly in the form of novation and/or name change agreements to which the U.S. government must be a party. Between the closing of the Transaction and the time these governmental approvals are obtained, Leidos may encounter administrative difficulties, delays in payments, and uncertainties in being recognized as the party in interest or holder of the affected contracts, bid and proposals, and related assets. In addition, governmental approvals could be accompanied by conditions affecting the future value and business prospects of the affected contracts, bid and proposals, and related assets. Such administrative difficulties, delays, uncertainties, and governmental conditions could have an adverse effect on the cash flows and operating results of Leidos and the Splitco Business.

Leidos and Splitco will need to obtain debt financing to complete the Transactions. 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, including, among others, the absence of any material adverse effect, as the term is described in the Merger Agreement. 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 Transactions or materially and adversely affect Leidos business, liquidity, financial condition and results of operations if the Transactions are ultimately consummated.

If completed, the integration of Leidos and Splitco may not be successful or the anticipated benefits from the Transactions may not be realized.

After the consummation of the Transactions, Leidos will have significantly more sales, assets and employees than it did prior to the consummation of the Transactions. During the period in which transition services are provided to Leidos by Lockheed Martin, Splitco will have a continued dependence on the provision of services from Lockheed Martin, including with respect to information technology infrastructure. The integration process will require Leidos to expend capital and significantly expand the scope of its operations. Leidos management will be required to devote a significant amount of time and attention to the process of integrating the

Table of Contents

operations of Leidos business and the Splitco Business. There is a significant degree of difficulty and management involvement inherent in that process. These difficulties include, but are not limited to:

- integrating the Splitco Business while carrying on the ongoing operations of Leidos business;
- managing a significantly larger company than before the consummation of the Transactions;
- the possibility of faulty assumptions underlying Leidos expectations regarding the integration process;
- coordinating a greater number of diverse businesses located in a greater number of geographic locations;
- operating in geographic markets or industry sectors in which Leidos may have little or no experience;
- complying with laws of new jurisdictions in which Leidos has not previously operated;
- integrating business systems and models;
- attracting and retaining the necessary personnel associated with the Splitco Business following the consummation of the Transactions;
- creating and implementing uniform standards, controls, procedures, policies and information systems and controlling the costs associated with such matters; and
- integrating information technology, purchasing, accounting, finance, sales, billing, payroll and regulatory compliance systems, and meeting external reporting requirements following the consummation of the Transactions.

All of the risks associated with the integration process could be exacerbated by the fact that Leidos may not have a sufficient number of employees with the requisite expertise to integrate the businesses or to operate Leidos business after the Transactions. Failure to hire or retain employees with the requisite skills and knowledge to run Leidos after the Transactions may have a material adverse effect on Leidos business, financial condition and results of operations.

Even if Leidos is able to combine the two business operations successfully, it may not be possible to realize the benefits of the increased sales volume and other benefits, including the expected synergies that are expected to result from the Transactions, or realize these benefits within the time frame that is expected. For example, the elimination of duplicative costs may not be possible or may take longer than anticipated, or the benefits from the Transactions may be offset by costs incurred or delays in integrating the companies. In addition, the quantification of synergies expected to result from the Transactions is based on significant estimates and assumptions that are subjective in nature and inherently uncertain. The amount of synergies actually realized in the Transactions, if any, and the time periods in which any such synergies are realized, could differ materially from the expected synergies discussed in this document, regardless of whether Leidos is able to combine the two business operations successfully.

If Leidos is unable to successfully integrate the Splitco Business or if it is unable to realize the anticipated synergies and other benefits of the Transactions, there could be a material adverse effect on Leidos business, financial condition and results of operations.

The Merger Agreement contains provisions that may discourage other companies from trying to acquire Leidos.

The Merger Agreement contains provisions that may discourage a third party from submitting a business combination proposal to Leidos prior to the closing of the Transactions that might result in greater value to Leidos stockholders than the Transactions. The Merger Agreement generally prohibits Leidos from soliciting any alternative transaction proposal, although it may terminate the Merger Agreement in order to accept an unsolicited alternative transaction proposal that the Leidos Board determines is superior to the Transactions. In addition, before the Leidos Board may withdraw or modify its recommendation or terminate the Merger Agreement to enter into a transaction that it determines is superior to the Transactions, Lockheed Martin has the opportunity to negotiate with Leidos to modify the terms of the Transactions in response to any competing acquisition proposals. If the Merger Agreement is terminated by Leidos or Lockheed Martin in certain limited circumstances, Leidos 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 Leidos.

Failure to complete the Transactions could adversely affect the market price of Leidos common stock as well as its business, financial condition and results of operations.

If the Transactions are 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 Transactions 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 Transactions are 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, Leidos must pay Lockheed Martin a termination fee or reimburse Lockheed Martin for expenses relating to the Transactions.

Table of Contents

Leidos will incur significant costs related to the Transactions that could have a material adverse effect on its liquidity, cash flows and operating results.

Leidos expects to incur significant, one-time costs in connection with the Transactions, some of which will be capitalized, including approximately (a) $29 million of financing-related fees (which, when added to the approximately $43 million that Splitco expects to incur, totals approximately $72 million), (b) $30 million of transaction-related costs, including advisory, legal, accounting and other professional fees and (c) $150 million to $175 million of transition and integration-related costs, a portion of which will be incremental capital spending, which management believes are necessary to realize the anticipated synergies from the Transactions. The incurrence of these costs may have a material adverse effect on Leidos liquidity, cash flows and operating results in the periods in which they are incurred. Leidos may be able to recover approximately $50 million to $70 million of the transition and integration-related expenses as allocable costs through its cost-type contracts over a five-year period, but there can be no assurances that it will be able to do so.

Investors holding shares of Leidos common stock immediately prior to the completion of the Transactions will, in the aggregate, have a significantly reduced ownership and voting interest in Leidos after the Transactions and will exercise less influence over management.

Investors holding shares of Leidos common stock immediately prior to the completion of the Transactions will, in the aggregate, own a significantly smaller percentage of the combined company immediately after the completion of the Transactions. Immediately following the completion of the Transactions, it is expected that Lockheed Martin stockholders will hold approximately 50.5 percent of the outstanding shares of Leidos common stock, on a fully diluted basis. Leidos existing stockholders will continue to hold the remaining approximately 49.5 percent of the outstanding shares of Leidos common stock, on a fully diluted basis. In addition, as a result of the true-up provision in the Merger Agreement, it is possible that Leidos could be required to issue additional shares of its common stock in the Transactions. 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 Leidos policies immediately prior to the completion of the Transactions.

The calculation of merger consideration will not be adjusted if there is a change in the value of the Splitco Business or its assets or the value of Leidos before the Transactions are completed.

The calculation of the number of shares of Leidos common stock to be distributed in the Merger will not be adjusted if there is a change in the value of the Splitco Business or its assets or the value of Leidos prior to the consummation of the Transactions. Leidos will not be required to consummate the Merger if there has been any material adverse effect on the Splitco Business as defined in the Merger Agreement. However, Leidos will not be permitted to terminate or re-solicit the vote of Leidos stockholders because of any changes in the market prices of Leidos common stock or any changes in the value of the Splitco Business that do not constitute a material adverse effect on the Splitco Business.

Sales of Leidos common stock after the Transactions may negatively affect the market price of Leidos common stock.

The shares of Leidos common stock to be issued as part of the Transactions will generally be eligible for immediate resale. The market price of Leidos common stock could decline as a result of sales of a large number of shares of Leidos common stock in the market after the consummation of the Transactions or even the perception that these sales could occur.

Currently, Lockheed Martin stock may be held in index funds that tied to the Standard & Poor s 500 Index or other stock indices, and may be held by institutional investors subject to various investing guidelines. Because Leidos may not be included in these indices following the consummation of the Transactions or may not meet the investing guidelines of some of these institutional investors, these index funds and institutional investors may decide to or may be required to sell the Leidos common stock that they receive in the case of any *pro rata* distribution. In addition, the investment fiduciaries of Lockheed Martin s defined benefit pension plans may decide to sell any Leidos common stock that the trusts for these plans receive in the Transactions, or may decide not to participate in this exchange offer, in response to their fiduciary obligations under applicable law.

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

On January 26, 2016, Leidos and certain financial institutions executed the Leidos Commitment Letter and Splitco and certain financial institutions executed the Splitco Commitment Letter pursuant to which the financial institutions have agreed to provide credit facilities to Leidos and Splitco, respectively, the proceeds of which will provide financing to Leidos to fund the Leidos Special Dividend and to Splitco to finance the Splitco Special Cash Payment. Leidos ability to make payments on and to refinance its indebtedness, including the debt incurred pursuant to the Transactions, 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 react to changes in Leidos industry could be impaired. The lenders who hold such debt also could 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 Transactions, subject to restrictions in Leidos debt agreements and agreements entered into in connection with the Transactions. 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 advantageous or 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 or preferred stock also may impose additional and more stringent restrictions on Leidos operations than it currently has. If Leidos raises funds through the issuance of additional equity, Leidos stockholders percentage ownership in Leidos would be diluted. If Leidos is unable to raise additional capital when needed, it could affect Leidos financial condition. Also, regardless of the terms of Leidos debt or equity financing, the ability of Leidos to issue common stock may be limited under the Tax Matters Agreement.

The historical financial information of the Splitco Business may not be representative of its results or financial condition if it had been operated independently of Lockheed Martin and, as a result, may not be a reliable indicator of its future results.

The Splitco Business is currently operated by Lockheed Martin. Consequently, the financial information of the Splitco Business included in this document has been derived from the consolidated financial statements and accounting records of Lockheed Martin as if the operations of the Splitco Business were conducted independently from Lockheed Martin. The historical results of operations, financial position and cash flows of the Splitco Business included in this document may not be indicative of what they would have been had the Splitco Business actually been an independent stand-alone entity, nor are they necessarily indicative of the future results of operations, financial position and cash flows of the Splitco Business. For example, the combined financial statements of the Splitco Business include all revenues and costs directly attributable to the Splitco Business and an allocation of expenses related to certain Lockheed Martin corporate functions. These expenses have been allocated to the Splitco Business based on direct usage or benefit where identifiable, with the remainder allocated pro rata based on an applicable measure of revenues, cost of revenues, headcount, fixed assets, number of transactions or other relevant measures. Although Splitco considers these allocations to be a reasonable reflection of the utilization of services or the benefit received, the allocations may not be indicative of the actual expense that would have been incurred had Splitco operated as an independent, stand-alone entity, nor are they indicative of Splitco s future expenses.

The unaudited pro forma combined financial information of Leidos and Splitco is not intended to reflect what actual results of operations and financial condition would have been had Leidos and Splitco been a combined company for the periods presented, and therefore these results may not be indicative of Leidos future operating performance.

Because Leidos will acquire Splitco only upon completion of the Transactions, it has no available historical financial information that consolidates the financial results for the Splitco Business and Leidos. The historical financial statements contained or incorporated by reference in this document consist of the separate financial statements of Lockheed Martin, Splitco, the Splitco Business and Leidos.

The unaudited pro forma combined consolidated financial information presented in this document is for illustrative purposes only and is not intended to, and does not purport to, represent what Leidos actual results or financial condition would have been if the Transactions had occurred on the relevant date. In addition, such unaudited pro forma combined consolidated financial information is based in part on certain assumptions regarding the Transactions that Leidos believes are reasonable. These assumptions, however, are only preliminary and will be updated only after the consummation of the Transactions. The unaudited pro forma combined consolidated financial information has been prepared using the acquisition method of accounting, with Leidos considered the acquirer of Splitco. Under the acquisition method of accounting, the purchase price is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair values with any excess purchase price allocated to goodwill. The pro forma purchase price allocation was based on an estimate of the fair values of the tangible and intangible assets and liabilities of the Splitco Business. In arriving at the estimated fair values, Leidos considered the preliminary appraisals of independent consultants which were based on a preliminary and limited review of the assets and liabilities related to the Splitco Business to be transferred to, or assumed by, Splitco and the Splitco Subsidiaries in the Transactions. Following the Merger, Leidos expects to complete the purchase price allocation after considering the fair value of the assets and liabilities of the Splitco Business at the level of detail necessary to finalize the required purchase price allocation. The final purchase price allocation may be different than that reflected in the pro forma purchase price allocation presented herein, and this difference may be material.

The unaudited pro forma combined consolidated financial information does not reflect the costs of any integration activities or transaction-related costs or incremental capital spending that Leidos management believes are necessary to realize the anticipated synergies from the Transactions. Accordingly, the pro forma financial information included in this document does not reflect what Leidos results of operations or operating condition would have been had Leidos and Splitco been a consolidated entity during all periods presented, or what Leidos results of operations and financial condition will be in the future.

Table of Contents

Leidos may be unable to provide the same types and level of benefits, services and resources to Splitco that historically have been provided by Lockheed Martin, or may be unable to provide them at the same cost.

As part of Lockheed Martin, Splitco has been able to receive benefits and services from Lockheed Martin and has been able to benefit from Lockheed Martin s financial strength and extensive business relationships. After the consummation of the Transactions, Splitco will be owned by Leidos and no longer will benefit from Lockheed Martin s resources. While Leidos will enter into agreements under which Lockheed Martin will agree to provide certain transition services and site-related services for a period of time following the consummation of the Transactions, it cannot be assured that Leidos will be able to adequately replace those resources or replace them at the same cost. If Leidos is not able to replace the resources provided by Lockheed Martin or is unable to replace them at the same cost or is delayed in replacing the resources provided by Lockheed Martin, Leidos business, financial condition and results of operations may be materially adversely impacted.

Leidos business, financial condition and results of operations may be adversely affected following the Transactions if Leidos cannot negotiate contract terms that are as favorable as those Lockheed Martin has received when Leidos replaces certain of Splitco s contracts after the closing of the Transactions.

Prior to the consummation of the Transactions, certain functions (such as purchasing, accounts payable processing, accounts receivable management, information systems, logistics and distribution) associated with the Splitco Business are being performed under Lockheed Martin s centralized systems and, in some cases, under contracts that also are used for Lockheed Martin s other businesses and which will not be assigned in whole or in part to Splitco. In addition, some other contracts to which Lockheed Martin is a party on behalf of Splitco will require consents of third parties to assign them to Splitco. There can be no assurance that Leidos will be able to negotiate contract terms that are as favorable as those Lockheed Martin received when and if Leidos replaces these contracts with its own agreements for similar services, including any contracts that may need to be replaced as a result of a failure to obtain required third-party consents. Although Leidos believes that it will be able to enter into new agreements for similar services and that Lockheed Martin and Leidos will be able to obtain all material third-party consents required to assign contracts to Splitco, it is possible that the failure to enter into new agreements for similar services or to obtain required consents to assign contracts could have a material adverse impact on Leidos business, financial condition and results of operations following the consummation of the Transactions.

If the Distribution does not qualify as a tax-free transaction under Section 368(a)(1)(D) or 355 of the Code or the Merger does not qualify as a tax-free reorganization under Section 368(a) of the Code, including as a result of actions taken in connection with the Distribution or the Merger or as a result of subsequent acquisitions of shares of Lockheed Martin, Leidos or Splitco common stock, then Lockheed Martin and/or Lockheed Martin stockholders may be required to pay substantial U.S. federal income taxes, and, in certain circumstances and subject to certain conditions, Leidos may be required to indemnify Lockheed Martin for any such tax liability imposed on Lockheed Martin.

The consummation of the Transactions is conditioned on the receipt by Lockheed Martin of the Lockheed Martin Tax Opinions and by Leidos of the Leidos Tax Opinion. The opinions will be based on, among other things, currently applicable law and certain representations made by, and certain assumptions permitted by, Lockheed Martin, Splitco, and Leidos. An opinion of counsel represents counsel s best legal judgment, such opinion is not binding on the IRS or the courts, and the IRS or the courts may not agree with the opinion. Any change in currently applicable law, which may be retroactive, or the failure of any representation or assumption to be true, correct and complete in all material respects, could adversely affect the conclusions reached by counsel in the opinions.

Even if the Distribution were otherwise to qualify as a tax-free transaction under Sections 368(a)(1)(D) and 355 of the Code, it would be taxable to Lockheed Martin (but not to Lockheed Martin stockholders) pursuant to Section 355(e) of the Code if there were a 50 percent or greater change in ownership of either Lockheed Martin or Splitco (including stock of Leidos after the Merger), directly or indirectly, as part of a plan or series of related transactions that include the Distribution. For this purpose, any acquisitions of Lockheed Martin, Splitco or Leidos stock within the period beginning two years before the Distribution and ending two years after the Distribution are presumed to be part of such a plan, although Lockheed Martin may be able to rebut that presumption. While the Merger will be treated as part of such a plan for purposes of the test, standing alone the Merger should not cause the Distribution to be taxable to Lockheed Martin under Section 355(e) of the Code because Lockheed Martin stockholders will hold more than 50 percent of Leidos outstanding stock immediately following the Merger. Nevertheless, if the IRS were to determine that other acquisitions of Lockheed Martin, Splitco or Leidos stock, either before or after the Distribution, were part of a plan or series of related transactions that included the Distribution, such determination could result in significant tax to Lockheed Martin. In connection with the Lockheed Martin Tax Opinions, Lockheed Martin, Splitco and Leidos (to its knowledge) have represented and will represent that the Distribution is not part of any such plan or series of related transactions other than the Merger. In certain circumstances and subject to certain limitations, under the Tax Matters Agreement Leidos is required to indemnify Lockheed Martin if the Distribution becomes taxable as a result of certain actions by Leidos or Splitco or as a result of certain changes in ownership of the stock of Leidos or Splitco after the Merger. If Lockheed Martin were to recognize gain on the Distribution for reasons not related to a disqualifying action by Splitco or Leidos, Lockheed Martin would not be entitled to be indemnified under the Tax Matters Agreement and the resulting tax to Lockheed Martin could have a material adverse effect on Lockheed Martin. If Leidos is required to indemnify Lockheed Martin if the Distribution is taxable, this indemnification obligation could be substantial and could have a material adverse effect on Leidos, including with respect to its financial condition and results of operations.

Table of Contents

Splitco and Leidos may be affected by significant restrictions following the Transactions in order to avoid significant tax-related liabilities.

The Tax Matters Agreement generally prohibits Splitco, Leidos and their affiliates from taking certain actions that could cause the Distribution, the Merger and certain related transactions to fail to qualify as tax-free transactions.

Furthermore, unless an exception applies, for a two-year period following the date of the Distribution:

- none of Splitco, Leidos or any of their respective subsidiaries may discontinue the active conduct of the Splitco Business;
- Leidos may not redeem or repurchase any of its stock;
- neither Leidos nor Splitco may engage in certain mergers or consolidations;
- none of Leidos, Splitco or any of Splitco s subsidiaries may sell or issue any of its own stock or stock rights;
- none of Splitco, Leidos or any of their respective subsidiaries may enter into any transaction or series of transactions as a result of which one or more persons would acquire (directly or indirectly) an amount of stock of Splitco and/or Leidos (taking into account the stock of Splitco acquired pursuant to the Merger) that would reasonably be expected to cause the failure of the tax-free status of the Distribution, the Merger and certain related transactions; and
- none of Splitco, Leidos or any of their respective subsidiaries may amend its certificate of incorporation or take any other action affecting the relative voting rights of any stock or stock rights of Leidos, Splitco or their respective subsidiaries.

If Splitco or Leidos intends to take certain restricted actions, it must notify Lockheed Martin of the proposal to take such action and either obtain a ruling from the IRS or an unqualified opinion acceptable to Lockheed Martin to the effect that such action will not affect the tax-free status of the Transactions. However, this will not relieve Leidos of any responsibility to indemnify Lockheed Martin for tax-related losses.

Due to these restrictions and indemnification obligations under the Tax Matters Agreement, Leidos may be limited in its ability to pursue strategic transactions, equity or convertible debt financings or other transactions that may otherwise be in Leidos best interests.

If the Merger does not qualify as a tax-free reorganization under Section 368(a) of the Code, participating Lockheed Martin stockholders may be required to pay substantial U.S. federal income taxes.

The obligations of Lockheed Martin, Leidos and Splitco to consummate the Merger are conditioned, respectively, on the receipt by Lockheed Martin of the Lockheed Martin Tax Opinions and by Leidos of the Leidos Tax Opinion, in each case, in part or in whole to the effect that the Merger will qualify as a reorganization within the meaning of

Section 368(a) of the Code. These opinions will be based upon, among other things, certain representations and assumptions as to factual matters. The failure of any factual representation or assumption to be true, correct and complete in all material respects could adversely affect the validity of the opinions. An opinion of counsel represents counsel s best legal judgment, such opinion is not binding on the IRS or the courts, and the IRS or the courts may not agree with the opinion. In addition, the opinions will be based on current law, and cannot be relied upon to the extent current law changes with retroactive effect. If the Merger were taxable, participating Lockheed Martin stockholders would be considered to have made a taxable sale of their Splitco common stock to Leidos, and Lockheed Martin stockholders would recognize taxable gain or loss on their receipt of Leidos common stock in the Merger.

Tendering Lockheed Martin stockholders may receive a reduced premium or may not receive any premium in this exchange offer.

This exchange offer is designed to permit you to exchange your shares of Lockheed Martin common stock for shares of Splitco common stock at a percent discount, calculated as set forth in this document, to the per-share equivalent value of Splitco common stock. Stated another way, for each $100 in value of your Lockheed Martin common stock accepted in this exchange offer, you will receive approximately $ in value of Splitco common stock. The value of the Lockheed Martin common stock will be based on the calculated per-share value for the Lockheed Martin common stock on the NYSE and the value of the Splitco common stock will be based on the calculated per-share value for Leidos common stock on the NYSE (because each share of Splitco common stock will be exchanged for one share of Leidos common stock in the Merger), in each case determined by reference to the simple arithmetic average of the Daily VWAP on each of the Valuation Dates. In the case of Splitco common stock, the value will be reduced by $ per share, which approximates the per-share amount of the Leidos Special Dividend.

The number of shares you can receive is subject to an upper limit of shares of Splitco common stock for each share of Lockheed Martin common stock accepted in this exchange offer. If the upper limit is in effect, you ultimately may receive less than $ in value of Splitco common stock for each $100 in value of Lockheed Martin common stock that you tender, and you could receive much less.

Table of Contents

For example, if the calculated per-share value of Lockheed Martin common stock was $ (the highest closing price for Lockheed Martin common stock on the NYSE during the three-month period prior to commencement of this exchange offer) and the calculated per-share value of Splitco common stock was $ (the lowest closing price for Leidos common stock on the NYSE during that three-month period), the value of Splitco common stock received for each $100 in value of Lockheed Martin common stock accepted for exchange would be approximately $.

If the trading price of shares of Lockheed Martin common stock were to increase after the final Valuation Date during the last two trading days of the exchange offer period (currently expected to be , 2016 and , 2016), the arithmetic average of the Daily VWAP for Lockheed Martin common stock on the Valuation Dates likely would be lower than the closing price of shares of Lockheed Martin common stock on the trading day before the expiration date of the exchange offer. As a result, you may receive fewer shares of Splitco common stock for each $100 in value of Lockheed Martin common stock than you would have received if the price were calculated on the basis of the closing price of shares of Lockheed Martin common stock on the trading day before the expiration date or on the basis of an averaging period that included the last two trading days prior to the expiration of the exchange offer. Similarly, if the trading price of Leidos common stock were to decrease after the final Valuation Date during the last two trading days of the exchange offer period, the simple arithmetic average of the Daily VWAP for Leidos common stock on the Valuation Dates likely would be higher than the closing price of shares of Leidos common stock on the trading day before the expiration date of the exchange offer. This circumstance also could result in you receiving fewer shares of Splitco common stock for each $100 in value of Lockheed Martin common stock than you otherwise would have received if the price were calculated on the basis of the closing price of shares of Leidos common stock on the trading day before the expiration date of the exchange offer or on the basis of an averaging period that included the last two trading days prior to the expiration of the exchange offer.

In addition, there is no assurance that holders of shares of Lockheed Martin common stock that are exchanged for Splitco common stock in this exchange offer will be able to sell the shares of Leidos common stock after receipt in the Merger at prices comparable to the calculated per-share value of Splitco common stock at the expiration date.

The trading prices of Leidos common stock may not be an appropriate proxy for the prices of Splitco common stock.

The calculated per-share value for Splitco common stock is based on the trading prices for Leidos common stock (after an assumed Leidos Special Dividend of $1,029,210,261). The trading prices for Leidos common stock may not be an appropriate proxy for the prices of Splitco common stock. There is currently no trading market for Splitco common stock and no such market will be established in the future. Immediately following the consummation of this exchange offer, Merger Sub will be merged with and into Splitco, and Splitco will continue as the surviving company and a wholly-owned subsidiary of Leidos. In the Merger, each outstanding share of Splitco common stock will be converted automatically into the right to receive one share of Leidos common stock. There can be no assurance, however, that Leidos common stock after the Merger will trade on the same basis as Leidos common stock traded prior to the consummation of the Merger. In addition, it is possible that the trading prices of Leidos common stock prior to the consummation of the Merger will not be indicative of the anticipated value of Leidos common stock after the Merger. For example, trading prices of Leidos common stock on the Valuation Dates could reflect some uncertainty as to the timing or the consummation of the Merger or could reflect trading activity by investors seeking to profit from market arbitrage.

Leidos will have more shares of its common stock outstanding and will be a substantially larger company with significant indebtedness after the Transactions, which may discourage other companies from trying to acquire Leidos.

Leidos expects to issue 76,958,918 shares of its common stock in the Merger. In addition, as a result of the true-up provision in the Merger Agreement in certain circumstances, it is possible that Leidos could be required to issue more than 76,958,918 shares of its common stock in the Merger. Because Leidos will be a significantly larger company and will have significantly more shares of its common stock outstanding after the consummation of the Transactions and significantly more outstanding indebtedness, an acquisition of Leidos by a third party may become more expensive. As a result, some companies may not seek to acquire Leidos, and the reduction in potential parties that may seek to acquire Leidos could negatively impact the prices at which Leidos common stock trades.

Leidos estimates and judgments related to the acquisition accounting models used to record the purchase price allocation may be inaccurate.

Leidos management will make significant accounting judgments and estimates for the application of acquisition accounting under GAAP, and the underlying valuation models. Leidos business, operating results and financial condition could be materially and adversely impacted in future periods if Leidos accounting judgments and estimates related to these models prove to be inaccurate.

Leidos may be required to recognize impairment charges for goodwill and other intangible assets.

The proposed transaction will add approximately $5.2 billion of goodwill and other intangible assets to Leidos consolidated balance sheet. In accordance with GAAP, Leidos management periodically assesses these assets to determine if they are impaired. Significant negative industry or economic trends, disruptions to Leidos business, inability to effectively integrate acquired businesses, unexpected significant changes or planned changes in use of the assets, divestitures and market capitalization declines may impair goodwill and other intangible assets. Any charges relating to such impairments would adversely affect Leidos results of operations in the periods recognized.

Following the conversion of shares of Splitco common stock into Leidos common stock in the Merger, the Lockheed Martin stockholders who became holders of shares of Splitco common stock may experience a delay prior to receiving their shares of Leidos common stock or their cash in lieu of fractional shares, if any.

Following the conversion of shares of Splitco common stock into shares of Leidos common stock in the Merger, the Lockheed Martin stockholders who became holders of Splitco common stock will receive their shares of Leidos common stock or their cash in lieu of fractional shares, if any, only upon surrender of all necessary documents, duly executed, to the exchange agent. Until the distribution of the shares of Leidos common stock to a particular stockholder has been completed, that stockholder will not be able to sell its shares of Leidos common stock. Consequently, if the market price for Leidos common stock decreases during the period before the distribution of the shares of Leidos common stock to that stockholder, the relevant stockholder would not be able to stop any losses by selling the shares of Leidos common stock.

Leidos may waive one or more of the conditions to the consummation of the Transactions without re-soliciting stockholder approval.

Leidos may determine to waive, in whole or in part, one or more of the conditions to its obligations to consummate the Transactions to the extent permitted by applicable law. If Leidos waives the satisfaction of a material condition to the consummation of the Transactions, Leidos will evaluate the facts and circumstances at that time and re-solicit stockholder approval of the Share Issuance if required to do so by applicable law or other relevant rules. In some cases, if the Leidos Board determines that such waiver or its effect on Leidos stockholders does not rise to the level of materiality that would require re-solicitation of proxies pursuant to applicable law or rules, Leidos would complete the Merger without seeking further stockholder approval.

Some of Leidos directors and executive officers have interests in seeing the Transactions completed that may be different from, or in addition to, those of other Leidos stockholders. Therefore, some of Leidos directors and executive officers may have a conflict of interest in recommending the proposals being voted on at Leidos special meeting.

In considering the recommendations of the Leidos Board that Leidos stockholders vote to approve the Share Issuance, you should be aware that Leidos directors and executive officers have financial interests in the Transactions that may be different from, or in addition to, the interests of Leidos stockholders generally. The members of the Leidos Board were aware of and considered these interests, among other matters, in reaching the determination to approve the terms of the Transactions, including the Merger, and in recommending to Leidos stockholders that they vote to approve the Share Issuance.

The directors of Leidos immediately prior to the Merger are generally expected to be the directors of Leidos immediately after the Merger and the executive officers of Leidos immediately prior to the Merger are generally expected to be the executive officers of Leidos immediately after the Merger.

In addition, the executive officers of Leidos would be entitled to severance benefits upon a qualifying termination of employment in connection with the Merger that are greater than the severance benefits to which they are entitled without regard to the consummation of the Merger.

For a further description and quantification of the benefits that the Leidos directors and executive officers may receive as a result of these interests, see The Transactions Interests of Leidos Directors and Executive Officers in the Transactions.

44

Table of Contents

CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

The forward looking statements contained in this document involve risks and uncertainties that may affect Leidos and Splitco s operations, markets, products, services, prices and other factors as discussed in filings with the SEC. These risks and uncertainties include, but are not limited to, economic, competitive, legal, governmental and technological factors. Accordingly, there is no assurance that the expectations of Leidos or Splitco will be realized. This document also contains statements about the proposed business combination transaction between Leidos and Lockheed Martin, in which Lockheed Martin will separate a substantial portion of its government information technology infrastructure services business and its technical services business, which have been realigned in the Information Systems & Global Solutions (IS&GS) business segment, and combine this business with Leidos. Many factors could cause actual results to differ materially from these forward-looking statements with respect to the Transactions, including risks relating to the completion of the Transactions on anticipated terms and timing, including obtaining stockholder and regulatory approvals, anticipated tax treatment, the dependency of any split-off transaction on market conditions and the value to be received in any split-off transaction, unforeseen liabilities, future capital expenditures, revenues, expenses, earnings, synergies, economic performance, indebtedness, financial condition, losses, future prospects, business and management strategies for the management, expansion and growth of the new combined company s operations, Leidos ability to integrate the businesses successfully and to achieve anticipated synergies, and the risk that disruptions from the Transaction will harm Leidos business. While the list of factors presented here is considered representative, no such list should be considered to be a complete statement of all potential risks and uncertainties. Unlisted factors may present significant additional obstacles to the realization of forward-looking statements. Consequences of material differences in results as compared with those anticipated in the forward-looking statements could include, among other things, business disruption, operational problems, financial loss, legal liability to third parties and similar risks, any of which could have a material adverse effect on Leidos consolidated financial condition, results of operations or liquidity. For a discussion identifying additional important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see Leidos filings with the SEC, including Management s Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors in Leidos Transition Report on Form 10-K for the 11-month period ended January 1, 2016, and in its quarterly reports on Form 10-Q, which are available at http://www.Leidos.com and at the SEC s web site at http://www.sec.gov, and Lockheed Martin s filings with the SEC, including Management s Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors in Lockheed Martin s Annual Report on Form 10-K for the year ended December 31, 2015, and in its quarterly reports on Form 10-Q, which are available at http://www.lockheedmartin.com and at the SEC s web site at http://www.sec.gov. Neither Leidos nor Lockheed Martin assumes any obligation to provide revisions or updates to any forward-looking statements should circumstances change, except as otherwise required by securities and other applicable laws.

Table of Contents

THIS EXCHANGE OFFER

Terms of this Exchange Offer

General

Lockheed Martin is offering to exchange all issued and outstanding shares of Splitco common stock for shares of Lockheed Martin common stock, at an exchange ratio to be calculated in the manner described below, on the terms and conditions and subject to the limitations described below and in the letter of transmittal (including the instructions thereto) filed as an exhibit to the registration statement of which this document forms a part, tendered by 8:00 a.m., New York City time, on , 2016, unless this exchange offer is extended or terminated. The last day on which tenders will be accepted, whether on , 2016 or any later date to which this exchange offer is extended, is referred to in this document as the expiration date. You may tender all, some or none of your shares of Lockheed Martin common stock.

Immediately prior to the Distribution, subject to adjustment as provided in the Merger Agreement, 76,958,918 shares of Splitco common stock will be issued and outstanding and held by Lockheed Martin. The number of shares of Lockheed Martin common stock that will be accepted if this exchange offer is completed will depend on the final exchange ratio and the number of shares of Lockheed Martin common stock tendered.

Lockheed Martin s obligation to complete this exchange offer is subject to important conditions that are described in the section entitled Conditions for the Consummation of this Exchange Offer.

For each share of Lockheed Martin common stock that you validly tender in this exchange offer and do not properly withdraw and that is accepted, you will receive a number of shares of Splitco common stock corresponding to a percent discount to the per-share value of the shares of Leidos common stock to be received in the Merger, calculated as set forth below, subject to an upper limit of shares of Splitco common stock per share of Lockheed Martin common stock. Stated another way, subject to the upper limit described below, for each $100 in value of Lockheed Martin common stock accepted in this exchange offer, you will receive approximately $ in value of Splitco common stock, which will, upon the effectiveness of the Merger, be converted into the right to receive approximately $ of Leidos common stock (less any cash amounts paid in lieu of fractional shares) calculated on the basis described herein. See Fractional Shares and Exchange of Shares of Lockheed Martin Common Stock.

The final calculated per-share values will be equal to:

with respect to Lockheed Martin common stock, the simple arithmetic average of the Daily VWAP of Lockheed Martin common stock on the NYSE for each of the Valuation Dates, as reported to Lockheed Martin by Bloomberg Finance L.P. displayed under the heading Bloomberg VWAP on the Bloomberg page LMT UN < Equity > VWAP (or its equivalent successor page if such page is not available);

with respect to Leidos common stock, the simple arithmetic average of the Daily VWAP of Leidos common stock for each of the Valuation Dates, as reported to Lockheed Martin by Bloomberg Finance L.P. displayed under the heading Bloomberg VWAP on the Bloomberg page LDOS UN < Equity > VWAP (or its equivalent successor page if such page is not available), minus $, which approximates the per-share amount of the Leidos Special Dividend (the dividend adjusted per-share value); and with respect to Splitco common stock, the calculated dividend adjusted per-share value, determined as provided above, of Leidos common stock.

The Daily VWAP provided by Bloomberg Finance L.P. may be different from other sources of VWAPs or investors or security holders own calculations of VWAPs. Lockheed Martin will determine such calculations of the per-share values of Lockheed Martin common stock and Splitco common stock, and such determination will be final. If the upper limit on the number of shares of Splitco common stock that can be received for each share of Lockheed Martin common stock tendered is in effect at the expiration of the exchange offer period, then the exchange ratio will be fixed at the upper limit.

On September 24, 2015, the Lockheed Martin Board authorized a $3,000,000,000 increase to Lockheed Martin s stock repurchase program. Under the program, Lockheed Martin management has discretion to determine the dollar amount of shares to be repurchased and the timing of any repurchases in compliance with applicable law and regulation. This includes purchases pursuant to Rule 10b5-1 plans. Lockheed Martin has entered into such a plan with Barclays Capital, Inc. whereby Barclays is authorized to repurchase up to $700,000,000 of Lockheed Martin common stock in privately negotiated transactions or in the open market at prices per share not exceeding the then-current market prices. The plan is in effect through October 31, 2016, but will be suspended during the period in which the exchange offer is pending.

Upper Limit

The number of shares you can receive is subject to an upper limit of shares of Splitco common stock for each share of Lockheed Martin common stock accepted in this exchange offer. If the upper limit is in effect, a stockholder will receive less than $ in value of Splitco common stock for each $100 in value of Lockheed Martin common stock that the stockholder validly tenders, that is not properly withdrawn and that is accepted in the exchange offer, and the stockholder could receive much less. Lockheed Martin set this upper limit to ensure that a change in the relative stock price of Lockheed Martin common stock and Leidos common stock, whether as a result of an increase in the price of Lockheed Martin common stock, a decrease in the price of Leidos common stock or a combination thereof, would not result in an unduly high number of shares of Splitco common stock being exchanged for each share of Lockheed Martin common stock accepted in this exchange offer. This is to prevent a situation that might significantly reduce the benefits of the exchange offer to Lockheed Martin and its continuing stockholders due to a smaller number of outstanding shares being acquired by Lockheed Martin in this exchange offer. Lockheed Martin has a share repurchase program designed to reduce share count. The split-off structure allows Lockheed Martin to reduce share count using Splitco common stock in the exchange offer instead of cash, and the upper limit is designed to set a minimum level of shares that will be repurchased by Lockheed Martin.

Pricing Mechanism

The terms of this exchange offer are designed to result in your receiving $ of Splitco common stock for each $100 in value of Lockheed Martin common stock validly tendered, not properly withdrawn and accepted in this exchange offer, based on the calculated per-share values described above. This exchange offer does not provide for a lower limit or minimum exchange ratio because a minimum exchange ratio could result in the shares of Splitco common stock exchanged for each $100 in value of Lockheed Martin common stock being valued higher than approximately $. Regardless of the final exchange ratio, the terms of this exchange offer would always result in your receiving approximately $ in value of Splitco common stock for each $100 in value of Lockheed Martin common stock so long as the upper limit is not in effect. See the table on page 49 for purposes of illustration.

Subject to the upper limit described above, for each $100 in value of Lockheed Martin common stock accepted in this exchange offer, you will receive approximately $ in value of Splitco common stock. The following formula will be used to calculate the number of shares of Splitco common stock you will receive in exchange for each share of Lockheed Martin common stock accepted in this exchange offer:

Number of shares of Splitco common stock	=	The lesser of	(a)	[upper limit exchange ratio]	and	(b)	the calculated per-share value of Lockheed Martin common stock divided by % of the calculated per-share value of Splitco common stock (calculated as described below)

The calculated per-share value of a share of Lockheed Martin common stock for purposes of this exchange offer will equal the simple arithmetic average of the Daily VWAP of Lockheed Martin common stock on the NYSE on each of the Valuation Dates. The calculated per-share value of a share of Splitco common stock for purposes of this exchange offer will equal the difference of the simple arithmetic average of the Daily VWAP of Leidos common stock on the NYSE on each of the Valuation Dates minus $, which approximates the per-share amount of the Leidos Special Dividend.

If the upper limit is in effect, the exchange ratio will be fixed at . To help illustrate the way this calculation works, below are two examples:

Example 1: Assuming that the average of the Daily VWAP on the Valuation Dates is $ per share of Lockheed Martin common stock and $ per share of Leidos common stock resulting in a dividend adjusted per-share value of Leidos common stock of $, you would receive shares ($ divided by percent of $) of Splitco common stock for each share of Lockheed Martin common stock accepted in this exchange offer, which will be converted into the right to receive shares of Leidos common stock at the effectiveness of the Merger (subject to payment of cash in lieu of fractional shares). In this example, the upper limit of shares of Splitco common stock for each share of Lockheed Martin common stock would not apply.

Example 2: Assuming that the average of the Daily VWAP on the Valuation Dates is $ per share of Lockheed Martin common stock and $ per share of Leidos common stock resulting in a dividend adjusted per-share value of Leidos common stock of $, the upper limit would apply and you would only receive shares of Splitco common stock for each share of Lockheed Martin common stock accepted in this exchange offer because the upper limit is less than shares ($ divided by percent of $) of Splitco common stock for each share of Lockheed Martin common stock, which will be converted into the right to receive shares of Leidos common stock at the effectiveness of the Merger (subject to payment of cash in lieu of fractional shares). Because the upper limit would apply, the exchange ratio would be fixed at the upper limit.

Table of Contents

If the upper limit is in effect, under extreme circumstances, it is possible that you could receive less than $100 in value of Splitco common stock for each $100 in value of Lockheed Martin common stock accepted for exchange.

Indicative Per-Share Values

You will be able to review indicative exchange ratios and calculated per-share values of Lockheed Martin common stock and Splitco common stock, and calculated per-share values and dividend adjusted per-share values of Leidos common stock and the final exchange ratio used to determine the number of shares of Splitco common stock to be exchanged per share of Lockheed Martin common stock. The information agent will maintain on Lockheed Martin s behalf a website at www. that provides indicative exchange ratios and calculated per-share values of Lockheed Martin common stock and Splitco common stock, and calculated per-share values and dividend adjusted per-share values of Leidos common stock. The indicative exchange ratios will reflect whether the upper limit on the exchange ratio, described above, would have been in effect. You also may contact the information agent at the toll-free number provided on the back cover of this document to obtain these indicative exchange ratios.

From the third trading day after the commencement of this exchange offer until the first Valuation Date, the website will show (1) the indicative calculated per-share values on a given day, calculated as though that day were the third Valuation Date of this exchange offer, of (a) Lockheed Martin common stock, which will equal the simple arithmetic average of the Daily VWAP of Lockheed Martin common stock, as calculated by Lockheed Martin, on each of the three consecutive trading days ending on and including such day, (b) Splitco common stock, which will equal the simple arithmetic average of the Daily VWAP of Leidos common stock, minus $, which approximates the per-share amount of the Leidos Special Dividend, as calculated by Lockheed Martin, on each of the three consecutive trading days ending on and including such day and (c) Leidos common stock, which will equal the simple arithmetic average of the Daily VWAP of Leidos common stock, as calculated by Lockheed Martin, on each of the three consecutive trading days ending on and including such day, and (2) the indicative calculated dividend adjusted per-share value of Leidos common stock, which will equal the simple arithmetic average of the Daily VWAP calculated in (c) above, minus $, which approximates the per-share amount of the Leidos Special Dividend.

On each of the Valuation Dates, when the values of Lockheed Martin common stock, Splitco common stock and Leidos common stock are calculated for the purposes of this exchange offer, the website will show the indicative calculated per-share values of Lockheed Martin common stock and Splitco common stock, and calculated per-share values and dividend adjusted per-share values of Leidos common stock, as calculated by Lockheed Martin, which will equal, with respect to each stock, (i) after the close of trading on the NYSE on the first Valuation Date, the VWAPs for that day, and (ii) after the close of trading on the NYSE on the second Valuation Date, the VWAPs for that day averaged with the VWAPs on the first Valuation Date. On the first two Valuation Dates, the indicative exchange rates will be updated no later than 4:30 p.m., New York City time. No indicative exchange ratio will be published or announced on the third Valuation Date, but the final exchange ratio will be announced by press release and available on the website by 9:00 a.m. on the second trading day (currently expected to be , 2016) immediately preceding the expiration date of this exchange offer.

Final Exchange Ratio

The final exchange ratio that shows the number of shares of Splitco common stock that you will receive for each share of Lockheed Martin common stock accepted in this exchange offer will be available at www. and through the toll-free number maintained by the information agent listed on the back cover of this document and announced by press release by 9:00 a.m., New York City time, on , 2016, unless this exchange offer is extended or terminated.

You also may contact the information agent to obtain these indicative exchange ratios and the final exchange ratio at its toll-free number provided on the back cover of this document.

Each of the Daily VWAPs, calculated per-share values (and, in the case of Leidos common stock, the estimated dividend adjusted per-share value) and the final exchange ratio will be rounded to four decimal places.

If a market disruption event occurs with respect to Lockheed Martin common stock or Leidos common stock on any of the Valuation Dates, the calculated per-share value of Lockheed Martin common stock and Splitco common stock will be determined using the Daily VWAP of Lockheed Martin common stock and Leidos common stock on the preceding trading day or days, as the case may be, on which no market disruption event occurred with respect to either Lockheed Martin common stock or Leidos common stock, so that in any case the valuation averaging period would be three days. If, however, a market disruption event occurs as specified above, Lockheed Martin may terminate this exchange offer if, in its reasonable judgment, the market disruption event has impaired the benefits of this exchange offer. For specific information as to what would constitute a market disruption event, see Conditions for the Consummation of this Exchange Offer.

Table of Contents

Since this exchange offer is scheduled to expire at 8:00 a.m., New York City time, on the last day of the exchange offer period, and the final exchange ratio will be announced by 9:00 a.m., New York City time, on the second trading day prior to the expiration date of this exchange offer, you will be able to tender or withdraw your shares of Lockheed Martin common stock after the final exchange ratio is determined. For more information on validly tendering and properly withdrawing your shares, see Procedures for Tendering and Withdrawal Rights.

For the purposes of illustration, the table below indicates the number of shares of Splitco common stock that you would receive per share of Lockheed Martin common stock accepted in this exchange offer, calculated on the basis described above and taking into account the upper limit described above, assuming a range of averages of the Daily VWAP of Lockheed Martin common stock and Leidos common stock on the Valuation Dates. The first row of the table below shows the indicative calculated per-share values of Lockheed Martin common stock and Splitco common stock and the indicative exchange ratio that would have been in effect following the official close of trading on the NYSE on , 2016, based on the Daily VWAPs of Lockheed Martin common stock and Leidos common stock on , 2016, , 2016 and , 2016. The table also shows the effects of a five percent increase or decrease in either or both of the calculated per-share values of Lockheed Martin common stock and Leidos common stock based on changes relative to the values as of , 2016.

Lockheed Martin common stock	**Leidos common stock**	**Calculated per-share value of Lockheed Martin common stock**	**Calculated per-share value of Splitco common stock (1)**	**Shares of Splitco common stock to be received per share of Lockheed martin common stock tendered**	**Calculated Value Ratio (2)**
As of , 2016	**As of , 2016**				
				(3)	

(1) The calculated per-share value of Splitco common stock for purposes of this exchange offer will equal the simple arithmetic average of the Daily VWAP of Leidos common stock on the NYSE on each of the Valuation Dates, minus $ per share, which approximates the per-share amount of the Leidos Special Dividend.
(2) The Calculated Value Ratio equals (i) the calculated per-share value of Splitco common stock multiplied by the exchange ratio, divided by (ii) the calculated per-share value of Lockheed Martin common stock.
(3) In this scenario, the upper limit is in effect. Absent the upper limit, the exchange ratio would have been shares per share of Lockheed Martin common stock validly tendered and accepted in this exchange offer. In this

scenario, Lockheed Martin would announce that the upper limit on the number of shares that can be received for each share of Lockheed Martin common stock tendered is in effect at the expiration of the exchange offer period no later than 9:00 a.m., New York City time, on the second trading day prior to the expiration date and that the exchange ratio would be fixed at the upper limit.

During the three-month period of , 2016 through , 2016, the highest closing price of Lockheed Martin common stock on the NYSE was $ and the lowest closing price of Leidos common stock on the NYSE was $. If the calculated per-share values of Lockheed Martin common stock and Splitco common stock were calculated based on these closing prices and after giving effect to the approximate amount of the Leidos Special Dividend, you would receive only the limit of shares of Splitco common stock for each share of Lockheed Martin common stock tendered, and the value of such shares of Splitco common stock, based on the Leidos common stock price, would have been approximately $ in value of Splitco common stock for each $100 in value of Lockheed Martin common stock accepted for exchange.

If the trading price of shares of Lockheed Martin common stock were to increase during the last two trading days of the exchange offer period (currently expected to be , 2016 and, , 2016), the arithmetic average of the Daily VWAP for Lockheed Martin common stock on the Valuation Dates likely would be lower than the closing price of shares of Lockheed Martin common stock on the trading day before the expiration date of the exchange offer. As a result, you may receive fewer shares of Splitco common stock for each $100 in value of Lockheed Martin common stock than you would have received if the price were calculated on the basis of the closing price of shares of Lockheed Martin common stock on the trading day before the expiration date or on the basis of an averaging period that included the last two trading days prior to the expiration of the exchange offer. Similarly, if the trading price of Leidos common stock were to decrease after the final Valuation Date during the last two trading days of the exchange offer period, the simple arithmetic average of the Daily VWAP for Leidos common stock on the Valuation Dates likely would be higher than the closing price of shares of Leidos common stock on the trading day before the expiration date of the exchange offer.

Table of Contents

This circumstance also could result in you receiving fewer shares of Splitco common stock for each $100 in value of Lockheed Martin common stock than you otherwise would have received if the price were calculated on the basis of the closing price of shares of Leidos common stock on the trading day before the expiration date of the exchange offer or on the basis of an averaging period that included the last two trading days prior to the expiration of the exchange offer.

The number of shares of Lockheed Martin common stock that may be accepted in this exchange offer may be subject to proration. Depending on the number of shares of Lockheed Martin common stock validly tendered, and not properly withdrawn in this exchange offer, and the final exchange ratio, determined as described above, Lockheed Martin may have to limit the number of shares of Lockheed Martin common stock that it accepts in this exchange offer through a proration process. Any proration of the number of shares accepted in this exchange offer will be determined on the basis of the proration mechanics described below under Proration; Tenders for Exchange by Holders of Fewer than 100 Shares of Lockheed Martin Common Stock.

This document and related documents are being sent to persons who directly held shares of Lockheed Martin common stock on , 2016, and brokers, banks and similar persons whose names or the names of whose nominees appear on Lockheed Martin s stockholder list or, if applicable, who are listed as participants in a clearing agency s security position listing for subsequent transmittal to beneficial owners of Lockheed Martin common stock.

Proration; Tenders for Exchange by Holders of Fewer than 100 Shares of Lockheed Martin Common Stock

If, upon the expiration of this exchange offer, Lockheed Martin stockholders have validly tendered and not properly withdrawn more shares of Lockheed Martin common stock than Lockheed Martin is able to accept for exchange (taking into account the exchange ratio and the total number of shares of Splitco common stock owned by Lockheed Martin), Lockheed Martin will accept for exchange the Lockheed Martin common stock validly tendered and not properly withdrawn by each tendering stockholder on a *pro rata* basis, based on the proportion that the total number of shares of Lockheed Martin common stock to be accepted bears to the total number of shares of Lockheed Martin common stock validly tendered and not properly withdrawn (rounded to the nearest whole number of shares of Lockheed Martin common stock), and subject to any adjustment necessary to ensure the exchange of all shares of Splitco common stock owned by Lockheed Martin, except for tenders of odd-lots, as described below.

Beneficial holders of odd-lots that is, fewer than 100 shares of Lockheed Martin common stock, whether held in registered form or through a broker or other nominee who validly tender all of their shares and request preferential treatment will not be subject to proration if this exchange offer is oversubscribed. Beneficial holders of 100 or more shares of Lockheed Martin common stock are not eligible for the foregoing odd-lots preference.

In the case of Lockheed Martin stockholders who hold their odd-lot shares in registered form, you can elect not to be subject to proration by completing the box entitled Odd-Lot Shares on the letter of transmittal. If your odd-lot shares are held by a broker or other nominee for your account, you can contact your broker or nominee and request the preferential treatment. All of your odd-lot shares will be accepted for exchange without proration if Lockheed Martin completes this exchange offer. The foregoing odd-lot preference does not apply to shares of Lockheed Martin common stock held in the ESOP Fund or the LM Plan Company Stock Fund under the Lockheed Martin Savings Plans or the Sandia Savings Plan. Thus, if a participant in a Lockheed Martin Savings Plan or the Sandia Plan Company Stock Fund under the Sandia Savings Plan tenders all of his or her shares of Lockheed Martin common stock held under the plan, those shares will be subject to proration even if the participant holds units under the plan representing fewer than 100 shares.

Lockheed Martin will announce the preliminary proration factor by press release as promptly as practicable after the expiration date. Upon determining the number of shares of Lockheed Martin common stock validly tendered for exchange, Lockheed Martin will announce the final results, including the final proration factor.

Any shares of Lockheed Martin common stock not accepted for exchange in this exchange offer as a result of proration or otherwise will be returned to the tendering stockholder promptly after the final proration factor is determined.

Fractional Shares

Upon the consummation of this exchange offer, the exchange agent will hold the shares of Splitco common stock as agent for the Lockheed Martin stockholders who validly tendered their shares and, in case of a *pro rata* distribution, for the holders of record of Lockheed Martin common stock for the *pro rata* distribution. Immediately following the consummation of this exchange offer, Merger Sub will be merged with and into Splitco, with Splitco surviving the Merger and becoming a wholly-owned subsidiary of Leidos. Each issued and outstanding share of Splitco common stock will be converted in the Merger into the right to receive one share of Leidos common stock. In the conversion, no fractional shares of Leidos common stock will be delivered to Splitco stockholders. All fractional shares of Leidos common stock that any Splitco stockholder otherwise would be entitled to receive as a result of the Merger will be aggregated by the exchange agent on behalf of Leidos.

The exchange agent will cause the whole shares obtained thereby to be sold on behalf of the Splitco stockholders that otherwise would be entitled to receive such fractional shares of Leidos common stock in the Merger, in the open market or otherwise, in each case at then-prevailing market prices as soon as practicable after the Merger and, in any case, no later than five business days after the Merger. The exchange agent then will make available the net proceeds thereof, after deducting any required brokerage or similar charges, commissions and transfer taxes, on a *pro rata* basis, without interest, but subject to any required withholding taxes, as soon as practicable to the Splitco stockholders that otherwise would be entitled to receive such fractional shares of Leidos common stock in the Merger.

Exchange of Shares of Lockheed Martin Common Stock

Upon the terms and subject to the conditions of this exchange offer (including, if this exchange offer is extended or amended, the terms and conditions of the extension or amendment), Lockheed Martin will accept for exchange, and will exchange, for shares of Splitco common stock owned by Lockheed Martin, the shares of Lockheed Martin common stock validly tendered, and not properly withdrawn, prior to the expiration of this exchange offer, promptly after the expiration date.

The exchange of shares of Lockheed Martin common stock tendered and accepted for exchange pursuant to this exchange offer will be made only after timely receipt by the exchange agent of:

- (i) certificates representing all physically tendered shares of Lockheed Martin common stock or (ii) in the case of shares delivered by book-entry transfer through The Depository Trust Company, confirmation of a book-entry transfer of those shares of Lockheed Martin common stock in the exchange agent s account at The Depository Trust Company, in each case pursuant to the procedures set forth in the section below entitled Procedures for Tendering;

- the letter of transmittal for Lockheed Martin common stock, properly completed and duly executed, with any required signature guarantees, or, in the case of a book-entry transfer through The Depository Trust Company, an agent s message; and

- any other required documents.

For purposes of this exchange offer, Lockheed Martin will be deemed to have accepted for exchange, and thereby exchanged, shares of Lockheed Martin common stock validly tendered and not properly withdrawn if and when Lockheed Martin notifies the exchange agent of its acceptance of the tenders of those shares of Lockheed Martin common stock pursuant to this exchange offer.

Upon the consummation of this exchange offer, Lockheed Martin will deliver to the exchange agent a global certificate representing all of the Splitco common stock being distributed in this exchange offer, with irrevocable instructions to hold the shares of Splitco common stock as agent for the Lockheed Martin stockholders validly tendered and not withdrawn in this exchange offer and, in the case of a *pro rata* distribution, Lockheed Martin stockholders whose shares of Lockheed Martin common stock remain outstanding after the consummation of this exchange offer (as described below under Distribution of Any Shares of Splitco Common Stock Remaining After this Exchange Offer). Leidos will deposit in a reserve account with its transfer agent for the benefit of persons who received shares of Splitco common stock in this exchange offer book-entry authorizations representing shares of Leidos common stock, with irrevocable instructions to hold the shares of Leidos common stock upon consummation of the Merger as agent for the Splitco stockholders.

Upon surrender of the documents required by the exchange agent, duly executed, each former holder of Splitco common stock will receive in exchange therefor shares of Leidos common stock and/or cash in lieu of fractional shares, as the case may be. You will not receive any interest on any cash paid to you, even if there is a delay in making the payment.

If Lockheed Martin does not accept for exchange any tendered Lockheed Martin common stock for any reason pursuant to the terms and conditions of this exchange offer, the exchange agent:

- in the case of shares of Lockheed Martin common stock held in certificated form, will return certificates representing such shares without expense to the tendering stockholder;

- in the case of book-entry shares held through DRS, will cause those shares to be credited to the DRS account from which they were tendered;

- in the case of CDI Shares, will cause those shares to be credited by the exchange agent to the tendering stockholder s account under Lockheed Martin Direct Invest, from which they were tendered; and

- in the case of shares tendered by book-entry transfer pursuant to the procedures set forth below in the section entitled Procedures for Tendering, such shares will be credited to an account maintained with The Depository Trust Company, in each case promptly following expiration or termination of this exchange offer.

Procedures for Tendering

Shares Held in Certificated Form/Book-Entry DRS

If you hold certificates representing shares of Lockheed Martin common stock, or if your shares of Lockheed Martin common stock are held in book-entry via the DRS, you must deliver to the exchange agent at the address listed on the letter of transmittal a properly completed and duly executed letter of transmittal, along with any required signature guarantees and any other required documents, and, if you hold certificates, the certificates representing the shares of Lockheed Martin common stock tendered.

CDI Shares

If you hold CDI Shares, you must deliver to the exchange agent at the address listed on the letter of transmittal for Lockheed Martin common stock a properly completed and duly executed letter of transmittal, together with any required signature guarantees and any other required documents. Since certificates are not issued for CDI Shares, you do not need to deliver any certificates representing those shares to the exchange agent. If you tender all of your CDI Shares, and all of your CDI Shares are accepted in this exchange offer, then your participation in the stock purchase and dividend reinvestment plan will be terminated and any dividend due will be paid in cash.

Shares Held Through a Broker, Dealer, Commercial Bank, Trust Company or Similar Institution

If you hold shares of Lockheed Martin common stock through a broker, dealer, commercial bank, trust company or similar institution and wish to tender your shares of Lockheed Martin common stock in this exchange offer, you should follow the instructions sent to you separately by that institution. In this case, you should not use a letter of transmittal to direct the tender of your shares of Lockheed Martin common stock. If that institution holds shares of Lockheed Martin common stock through The Depository Trust Company, it must notify The Depository Trust Company and cause it to transfer the shares into the exchange agent s account in accordance with The Depository Trust Company s procedures. The institution also must ensure that the exchange agent receives an agent s message from The Depository Trust Company confirming the book-entry transfer of your shares of Lockheed Martin common stock. A tender by book-entry transfer will be completed upon receipt by the exchange agent of an agent s message, book-entry confirmation from The Depository Trust Company and any other required documents.

The term agent s message means a message, transmitted by The Depository Trust Company to, and received by, the exchange agent and forming a part of a book-entry confirmation, which states that The Depository Trust Company has received an express acknowledgment from the participant in The Depository Trust Company tendering the shares of Lockheed Martin common stock which are the subject of the book-entry confirmation, that the participant has received and agrees to be bound by the terms of the letter of transmittal (including the instructions thereto) and that Lockheed Martin may enforce that agreement against the participant.

The exchange agent will establish an account with respect to the shares of Lockheed Martin common stock at The Depository Trust Company for purposes of this exchange offer, and any eligible institution that is a participant in The Depository Trust Company may make book-entry delivery of shares of Lockheed Martin common stock by causing The Depository Trust Company to transfer such shares into the exchange agent s account at The Depository Trust Company in accordance with The Depository Trust Company s procedure for the transfer. Delivery of documents to The Depository Trust Company does not constitute delivery to the exchange agent.

Shares Held in the Lockheed Martin Savings Plans

If you have one or more accounts in a Lockheed Martin Savings Plan and your account(s) holds units of the ESOP Fund or the LM Plan Company Stock Fund, the unitized funds invested in Lockheed Martin common stock and cash and short-term equivalents maintained for liquidity purposes under the Lockheed Martin Savings Plan, you may elect either to keep or to exchange some or all of the shares attributable to the units held in your account for shares of Splitco common stock. You will receive instructions by letter or email (as permitted by the Lockheed Martin Savings Plans) informing you how to make an election. If you do not make a timely election to exchange some or all of the shares attributable to your account in accordance with the instructions by the deadline set forth in the instructions, none of the shares held for your account attributable to the units of the ESOP Fund and/or the LM Plan Company Stock Fund will be exchanged for shares of Splitco common stock in the exchange offer and your holdings of units of the ESOP Fund and/or the LM Plan Company Stock Fund will remain unchanged. If you timely elect to exchange shares attributable to units of the ESOP Fund and/or the LM Plan Company Stock Fund for Splitco common stock, each such share of Splitco common stock will be converted in the Merger into Leidos common stock, and you will receive units of a unitized stock fund holding Leidos common stock (as described further below) based on an exchange ratio of one share of Leidos common stock for each share of Splitco common stock. For a more detailed description of how to tender your shares of Lockheed Martin common stock attributable to the units held in your Lockheed Martin Savings Plan account and the applicable deadline for directing the trustee or the independent fiduciary, as applicable, to tender such shares, please refer to the specific instructions regarding how to tender such shares, if any, under the Lockheed Martin Savings Plans. If you hold units in the ESOP Fund and/or the LM Plan Company Stock Fund, you will receive the instructions from Computershare on behalf of the trustee of the Lockheed Martin Savings Plans.

Table of Contents

If you elect to exchange some or all of the shares attributable to units of the ESOP Fund and/or the LM Plan Company Stock Fund in your Lockheed Martin Savings Plan account(s) for shares of Splitco common stock, you may be required to liquidate the units representing shares of Leidos common stock that you receive in exchange for such Splitco shares in connection with the Merger in your Lockheed Martin Savings Plan account(s) no later than a date communicated by the trustee (which could be immediately after the closing of the Merger or some time thereafter) and reallocate the sale proceeds of such liquidation to one or more of the other investment options then available under the relevant Lockheed Martin Savings Plans. If you do not liquidate such shares of Leidos common stock prior to the liquidation deadline, the shares of Leidos common stock attributable to units of the ESOP Fund and/or the LM Plan Company Stock Fund will be liquidated by the trustee on the liquidation deadline date with the proceeds invested as set forth in the instructions from the trustee.

If the offer to exchange shares of Lockheed Martin common stock for Splitco common stock is oversubscribed, the number of shares attributable to the units of the ESOP Fund and/or the LM Plan Company Stock Fund that you elect to exchange will be subject to proration. Any proration of the number of shares accepted in this exchange offer will be determined on the basis of the proration mechanics described in the section of this document entitled This Exchange Offer Terms of this Exchange Offer Proration; Tenders for Exchange by Holders of Fewer than 100 Shares of Lockheed Martin Common Stock.

The ESOP Fund and the LM Plan Company Stock Fund under the Lockheed Martin Savings Plans are unitized stock funds holding Lockheed Martin common stock and cash and short-term investments maintained for liquidity purposes. Participants in the Lockheed Martin Savings Plans whose accounts are invested in the ESOP Fund and/or the LM Plan Company Stock Fund have units in such fund allocated to their respective accounts, which units represent their respective *pro rata* interests in the fund. For purposes of this document and the exchange offer, references to shares of Lockheed Martin common stock being held in the ESOP Fund and/or the LM Plan Company Stock Fund, elections to keep or tender such shares and exchanges of such shares mean, with respect to a participant, the shares of Lockheed Martin common stock represented by the units in the ESOP Fund and/or the LM Plan Company Stock Fund allocated to the participant s account under the Lockheed Martin Savings Plans.

In connection with the exchange of shares held in the ESOP Fund or LM Plan Company Stock Fund, any shares of Leidos common stock held (outside of a self-directed brokerage account (SDBA)) in the Lockheed Martin Savings Plans will be held in a unitized stock fund. In addition to holding Leidos common stock, such Leidos common stock fund also may hold cash and short-term investments for liquidity purposes. Accounts of plan participants who elect to exchange shares held in the ESOP Fund and/or the LM Plan Company Stock Fund will receive units in the Leidos common stock fund. For purposes of this document and the exchange offer, references to shares of Leidos common stock being held in participant accounts under a Lockheed Martin Savings Plan and liquidation of shares of Leidos common stock mean, with respect to a participant, the shares of Leidos common stock represented by the units in the Leidos common stock fund allocated to the participant s account under the relevant Lockheed Martin Savings Plan.

If you hold shares of Lockheed Martin common stock in a SDBA in one of the Lockheed Martin Savings Plans, you may access instructions at www.tdameritraderetirement.com>My Account>History & Statements>Shareholder Library>Corporate Action. Shares of Lockheed Martin common stock held in a SDBA in a Lockheed Martin Savings Plan account are not unitized. Shares of Leidos common stock received in a SDBA in a Lockheed Martin Savings Plan will not be unitized and are not required to be liquidated by the deadline set by the trustee for the Lockheed Martin Savings Plans applicable to the Leidos common stock fund.

Notwithstanding anything in this document to the contrary, with respect to shares of Lockheed Martin common stock held under the Lockheed Martin Savings Plans, the terms of such plans and trust and applicable law govern all transactions involving shares of Lockheed Martin common stock. It is possible that the investment fiduciaries of the

Lockheed Martin Savings Plans, to fulfill their fiduciary obligations, will impose additional conditions and limitations on the participation of the Lockheed Martin Savings Plans and their participants in the exchange offer or will determine that investment in Leidos common stock will not be a permitted investment. If that is the case, participants in the Lockheed Martin Savings Plans will be notified by the trustee.

Shares Held in the Sandia Savings Plan

If you have an account in the Sandia Savings Plan and your account holds units of the Sandia Plan Company Stock Fund, the unitized fund invested in Lockheed Martin common stock and cash and short-term investments maintained for liquidity purposes, you may elect either to keep or to exchange some or all of the shares attributable to the units held in your account for shares of Splitco common stock. You will receive instructions from Evercore Trust, the Sandia Savings Plan independent fiduciary, by letter or email (as permitted by the Sandia Savings Plan) informing you how to make an election. If you do not make a timely election to exchange some or all of the shares attributable to your account in accordance with the instructions by the deadline set forth in Evercore Trust s instructions, none of the shares attributable to the units of the Sandia Plan Company Stock Fund will be exchanged for shares of Splitco common stock and your holdings of units of the Sandia Plan Company Stock Fund will remain unchanged. If you timely elect to exchange shares attributable to units of the Sandia Plan Company Stock Fund for Splitco common stock, each such share of Splitco common stock will be converted in the Merger into Leidos common stock, and you will receive units of a unitized stock fund holding

Table of Contents

Leidos common stock (as described further below) based on an exchange ratio of one share of Leidos common stock for each share of Splitco common stock. For a more detailed description of how to tender your shares of Lockheed Martin common stock attributable to the units held in your Sandia Savings Plan account, please refer to the specific instructions regarding how to tender such shares, if any, under the Sandia Savings Plan, which will be included in the written information provided to you by Evercore Trust.

If you elect to exchange some or all of the shares attributable to units of the Sandia Plan Company Stock Fund in your Sandia Savings Plan account for shares of Splitco common stock, you may be required to liquidate the units or shares representing shares of Leidos common stock that you receive in exchange for such Splitco shares in connection with the Merger in your Sandia Savings Plan account no later than the liquidation deadline communicated by Evercore Trust (which could be immediately after the closing of the Merger or some time thereafter) and reallocate the sale proceeds of such liquidation to one or more of the other investment options then available under the Sandia Savings Plan. If you do not liquidate such shares of Leidos common stock prior to the liquidation deadline, the shares of Leidos common stock attributable to units of the Sandia Plan Company Stock Fund will be liquidated by the Sandia Savings Plan trustee on the liquidation deadline date with the proceeds invested as set forth in the instructions from Evercore Trust.

If the offer to exchange shares of Lockheed Martin common stock for Splitco common stock is oversubscribed, the number of shares attributable to the units of the Sandia Plan Company Stock Fund that you elect to exchange will be subject to proration. Any proration of the number of shares accepted in this exchange offer will be determined on the basis of the proration mechanics described under This Exchange Offer Terms of this Exchange Offer Proration; Tenders for Exchange by Holders of Fewer than 100 Shares of Lockheed Martin Common Stock. Please contact the phone number in the letter or email you receive from Evercore Trust to speak with a customer service representative if you have any questions.

The Sandia Plan Company Stock Fund under the Sandia Savings Plan is a unitized stock fund holding Lockheed Martin common stock and cash and short-term investments maintained for liquidity purposes. Participants in the Sandia Savings Plan whose accounts are invested in the Sandia Plan Company Stock Fund have units in such fund allocated to their respective accounts, which units represent their respective pro rata interests in the fund. For purposes of this document and the exchange offer, references to shares of Lockheed Martin common stock held in the Sandia Plan Company Stock Fund, elections to keep or tender such shares and exchanges of such shares mean, with respect to a participant, the shares of Lockheed Martin common stock represented by the units in the Sandia Plan Company Stock Fund allocated to the participant s account under the Sandia Savings Plan.

In connection with the exchange of shares held in the Sandia Plan Company Stock Fund, any shares of Leidos common stock held in the Sandia Savings Plan will be held in a unitized stock fund. In addition to holding Leidos common stock, such Leidos common stock fund also may hold cash and short-term investments for liquidity purposes. Accounts of Sandia Savings Plan participants who elect to exchange shares held in the Sandia Plan Company Stock Fund will receive units in the Leidos common stock fund. For purposes of this document and the exchange offer, references to shares of Leidos common stock being held in participant accounts under the Sandia Savings Plan and liquidation of shares of Leidos common stock mean, with respect to a participant, the shares of Leidos common stock represented by the units in the Leidos common stock fund allocated to the participant s account under the Sandia Savings Plan.

Notwithstanding anything in this document to the contrary, with respect to shares of Lockheed Martin common stock held under the Sandia Savings Plan, the terms of such plan and its related trust and applicable law govern all transactions involving such shares of Lockheed Martin common stock. It is possible that the investment fiduciaries of the Sandia Savings Plan, to fulfill their fiduciary obligations, will impose additional conditions and limitations on the participation of the Sandia Savings Plan and its participants in the exchange offer or will determine that investment in Leidos common stock will not be a permitted investment. If that is the case, participants in the Sandia Savings Plan will be notified by the trustee.

Shares Held in Employee Benefit Plans Other than the Lockheed Martin Savings Plans and the Sandia Savings Plan

If you own shares of Lockheed Martin common stock through an employer sponsored plan other than the Lockheed Martin Savings Plans or the Sandia Savings Plan, the terms of the plan holding those shares and any related trust and applicable law govern transactions involving the shares of Lockheed Martin common stock. You should consult with the trustee of any such plans concerning the actions that you may be required to take if you desire to participate in this exchange offer. As a general matter, the trustee of the plan or a broker, dealer, commercial bank, trust company or similar institution through which the plan holds your shares of Lockheed Martin common stock will be required to take action on your behalf to enable you to participate in this exchange offer with respect to those shares.

Table of Contents

General Instructions

Letters of transmittal for shares of Lockheed Martin common stock and certificates representing shares of Lockheed Martin common stock only should be sent to the exchange agent at an address listed on the letter of transmittal. Do not send letters of transmittal and certificates representing shares of Lockheed Martin common stock to Lockheed Martin, Leidos, Splitco or the information agent. Trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity who sign a letter of transmittal or any certificates or stock powers must indicate the capacity in which they are signing and must submit evidence of their power to act in that capacity unless waived by Lockheed Martin. Transmittal of tendered shares held by the trusts under the Lockheed Martin Savings Plans and the Sandia Savings Plan will be made by the trustee under those plans in accordance with the terms and conditions of the plans, directions of participants and applicable law and regulation.

Whether you tender your shares of Lockheed Martin common stock by delivery of certificates, by the procedures applicable to book-entry shares held through DRS, by the procedures applicable to CDI Shares or through your broker, the exchange agent must receive the letter of transmittal for shares of Lockheed Martin common stock and, if applicable, the certificates representing your shares of Lockheed Martin common stock at the address set forth on the back cover of this document prior to the expiration of this exchange offer. Alternatively, in case of a book-entry transfer of shares of Lockheed Martin common stock through The Depository Trust Company, the exchange agent must receive the agent s message and a book-entry confirmation.

As required, letters of transmittal for shares of Lockheed Martin common stock and certificates representing shares of Lockheed Martin common stock must be received by the exchange agent. Please read carefully the instructions to the letter of transmittal you have been sent. You should contact the information agent if you have any questions regarding tendering your shares of Lockheed Martin common stock.

Signature Guarantees

Signatures on all letters of transmittal for Lockheed Martin common stock must be guaranteed by a firm which is a member of the Securities Transfer Agents Medallion Program, or by any other eligible guarantor institution, as such term is defined in Rule 17Ad-15 under the Exchange Act (each of the foregoing being a U.S. eligible institution), except in cases in which shares of Lockheed Martin common stock are tendered either (i) by a registered stockholder who has not completed the box entitled Special Transfer Instructions or Special Delivery Instructions on the letter of transmittal, or (ii) for the account of a U.S. eligible institution.

If the certificates representing shares of Lockheed Martin common stock are registered in the name of a person other than the person who signs the letter of transmittal, the certificates must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name or names of the registered owner or owners appear on the certificates, with the signature(s) on the certificates or stock powers guaranteed by an eligible institution.

Guaranteed Delivery Procedures

If you wish to tender shares of Lockheed Martin common stock pursuant to this exchange offer but (i) your certificates are not immediately available, (ii) you cannot deliver the shares or other required documents to the exchange agent on or before the expiration date of this exchange offer or (iii) you cannot comply with the procedures for book-entry transfer through The Depository Trust Company on a timely basis, you may still tender your Lockheed Martin common stock, so long as all of the following conditions are satisfied:

you must make your tender by or through a U.S. eligible institution;

on or before the expiration date, the exchange agent must receive a properly completed and duly executed notice of guaranteed delivery, substantially in the form made available by Lockheed Martin, in the manner provided below; and

within three NYSE trading days after the date of execution of such notice of guaranteed delivery, the exchange agent must receive (i) (a) certificates representing all physically tendered shares of Lockheed Martin common stock and (b) in the case of shares delivered by-book entry transfer through The Depository Trust Company, confirmation of a book-entry transfer of those shares of Lockheed Martin common stock in the exchange agent s account at The Depository Trust Company; (ii) a letter of transmittal for shares of Lockheed Martin common stock properly completed and duly executed (including any signature guarantees that may be required) or, in the case of shares delivered by book-entry transfer through The Depository Trust Company, an agent s message; and (iii) any other required documents.

Registered stockholders (including any participant in The Depository Trust Company whose name appears on a security position listing of The Depository Trust Company as the owner of Lockheed Martin common stock) may transmit the notice of guaranteed delivery by facsimile transmission or mail it to the exchange agent as long as it is guaranteed by a U.S. eligible institution. If you hold shares of Lockheed Martin common stock through a broker, dealer, commercial bank, trust company or similar institution, that institution must submit any notice of guaranteed delivery on your behalf.

Table of Contents

Tendering Your Shares After the Final Exchange Ratio Has Been Determined

The final exchange ratio will be available no later than 9:00 a.m., New York City time, on the second trading day prior to the expiration date of this exchange offer. If you are a registered Lockheed Martin stockholder (which includes persons holding certificated shares, book-entry shares held through DRS or CDI Shares), then it is unlikely that you will be able to deliver an original executed letter of transmittal (and, in the case of certificated shares, your stock certificates) to the exchange agent prior to the expiration of this exchange offer at 9:00 a.m., New York City time, on the expiration date. Accordingly, in such a case, if you wish to tender your shares after the final exchange ratio has been determined, you will generally need to do so by means of delivering a notice of guaranteed delivery and complying with the guaranteed delivery procedures described above. If you hold shares of Lockheed Martin common stock through a broker, dealer, commercial bank, trust company or similar institution, that institution must tender your shares on your behalf.

If you hold units of the ESOP Fund, the LM Plan Company Stock Fund and/or the Sandia Plan Company Stock Fund in a Lockheed Martin Savings Plan or Sandia Savings Plan account, you must tender your shares attributable to the units by the deadline set forth in the trustee s or the independent fiduciary s instructions, as applicable, and it is possible that the final exchange ratio will not have been determined at the time of such deadline. After the final exchange ratio has been determined, to tender shares of Lockheed Martin common stock held in the Lockheed Martin Savings Plans or the Sandia Savings Plan, the trustee or the independent fiduciary, as applicable, must deliver a notice of guaranteed delivery to the exchange agent via facsimile prior to 8:00 a.m., New York City time, on the expiration date.

The Depository Trust Company is expected to remain open until 5:00 p.m., New York City time, on the last trading day prior to the expiration date and institutions may be able to process tenders for Lockheed Martin common stock through The Depository Trust Company prior to that time (although there is no assurance that this will be the case). Once The Depository Trust Company has closed, participants in The Depository Trust Company whose name appears on a Depository Trust Company security position listing as the owner of Lockheed Martin common stock will still be able to tender their Lockheed Martin common stock by delivering a notice of guaranteed delivery to the exchange agent via facsimile.

If you hold shares of Lockheed Martin common stock through a broker, dealer, commercial bank, trust company or similar institution, that institution must submit any notice of guaranteed delivery on your behalf. It will generally not be possible to direct such an institution to submit a notice of guaranteed delivery once that institution has closed for the day. You should consult with such institution on the procedures that must be complied with and the time by which such procedures must be completed to ensure that the institution has ample time to submit a notice of guaranteed delivery on your behalf prior to expiration of this exchange offer at 8:00 a.m., New York City time, on the expiration date. In addition, any such institution, if it is not an eligible institution, will need to obtain a Medallion guarantee from an eligible institution in the form set forth in the applicable notice of guaranteed delivery in connection with the delivery of those shares.

Effect of Tenders

A tender of Lockheed Martin common stock pursuant to any of the procedures described above will constitute your acceptance of the terms and conditions of this exchange offer as well as your representation and warranty to Lockheed Martin that (i) you have the full power and authority to tender, sell, assign and transfer the tendered shares (and any and all other shares of Lockheed Martin common stock or other securities issued or issuable in respect of such shares), (ii) when the same are accepted for exchange, Lockheed Martin will acquire good and unencumbered title to such shares, free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claims and (iii) you own the shares being tendered within the meaning of Rule 14e-4 promulgated under the Exchange Act.

It is a violation of Rule 14e-4 under the Exchange Act for a person, directly or indirectly, to tender shares of Lockheed Martin common stock for such person s own account unless, at the time of tender, the person so tendering (i) has a net long position equal to or greater than the amount of (a) shares of Lockheed Martin common stock tendered or (b) other securities immediately convertible into or exchangeable or exercisable for the shares of Lockheed Martin common stock tendered and such person will acquire such shares for tender by conversion, exchange or exercise and (ii) will cause such shares to be delivered in accordance with the terms of this document. Rule 14e-4 provides a similar restriction applicable to the tender or guarantee of a tender on behalf of another person.

The exchange of shares of Lockheed Martin common stock validly tendered and accepted for exchange pursuant to this exchange offer will be made only after timely receipt by the exchange agent of (i)(a) certificates representing all physically tendered shares of Lockheed Martin common stock or (b) in the case of shares delivered by book-entry transfer through The Depository Trust Company, confirmation of a book-entry transfer of those shares of Lockheed Martin common stock in the exchange agent s account at The Depository Trust Company, (ii) the letter of transmittal for shares of Lockheed Martin common stock, properly completed and duly executed, with any required signature guarantees, or, in the case of a book-entry transfer through The Depository Trust Company, an agent s message and (iii) any other required documents.

Appointment of Attorneys-in-Fact and Proxies

By executing a letter of transmittal as set forth above, you irrevocably appoint Lockheed Martin s designees as your attorneys-in-fact and proxies, each with full power of substitution, to the full extent of your rights with respect to your shares of Lockheed Martin common stock tendered and accepted for exchange by Lockheed Martin and with respect to any and all other shares of Lockheed Martin common stock and other securities issued or issuable in respect of the Lockheed Martin common stock on or after the expiration of this exchange offer. That appointment is effective when and only to the extent that Lockheed Martin deposits the shares of Splitco common stock for the shares of Lockheed Martin common stock that you have tendered with the exchange agent. All such proxies will be considered coupled with an interest in the tendered shares of Lockheed Martin common stock and therefore will not be revocable. Upon the effectiveness of such appointment, all prior proxies that you have given will be revoked and you may not give any subsequent proxies (and, if given, they will be deemed ineffective). Lockheed Martin s designees will, with respect to the shares of Lockheed Martin common stock for which the appointment is effective, be empowered, among other things, to exercise all of your voting and other rights as they, in their sole discretion, deem proper. Lockheed Martin reserves the right to require that, in order for shares of Lockheed Martin common stock to be deemed validly tendered, immediately upon Lockheed Martin s acceptance for exchange of those shares of Lockheed Martin common stock, Lockheed Martin must be able to exercise full voting rights with respect to such shares. In the case of tendered shares of Lockheed Martin common stock held in the trust under the Lockheed Martin Savings Plans, the trustee will make an electronic election through its custodian and the provisions described in this paragraph regarding the irrevocable appointment of Lockheed Martin s designees as attorneys-in-fact will apply to the trustee.

Determination of Validity

Lockheed Martin will determine questions as to the validity, form, eligibility (including time of receipt) and acceptance for exchange of any tender of shares of Lockheed Martin common stock, in Lockheed Martin s sole discretion, and its determination will be final and binding. Lockheed Martin reserves the absolute right to reject any and all tenders of shares of Lockheed Martin common stock that it determines are not in proper form or the acceptance of or exchange for which may, in the opinion of its counsel, be unlawful. Lockheed Martin also reserves the absolute right to waive any of the conditions of this exchange offer, or any defect or irregularity in the tender of any shares of Lockheed Martin common stock. **No tender of shares of Lockheed Martin common stock is valid until all defects and irregularities in tenders of shares of Lockheed Martin common stock have been cured or waived. Neither Lockheed Martin nor the exchange agent, the information agent or any other person is under any duty to give notification of any defects or irregularities in the tender of any shares of Lockheed Martin common stock or will incur any liability for failure to give any such notification. Lockheed Martin s interpretation of the terms and conditions of this exchange offer (including the letter of transmittal and instructions thereto) will be final and binding.**

Binding Agreement

The tender of shares of Lockheed Martin common stock pursuant to any of the procedures described above will constitute a binding agreement between Lockheed Martin and you upon the terms of and subject to the conditions to this exchange offer.

The method of delivery of stock certificates of Lockheed Martin common stock and all other required documents, including delivery through The Depository Trust Company, is at your option and risk, and the delivery will be deemed made only when actually received by the exchange agent. If delivery is by mail, it is recommended that you use registered mail with return receipt requested, properly insured. In all cases, you should allow sufficient time to ensure timely delivery.

Partial Tenders

If you tender fewer than all the shares of Lockheed Martin common stock evidenced by any stock certificate you deliver to the exchange agent, then you will need to fill in the number of shares that you are tendering in the section entitled Stock Election on the second page of the letter of transmittal. In those cases, as soon as practicable after the expiration date, the exchange agent will credit the remainder of the shares of common stock that were evidenced by the certificate(s) but not tendered to a DRS account in the name of the registered holder maintained by Lockheed Martin s transfer agent, unless otherwise provided in Special Delivery Instructions in the letter of transmittal. Unless you indicate otherwise in your letter of transmittal, all of the shares of Lockheed Martin common stock represented by stock certificates you deliver to the exchange agent will be deemed to have been validly tendered. No stock certificates are expected to be delivered to you, including in respect of any shares delivered to the exchange agent that were previously in certificated form, except for stock certificates representing shares not accepted in this exchange offer.

Lost, Stolen or Destroyed Certificates

If your certificate(s) representing shares of Lockheed Martin common stock have been mutilated, destroyed, lost or stolen and you wish to tender your shares, you will need to complete an affidavit of mutilated, destroyed, lost or stolen certificate(s) (an Affidavit) that you may request by calling Lockheed Martin s transfer agent, Computershare Trust Company, N.A., at (877) 498-8861.

You will also need to post a surety bond for your mutilated, destroyed, lost or stolen shares of Lockheed Martin common stock and pay a service fee. Upon receipt of the completed applicable letter of transmittal with the completed Affidavit, the surety bond payment and the service fee, your shares of Lockheed Martin common stock will be considered tendered in this exchange offer.

Withdrawal Rights

Shares of Lockheed Martin common stock validly tendered pursuant to this exchange offer may be withdrawn at any time before 8:00 a.m., New York City time, on the expiration date and, unless Lockheed Martin has previously accepted such shares pursuant to this exchange offer, may also be withdrawn at any time after the expiration of 40 business days from the commencement of this exchange offer (, 2016). Once Lockheed Martin accepts shares of Lockheed Martin common stock pursuant to this exchange offer, your tender is irrevocable.

For a withdrawal of shares of Lockheed Martin common stock to be effective, the exchange agent must receive from you a written notice of withdrawal at one of its addresses set forth on the back cover of this document, and your notice must include your name and the number of shares of Lockheed Martin common stock to be withdrawn, as well as the name of the registered holder, if it is different from that of the person who tendered those shares.

If you hold units of the ESOP Fund, the LM Plan Company Stock Fund and/or the Sandia Plan Company Stock Fund in a Lockheed Martin Savings Plan or Sandia Savings Plan account and you wish to withdraw shares attributable to the units that you have tendered, you must withdraw such shares by the deadline set forth in the trustee s or the independent fiduciary s instructions, as applicable, and it is possible that such deadline may occur before the final exchange ratio has been determined. You should refer to the procedures and deadlines set forth in the trustee s or the independent fiduciary s informational materials provided to you, as applicable. If you hold units of the ESOP Fund, the LM Plan Company Stock Fund and/or the Sandia Plan Company Stock Fund in a Lockheed Martin Savings Plan or Sandia Savings Plan account, the trustee or the independent fiduciary, as applicable, must deliver the notice of withdrawal with respect to any shares you wish to withdraw, and you will not be able to provide a notice of withdrawal for such shares directly to the exchange agent.

If certificates have been delivered or otherwise identified to the exchange agent, the name of the registered holder and the serial numbers of the particular certificates evidencing the shares of Lockheed Martin common stock must also be furnished to the exchange agent, as stated above, prior to the physical release of the certificates. If shares of Lockheed Martin common stock have been tendered pursuant to the procedures for book-entry tender discussed in the section entitled Procedures for Tendering, any notice of withdrawal must specify the name and number of the account at The Depository Trust Company to be credited with the withdrawn shares and must otherwise comply with the procedures of The Depository Trust Company. Withdrawn shares held in certificated form will be returned to the holders in the form of book-entry shares in DRS.

Lockheed Martin will decide all questions as to the form and validity (including time of receipt) of any notice of withdrawal, in its sole discretion, and its decision will be final and binding. Neither Lockheed Martin nor the exchange agent, the information agent nor any other person will be under any duty to give notification of any defects or irregularities in any notice of withdrawal or will incur any liability for failure to give any notification.

Any shares of Lockheed Martin common stock properly withdrawn will be deemed not to have been validly tendered for purposes of this exchange offer. However, you may re-tender withdrawn shares of Lockheed Martin common stock by following one of the procedures discussed in the section entitled Procedures for Tendering at any time prior to the expiration of this exchange offer (or pursuant to the instructions sent to you separately).

Except for the withdrawal rights described above, any tender made under this exchange offer is irrevocable.

Withdrawing Your Shares After the Final Exchange Ratio Has Been Determined

The final exchange ratio will be available no later than 9:00 a.m., New York City time, on the second trading day prior to the expiration date of this exchange offer. If you are a registered stockholder of Lockheed Martin common stock (which includes persons holding certificated shares and book-entry shares held through DRS or CDI Shares) and you wish to withdraw your shares after the final exchange ratio has been determined, then you must deliver a written notice of withdrawal or facsimile transmission notice of withdrawal to the exchange agent prior to 8:00 a.m., New York City time, on the expiration date. Medallion guarantees will not be required for such withdrawal notices. If you hold shares of Lockheed Martin common stock through a broker, dealer, commercial bank, trust company or similar institution, any notice of withdrawal must be delivered by that institution on your behalf.

The Depository Trust Company is expected to remain open until 5:00 p.m., New York City time, on the last trading day prior to the expiration date and institutions may be able to process withdrawals of Lockheed Martin common stock through The Depository Trust Company during that time (although there can be no assurance that this will be the case). Once The Depository Trust Company has closed, if you beneficially own shares of Lockheed Martin common stock that were previously delivered through The Depository Trust Company, to properly withdraw your shares the institution through which your shares are held must deliver a written notice of withdrawal or facsimile transmission notice of withdrawal to the exchange agent prior to 8:00 a.m., New York City time, on the expiration date. Such notice of withdrawal must be in the form of The Depository Trust Company s notice of withdrawal, must specify the name and number of the account at The Depository Trust Company to be credited with the withdrawn shares and must otherwise comply with The Depository Trust Company s procedures. Shares can be properly withdrawn only if the exchange agent receives a withdrawal notice directly from the relevant institution that tendered the shares through The Depository Trust Company.

If you hold units of the ESOP Fund, the LM Plan Company Stock Fund and/or the Sandia Plan Company Stock Fund in a Lockheed Martin Savings Plan or Sandia Savings Plan account and you wish to withdraw shares attributable to the units that you have tendered, you must withdraw such shares by the deadline set forth in the trustee s or the independent fiduciary s instructions, as applicable, and it is possible that such deadline may occur before the final exchange ratio has been determined. You should refer to the procedures and deadlines set forth in Computershare s or Evercore Trust s informational materials provided to you, as applicable. The trustee or the independent fiduciary, as applicable, must deliver the notice of withdrawal with respect to any shares you wish to withdraw, and you will not be able to provide a notice of withdrawal for such shares directly to the exchange agent.

*Book-entry Account*s

Certificates representing shares of Splitco common stock will not be issued to Lockheed Martin stockholders pursuant to this exchange offer. Rather than issuing certificates representing such shares of Splitco common stock to tendering Lockheed Martin stockholders, the exchange agent will cause shares of Splitco common stock to be credited to records maintained by the exchange agent for the benefit of the respective holders. Immediately following the consummation of this exchange offer, the Merger will occur and Merger Sub will be merged with and into Splitco and each share of Splitco common stock will be converted into the right to receive one share of Leidos common stock and cash in lieu of fractional shares. In connection with this exchange offer, you will receive a letter of transmittal and instructions for use in effecting surrender of any certificates in exchange for Leidos common stock and cash in lieu of fractional shares. As promptly as practicable following the Merger and Lockheed Martin s notice and determination of the final proration factor, if any, Leidos transfer agent will credit the shares of Leidos common stock into which the shares of Splitco common stock have been converted to book-entry accounts maintained for the benefit of the Lockheed Martin stockholders who received shares of Splitco common stock in the exchange offer or as a *pro rata* distribution, if any, and will send these holders a statement evidencing their holdings of shares of Leidos common stock.

Extension; Termination; Amendment

Extension, Termination or Amendment by Lockheed Martin

Lockheed Martin expressly reserves the right, in its sole discretion, at any time and from time to time to extend the period of time during which this exchange offer is open and thereby delay acceptance for payment of, and the payment for, any shares of Lockheed Martin common stock validly tendered and not properly withdrawn in this exchange offer. For example, this exchange offer can be extended if any of the conditions for the consummation of this exchange offer described in the next section entitled Conditions for the Consummation of this Exchange Offer are not satisfied or waived prior to the expiration of this exchange offer.

Lockheed Martin expressly reserves the right, in its sole discretion, to amend the terms of this exchange offer in any respect prior to the expiration date, except that Lockheed Martin does not intend to extend this exchange offer other than in the circumstances described above. Lockheed Martin also expressly reserves the right, in its sole discretion, to terminate this exchange offer without the exchange of shares if it determines, subject to satisfaction of the conditions for the consummation of the Transactions, to distribute all shares of Splitco common stock owned by Lockheed Martin on a *pro rata* basis to Lockheed Martin stockholders, with a record date to be announced by Lockheed Martin.

If Lockheed Martin materially changes the terms of or information concerning this exchange offer or if Lockheed Martin waives a material condition of this exchange offer, it will extend this exchange offer if required by law. The SEC has stated that, as a general rule, it believes that an offer should remain open for a minimum of five business days from the date that notice of the material change is first given or in the event there is a waiver of a material condition to the exchange offer. The length of time will depend on the particular facts and circumstances.

Table of Contents

As required by law, this exchange offer will be extended so that it remains open for a minimum of ten business days following the announcement if:

- Lockheed Martin changes the method for calculating the number of shares of Splitco common stock offered in exchange for each share of Lockheed Martin common stock; and
- this exchange offer is scheduled to expire within ten business days of announcing any such change.

If Lockheed Martin extends this exchange offer, is delayed in accepting for exchange any shares of Lockheed Martin common stock or is unable to accept for exchange any shares of Lockheed Martin common stock under this exchange offer for any reason, then, without affecting Lockheed Martin s rights under this exchange offer, the exchange agent may retain all shares of Lockheed Martin common stock tendered on Lockheed Martin s behalf. These shares of Lockheed Martin common stock may not be withdrawn except as provided in the section entitled Withdrawal Rights.

Lockheed Martin s reservation of the right to delay acceptance of any shares of Lockheed Martin common stock is subject to applicable law, which requires that Lockheed Martin pay the consideration offered or return the shares of Lockheed Martin common stock deposited promptly after the termination or withdrawal of this exchange offer.

Lockheed Martin will issue a press release or other public announcement no later than 9:00 a.m., New York City time, on the next business day following any extension, amendment, non-acceptance or termination of the previously scheduled expiration date.

Method of Public Announcement

Subject to applicable law (including Rules 13e-4(d), 13e-4(e)(3) and 14e-1 under the Exchange Act, which require that any material change in the information published, sent or given to stockholders in connection with this exchange offer be promptly disclosed to stockholders in a manner reasonably designed to inform them of the change) and without limiting the manner in which Lockheed Martin may choose to make any public announcement, Lockheed Martin assumes no obligation to publish, advertise or otherwise communicate any such public announcement other than by making a release to Business Wire.

Conditions for the Consummation of this Exchange Offer

Lockheed Martin will not be required to complete this exchange offer and may extend or terminate this exchange offer, if, at the scheduled expiration date any of the following conditions or events has occurred, or Lockheed Martin reasonably expects any of the following conditions or events to occur:

- any of the Joint Conditions to the Merger or Additional Conditions to the Merger for Lockheed Martin s Benefit referenced in The Merger Agreement Conditions to the Merger have not been satisfied or waived, as applicable, or for any reason the Transactions (other than this exchange offer) cannot be consummated promptly after consummation of this exchange offer;
- the Merger Agreement or the Separation Agreement has been terminated;

any condition or event that Lockheed Martin reasonably believes would or would be likely to cause this exchange offer and/or any *pro rata* dividend of Splitco common shares distributed to Lockheed Martin stockholders if this exchange offer is undersubscribed to be taxable to Lockheed Martin or its stockholders under U.S. federal income tax laws;

any injunction, order, stay, judgment or decree is issued by any court, government, governmental authority or other regulatory or administrative authority having jurisdiction over Lockheed Martin, Splitco or Leidos and is in effect, or any law, statute, rule, regulation, legislation, interpretation, governmental order or injunction will have been enacted or enforced, any of which would reasonably be likely to restrain, prohibit or delay consummation of this exchange offer;

any proceeding for the purpose of suspending the effectiveness of the registration statement of which this document is a part has been initiated by the SEC and not concluded or withdrawn;

any general suspension of trading in, or limitation on prices for, securities on any national securities exchange or in the over-the-counter market in the United States;

any extraordinary or material adverse change in U.S. financial markets generally, including, but not limited to, a decline of at least 15 percent in the Standard & Poor s (S&P) Aerospace & Defense Index, the S&P MidCap 400 Index, the S&P North American Technology Services Index or the S&P 500 Index within a period of 60 consecutive days or less occurring after the commencement of the exchange offer;

a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States;

a commencement of a war (whether declared or undeclared), armed hostilities or other national or international calamity or act of terrorism, directly or indirectly involving the United States, which would reasonably be expected to affect materially and adversely, or to delay materially, the consummation of this exchange offer, or if any of these situations exists as of the commencement of this exchange offer, any material deterioration of such situation;

any action, litigation, suit, claim or proceeding is instituted that would be reasonably likely to enjoin, prohibit, restrain, make illegal, make materially more costly or materially delay the consummation of this exchange offer;

any condition or event that, individually or in the aggregate, has had or would reasonably be expected to have a material adverse effect on the business, assets, properties, condition (financial or otherwise) or results of operations of Lockheed Martin, Splitco or Leidos; or

a market disruption event (as defined below) occurs with respect to shares of Lockheed Martin common stock or Leidos common stock on any of the Valuation Dates and such market disruption event has, in Lockheed Martin s reasonable judgment, impaired the benefits of this exchange offer.

Each of the foregoing conditions to the consummation of the exchange offer is independent of any other condition; the exclusion of any event from a particular condition above does not mean that such event may not be included in another condition. If any of the above events occurs, Lockheed Martin may:

terminate this exchange offer and promptly return all tendered shares of Lockheed Martin common stock to tendering stockholders;

extend this exchange offer and, subject to the withdrawal rights described in the section entitled This Exchange Offer Terms of this Exchange Offer Withdrawal Rights, retain all tendered shares of Lockheed Martin common stock until the extended exchange offer expires;

amend the terms of the exchange offer; or

waive or amend any unsatisfied condition and, subject to any requirement to extend the period of time during which this exchange offer is open, complete this exchange offer.

These conditions are for the sole benefit of Lockheed Martin. Lockheed Martin may assert these conditions with respect to all or any portion of this exchange offer regardless of the circumstances giving rise to them (except any action or inaction by Lockheed Martin). Lockheed Martin expressly reserves the right, in its sole discretion, to waive any condition in whole or in part at any time. Lockheed Martin s failure to exercise its rights under any of the above conditions does not represent a waiver of these rights (provided that the right has not otherwise become exercisable). Each right is an ongoing right which may be asserted at any time prior to the expiration of this exchange offer. All conditions for consummation of this exchange offer must be satisfied or waived by Lockheed Martin prior to the expiration of this exchange offer. Leidos has no right to waive any conditions to this exchange offer, provided that the ability of Lockheed Martin to waive certain conditions, including certain conditions relating to the Merger Agreement, may require the consent of Leidos.

A market disruption event with respect to either Lockheed Martin common stock or Leidos common stock means a suspension, absence or material limitation of trading of Lockheed Martin common stock or Leidos common stock on the NYSE for more than two hours of trading or a breakdown or failure in the price and trade reporting systems of the NYSE as a result of which the reported trading prices for Lockheed Martin common stock or Leidos common stock on the NYSE during any half-hour trading period during the principal trading session in the NYSE are materially inaccurate, as determined by Lockheed Martin in its sole discretion or the exchange agent in its sole discretion, on the day with respect to which such determination is being made. For purposes of such determination, a limitation on the hours or number of days of trading will not constitute a market disruption event if it results from an announced change in the regular business hours of the NYSE.

Material U.S. Federal Income Tax Consequences of the Distribution and the Merger

The following are the material U.S. federal income tax consequences of the Distribution and Merger to U.S. Holders (as defined below) of Lockheed Martin common stock. This discussion is based on the Code, applicable Treasury regulations, administrative interpretations and court decisions as in effect as of the date of this registration statement, all of which may change, possibly with retroactive effect. For purposes of this discussion, a U.S. Holder is a beneficial owner of Lockheed Martin common stock that is for U.S. federal income tax purposes:

- a citizen or resident of the United States;

- a corporation, or other entity taxable as a corporation for U.S. federal tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof;

Table of Contents

- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (i) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) the trust has a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes.

This discussion assumes that U.S. Holders of Lockheed Martin common stock hold such stock as a capital asset (generally, assets held for investment). It does not address all aspects of U.S. federal income taxation that may be important to a U.S. Holder in light of that stockholder s particular circumstances or to a U.S. Holder subject to special rules, such as:

- a financial institution, regulated investment company or insurance company;
- a tax-exempt organization;
- a dealer or broker in securities, commodities or foreign currencies;
- a stockholder that holds Lockheed Martin common stock as part of a hedge, appreciated financial position, straddle, conversion, or other risk reduction transaction;
- a stockholder that holds Lockheed Martin common stock in a tax-deferred account, such as an individual retirement account or a plan qualifying under Section 401(k) of the Code; or
- a stockholder that acquired Lockheed Martin common stock pursuant to the exercise of options or similar derivative securities or otherwise as compensation.

If a partnership, or any entity or arrangement treated as a partnership for U.S. federal tax purposes, holds Lockheed Martin common stock, the tax treatment of a partner in such partnership generally will depend on the status of the partners and the activities of the partnership. A partner in a partnership holding Lockheed Martin common stock should consult its own tax advisor.

This discussion of material U.S. federal income tax consequences does not address all potential U.S. federal income tax consequences of the Distribution and Merger, including consequences that may depend on individual circumstances. In addition, it does not address any estate or gift or other non-income tax consequences or any foreign, state or local tax consequences of the Distribution and Merger. **Each holder of Lockheed Martin common stock should consult its own tax advisor to determine the particular U.S. federal, state or local or foreign income or other tax consequences of the Distribution and Merger to such holder.**

Tax Opinions

The consummation of the Distribution, the Merger and certain related transactions are conditioned upon (i) Lockheed Martin s receipt of an opinion from its tax counsel substantially to the effect that the Distribution, together with certain related transactions, will qualify as a tax-free reorganization within the meaning of Section 368(a)(1)(D) of the Code and a tax-free distribution within the meaning of Section 355 of the Code and that the Lockheed Martin Cash Distribution will qualify as money distributed to Lockheed Martin creditors or stockholders in connection with the reorganization for purposes of Section 361(b) of the Code, and (ii) Lockheed Martin s and Leidos receipt of opinions from their respective tax counsel, in each case, substantially to the effect that the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code (the Tax Opinions). In rendering the Tax Opinions, tax counsel will rely on (i) customary representations and covenants made by Lockheed Martin, Splitco and Leidos, and (ii) specified assumptions, including an assumption regarding the completion of the Distribution, Merger and certain related transactions in the manner contemplated by the transaction agreements. In addition, tax counsels ability to provide the Tax Opinions will depend on the absence of changes in existing facts or law between the date of this registration statement and the closing date of the Merger. If any of those representations, covenants or assumptions is inaccurate, tax counsel may not be able to provide the Tax Opinions or the tax consequences of the Distribution and Merger could differ from those described below. An opinion of tax counsel neither binds the IRS, nor precludes the IRS or the courts from adopting a contrary position. Lockheed Martin does not intend to obtain a ruling from the IRS on the tax consequences of the Distribution, Merger or Lockheed Martin Cash Distribution.

The Distribution

On the basis that the Distribution, together with certain related transactions, will qualify as a tax-free reorganization within the meaning of Section 368(a)(1)(D) of the Code and a tax-free distribution within the meaning of Section 355 of the Code, in general, for U.S. federal income tax purposes:

the Distribution will not result in the recognition of income, gain or loss to Lockheed Martin or Splitco (except for taxable income or gain of Lockheed Martin possibly arising as a result of certain internal restructuring transactions undertaken prior to or in anticipation of the Distribution);

U.S. Holders of Lockheed Martin common stock will not recognize income, gain or loss upon the receipt of Splitco common stock in this exchange offer (or in any *pro rata* distribution of Splitco common stock if this exchange offer is undersubscribed or if Lockheed Martin determines not to consummate the exchange offer and makes only a *pro rata* distribution of Splitco common stock);

the aggregate tax basis of the shares of Splitco common stock (including fractional shares) distributed to a U.S. Holder of Lockheed Martin common stock in the exchange offer will equal the aggregate tax basis of the shares of Lockheed Martin common stock exchanged therefor;

the aggregate tax basis of the shares of Splitco common stock (including fractional shares) distributed as a *pro rata* distribution to a U.S. Holder of Lockheed Martin common stock will be determined by allocating the aggregate tax basis of such U.S. Holder in the shares of Lockheed Martin common stock with respect to which the *pro rata* distribution is made between such Lockheed Martin common stock and the Splitco common stock received in proportion to the relative fair market values of such common stock immediately following the Distribution; and

the holding period (for tax purposes) of any shares of Splitco common stock received (including any fractional shares of Splitco common stock) by a U.S. Holder of Lockheed Martin common stock will include the holding period at the time of the consummation of this exchange offer of the shares of Lockheed Martin common stock with respect to which the shares of Splitco common stock were received.

In general, if the Distribution were not to qualify as a tax-free reorganization within the meaning of Section 368(a)(1)(D) of the Code and a tax-free distribution within the meaning of Section 355 of the Code, the exchange offer would be treated as a taxable exchange to Lockheed Martin stockholders who receive Splitco common stock in the exchange offer. In that situation, a *pro rata* distribution of Splitco common stock if this exchange offer is undersubscribed or if Lockheed Martin determines not to consummate the exchange offer and makes only a *pro rata* distribution of Splitco common stock would be treated as a taxable dividend to Lockheed Martin stockholders. In addition, if the Distribution were not to qualify as a tax-free transaction under Sections 368(a)(1)(D) and 355 of the Code, Lockheed Martin would recognize taxable gain, which could result in significant tax to Lockheed Martin.

Even if the Distribution were otherwise to qualify as a tax-free transaction under Sections 368(a)(1)(D) and 355 of the Code, the Distribution would be taxable to Lockheed Martin (but not to Lockheed Martin stockholders) pursuant to Section 355(e) of the Code if there were a 50 percent or greater change in ownership of either Lockheed Martin or Splitco, directly or indirectly (including stock of Leidos after the Merger), as part of a plan or series of related transactions that included the Distribution. For this purpose, any acquisitions of Lockheed Martin or Splitco common stock within the period beginning two years before the Distribution and ending two years after the Distribution are presumed to be part of such a plan, although Lockheed Martin may be able to rebut that presumption. For purposes of this test, the Merger will be treated as part of a plan, but the Merger standing alone will not cause the Distribution to be taxable to Lockheed Martin under Section 355(e) of the Code because holders of Lockheed Martin common stock will directly own more than 50 percent of Leidos common stock following the Merger. Nevertheless, if the IRS were to determine that other acquisitions of Lockheed Martin common stock or Splitco common stock, either before or after the Distribution, were part of a plan or series of related transactions that included the Distribution, such determination could result in the recognition of a material amount of taxable gain by Lockheed Martin under Section 355(e) of the Code. In connection with the Tax Opinion, Lockheed Martin, Splitco and Leidos (to its knowledge) have represented (and will represent) that the Distribution is not part of any such plan or series of related transactions other than the Merger.

In general, under the Tax Matters Agreement, Leidos is required to indemnify Lockheed Martin against any tax consequences arising as a result of certain prohibited actions by Leidos, Splitco or their respective subsidiaries. If the Distribution were to be taxable to Lockheed Martin, the liability for payment of such tax by Lockheed Martin, or by Leidos under the Tax Matters Agreement, could have a material adverse effect on Lockheed Martin or Leidos, as the case may be.

The Merger

The Merger is intended to qualify as a tax-free reorganization within the meaning of Section 368(a) of the Code. On the basis of such treatment and subject to the limitations and qualifications described herein, in general, for U.S. federal income tax purposes:

- U.S. Holders of Splitco common stock will not recognize income, gain or loss upon the receipt of Leidos common stock in the Merger, except for any gain or loss recognized with respect to cash received in lieu of a fractional share of Leidos common stock;

- the aggregate tax basis of Leidos common stock received by a U.S. Holder of Splitco common stock in the Merger (including fractional shares of Leidos common stock deemed received and redeemed as described below) will be the same as the aggregate tax basis of the Splitco common stock for which it is exchanged;

the holding period (for tax purposes) of Leidos common stock received in exchange for shares of Splitco common stock (including fractional shares of Leidos common stock deemed received and redeemed as described below) will include the holding period of the Splitco common stock for which it is exchanged;

a U.S. Holder of Splitco common stock who receives cash in lieu of a fractional share of Leidos common stock will be treated as having received the fractional share pursuant to the Merger and then as having sold that fractional share for cash. As a result, such U.S. Holder of Splitco common stock will recognize gain or loss equal to the difference between the amount of cash received and the tax basis in his or her fractional share, determined as set forth above; and

any gain or loss recognized by a U.S. Holder described above will generally be capital gain or loss, and will be long-term capital gain or loss if, as of the closing date of the Merger, the holder s holding period for the relevant shares is greater than one year. For U.S. Holders of Splitco common stock that are noncorporate U.S. Holders, long-term capital gain generally will be taxed at a U.S. federal income tax rate that is lower than the rate for ordinary income or for short-term capital gains. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding

U.S. Treasury regulations generally require holders who own at least five percent of the total outstanding stock of Lockheed Martin (by vote or value) and who receive Splitco common stock pursuant to the Distribution and holders who own at least one percent of the total outstanding stock of Splitco and who receive Leidos common stock pursuant to the Merger to attach to their U.S. federal income tax return for the year in which the Distribution and the Merger occur a detailed statement setting forth certain information relating to the tax-free nature of the Distribution and the Merger, as the case may be. Lockheed Martin and/or Splitco will provide the appropriate information to each holder upon request, and each such holder is required to retain permanent records of this information.

In addition, payments of cash to a U.S. Holder of Splitco common stock in lieu of a fractional share of Leidos common stock in the Merger may be subject to information reporting, unless the U.S. Holder provides the withholding agent with proof of an applicable exemption. Payments that are subject to information reporting may also be subject to backup withholding, unless such U.S. Holder provides the withholding agent with a correct taxpayer identification number and otherwise complies with the requirements of the backup withholding rules. Backup withholding does not constitute an additional tax, but merely an advance payment, which may be refunded or credited against a U.S. Holder s U.S. federal income tax liability, provided the required information is timely supplied to the IRS.

Treatment of Specified Lockheed Martin Compensatory Equity-Based and Cash-Based Awards Held by Splitco Business Employees

Each Lockheed Martin stock option held by a Splitco Business Employee or Former Splitco Business Employee and outstanding as of the effective time of the Merger will remain outstanding as an option to acquire shares of Lockheed Martin common stock and will be governed by the terms and conditions of the applicable Lockheed Martin equity incentive plan and the relevant award agreement. Currently, there are no outstanding unvested Lockheed Martin options held by a Splitco Business Employee or Former Splitco Business Employee.

Each Lockheed Martin restricted stock unit in respect of an award made by Lockheed Martin prior to January 1, 2016, that is held by a Splitco Business Employee and outstanding as of the effective time of the Merger, will vest and be converted into shares of Lockheed Martin common stock in accordance with the terms and conditions of the 2011

IPAP and the relevant award agreement. Such shares of Lockheed Martin common stock will not be eligible to participate in this exchange offer since they will not be issued until after the expiration of this exchange offer. Each Lockheed Martin restricted stock unit held by a Splitco Business Employee who is employed by Splitco or a Splitco Subsidiary immediately after the Merger in respect of an award made by Lockheed Martin on or after January 1, 2016, will be converted in accordance with the terms of the Merger Agreement into a specified number of Leidos restricted stock units on the same terms and conditions that governed such Lockheed Martin restricted stock units immediately prior to the Merger.

Each Lockheed Martin performance share unit and each Lockheed Martin cash-based long-term incentive performance award held by a Splitco Business Employee and outstanding as of the effective time of the Merger will remain outstanding as a Lockheed Martin performance stock unit or long-term incentive performance award, will be eligible to vest on a *pro rata* basis in accordance with the terms and conditions of the 2011 IPAP and the relevant award agreement and will be entitled, subject to satisfaction of the performance criteria in the relevant award agreement, to convert to shares of Lockheed Martin common stock, in the case of performance share units, or to become payable in cash, in the case of long-term incentive performance awards, following the end of the applicable performance period based on the terms and conditions of the 2011 IPAP and the relevant award agreement. Shares of Lockheed Martin common stock attributable to the performance share units will not be eligible to participate in this exchange offer since they will not be issued until after the expiration of this exchange offer.

Table of Contents

Any changes to these equity-based awards as described in this section shall confer no additional rights on any recipient to participate in this exchange offer, except to the extent that such awards have vested (in the case of stock awards) and/or been exercised (in the case of options) and only to the extent that the applicable shares of Lockheed Martin stock have been settled and delivered to the recipient.

Fees and Expenses

Lockheed Martin has retained Georgeson LLC to act as the information agent and Computershare Trust Company, N.A. to act as the exchange agent in connection with this exchange offer. The information agent may contact Lockheed Martin stockholders by mail, e-mail, telephone, facsimile transmission and may request brokers, dealers and other nominee stockholders to forward materials relating to this exchange offer to beneficial owners. The information agent and the exchange agent each will receive reasonable compensation for their respective services, will be reimbursed for reasonable out-of-pocket expenses and will be indemnified against specified liabilities in connection with their services, including certain liabilities under the federal securities laws.

Neither the information agent nor the exchange agent has been retained to make solicitations or recommendations with respect to this exchange offer. The fees they receive will not be based on the number of shares of Lockheed Martin common stock tendered under this exchange offer.

Lockheed Martin will not pay any fees or commissions to any broker or dealer or any other person for soliciting tenders of Lockheed Martin common stock under this exchange offer. Lockheed Martin will, upon request, reimburse brokers, dealers, commercial banks and trust companies for reasonable and necessary costs and expenses incurred by them in forwarding materials to their customers.

No broker, dealer, bank, trust company or fiduciary will be deemed to be Lockheed Martin s agent or the agent of Splitco, the information agent or the exchange agent for purposes of this exchange offer.

Legal Limitations

This document is not an offer to sell or exchange and it is not a solicitation of an offer to buy any shares of Lockheed Martin common stock, Splitco common stock or Leidos common stock in any jurisdiction in which the offer, sale or exchange is not permitted. It will not be possible to trade the shares of Splitco common stock after the consummation of this exchange offer and prior to the consummation of the Merger or during any other period.

Certain Matters Relating to Non-U.S. Jurisdictions

Countries outside the United States generally have their own legal requirements that govern securities offerings made to persons resident in those countries and often impose stringent requirements about the form and content of offers made to the general public. None of Lockheed Martin, Splitco or Leidos have taken any action under non-U.S. regulations to facilitate a public offer to exchange shares of Lockheed Martin common stock, Splitco common stock or Leidos common stock outside the United States. Accordingly, the ability of any non-U.S. person or U.S. person residing outside of the United States to tender shares of Lockheed Martin common stock in the exchange offer will depend on whether there is an exemption available under the laws of such person s home country or country of residence, as applicable, that would permit the person to participate in the exchange offer without the need for Lockheed Martin, Leidos or Splitco to take any action to facilitate a public offering in that country. For example, some countries exempt transactions from the rules governing public offerings if they involve persons who meet certain eligibility requirements relating to their status as sophisticated or professional investors.

Non-U.S. stockholders and U.S. stockholders residing outside of the United States should consult their advisors in considering whether they may participate in the exchange offer in accordance with the laws of their home countries or countries of residence, as applicable, and, if they do participate, whether there are any restrictions or limitations on transactions in the shares of Lockheed Martin common stock, Splitco common stock or Leidos common stock that may apply in such countries. Lockheed Martin, Leidos and Splitco cannot provide any assurance about whether such limitations may exist.

Distribution of Any Shares of Splitco Common Stock Remaining After this Exchange Offer

If this exchange offer is consummated but fewer than all of the issued and outstanding shares of Splitco common stock are exchanged because the exchange offer is not fully subscribed, Lockheed Martin will distribute the remaining shares of Splitco common stock on a *pro rata* basis to Lockheed Martin stockholders whose shares of Lockheed Martin common stock remain outstanding after the consummation of this exchange offer. The record date for the *pro rata* distribution, if any, will be announced by Lockheed Martin. However, any Lockheed Martin stockholder who tendered less than all of their shares of Lockheed Martin common stock would be entitled to shares of Splitco common stock distributed on a *pro rata* basis to Lockheed Martin stockholders in respect of those shares that were not tendered.

Upon the consummation of this exchange offer, Lockheed Martin will irrevocably deliver to the exchange agent a global certificate representing all of the Splitco common stock being distributed by Lockheed Martin, with irrevocable instructions to hold the shares of Splitco common stock as agent for the Lockheed Martin stockholders validly tendered and not properly withdrawn in the exchange offer and, in the case of a *pro rata* distribution, if any, Lockheed Martin stockholders whose shares of Lockheed Martin common stock remain outstanding after the consummation of the exchange offer. Leidos will deposit in a reserve account with its transfer agent, for the benefit of persons who received shares of Splitco common stock in this exchange offer, book-entry authorizations representing shares of Leidos common stock, with irrevocable instructions to hold the shares of Leidos common stock upon consummation of the Merger as agent for the Splitco stockholders.

Upon surrender of the documents required by the exchange agent, duly executed, each former holder of Splitco common stock will receive, in exchange therefor, shares of Leidos common stock and/or cash in lieu of fractional shares, as the case may be. You will not receive any interest on any cash paid to you, even if there is a delay in making the payment. See This Exchange Offer Terms of this Exchange Offer Exchange of Shares of Lockheed Martin Common Stock.

If this exchange offer is terminated by Lockheed Martin without the exchange of shares, but the conditions for the consummation of the Transactions have otherwise been satisfied, Lockheed Martin intends to distribute all shares of Splitco common stock owned by Lockheed Martin on a *pro rata* basis to Lockheed Martin stockholders, with a record date to be announced by Lockheed Martin.

Table of Contents

INFORMATION ON LEIDOS

Overview

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 its founding 47 years ago, Leidos has applied its 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 infrastructure markets. It brings domain-specific capability and cross-market innovations to customers in each of these markets by leveraging five core capabilities: C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance), cybersecurity, systems engineering, large-scale agile software development and data analytics. Applying its technically advanced solutions to help solve its customers most difficult problems has enabled Leidos to build strong relationships with its key customers. These customers include agencies of the U.S. Department of Defense, the intelligence community, the U.S. Department of Homeland Security, 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 percent of its total revenues from U.S. Government contracts. A majority of that work supports the U.S. Intelligence Community.

Building on its 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 its solutions to the particular needs of its targeted markets, and using advanced analytics, Leidos works to securely deliver solutions that not only meet its customers current goals, but also support their future endeavors.

For a more detailed description of the business of Leidos, see Leidos Transition Report on Form 10-K for the 11-month period ended January 1, 2016, which is incorporated by reference in this document. See Where You Can Find More Information; Incorporation by Reference.

Leidos Business After the Consummation of the Transactions

The combination of the Splitco Business with Leidos existing business is intended to add large, complex IT system implementation and operation experience, and additional federal and international IT solutions and services work to the Leidos portfolio, providing more venues to sell value added services such as cybersecurity and analytics.

Leidos expects the Transactions to have the following strategic benefits:

Increased scale and diversification of Leidos product portfolio. As a result of the Transactions, Leidos expects the combined business to become the largest pure-play IT services provider to the U.S. Government with approximately $10 billion in revenue and 33,000 skilled employees.

Complementary Market Access and Capabilities. The Splitco Business will contribute to Leidos experience in large, complex IT systems design, implementation and operation. The combined business will add federal and international IT solutions and services work in areas that complement Leidos existing business with minimal overlap.

Synergies. The consummation of the Transactions is expected to generate annualized net cost synergies of approximately $120 million by the end of fiscal year 2018. The combination of the Splitco Business with Leidos will also generate long-term revenue synergies and enhance competitiveness.

Improved Financial Profile. The consummation of the Transactions will enhance Leidos margins and revenue growth opportunities with strong free cash flow generation.

Prior to the consummation of the Transactions, certain functions (such as telecommunication systems, subcontracting, logistics, financial services and employee benefits administration) for the Splitco Business have generally been performed under Lockheed Martin s centralized systems and, in some cases, under contracts that are also used for Lockheed Martin s other businesses which are not being assigned to Splitco as part of the Transactions. To enable Leidos to manage an orderly transition in its operation of the Splitco Business, Splitco and Lockheed Martin will enter into the Transition Services Agreement (Parent to Splitco). Pursuant to the Transition Services Agreement (Parent to Splitco), Lockheed Martin will provide Splitco with certain transition services from the period beginning on the date of the Distribution and generally ending within one year, or a shorter or longer period for certain specific services. See Other Agreements Additional Agreements Transition Services Agreements.

Leidos Liquidity and Capital Resources After the Consummation of the Transactions

As of January 1, 2016, Leidos had total assets of $3,377 million, current liabilities of $1,040 million and long-term debt of $1,086 million. Following the consummation of the Transactions, Leidos total assets and liabilities will increase significantly.

Table of Contents

As of January 1, 2016, on a pro forma basis (as described in Unaudited Pro Forma Combined Consolidated Financial Statements and Supplemental Combined Consolidated Statement of Income), Leidos would have had total assets of $9,387 million, current liabilities of $1,940 million and long-term debt, net of current portion, of $3,479 million. Leidos cash from operations was $399 million for the 11 months ended January 1, 2016. Leidos also expects its cash from operations to increase significantly as a result of the consummation of the Transactions and the integration of Splitco.

Leidos believes that the combination of Splitco with Leidos existing business will result in anticipated annualized net cost synergies of at least $120 million by the end of fiscal year 2018 as a result of (i) approximately $50 million in expected savings from corporate overheads and shared enterprise services, (ii) approximately $60 million in expected savings from improved operating efficiencies in its line and functional organizations, and (iii) approximately $10 million in expected savings from real estate optimization, supply chain and other cost savings. If Leidos is able to increase sales to new and existing customers and access new product and services markets as a result of the Transactions, Leidos estimates that additional annualized synergies may potentially be achievable within three years from the consummation of the Transactions.

Leidos expects to incur significant, one-time costs, some of which will be capitalized, in connection with the Transactions, including approximately (a) $29 million of financing-related fees (which, when added to the approximately $43 million that Splitco expects to incur, totals approximately $72 million), (b) $30 million of transaction-related costs, including advisory, legal, accounting and other professional fees and (c) $150 million to $175 million of transition and integration-related costs, a portion of which will be incremental capital spending, which Leidos management believes are necessary to realize the anticipated synergies from the Transactions. The financing fees and transaction-related costs are expected to be incurred in 2016 and will primarily be funded through new term loans issued in connection with the Transactions. The transition and integration-related costs will be incurred during the first three years following the consummation of the Transactions, and will primarily be funded through cash generated from operations. Management expects to recover approximately $50 million to $70 million of the transition and integration-related costs as allowable costs through its cost-type contracts over a five-year period. No assurances of the timing or amount of synergies able to be captured, or the costs necessary to achieve those synergies, can be provided.

Following the consummation of the Transactions, Leidos and Splitco, a wholly-owned subsidiary of Leidos, will have incurred new indebtedness in the form of term loans, of which the indebtedness incurred by Splitco prior to the consummation of the Merger will be used to finance the Special Cash Payment to Lockheed Martin, and these obligations incurred by Splitco are expected to be guaranteed by Leidos following the consummation of the Merger. In connection with the Transactions, Leidos has entered into the Leidos Revolving Credit Facility, which will replace Leidos existing revolving credit facility with a new $750 million senior revolving credit facility.

Leidos anticipates that its primary sources of liquidity for working capital and operating activities, including any future acquisitions, will be cash from operations and borrowings under the Leidos Revolving Credit Facility. Leidos expects that these sources of liquidity will be sufficient to make required payments of interest and principal on the outstanding Leidos debt and to fund working capital and capital expenditure requirements, including the significant one-time costs relating to the Transactions described above. Leidos expects that it will be able to comply with the financial and other covenants of its existing debt arrangements and the covenants under the agreements governing the Facilities.

For more information on Splitco s and Leidos existing sources of liquidity, see the section of this document entitled Management s Discussion and Analysis of Financial Condition and Results of Operations for the Splitco Business and the sections entitled Management s Discussion and Analysis of Financial Condition and Results of Operations included in Leidos Transition Report on Form 10-K for the 11 months ended January 1, 2016, which is filed with the SEC and incorporated by reference in this document. See Where You Can Find More Information; Incorporation by Reference.

Directors and Officers of Leidos Before and After the Consummation of the Transactions

Board of Directors

The Leidos Board currently consists of 10 directors. In connection with the Transactions, effective at the time of closing of the Merger, the size of the Leidos Board will be increased to no more than 13 directors with three directors to be designated by Lockheed Martin.

Listed below is the biographical information for each person who is currently a member of the Leidos Board:

David G. Fubini, 62, is a Senior Lecturer at Harvard Business School and a Director Emeritus at McKinsey & Company. Previously, he was a Senior Director of McKinsey where he worked for over 33 years. He was McKinsey s Managing Director of the Boston Office, the past leader of the North American Organization Practice and the founder and leader of the Firm s Worldwide Merger Integration Practice.

Table of Contents

John J. Hamre, 65, has served as the President and Chief Executive Officer of the Center for Strategic & International Studies, a public policy research institution, since 2000. Dr. Hamre served as U.S. Deputy Secretary of Defense from 1997 to 2000 and Under Secretary of Defense (Comptroller) from 1993 to 1997. He currently serves as Chairman of the Defense Policy Board Advisory Committee.

Miriam E. John, 67, retired from Sandia National Laboratories, a science and engineering laboratory, in September 2006, after having served as Vice President of Sandia s California Division from April 1999 to September 2006. She previously served in a number of managerial and technical roles for Sandia from 1982 to 1999 that spanned energy, defense, fundamental science and engineering development programs. Dr. John is a member of the Department of Defense s Defense Science Board and Vice Chairman of its Threat Reduction Advisory Committee. She was elected to the AAAS Committee on Science and Public Policy and is the immediate past chair of the National Research Council s Naval Studies Board. She also serves on the boards of a number of federally funded national security laboratories, including MIT Lincoln Lab and the Charles Stark Draper Laboratory, and Sandia Corporation, a subsidiary of Lockheed Martin that operates Sandia National Laboratories for the Department of Energy. She is a Senior Fellow and immediate past Chair of the California Council on Science and Technology. She has also been elected a National Associate of the National Academies and is the recipient of the Navy s Superior Public Service Award.

John P. Jumper, 71, served as Leidos Chief Executive Officer from March 2012 until July 2014 and Chair of the Board from June 2012 to March 2015, after having served as an independent director since 2007. Considered an expert on matters concerning the aerospace and defense sectors, Jumper served as a senior advisor for private equity firms including the Carlyle Group and the Four Star Group. Before joining the private sector in 2005, General Jumper served 39 years in the United States Air Force, retiring as the Air Force Chief of Staff, the Air Force s highest ranking officer, and as a member of the Joint Chiefs of Staff. In that capacity he was a direct advisor to the Secretary of Defense, National Security Council, and the President. Mr. Jumper previously served on the boards of Goodrich Corporation, Jacobs Engineering Group, Inc., WESCO Aircraft Holdings, Inc., Somanetics Corporation and Tech Team Global, Inc. He currently serves on the Board of Directors of NACCO Industries, Inc., and Hyster-Yale Materials Handling, Inc.

Harry M.J. Kraemer, Jr., 61, has been an executive partner of Madison Dearborn Partners, LLC, a private equity investment firm, since April 2005, and has served as a professor at the Kellogg School of Management at Northwestern University since January 2005. Mr. Kraemer previously served as the Chairman of Baxter International, Inc., a healthcare products, systems and services company, from 2000 until 2004, as Chief Executive Officer of Baxter from 1999 until 2004, and as President of Baxter from 1997 until 2004. Mr. Kraemer also served as the Senior Vice President and Chief Financial Officer of Baxter from 1993 to 1997. He previously served on the board of Catamaran Corp. and currently serves on the boards of Sirona Dental Systems, Inc. and VWR International.

Roger A. Krone, 59, has served as Leidos Chief Executive Officer since July 2014 and as the Chair of the Board since March 2015. Prior to his appointment as Leidos Chief Executive Officer, Mr. Krone served as president of Network and Space Systems for The Boeing Company since 2006. Mr. Krone previously held various senior program management and finance positions at Boeing, McDonnell Douglas Corp. and General Dynamics, including vice president and general manager of Boeing s Army Systems division, vice president of strategic programs at Boeing, vice president and treasurer of McDonnell Douglas and positions in program management, engineering and finance at General Dynamics. Mr. Krone earned a bachelor s degree in aerospace engineering from Georgia Institute of Technology, a master s degree in aerospace engineering from the University of Texas at Arlington and a master of business administration from Harvard Graduate School of Business.

Gary S. May, 51, has served as the Dean of the College of Engineering at the Georgia Institute of Technology since June 2011. Prior to this, Dr. May served as the Chair of the School of Electrical and Computer Engineering from 2005 to 2011 and was the executive assistant to Georgia Tech President G. Wayne Clough from 2002 to 2005. May was a National Science Foundation and an AT&T Bell Laboratories graduate fellow and has worked as a member of the technical staff at AT&T Bell Laboratories. He is a member of the National Advisory Board of the National Society of Black Engineers.

Lawrence C. Nussdorf, 69, is Chairman and Chief Executive Officer of Clark Enterprises, Inc., a privately held company with extensive interests in real estate, private equity and traditional investments. He previously served as President and Chief Operating Officer of Clark Enterprises from 1998 to 2015 and as Vice President and Treasurer of Clark Construction Group, LLC from 1977 through 2015. Mr. Nussdorf previously served on the board of Pepco Holdings, Inc. and Capital Source, Inc.

Robert S. Shapard, 60, has served as Chairman and Chief Executive Officer of Oncor Electric Delivery Company LLC since April 2007. He previously served as a strategic advisor to Oncor, helping to implement and execute growth and development strategies. Between March and October 2005, he served as Chief Financial Officer of Tenet Healthcare Corporation, one of the largest for-profit hospital groups in the United States, and was Executive Vice President and Chief Financial Officer of Exelon Corporation, a large electricity generator and utility operator, from 2002 to February 2005. Before joining Exelon, he was Executive Vice President and Chief Financial Officer of Ultramar Diamond Shamrock, a North American refining and marketing company, since 2000.

Table of Contents

Previously, from 1998 to 2000, Mr. Shapard was CEO and managing director of TXU Australia Pty. Ltd., a subsidiary of the former TXU Corp., which owned and operated electric generation, wholesale trading, retail, and electric and gas regulated utility businesses.

Noel B. Williams, 61, is the retired President of HCA Information Technology & Services, Inc., a wholly-owned subsidiary of Nashville-based HCA (Hospital Corporation of America). Ms. Williams has over 35 years of experience in healthcare IT. She spent 30 years in HCA s Information Service Department in a variety of positions. Ms. Williams has previously served on the boards of Franklin Road Academy, the United Way of Middle Tennessee, The Nashville Alliance for Public Education, the National Alliance for Health Information Technology (NAHIT), The HCA Foundation and the American Hospital Association Working Group for Health IT Standards. Ms. Williams is an Emeritus member of the Vanderbilt University School of Engineering Committee of Visitors and a member of the Leadership Nashville class of 2010. She also served as an adjunct professor in the Owen School of Management of Vanderbilt University for several years.

Executive Officers

The executive officers of Leidos immediately prior to the consummation of the Merger are expected to be the executive officers of Leidos immediately following the consummation of the Merger. Listed below is the biographical information for each person who is currently an executive officer of Leidos:

Sarah Allen, 57, has served as the 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.

Roger A. Krone, 59, has served as Leidos Chief Executive Officer since July 2014 and as the Chair of the Board since March 2015. Prior to his appointment as Leidos Chief Executive Officer, Mr. Krone served as president of Network and Space Systems for The Boeing Company since 2006. Mr. Krone previously held various senior program management and finance positions at Boeing, McDonnell Douglas Corp. and General Dynamics, including vice president and general manager of Boeing s Army Systems division, vice president of strategic programs at Boeing, vice president and treasurer of McDonnell Douglas and positions in program management, engineering and finance at General Dynamics. Mr. Krone earned a bachelor s degree in aerospace engineering from Georgia Institute of Technology, a master s degree in aerospace engineering from the University of Texas at Arlington and a master of business administration from Harvard Graduate School of Business.

James C. Reagan, 57, has served as the 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, U.S. Department of Defense and federal 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.

S. Gulu Gambhir, 47, is the 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.

Michael E. Leiter, 47, has been the 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, has served as the General Counsel and an Executive Vice President 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.

Jonathan W. Scholl, 54, has served as the 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.

Table of Contents

INFORMATION ON LOCKHEED MARTIN

Lockheed Martin is a Maryland corporation formed in 1995 by combining the businesses of Lockheed Corporation and Martin Marietta Corporation. Lockheed Martin s principal executive offices are located at 6801 Rockledge Drive, Bethesda, Maryland 20817. Lockheed Martin is a global security and aerospace company principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. Lockheed Martin also provides a broad range of management, engineering, technical, scientific, logistics and information services. Lockheed Martin serves both U.S. and international customers with products and services that have defense, civil and commercial applications, with principal customers being agencies of the U.S. Government.

In 2015, 78 percent of Lockheed Martin s $46.1 billion in net sales were from the U.S. Government, either as a prime contractor or as a subcontractor (including 58 percent from the U.S. Department of Defense), 21 percent from international customers (including foreign military sales (FMS) contracted through the U.S. Government) and 1 percent from U.S. commercial and other customers. Lockheed Martin s main areas of focus are in defense, space, intelligence, homeland security and information technology, including cybersecurity. As of December 31, 2015, Lockheed Martin had approximately 126,000 employees.

Lockheed Martin operates in five business segments: Aeronautics, Information Systems & Global Solutions (IS&GS), Missiles and Fire Control (MFC), Mission Systems and Training (MST) and Space Systems. Lockheed Martin organizes its business segments based on the nature of the products and services offered. The following is a brief description of the activities of each of Lockheed Martin s business segments:

Aeronautics Engages in the research, design, development, manufacture, integration, sustainment, support and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles and related technologies. In 2015, the Aeronautics business segment generated net sales of $15.6 billion, which represented 34 percent of Lockheed Martin s total consolidated net sales.

Information Systems & Global Solutions Provides advanced technology systems and expertise, integrated information technology solutions and management services across a broad spectrum of applications for civil, defense, intelligence and other government customers. In addition, IS&GS supports the needs of customers in data analytics, data center operation and air traffic management. IS&GS provides network-enabled situational awareness and integrates complex global systems to help customers gather, analyze and securely distribute critical data. In 2015, the IS&GS business segment generated net sales of $5.6 billion, which represented 12 percent of Lockheed Martin s total consolidated net sales. Prior to the closing of this exchange offer, Splitco will own, directly and through the Splitco Subsidiaries, the Splitco Business, which will consist of the business and operations of IS&GS as it was reported in Lockheed Martin s Annual Report on Form 10-K for the year ended December 31, 2015.

Missiles and Fire Control MFC provides air and missile defense systems; tactical missiles and air-to-ground precision strike weapon systems; logistics; fire control systems; mission operations support, readiness, engineering support and integration services; manned and unmanned ground vehicles; and energy management solutions. In 2015, the MFC business segment generated net sales of $6.7 billion, which represented 14 percent of Lockheed Martin s total consolidated net sales.

Mission Systems and Training MST provides design, manufacture, service and support for a variety of military and civil helicopters; ship and submarine mission and combat systems; mission systems and sensors for rotary and fixed-wing aircraft; sea and land-based missile defense systems; radar systems; the Littoral Combat Ship (LCS); simulation and training services; and unmanned systems and technologies. In addition, MST supports the needs of customers in cybersecurity and delivers communications and command and control capabilities through complex mission solutions for defense applications. On November 6, 2015, Lockheed Martin acquired Sikorsky Aircraft Corporation and aligned the Sikorsky business under its MST business segment. In 2015, the MST business segment generated net sales of $9.1 billion, which represented 20 percent of Lockheed Martin s total consolidated net sales.

Space Systems Engaged in the research and development, design, engineering and production of satellites, strategic and defensive missile systems and space transportation systems. Space Systems provides network-enabled situational awareness and integrates complex global systems to help its customers gather, analyze and securely distribute critical intelligence data. Space Systems is also responsible for various classified systems and services in support of vital national security systems. In 2015, the Space Systems business segment generated net sales of $9.1 billion, which represented 20 percent of Lockheed Martin s total consolidated net sales.

Table of Contents

INFORMATION ON THE SPLITCO BUSINESS

General

The Splitco Business is a leading provider of information technology (IT), management and engineering services to civil, defense and intelligence agencies of the U.S. Government. It also provides services to agencies of allied foreign governments, state and local governments and commercial customers. The Splitco Business supports its customers by providing data analytics, systems engineering, large-scale agile software development, network-enabled situational awareness solutions, communications and command and control capability and global systems integration, to help customers gather, analyze and securely distribute intelligence data to address complex and pressing challenges, such as combating global terrorism, cybersecurity, air traffic management, energy demand management and transforming the healthcare system. The Splitco Business is also responsible for various classified systems and services in support of vital national security systems. Major U.S. Government customers include civil agencies such as the Department of Homeland Security, the Department of Health and Human Services and the Department of the Treasury; the Department of Defense (DoD) and all branches of the U.S. military; and the U.S. intelligence community. The Splitco Business international customers are primarily located in the United Kingdom, the Middle East, and Australia. In the commercial sector, the Splitco Business serves clients primarily in the financial services, healthcare and energy industries. In 2015, the Splitco Business generated revenues of $5.6 billion, of which U.S. Government customers accounted for 88% (including 26% from the DoD), international customers accounted for 10% and U.S. commercial and other customers accounted for 2% of revenues.

The Splitco Business operates and reports its financial results as a single operating segment. It manages its business as a single profit center in order to promote collaboration and provide comprehensive functional service offerings across its entire customer base. Although the business is managed and resources are allocated as a single operating segment, certain information regarding sectors and functional capabilities is presented below for purposes of providing an understanding of the Splitco Business.

Products, Services and Solutions

The Splitco Business delivers a broad range of technology, development and integration capabilities, technical services and engineering solutions to its customers.

Networks and IT Infrastructure The Splitco Business delivers enterprise operations; network services and communications; application management and optimization; data center operations, migration and consolidation; and data storage. It applies these solutions to physical, virtualized cloud, and hybrid form networks. The Splitco Business provides the services and oversight clients require for IT infrastructure transformation, implementation and operations. Key customers include the Department of Justice, Department of Homeland Security, the General Services Administration, the Social Security Administration and the Australian Tax Office.

Software Development and Integrated Systems The Splitco Business offers 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 Defence. Software and integrated systems offerings include development of small and large scale information technology applications, embedded systems, and mobile applications. The Splitco Business delivers expertise across an extensive list of programming languages applicable to traditional, cloud, mobile and embedded applications. The Splitco Business employs traditional and agile development methods depending on the application.

Cybersecurity The Splitco Business provides cyber security solutions with deep technical, analytic, and cyber mission experience that help clients anticipate threats to their networks and their data, ensure their cyber approach is executed with established best practices, and enables them to respond to cyber events. Its cybersecurity solutions detect and manage the most sophisticated cyber threats. The Splitco Business designs, develops, deploys and supports information-centric software systems for complex, data-driven national security challenges. It has a significant cyber security business based on its military and intelligence work with the federal government. Key customers include the DoD and its military services as well as international customers, including NATO and the Australian Department of Defense.

Surveillance and Reconnaissance The Splitco Business offers a wide range of technologies in multiple domains that address the most critical threats and deliver solutions to the intelligence community, DoD and military services. Core capabilities include secure network management; enterprise IT architecture and IT infrastructure operations and management; intelligence analysis and training; airborne intelligence; intelligence, surveillance and reconnaissance (ISR) solutions; agile software development; cyber and information security; and geospatial technologies.

Data Analytics The Splitco Business data analytics services provide clients with the resources to make informed decisions to maximize performance by leveraging a wide range of problem-solving techniques including simulation, mathematical optimization, queuing theory, and machine learning to improve decision-making and efficiency.

Table of Contents

Engineering Engineering capabilities include prototyping, reverse engineering, systems engineering and integration, and applied engineering disciplines. The Splitco Business uses design and manufacturing techniques to convert functional requirements into useable prototypes that can be deployed to test and confirm the requirements are met. It also provides advanced engineering services such as electronics/embedded system technical exploitation.

Air Traffic Management The Splitco Business has delivered air traffic management systems and expertise since the 1950s and continues to deploy some of the world s most advanced and cost-effective systems to provide air traffic management solutions to U.S. and international customers. More than 60% of the world s air traffic is guided by Splitco Business systems. Solutions include the En Route Automation Modernization (ERAM) system for the Federal Aviation Administration s Next Generation Air Transportation System; air traffic optimization including Time Based Flow Management, enabling air traffic controllers to manage aircraft in congested airspace more efficiently; and Flight Services supporting pre-flight, inflight, operational and special services, en route communications, search and rescue services and aeronautical and meteorological information analytics.

Health Management Services The Splitco Business manages critical data and infrastructure for some of the largest federal agencies in the U.S. healthcare system. It provides customers with the ability to integrate technology, people and processes into efficient, secure and scalable operations to secure patient information and support better healthcare outcomes through data management; security; interoperability capabilities for next generation data centers; health IT system modernization; and big data analytics. Splitco supports the missions of customers such as Centers for Disease Control and Prevention, the Centers for Medicare & Medicaid Services, the Department of Health and Human Services, the Food and Drug Administration and the Department of Veterans Affairs.

Energy Management and Operations The Splitco Business provides environmental services and solutions to the U.S. Government and commercial customers both directly and through joint ventures that perform management and operations (M&O) services at U.S. Government sites. These services and solutions include M&O services at the U.S. Government s former nuclear fuel production site in Hanford, Washington, and M&O services at the Y-12 national security site in Oak Ridge, Tennessee and the Pantex site in Amarillo, Texas; critical infrastructure for nuclear operations and national nuclear materials tracking, engineering systems; and national environmental emergency response. The Splitco Business supports the missions of customers that include the Department of Energy, Nuclear Regulatory Commission and Environmental Protection Agency.

Acquisition, Program Management, and Logistics The Splitco Business acquisition, program management, and logistics capabilities help clients design, implement, and deliver a wide range of operational programs including those related to acquisition and contracts, supplier, and budget management. Services delivered include strategy development, policy support, logistics management, staff development and deployment, modeling and simulation, testing and validation, information assurance, and data management. Solutions include mission critical, 24x7 M&O services; development and engineering support; complex logistics and infrastructure support in some of the harshest environments in the world; and human capital and training solutions. The Splitco Business supports customers that include the National Aeronautics and Space Administration and the National Science Foundation.

Contract Procurement

Of the $5.6 billion in revenues in 2015, approximately 90% were from contracts where the Splitco Business was the prime contractor. While the Splitco Business has a diverse contract base with over 2,600 individual contracts and task orders, it also has a legacy of long-term, large-scale program execution on a number of the largest U.S. Government enterprise-wide IT services and solutions programs.

Customers of the Splitco Business, including the U.S. Government, use different procurement approaches depending on the nature of the products or services needed by the customer. In many cases, budget pressures have resulted in the U.S. Government consolidating contracts into broader contract vehicles with multiple awards being issued to different companies that then are required to submit competitive bids and proposals on individual task orders issued under those broader contract vehicles. Although the overwhelming majority of the work performed by the Splitco Business is awarded under contracts that are subject to competitive bids, a small amount of the work performed from time to time may be awarded to Splitco as an incumbent contractor on a sole source basis if certain requirements are met.

The principal contracting methods used by the U.S. Government to procure products and services, including those offered by the Splitco Business include single-award contracts, indefinite delivery / indefinite quantity (IDIQ) contracts, and General Services Administration (GSA) schedule contracts.

Single-Award Contracts These contracts typically result from a competitive procurement process and involve the award of a single definitive contract to one company to provide products and services that were the subject of an individual request for proposals by an agency of the U.S. Government. The contract award frequently will include a base period of a number of years followed by one of more option periods in which the customer can extend the contract period of performance.

Indefinite Delivery / Indefinite Quantity Contracts These contracts have become an increasingly important means by which the U.S. Government procures services of the types offered by the Splitco Business. They enable the customer to negotiate the terms and conditions under which one or more contractors agree to provide products or services, and then to issue specific task orders for individual tasks or work as needed. One effect of this contracting method is that the cycle times between a request for proposals and the award of work is shortened, which can result in less visibility as to future revenues and profitability. IDIQ contracts may be awarded on a single-award basis in which one contractor is awarded the contract and then submits individual task order proposals as services or products are needed by the customer, or on a multiple-award basis where the IDIQ contract is awarded to multiple contractors who then are entitled to submit bids on work to be performed under that contract vehicle in a competitive procurement. Because these types of IDIQ contracts involve multiple contract awards, a company s success in obtaining such an award generally does not guarantee a specific amount of work. As a result, a company may not have visibility as to the future revenues or profitability associated with the contract. Since a contractor must be a party to the IDIQ contract to be eligible to submit a bid on any task orders issued under the contract, the failure of the Splitco Business to be successful in obtaining a particular IDIQ contract when it is made available for bid by the U.S. Government can have an adverse effect on the future revenues and profits of the Splitco Business.

The General Services Administration Schedule Contracts The GSA maintains a list of suppliers of services and products and related prices under which agencies of the U.S. Government can procure those services and products. To be awarded a GSA Schedule Contract, companies must meet specified requirements and pre-qualify for awards. When a given government agency is in need of services or products of the type available under GSA Schedule Contracts, they or the GSA on their behalf will conduct a competition and award the contract to the successful bidder or bidders on the pre-negotiated terms, which may include a discount against the specified rates or prices in the underlying GSA Schedule Contract. Like IDIQ Contracts, this approach to contracting by the U.S. Government shortens procurement cycles and the award of a GSA Schedule Contract to the Splitco Business does not provide any assurance to a specified level of revenues or profits.

In the case of the business conducted by the Splitco Business with foreign governments, the types of procurement processes and approaches to contracting for products and services are similar to those used by the U.S. Government and discussed above.

In the case of the business conducted by the Splitco Business with commercial customers, the work may be procured on the basis of a competitive process that is very similar to a procurement for a single-award contract with the U.S. Government or may be procured on the basis of individual negotiation without a competitive or formal request for proposals process.

Contract Types

The customers of the Splitco Business use a number of different contract types to acquire products and services. Generally, the contract type employed in a particular procurement is based on a number of factors, including cost, the type of work, the complexity of the work and the maturity of the processes and software needed to perform the work, the level of detail provided by the customer in establishing contract requirements or the level of responsibility of the contractor in designing and delivering a solution, the extent of competition and the availability of contractors with the requisite capabilities to perform the work. The Splitco Business provides products, services and solutions using a number of different contract types, but the predominant contract types are:

Cost Reimbursement Contracts Cost reimbursement contracts come in a number of forms, but generally involve reimbursement of direct costs associated with the work performed and certain allocated costs based on established allocation methodologies, plus a fee. The fee may be based on a fixed percentage of costs incurred or may be based on other metrics including customer evaluation of contractor performance.

Fixed Price Contracts Fixed price contracts provide an agreed-upon fixed price for a specified product or service. Because of the fixed price nature of the work, the contracts typically include detailed specifications or statements of work. While fixed price contracts provide a contractor with an opportunity to earn higher margins if they can do the work at a cost lower than was anticipated, cost overruns can result in reduced profitability or contract losses in certain situations.

Time and Materials (T&M) Contracts T&M contracts generally involve payment to a contractor for the specific time worked by different levels of contractor employees based on specified qualifications (which may involve education level or extent of experience) and agreed-upon fixed hourly rates for direct labor, plus reimbursement for specified direct costs incurred in the performance of the contract.

Of the $5.6 billion in 2015 revenues of the Splitco Business, 45% were from cost reimbursement contracts, 40% were from fixed price contracts and 15% were from T&M contracts.

Table of Contents

Backlog

At December 31, 2015, the Splitco Business backlog was $4.8 billion. Backlog is converted into sales in future periods as work is performed or deliveries are made. Approximately $3.8 billion of the Splitco Business backlog is expected to be converted into sales in 2016. The backlog includes both funded (firm orders for products and services for which funding has been both authorized and appropriated by the customer Congress, in the case of U.S. Government agencies) and unfunded (firm orders for which funding has not been appropriated) amounts. Unexercised options or potential orders under IDIQ contracts are not included in backlog. If any of the contracts with firm orders were to be terminated, backlog would be reduced by the expected value of the unfilled orders of such contracts. Funded backlog was $3.1 billion at December 31, 2015.

Competition

The Splitco Business competes both domestically and internationally against numerous smaller competitors as well as large aerospace, defense and information technology companies. Principal competitors include:

- engineering, IT and technical services divisions of large defense contractors that provide products and services of the type provided by the Splitco Business in addition to hardware and products associated with large platform programs, including The Boeing Company, General Dynamics Corporation, Northrop Grumman Corporation, BAE Systems plc, L-3 Communications Corporation and Raytheon Company;

- companies focused principally on engineering, IT and technical services, including Booz Allen Hamilton Inc., CACI International Inc., ManTech International Corp., CSRA Inc., Engility Holdings, Inc., and SAIC;

- diversified companies with significant commercial IT services business in addition to business with agencies of the U.S. Government, including Accenture plc, Hewlett Packard Enterprise Company, and International Business Machines Corporation; and

- companies that focus on particular end markets or industries, such as in health care, in aviation, in space and science and in energy.

The Splitco Business has been impacted by the downturn in the IT budgets of certain U.S. Government agencies and increased competition on existing contracts, coupled with the fragmentation of large contracts into multiple smaller contracts that are awarded primarily on the basis of price. In many cases, in an effort to expand competition, the U.S. Government has decided to combine multiple contracts into larger IDIQ or similar omnibus contracts and then award individual work under those broad contract vehicles on a competitive task order basis. That approach to contracting by agencies of the U.S. Government has made it more important to be a party to one of the IDIQ or similar contract vehicles since a company must hold the contract vehicle to be eligible to bid on the underlying task orders.

Principal factors of competition include price; the value of Splitco s products and services to the customer; technical and management capability; the ability to develop and implement complex, integrated system architectures; demonstrated ability to execute and perform against contract requirements; and the ability to provide timely solutions. Because IT procurements are increasingly focusing on price over other factors of competition, the cost structure of a contractor (particularly with respect to cost reimbursement contracts) has become a more significant driver of success in U.S. Government procurements. In many cases, the U.S. Government has made it clear that, as long as a particular proposed solution is technically acceptable (even if not the preferable solution), price will be the deciding factor. That customer acquisition strategy has made it increasingly more difficult for companies that are part of larger defense contractors with significant manufacturing operations on large platform programs to compete for engineering, IT and technical services work.

Intellectual Property

The products and services of the Splitco Business generally are not dependent upon patent or trademark protection, but historically Lockheed Martin selectively has sought patent protection when in its judgment such protection was available and the Splitco Business would not be adversely affected by the filing of a patent application and has sought to establish trademark rights in certain of the commercial businesses of the Splitco Business. The Splitco Business has a proprietary interest in certain of its products, software programs, methodologies and know-how, which it seeks to protect through copyright and trade secret law and through licenses and other contractual means.

In connection with the performance of services or the provision of products, the U.S. Government has certain rights to inventions, data, software codes and related material that are developed 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, competitors of the Splitco Business. In the case of some subcontracts of the Splitco Business, the prime contractor also may have certain rights to the programs and products that the Splitco Business develops.

Table of Contents

Research and Development

The Splitco Business conducts research and development (R&D) activities under customer-sponsored contracts and with its own independent R&D funds. Independent R&D costs include basic research, applied research, development, systems and other concept formulation studies. Generally, these costs are allocated among all contracts and programs in progress under U.S. Government contractual arrangements. Costs incurred under customer-sponsored R&D programs pursuant to contracts are included in net sales and cost of sales. Under certain arrangements in which a customer shares in product development costs, Splitco s portion of the unreimbursed costs is expensed as incurred in cost of sales. Independent R&D costs charged to cost of sales were $22 million in 2015, $18 million in 2014 and $23 million in 2013. See Research and Development in Note 2 Significant Accounting Policies of the audited financial statements of the Splitco Business included in this document.

Government Contracts and Regulation

The Splitco Business is heavily regulated. It contracts with numerous U.S. Government agencies and entities, including all branches of the U.S. military, the Departments of Defense, Veterans Affairs, Homeland Security, Justice, Health and Human Services, Transportation and Energy, the Social Security Administration, the Federal Aviation Administration, the National Aeronautics and Space Administration, and the U.S. Environmental Protection Agency. Similar government authorities in other countries regulate the Splitco Business international business with foreign governments.

The Splitco Business must comply with, and is affected by, laws and regulations relating to the formation, administration and performance of U.S. Government and other contracts, including the Federal Acquisition Regulation (FAR) and agency-specific regulations that implement or supplement the FAR, such as the Department of Defense Federal Acquisition Regulation Supplement. These laws and regulations, among other things:

- require certification and disclosure of all cost or pricing data in connection with certain types of contract negotiations;
- impose specific and unique cost accounting practices that may differ from GAAP;
- impose acquisition regulations, which may change or be replaced over time, that define allowable and unallowable costs and otherwise govern the right to reimbursement under certain cost-based U.S. Government contracts;
- impose limitations on certain work that might raise an actual or potential organizational conflict of interest where the conflict of interest cannot be mitigated or avoided in an acceptable manner;
- require specific security controls to protect Department of Defense controlled unclassified technical information and restrict the use and dissemination of information classified for national security purposes and the export of certain products, services and technical data;

require the review and approval of contractor business systems, including accounting systems, estimating systems, purchasing systems and property management systems; and

require reviews and audits by the Defense Contract Audit Agency, the Defense Contract Management Agency and other agencies of the U.S. Government for compliance with applicable contractor requirements.

Similar laws and regulations govern the Splitco Business work for government customers outside the U.S.

In addition to the foregoing, some of the Splitco Business work involves access to or use by Splitco Business Employees of personally identifiable information or protected health information in a manner that is subject to extensive foreign, federal and state privacy and data security laws and regulations. These laws and regulations differ by jurisdiction and compliance with these laws and regulations require the Splitco Business to impose additional restrictions and implement procedures to safeguard the protected information.

The U.S. Government may terminate any of the Splitco Business government contracts and subcontracts either at its convenience or for default based on performance. Upon termination for convenience of a cost-reimbursable contract, Splitco normally is entitled to reimbursement of allowable costs plus a portion of the fee. The amount of the fee recovered, if any, is related to the portion of the work accomplished prior to termination and is determined by negotiation. A termination arising out of default may expose the Splitco Business to liability and have a material adverse effect on the ability to compete for future contracts and orders. In addition, on those contracts for which the Splitco Business is teamed with others and is not the prime contractor, the U.S. Government could terminate a prime contract under which the Splitco Business is a subcontractor, notwithstanding the quality of the services as a subcontractor. In the case of termination for default, the U.S. Government could make claims to reduce the contract value or recover its procurement costs and could assess other special penalties. However, under such circumstances the Splitco Business has rights and remedies under applicable law and the FAR.

Table of Contents

U.S. Government agencies, including the Defense Contract Audit Agency, the Defense Contract Management Agency and various agency Inspectors General, routinely audit and investigate government contractors. These agencies review a contractor s performance under its contracts, its cost structure, its business systems and compliance with applicable laws, regulations and standards. Any costs found to be misclassified may be subject to repayment. The Splitco Business has unaudited and/or unsettled incurred cost claims related to past years. Until the underlying audits are completed, the Splitco Business is not able to issue final billings on the subject contracts.

If an audit or investigation uncovers improper or illegal activities, the Splitco Business may be subject to civil or criminal penalties and administrative sanctions, including reductions of the value of contracts, contract modifications or terminations, forfeiture of profits, suspension of payments, penalties, fines and suspension, or prohibition from doing business with the U.S. Government. In addition, the Splitco Business could suffer serious reputational harm if allegations of impropriety were made against it. Similar government oversight exists in most other countries where the Splitco Business conducts business.

A portion of the Splitco Business is classified by the U.S. Government and cannot be specifically described. The operating results of these classified contracts are included in the financial statements of the Splitco Business. The business risks associated with classified contracts historically have not differed materially from those of the other U.S. Government contracts. The Splitco Business internal controls addressing the financial reporting of classified contracts are consistent with its internal controls for non-classified contracts.

Legal Proceedings

The Splitco Business is a party to litigation and other proceedings that arise in the ordinary course of its business. These matters could result in fines, penalties, compensatory or treble damages or non-monetary sanctions or relief. The Splitco Business does not believe that the outcome of these matters, including the proceedings mentioned below, will have a material adverse effect on Splitco, notwithstanding that the unfavorable resolution of any matter may have a material adverse effect on its net earnings in any particular interim reporting period. Among the factors that the Splitco Business considers in this assessment are the nature of existing legal proceedings and claims, the asserted or possible damages or loss contingency (if estimable), the progress of the case, existing law and precedent, the opinions or views of legal counsel and other advisors, its experience in similar cases and the experience of other companies, the facts available at the time of assessment and how the Splitco Business is responding or intends to respond to the proceeding or claim. The Splitco Business assessment of these factors may change over time as individual proceedings or claims progress.

On April 24, 2009, Lockheed Martin filed a declaratory judgment action against the New York Metropolitan Transportation Authority and its Capital Construction Company (collectively, the MTA) asking the U.S. District Court for the Southern District of New York to find that the MTA was in material breach of contract with Lockheed Martin (relating to the Splitco Business) based on the MTA s failure to provide access to sites where work was to be performed and the failure to provide the customer-furnished equipment necessary to complete the contract. The MTA filed an answer and counterclaim alleging that Lockheed Martin breached the contract and subsequently terminated the contract for alleged default. The primary damages sought by the MTA are the cost to complete the contract and potential re-procurement costs. Although the Splitco Business is unable to estimate the cost of another contractor to complete the contract and the costs of re-procurement, the original contract with the MTA had a total value of $323 million, of which $241 million was paid to the Splitco Business, and the MTA is seeking damages of approximately $190 million. The Splitco Business disputes the MTA s allegations and is defending against them. Additionally, following an investigation, Lockheed Martin s sureties on a performance bond related to this matter, who were represented by independent counsel, concluded that the MTA s termination of the contract was improper. Subsequent to the initial filing, Lockheed Martin s declaratory judgment action was amended to include claims for monetary damages against the MTA of approximately $95 million. This matter was taken under consideration by the court in December 2014 following a five-week bench trial and the filing of post-trial pleadings by the parties. The Splitco Business expects a decision in 2016. Under the terms of the Separation Agreement, Lockheed Martin has retained the assets and liabilities associated with the MTA matter.

On November 10, 2015, Mission Support Alliance, LLC (MSA) received a final decision of the Department of Energy contracting officer for MSA concluding that certain payments by MSA to the Splitco Business for the performance of IT services and management services under a subcontract to MSA constituted affiliate fees in violation of the FAR. At the same time, the contracting officer advised MSA that he would not approve certain provisional fee payments to MSA pending resolution of the matters set forth in his decision. Subsequent to the contracting officer s final decision, MSA and Lockheed Martin received notice from the U.S. Attorney s Office for the Eastern District of Washington that the U.S. Government had initiated a False Claims Act investigation into the facts surrounding this dispute, and each of MSA and Lockheed Martin have produced information in response to Civil Investigative Demands from the U.S. Attorney s Office. Since this issue first was raised by the Department of Energy, MSA has asserted that the IT and management services being performed by the Splitco Business under a fixed price/fixed unit rate subcontract approved by the Department of Energy meet the definition of a commercial item under the FAR and any profits earned on that subcontract are permissible. MSA filed an appeal of the contracting officer s decision with the Civilian Board of Contract Appeals and that appeal is pending. Subsequent to the filing of MSA s appeal, the contracting officer demanded that MSA reimburse the Department of Energy in the amount of $64 million, which was his estimate of the profits earned during the period from 2010 to 2014 by the Splitco Business.

Table of Contents

MSA has requested that the Department of Energy defer that demand pending resolution of the appeal, but to date the demand has not been rescinded. MSA and the other members of MSA have advised Lockheed Martin that they believe that if MSA incurs liability in this matter, then Lockheed Martin is responsible to MSA for the loss. Under the terms of the Separation Agreement, Lockheed Martin has indemnified Splitco for 50% of any damages in excess of the amount recorded by the Splitco Business in its financial statements as of December 31, 2015, with respect to claims asserted by the Department of Energy against MSA for fees allegedly paid to the Splitco Business under the MSA subcontract referenced above and in respect of the related Civil Investigative Demand.

Although the Splitco Business cannot predict the outcome of legal or other proceedings with certainty, GAAP requires the Splitco Business to record a liability if a loss is probable and the amount of the loss is reasonably estimable, and requires the Splitco Business to disclose an estimate of the reasonably possible loss or range of loss or make a statement that such an estimate cannot be made for contingencies where there is at least a reasonable possibility that a loss may have been incurred where the amount of that loss would be material to the Splitco Business. As of December 31, 2015, the aggregate amount of all liabilities in respect of legal and other proceedings (including the matters described above) recorded by the Splitco Business in its combined financial statements was $62 million, and the range of reasonably possible additional losses was estimated by the Splitco Business to be from $0 to $200 million. The Splitco Business believes, after consultation with counsel and after taking into account its current litigation reserves and the provisions of the Merger Agreement and the Separation Agreement, that the currently pending legal and other proceedings should not have a material adverse effect on the Splitco Business consolidated financial condition or results of operations. In view of the inherent difficulty of predicting the outcome of legal proceedings, the Splitco Business cannot state with confidence what will be the eventual outcomes of the currently pending matters, the timing of their ultimate resolution or the eventual losses, fines, penalties or impact related to those matters. In light of the uncertainties involved in such proceedings, it is possible that accruals may need to be adjusted in the future and the outcome of a particular matter in a particular period could be material to the Splitco Business in that period.

Seasonality

Although the nature of the work performed by the Splitco Business is not seasonal, various factors can affect the distribution of sales recognized by the Splitco Business between accounting periods, including the U.S. Government budget process, the timing of contract awards, the availability of government funding and the extent to which government awards are subject to protest. In the U.S., these factors are influenced by the federal government s budget cycle based on its October-to-September fiscal year as agencies of the U.S. Government seek to avoid the loss of funds allocated for a given fiscal year by awarding task orders under certain types of omnibus contract vehicles or otherwise take contract actions to commit funds prior to the end of the fiscal year.

Facilities

The Splitco Business operates out of a single owned property consisting of an office building totaling approximately 500,000 square feet located in Gaithersburg, Maryland, and from leased properties totaling approximately 3.2 million square feet at various locations most of which are located in the U.S. These leased locations are principally office buildings, but also include service centers, laboratories and data centers, and include a number of locations where the Splitco Business operates out of or uses a portion of a facility that is either owned by Lockheed Martin or leased by another Lockheed Martin business area and the Splitco Business uses a portion of the facility. A significant number of Splitco Business Employees also work on site at customer locations and facilities globally. The Splitco Business believes its facilities are in good condition and are adequate for their intended use.

Employees

As of December 31, 2015, the Splitco Business had approximately 16,000 full and part time employees worldwide. Management of the Splitco Business considers employee relations to be good.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SPLITCO BUSINESS

References in this Management s Discussion and Analysis of Financial Condition and Results of Operations to IS&GS or the IS&GS Business are references to the Splitco Business as used elsewhere in this document.

Business Overview

IS&GS is a leading provider of information technology (IT), management and engineering services to civil, defense and intelligence agencies of the U.S. Government. IS&GS also provides services to agencies of allied foreign governments, state and local governments and commercial customers. IS&GS supports its customers by providing data analytics, systems engineering, large-scale agile software development, network-enabled situational awareness solutions, communications and command and control capability and global systems integration to help customers gather, analyze and securely distribute intelligence data to address complex and pressing challenges such as combating global terrorism, cybersecurity, air traffic management, energy demand management and transforming the healthcare system. IS&GS is also responsible for various classified systems and services in support of vital national security systems. Major U.S. Government customers include civil agencies such as the Department of Homeland Security, the Department of Health and Human Services and the Department of the Treasury; the Department of Defense (DoD) and all branches of the U.S. military; and the U.S. intelligence community. IS&GS international customers are located primarily in the United Kingdom, the Middle East and Australia. In the commercial sector, IS&GS serves clients primarily in the financial services, healthcare and energy industries. For the years ended December 31, 2015, 2014 and 2013, IS&GS derived 88%, 91% and 95%, respectively, of its revenues from the U.S. Government (including 26%, 30% and 35% from the DoD, respectively).

IS&GS operates and reports its financial results as a single operating segment. IS&GS manages its business as a single profit center in order to promote collaboration and provide comprehensive functional service offerings across its entire customer base. Although the business is managed and resources are allocated as a single operating segment, certain information regarding sectors and functional capabilities is presented below for purposes of providing an understanding of the IS&GS business.

Separation from Lockheed Martin and Combination with Leidos

On January 26, 2016, Lockheed Martin entered into definitive agreements to separate and combine the IS&GS business with Leidos in a Reverse Morris Trust transaction. At Lockheed Martin s election, the Transaction will be structured as a distribution of the IS&GS business to Lockheed Martin s stockholders in a split-off transaction, a spin-off transaction or a combination split-off and spin-off transaction. No matter which form of transaction is selected, the IS&GS business will be transferred to Splitco, the stock of which will be distributed to Lockheed Martin stockholders and that distribution will be followed by a merger of Splitco with a subsidiary of Leidos. If Lockheed Martin elects a split-off, it will conduct an exchange offer pursuant to which Lockheed Martin stockholders will have the option to elect to exchange Lockheed Martin shares for shares of Splitco. In the Merger, each share of Splitco common stock will be converted into the right to receive one share of Leidos common stock. If the exchange offer is not fully subscribed, the remaining shares of Splitco will be distributed by Lockheed Martin in a pro-rata spin-off to Lockheed Martin stockholders in respect of those Lockheed Martin shares not exchanged in the exchange offer. If Lockheed Martin elects a spin-off, all of the shares of Splitco will be distributed by Lockheed Martin to its stockholders as a pro-rata dividend. In connection with the transfer of the IS&GS Business to Splitco, Lockheed Martin will receive a $1.8 billion cash payment. Both the Distribution and the Merger are expected to qualify as tax-free transactions to Lockheed Martin and its stockholders, except to the extent that cash is paid to Lockheed Martin stockholders in lieu of fractional shares. The Transaction is subject to the approval by Leidos stockholders of the issuance of the Leidos shares in the Merger and the satisfaction of customary closing conditions, including regulatory approvals, the absence of a material adverse change with respect to each of IS&GS and Leidos, the receipt of solvency opinions and opinions of tax counsel. The Transaction is expected to be completed in the third or fourth quarter of 2016.

Table of Contents

Recent Business Acquisitions

In 2014, IS&GS separately acquired Systems Made Simple, Inc. (SMS), Industrial Defender, Inc. (Industrial Defender) and Beontra AG (Beontra) for a combined $526 million, net of cash acquired. SMS specializes in health IT solutions that deliver technology and service solutions to improve, increase, enable and ensure the secure exchange and interoperability of information between patients, healthcare providers and payers for federal and state government organizations. Industrial Defender specializes in cybersecurity solutions for industrial control systems in the oil, gas, utility and chemical industries. Beontra is based in Germany and specializes in integrated planning and demand forecasting IT solutions for airports around the world.

In 2013, IS&GS acquired Amor Group Ltd. (Amor) for $206 million, net of cash acquired. Amor is based in Scotland, United Kingdom, and specializes in IT solutions for the energy, transportation and public service sectors.

Business Environment

IS&GS operates in an environment characterized by increasing complexity in global security and continuing economic pressures in the U.S. and globally. A significant component of IS&GS business strategy in this environment is to focus on program execution, improving the quality and predictability of the delivery of its services and delivering solutions to its U.S. and international customers at affordable prices. Recognizing that its customers are resource constrained, IS&GS has endeavored to develop and extend its portfolio domestically in a disciplined manner with a focus on adjacent markets close to its core capabilities, as well as growing its international sales. IS&GS continues to focus on affordability initiatives, investment in technologies to fulfill new mission requirements for its customers and the recruitment, retention and development of its employees to ensure that its workforce has the technical skills necessary for IS&GS to succeed.

The U.S. Government, IS&GS principal customer, continues to face significant fiscal and economic challenges such as financial deficits, budget uncertainty, increasing debt levels and an economy with restrained growth. To address these challenges, the U.S. Government continues to focus on discretionary spending, entitlement programs, taxes, and other initiatives to stimulate the economy, create jobs and reduce the deficit. In so doing, the Administration and Congress must balance decisions regarding defense, homeland security and other federal spending priorities in a constrained fiscal environment largely imposed by the Budget Control Act of 2011 (Budget Control Act). The Budget Control Act established limits on discretionary spending, which provided for reductions to planned defense spending of $487 billion over a 10-year period that began with the 2012 U.S. Government fiscal year (GFY ; a GFY starts on October 1 and ends on September 30). The Budget Control Act also provided for additional automatic spending reductions, known as sequestration, which temporarily went into effect on March 1, 2013, that would have reduced planned defense spending by an additional $500 billion over a nine-year period that began in GFY 2013. The Bipartisan Budget Act of 2013 (BBA of 2013) passed by Congress in December 2013 alleviated some budget cuts that would have otherwise been instituted through sequestration in GFY 2014 and GFY 2015.

On November 2, 2015, the President signed into law the Bipartisan Budget Act of 2015 (BBA of 2015). The BBA of 2015 raises the limit on the government s debt until March 2017 and raises the sequester caps imposed by the Budget Control Act by $80 billion, split equally between defense and non-defense spending over the next two years ($50 billion in GFY 2016 and $30 billion in GFY 2017).

On December 18, 2015, the President signed into law the Consolidated Appropriations Act of 2016, funding the government through September 30, 2016. Additionally, on February 9, 2016, the President submitted a budget proposal for GFY 2017, consistent with the BBA of 2015 funding levels. The BBA of 2015 includes discretionary funding for the DoD of approximately $580 billion in GFY 2016 and $583 billion in GFY 2017. This funding includes a base budget for the DoD of approximately $521 billion in GFY 2016 and $524 billion in GFY 2017. The BBA of 2015 also provides approximately $59 billion for DoD Overseas Contingency Operations spending in each of GFY 2016 and GFY 2017.

Together, the BBA of 2013 and the BBA of 2015 (collectively, the Bipartisan Budget Acts) increased discretionary spending limits through GFY 2017. However, the Bipartisan Budget Acts retained sequestration cuts for GFYs 2018 through 2021, including the across-the-board spending reduction methodology provided for in the Budget Control Act. As a result, there remains uncertainty regarding how, or if, sequestration cuts will be applied in GFY 2018 and beyond. The DoD and other agencies may have significantly less flexibility in how to apply budget cuts in future years. While the defense budget sustained the largest single reductions under the Budget Control Act, other civil agencies and programs have also been impacted by significant spending reductions. In light of the Budget Control Act and deficit reduction pressures, it is likely that discretionary spending by the U.S. Government will remain constrained for a number of years. Additionally, if an annual appropriations bill is not enacted for GFY 2017 or beyond, the U.S. Government may operate under a continuing resolution, restricting new contract or program starts and government shutdowns could arise. IS&GS anticipates there will continue to be significant debate within the U.S. Government over defense spending throughout the budget appropriations process for GFY 2017 and beyond. The outcome of this debate could have long-term consequences for IS&GS and the industry in which it operates.

Table of Contents

Results of Operations

Throughout the periods included in these combined financial statements, IS&GS operated as part of Lockheed Martin and consisted of several legal entities, acquired businesses and businesses conducted directly by Lockheed Martin. Separate financial statements have not historically been prepared for IS&GS. The combined financial results of IS&GS have been derived from Lockheed Martin s historical accounting records as if IS&GS operations had been conducted independently from Lockheed Martin and were prepared on a stand-alone basis in accordance with GAAP and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. The historical results of operations, financial position and cash flows of IS&GS discussed in this document may not be indicative of what they would have been had IS&GS actually been an independent stand-alone entity, nor are they indicative of IS&GS future results of operations, financial position and cash flows.

The results of operations include all revenues and costs directly attributable to IS&GS and an allocation of expenses related to certain Lockheed Martin corporate functions. These expenses have been allocated to IS&GS based on direct usage or benefit where identifiable, with the remainder allocated pro rata based on an applicable measure of revenues, cost of revenues, headcount, fixed assets, number of transactions or other relevant measures. IS&GS considers these allocations to be a reasonable reflection of the utilization of services or the benefit received. However, the allocations may not be indicative of the actual expense that would have been incurred had IS&GS operated as an independent, stand-alone entity, nor are they indicative of IS&GS future expenses.

The following table sets forth IS&GS combined statements of operations for the periods indicated (in millions):

	Years Ended December 31,		
	2015	**2014**	**2013**
Revenues	**$ 5,626**	$ 5,702	$ 6,158
Cost of revenues			
Cost of revenues	**(5,157)**	(5,279)	(5,755)
Severance charges	**(20)**		(45)
Total cost of revenues	**(5,177)**	(5,279)	(5,800)
Gross profit	**449**	423	358
Other income, net	**22**	15	7
Earnings before income taxes	**471**	438	365
Income tax expense	**(162)**	(146)	(119)
Net earnings	**309**	292	246
Less: net earnings attributable to non-controlling interest	**5**	5	6
Net earnings attributable to parent	**$ 304**	$ 287	$ 240

IS&GS revenues and earnings are primarily derived from contracts for services and solutions provided to the U.S. Government. IS&GS accounts for these contracts using the percentage-of-completion method of accounting, which requires judgment relative to assessing risks, estimating contract revenues and costs (including estimating award and incentive fees and penalties related to performance) and making assumptions for schedule and technical issues. Many of IS&GS contracts span multiple years and include complex technical requirements. At the outset of a contract, IS&GS identifies and monitors risks to the achievement of the technical, schedule and cost aspects of the contract and assesses the effects of those risks on its estimates of total costs to complete the contract. The estimates consider the technical requirements (e.g., a newly-developed solution versus a mature solution), the schedule and associated tasks (e.g., the number and type of milestone events) and costs (e.g., material, labor, subcontractor and overhead).

Due to the scope and nature of the work required to be performed on certain contracts, the estimation of total revenues and costs at completion is complicated and is subject to change. The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule and costs in the initial estimated total costs to complete the contract. Profit booking rates may increase during the performance of the contract if IS&GS successfully retires risks surrounding the technical, schedule and cost aspects of the contract which decreases the estimated total costs to complete the contract. Conversely, IS&GS profit booking rates may decrease if the estimated total costs to complete the contract increase. Profit booking rates also may be impacted favorably, or unfavorably, by other items. Favorable items may include the positive resolution of contractual matters and cost recoveries on disputed charges. Unfavorable items may include the adverse resolution of contractual matters and reserves for disputes. When estimates of total costs to be incurred exceed estimates of total revenues to be earned for a contract accounted for using the percentage-of-completion method of accounting, a provision for the entire loss on the contract is recorded in the period in which the loss is determined.

Table of Contents

Changes in revenues and gross profit generally are expressed in terms of volume. Changes in volume refer to increases or decreases in sales or gross profit resulting from varying levels of services or solutions. Volume changes in gross profit are typically based on the current profit booking rate for a particular contract. In addition, comparability of revenues, gross profit and margins may be impacted favorably or unfavorably by changes in profit booking rates described in the preceding paragraph. Increases in the profit booking rates, typically referred to as risk retirements, usually relate to revisions in the estimated total costs that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate resulting in an increase in the estimated total costs to complete and a reduction in the profit booking rate. IS&GS combined net adjustments not related to volume, including net profit booking rate adjustments and other matters, increased gross profit by approximately $168 million, $116 million and $136 million for the years ended December 31, 2015, 2014 and 2013, respectively. These adjustments increased net earnings by approximately $109 million, $75 million and $88 million for the years ended December 31, 2015, 2014 and 2013, respectively. The increase in combined net adjustments in 2015, as compared to 2014 and 2013, is attributable to improved program performance and risk retirements related to technical services programs; a program to provide hardware, software and cybersecurity to the U.S. Air Force (the National Cyber Range (NCR) program); and a human resources outsourcing program with the Department of Homeland Security (the HR Access program).

Revenues

Revenues decreased $76 million, or 1%, in 2015 as compared to 2014. The decrease was primarily attributable to lower revenues of approximately $415 million driven by lower volume as a result of the wind-down or completion of certain IT programs to provide hardware, integrated software systems and cybersecurity to U.S. defense and intelligence agencies (primarily the U.S. Army Corp of Engineers (ACE) IT and Department of Justice Next Generation Information (DOJ NGI) programs); reduced U.S. Government funding levels that impacted programs to provide data center modernization and operations, and IT network support to civil agencies (primarily the Centers for Medicare and Medicaid Services Consolidated Information Technology Infrastructure Contract (CMS CITIC) program); and increased competition coupled with the fragmentation of existing large contracts into multiple smaller contracts that are awarded primarily on the basis of price when re-competed. These decreases were partially offset by additional revenues of approximately $230 million from SMS, which was acquired in December 2014, and about $110 million due to increased activities on a program to consolidate, modernize and operate data centers for the Australian Department of Defence Chief Information Officer Group (the CIOG program), which was awarded in September 2014.

Revenues decreased $456 million, or 7%, in 2014 as compared to 2013. The decrease was primarily attributable to lower revenues of approximately $785 million driven by lower volume as a result of the wind-down or completion of certain IT programs to provide hardware, integrated software systems and cybersecurity to U.S. defense and intelligence agencies; reduced U.S. Government funding levels for technical services programs; troop drawdowns that impacted programs to provide in-theatre operations, data analysis, combat support and IT support for the U.S. military (primarily the DoD Joint Improvised Explosive Device Defeat Organization (the DoD JIEDDO program); and increased competition coupled with the fragmentation of existing large contracts into multiple smaller contracts that are awarded primarily on the basis of price when re-competed. These decreases were partially offset by higher revenues of approximately $205 million due to the start-up of new programs and increased activities on recently awarded programs such as the Defense Information Systems Agency Grid Services Management (DISA GSM) program to provide integrated software solutions, communications services and engineering services to all branches of the U.S. military; and approximately $125 million of additional revenues from Industrial Defender and SMS, which were acquired in 2014, and Amor, which was acquired in September 2013 and as a result did not have a full year of revenues in the 2013 reported results.

Cost of Revenues

Cost of revenues consists of materials, labor, subcontracting costs, an allocation of indirect costs (overhead and general and administrative costs) and an allocation of certain expenses from Lockheed Martin (including, but not limited to, general corporate expenses such as senior management, legal, human resources, finance, accounting, treasury, state tax, IT, benefits, communications, ethics and compliance, corporate employee benefits, incentives and stock-based compensation and shared services processing and administration). Allocations of expenses from Lockheed Martin totaled $253 million, $268 million and $273 million for the years ended December 31, 2015, 2014 and 2013, respectively. The nature and amount of costs are monitored at the contract level in forming the basis for estimating total costs to complete each contract.

Cost of revenues decreased $122 million, or 2%, in 2015 as compared to 2014. The decrease was primarily attributable to lower cost of revenues of approximately $425 million driven by lower volume as a result of the wind-down or completion of IT programs with the U.S. defense and intelligence agencies (primarily ACE IT and DOJ NGI programs); lower U.S. Government funding levels that impacted programs to provide data center and IT support to U.S. civil agencies (primarily CMS CITIC); and due to a decrease of approximately $25 million in pension expense allocated from Lockheed Martin as a result of the plan amendments to freeze future retirement benefits announced by Lockheed Martin in June 2014. These decreases were partially offset by additional cost of revenues of approximately $225 million from SMS, which was acquired in December 2014, and about $105 million due to increased activities on the CIOG program, which was awarded in September 2014.

Cost of revenues decreased $476 million, or 8%, in 2014 as compared to 2013. The decrease was primarily attributable to lower cost of revenues of approximately $745 million driven by lower volume as a result of the wind-down or completion of IT programs with the U.S. defense and intelligence agencies; and lower volume resulting from reduced U.S. Government funding levels due to budget constraints (primarily technical services programs); and troop drawdowns that impacted programs to provide in-theatre operations, data analysis, combat support and IT support for the U.S. military (primarily the DoD JIEDDO program). Additionally, pension expense allocated from Lockheed Martin decreased approximately $60 million as a result of the plan amendments to freeze future retirement benefits announced by Lockheed Martin in June 2014. These decreases were partially offset by increases in cost of revenues of approximately $195 million due to the start-up of new programs and increased activities on recently awarded programs (primarily the DISA GSM program); and about $135 million due to additional cost of revenues from Industrial Defender and SMS, which were acquired in 2014, and Amor, which was acquired in September 2013.

Severance Charges

During 2015, IS&GS recorded severance charges of $20 million as a result of a review intended to reduce costs in order to improve the affordability of its services and solutions offerings. The charges consisted of severance costs associated with the planned elimination of certain positions through either voluntary or involuntary actions. Upon separation, terminated employees will receive lump-sum severance payments primarily based on years of service. Approximately $14 million of the severance benefits were paid in 2015 with the remainder expected to be paid by mid-2016.

During 2013, IS&GS recorded severance charges of $45 million after a strategic review of the business to reduce its workforce and after considering future workload projections. Upon separation, terminated employees received lump-sum severance payments primarily based on years of service, all of which was paid by December 31, 2015.

Other Income, Net

Other income, net is primarily comprised of IS&GS share of net earnings related to its equity method investees, which include Kwajalein Range Services, LLC and Consolidated Nuclear Services, LLC (CNS). The increase in Other income, net in 2015 and 2014 is primarily due to IS&GS share of net earnings in CNS, which was formed in 2014.

Earnings Before Income Tax

Pretax earnings increased $33 million, or 8%, in 2015 as compared to 2014. Pretax earnings as a percentage of revenues was 8.4% in 2015 as compared to 7.7% in 2014. The increases were attributable to cost of revenues declining at a higher rate than revenues due to improved program performance and risk retirements of about $50 million related to technical services programs, the NCR program and HR Access program; and a decrease in pension expense of approximately $25 million. These increases were partially offset by decreases in pretax earnings of approximately $30 million as a result of volume and $20 million of severance charges recognized in 2015 that did not occur in 2014.

Pretax earnings increased $73 million, or 20%, in 2014 as compared to 2013. Pretax earnings as a percentage of revenues was 7.7% in 2014 as compared to 5.9% in 2013. The increases were attributable to a decrease in pension expense of approximately $60 million; and $45 million of severance charges recognized in 2013 that were not repeated in 2014. These increases were partially offset by decreases in pretax earnings of approximately $20 million as a result of volume and about $20 million of lower profit booking rate adjustments.

Income Tax Expense

The provision for income taxes represents income taxes paid or payable for the current year, plus the change in deferred taxes during the year. In general, the taxable income of the IS&GS business was included in Lockheed Martin s combined U.S. federal tax returns, and, where applicable, in jurisdictions around the world. As a result, separate U.S. federal income tax returns were not prepared for most IS&GS entities. IS&GS current portion of U.S. and certain non-U.S. income taxes payable is deemed to have been remitted to Lockheed Martin in the period the related tax expense was recorded. Consequently, current income taxes payable are deemed to have been settled with Lockheed Martin in each year.

IS&GS effective income tax rate was 34.4% for 2015, 33.3% for 2014 and 32.6% for 2013. The rates for all periods benefited from tax deductions for U.S. manufacturing activities and the U.S. research and development tax credit.

Table of Contents

Liquidity and Cash Flows

As part of Lockheed Martin, IS&GS is dependent upon Lockheed Martin for all of its working capital and financing requirements as Lockheed Martin uses centralized cash management and financing programs. Financial transactions relating to the IS&GS business are accounted for through the net parent investment account of the IS&GS business. The cash reflected on the combined financial statements represents cash on hand at certain foreign and domestic entities that do not participate in Lockheed Martin s centralized cash management program. During 2015 and 2013, IS&GS generated sufficient cash from operating activities to funds its ongoing operations. However, during 2014 Lockheed Martin provided funding to IS&GS to support its business acquisitions.

Cash received from customers, either from the payment of invoices for work performed or for advances in excess of costs incurred, is IS&GS primary source of cash. IS&GS generally does not begin work on contracts until funding is appropriated by the customer. However, IS&GS management may determine to fund customer programs pending government appropriations and has been doing so with increased frequency. If IS&GS incurs costs in excess of funds obligated on the contract, IS&GS is at risk for reimbursement of the excess costs.

In connection with the Transaction, Splitco expects to incur indebtedness of $1.84 billion as described above under Separation from Lockheed Martin and Combination with Leidos.

The following table provides a summary of IS&GS cash flow information followed by a discussion of the key elements (in millions):

	Years Ended December 31,		
	2015	**2014**	**2013**
Cash and cash equivalents at beginning of year	**$ 61**	$ 30	$ 22
Operating activities			
Net earnings	**309**	292	246
Non-cash adjustments	**93**	35	121
Changes in working capital	**46**	75	35
Other, net	**(56)**	(16)	21
Net cash provided by operating activities	**392**	386	423
Net cash used for investing activities	**(25)**	(466)	(230)
Net cash (used for) provided by financing activities	**(385)**	117	(185)
Effect of foreign exchange rate changes for cash	**(4)**	(6)	
Net change in cash and cash equivalents	**(22)**	31	8
Cash and cash equivalents at end of year	**$ 39**	$ 61	$ 30

Operating Activities

Net cash provided by operating activities increased $6 million in 2015 as compared to 2014. The increase was attributable to a net $30 million reduction in salary and benefit payments to employees as a result of headcount reductions and a $5 million decrease in net cash payments for various prepaid and other assets and liabilities, offset by a $29 million decline in cash flows generated from changes in working capital (defined as receivables and inventories less accounts payable and customer advances and amounts in excess of costs incurred). The net decrease in cash flows generated from working capital changes was due to an increase in inventory costs related to the CIOG program, which was awarded in September 2014, and the timing of customer payments on certain programs (primarily HR Access).

Net cash provided by operating activities decreased $37 million in 2014 as compared to 2013. The decrease was primarily due to a $40 million net decrease related to severance, other benefit payments and a $37 million decrease in net cash payments for various prepaid and other assets and liabilities. These decreases were offset by a net $40 million increase in cash flows related to working capital changes. The net increase in cash flows generated by working capital changes was due to the timing of customer payments on recently awarded programs and a decline in inventory on various programs due to volume.

Investing Activities

Net cash used for investing activities was $25 million in 2015, $466 million in 2014, and $230 million in 2013. The changes in net cash used in investing activities were primarily attributable to cash paid for business acquisitions. In 2015, there were no business acquisitions. In 2014, IS&GS separately acquired SMS, Industrial Defender and Beontra for a combined $526 million, of which $448 million was paid in 2014. In 2013, IS&GS acquired Amor for $206 million, all of which was paid in 2013.

Additionally, IS&GS made capital expenditures of $25 million in 2015, $18 million in 2014 and $24 million in 2013. The majority of IS&GS capital expenditures were for equipment and facilities infrastructure that generally are incurred to support new and existing programs. IS&GS also incurs capital expenditures for information technology to support programs and general enterprise information technology infrastructure, inclusive of costs for the development or purchase of internal-use-software.

Table of Contents

Financing Activities

Net cash used in financing activities was $385 million in 2015, a decrease of $502 million from cash provided by financing activities of $117 million in 2014. The decline was primarily due to an increase in net transfers from IS&GS to Lockheed Martin of $497 million under Lockheed Martin s centralized cash management and financing programs driven by increased cash flows from prior year acquisitions.

Net cash provided by financing activities was $117 million in 2014, an increase of $302 million from cash used in financing activities of $185 million in 2013. The increase was primarily due to a decrease in net transfers from IS&GS to Lockheed Martin of $301 million as part of Lockheed Martin s centralized cash management and financing programs resulting from cash flow needs to fund business acquisitions.

Contractual Commitments

The following table summarizes IS&GS contractual purchase obligations that require it to make future cash payments as of December 31, 2015 (in millions):

		Payments Due By Period			
	Total	Less Than 1 Year	Years 2 and 3	Years 4 and 5	After 5 Years
Operating purchase commitments	$ 1,195	$ 1,191	$ 3	$ 1	$
Operating lease obligations	162	50	67	34	11
Capital expenditures	3	3			
Contingent consideration and holdbacks	61	53	8		
Employee deferred compensation	32	15	17		
Total contractual cash obligations	$ 1,453	$ 1,312	$ 95	$ 35	$ 11

Operating purchase obligations include amounts related to agreements and contracts that provide the supplier recourse against IS&GS for cancellation or nonperformance under the contract or contain terms that would subject IS&GS to liquidated damages. Such agreements and contracts, for example, may be related to obligations to subcontractors and outsourcing arrangements. Operating purchase commitments include costs that are reimbursable under U.S. government contracts. Purchase obligations related to capital expenditures include obligations related to facilities infrastructure and equipment. Contingent consideration represents additional amounts owed for the acquisition of SMS in the event certain contracts are awarded, which is expected to occur in 2016. Holdbacks represent future payments related to the acquisitions of SMS and Industrial Defender. Such holdbacks will either be retained by Lockheed Martin in respect of indemnification claims that may be made under the terms of the respective acquisition agreements or will be paid to the former owners of these businesses if such claims do not occur prior to the expiration of certain agreed-upon indemnification periods. Under employee deferred compensation arrangements, certain IS&GS employees may defer all or a portion of their salaries and incentive compensation at their discretion.

At December 31, 2015, no long-term debt obligations were outstanding. In connection with the Transactions, Splitco will incur new indebtedness in an aggregate principal amount of approximately $1.84 billion and will use substantially all of the proceeds of this loan to pay Lockheed Martin a special cash payment of $1.80 billion in connection with the transfer of the IS&GS business to Splitco. Splitco is expected to use the balance of the loan to pay certain fees and expenses incurred in connection with the loan.

Off-Balance Sheet Arrangements

In connection with the business of IS&GS, Lockheed Martin has standby letters of credit, surety bonds and third-party guarantees with financial institutions and other third parties primarily relating to advances received from customers and the guarantee of future performance on certain contracts. These off-balance sheet arrangements are as follows at December 31, 2015 (in millions):

		Commitment Expiration By Period			
	Total Commitment	Less Than 1 Year	Years 2 and 3	Years 4 and 5	After 5 Years
Standby letters of credit	$ 13	$ 12	$ 1	$	$
Surety bonds	296	294	2		
Guarantees	127			127	
Total commitments	$ 436	$ 306	$ 3	$ 127	$

Letters of credit and surety bonds generally are available to draw upon in the event IS&GS does not perform. Following the Transactions, Lockheed Martin will retain obligations with respect to $293 million of the surety bonds shown above. In some cases, Lockheed Martin may guarantee the contractual performance of third parties such as joint venture partners. Third-party guarantees do not include guarantees of subsidiaries and other consolidated entities. IS&GS believes its current and former venture partners will be able to perform their obligations, as they have done through December 31, 2015, and that it will not be necessary to make payments under the third-party guarantees.

Table of Contents

Critical Accounting Estimates and Policies

IS&GS significant accounting policies, including the critical policies and practices listed below, are more fully described and discussed in the notes to the combined financial statements. IS&GS considers the following accounting policies to be critical to an understanding of its financial condition and results of operations because these policies require subjective or complex judgments on the part of management in their application, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Revenue Recognition

Substantially all of IS&GS revenues are derived from services and solutions provided to the U.S. Government. IS&GS records revenues and estimated profits for its contracts with the U.S. Government using the percentage-of-completion method of accounting. IS&GS primarily performs under the following types of contractual arrangements with the U.S. Government: cost-reimbursable contracts, fixed-price contracts and time-and-materials contracts.

Cost-reimbursable contracts, which accounted for approximately 45% of IS&GS revenues in 2015, provide for the payment of allowable costs incurred during performance of the contract plus a fee, up to a ceiling based on the amount that has been funded. IS&GS generates revenues under two general types of cost-reimbursable contracts: cost-plus-award-fee/incentive-fee contracts, which represent a substantial majority of its cost-reimbursable contracts, and cost-plus-fixed-fee contracts.

Cost-plus-award-fee contracts provide for an award fee that varies within specified limits based on the customer s assessment of IS&GS performance against a predetermined set of criteria, such as targets based on cost, quality, technical and schedule criteria. Cost-plus-incentive-fee contracts provide for reimbursement of costs plus a fee which is adjusted by a formula based on the relationship of total allowable costs to total target costs (incentive based on cost) or reimbursement of costs plus an incentive to exceed stated performance targets (incentive based on performance). The fixed fee in a cost-plus-fixed-fee contract is negotiated at the inception of the contract and that fixed fee does not vary with actual costs.

Under fixed-price contracts, which accounted for approximately 40% of IS&GS revenues in 2015, IS&GS agrees to perform the specified work for a pre-determined price. To the extent its actual costs vary from the estimates upon which the price was negotiated, IS&GS will generate more or less profit or could incur a loss. Some fixed-price contracts have a performance-based component under which IS&GS may earn incentive payments or incur financial penalties based on its performance.

Under time-and-materials contracts, which accounted for approximately 15% of IS&GS revenues in 2015, IS&GS is paid a fixed hourly rate for each direct labor hour expended and IS&GS is reimbursed for allowable material costs and allowable out-of-pocket expenses. To the extent IS&GS actual direct labor and associated costs vary in relation to the fixed hourly billing rates provided in the contract, it will generate more or less profit or could incur a loss.

Percentage-of-Completion Method of Revenue Recognition

Revenues on cost-reimbursable-plus-fee contracts are recognized as services are performed, generally based on the allowable costs incurred during the period plus any recognizable earned fee. IS&GS considers fixed fees under cost-reimbursable-plus-fee contracts to be earned in proportion to the allowable costs incurred in performance of the contract. For cost-reimbursable-plus-fee contracts that include performance-based fee incentives, which are principally award fee arrangements, IS&GS recognizes income when such fees are probable and estimable. Estimates of the total fee to be earned are made based on contract provisions, prior experience with similar contracts or clients, and management s evaluation of the performance on such contracts. Contract costs, including indirect expenses, are subject to audit by the Defense Contract Audit Agency (DCAA), and, accordingly, are subject to possible cost disallowances.

Revenues on fixed-price contracts are primarily recognized using the cost-to-cost method, which is primarily based on actual costs incurred relative to total estimated costs for the contract. Profits on fixed-price contracts result from the difference between incurred costs used to calculate the percentage of completion and revenue earned.

Revenues earned under time-and-materials contracts are recognized based on the hours worked multiplied by the contractually billable rates to the customer, plus the billable rate for allowable materials and out-of-pocket expenses.

IS&GS contracts may include several elements or phases. In these situations, IS&GS determines whether the elements should be accounted for separately based on how the elements are bid or negotiated, whether the customer can accept separate elements of the arrangement, and the relationship between the pricing on the elements individually and combined. When IS&GS determines that accounting for the elements separately is appropriate, it allocates the contract value to the deliverables based on the estimated relative value of each element to the contract value.

Table of Contents

Accounting for contracts using the percentage-of-completion method requires judgment relative to assessing risks, estimating contract revenues and costs (including estimating award and incentive fees and penalties related to performance) and making assumptions for schedule and technical issues. Due to the scope and nature of the work required to be performed on certain contracts, the estimation of total revenues and costs at completion is complicated and subject to many variables and, accordingly, is subject to change. When adjustments in estimated total contract revenues or estimated total costs are required, any changes from prior estimates are recognized in the current period for the inception-to-date effect of such changes. When estimates of total costs to be incurred on a contract exceed estimates of total revenues to be earned, a provision for the entire loss on the contract is recorded in the period in which the loss is determined.

The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule and costs in the initial estimated total costs to complete the contract. Profit booking rates may increase during the performance of the contract if IS&GS successfully retires risks surrounding the technical, schedule and cost aspects of the contract that decreases the estimated total costs to complete the contract. Conversely, profit booking rates may decrease if the estimated total costs to complete the contract increase. Profit booking rates also may be impacted favorably or unfavorably by other items. Favorable items may include the positive resolution of contractual matters and cost recoveries on disputed charges. Unfavorable items may include the adverse resolution of contractual matters and reserves for disputes. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate. Therefore, comparability of IS&GS revenues, profit and margins may be impacted by changes in profit booking rates on IS&GS contracts accounted for using the percentage-of-completion method. IS&GS combined net adjustments not related to volume, including net profit booking rate adjustments and other matters, increased gross profit by approximately $168 million, $116 million and $136 million for the years ended December 31, 2015, 2014 and 2013, respectively. These adjustments increased net earnings by approximately $109 million, $75 million and $88 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Services Method of Revenue Recognition

For services and solutions provided to non-U.S. Government customers, IS&GS records revenues as services are performed or on a straight-line basis over the period of performance if there is persuasive evidence of an arrangement, the price is fixed or determinable and collectability is reasonably assured, except for award and incentive fees. Award and incentive fees are recorded when they are fixed or determinable, generally at the date the amount is communicated to IS&GS by the customer. This approach results in the recognition of such fees at contractual intervals (typically every six months) throughout the contract and is dependent on the customer s processes for notification of awards. Costs for contracts accounted for using the services method are expensed as incurred.

Other Contract Accounting Considerations

The majority of IS&GS revenues are driven by pricing based on costs incurred to perform services or provide solutions under contracts with the U.S. Government. Cost-based pricing is determined under the Federal Acquisition Regulation (FAR). The FAR provides guidance on the types of costs that are allowable in establishing prices for goods and services under U.S. Government contracts. For example, costs such as those related to charitable contributions, interest expense and certain advertising and public relations activities are unallowable and, therefore, not recoverable through sales. In addition, IS&GS may enter into advance agreements with the U.S. Government that address the subjects of allowability and allocability of costs to contracts for specific matters.

IS&GS closely monitors compliance with and the consistent application of its critical accounting policies related to contract accounting. Costs incurred and allocated to contracts are reviewed for compliance with U.S. Government regulations by IS&GS personnel and are subject to audit by the DCAA.

Allocations

The combined financial statements reflect allocations of certain expenses from Lockheed Martin including, but not limited to, general corporate expenses such as senior management, legal, human resources, finance, accounting, treasury, state tax, IT, benefits, communications, ethics and compliance, corporate employee benefits, incentives and stock-based compensation, shared services processing and administration and depreciation for corporate fixed assets. Management of IS&GS considers these allocations to be a reasonable reflection of the utilization of services by, or the benefits provided to, it. The allocation methods used include a pro rata basis of revenues, cost of revenues, headcount, fixed assets, number of transactions or other measures. Allocations for management costs and corporate support services provided to IS&GS totaled $253 million, $268 million and $273 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Business Acquisitions

IS&GS allocates the purchase price of businesses acquired to the tangible and intangible assets acquired, liabilities assumed and non-controlling interest acquired based on their estimated fair value at the acquisition date. The excess of the acquisition price over the estimated fair value assigned to the underlying net assets of the acquired businesses is recorded as goodwill. The goodwill recognized is attributable to expected revenue and cost synergies and intangible assets that do not qualify for separate recognition, such as the assembled workforce. Goodwill is not amortized and is subject to annual impairment testing. Any change to the acquisition date fair value prior to the expiration of the measurement period, a period not to exceed 12 months from the date of the acquisition, is recorded as an adjustment to the assets acquired, including goodwill, or the liabilities assumed. Any change to the acquisition date fair values after expiration of the measurement period is recorded in earnings in the Combined Statements of Earnings. Acquisition-related expense and restructuring charges are recognized separately from the business combination and are expensed as incurred. Revenues and earnings attributable to acquisitions are included in the combined financial statements for the periods subsequent to the acquisition date.

Goodwill

IS&GS goodwill balances were $2.8 billion at both December 31, 2015 and 2014. Goodwill is recorded when the purchase price of an acquired business exceeds the fair value of the net assets acquired. Goodwill is tested for impairment at least annually in the fourth quarter and more frequently whenever certain events or changes in circumstances indicate the carrying value of goodwill may be impaired. Such events or changes in circumstances may include a significant deterioration in overall economic conditions, changes in the business climate of its industry, operating performance indicators, competition, reorganizations of its business or the disposal of all or a portion of a reporting unit. Goodwill has been allocated to and is tested for impairment at a level referred to as the reporting unit, which is a level below its business segment. The level at which IS&GS tests goodwill for impairment requires IS&GS to determine whether the operations below the business segment constitute a business for which discrete financial information is available and IS&GS management regularly reviews the operating results.

IS&GS may use both qualitative and quantitative approaches when testing goodwill for impairment. Under the qualitative approach, for selected reporting units, IS&GS may perform a qualitative evaluation of events and circumstances impacting the reporting unit to determine the likelihood of goodwill impairment. Based on that qualitative evaluation, if IS&GS determines it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, no further evaluation is necessary. Otherwise, IS&GS performs a quantitative two-step impairment test.

Under step one of the quantitative impairment test, IS&GS compares the fair value of each reporting unit to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is not impaired. If the carrying value of a reporting unit exceeds its fair value, IS&GS then performs step two of the quantitative impairment test and compares the implied value of the reporting unit s goodwill with the carrying value of its goodwill. The implied value of the reporting unit s goodwill is calculated by creating a hypothetical balance sheet as if the reporting unit had just been acquired. This balance sheet contains all assets and liabilities recorded at fair value (including any intangible assets that may not have any corresponding carrying value in its balance sheet). The implied value of the reporting unit s goodwill is calculated by subtracting the fair value of the net assets from the fair value of the reporting unit. If the carrying value of the reporting unit s goodwill exceeds the implied value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

IS&GS estimates the fair value of a reporting unit under the quantitative approach using a combination of a discounted cash flow (DCF) analysis and market-based valuation methodologies such as comparable public company trading values and values observed in recent business acquisitions, where appropriate. Determining fair value requires the exercise of significant judgments, including judgments about the amount and timing of expected future cash flows, long-term growth rates, discount rates and relevant comparable public company earnings multiples and relevant transaction multiples. The cash flows employed in the DCF analyses are based on IS&GS best estimate of future revenues, earnings and cash flows after considering factors such as general market conditions, U.S. Government budgets, existing firm orders, expected future orders, contracts with suppliers, labor agreements, changes in working capital, long-term business plans and recent operating performance. The discount rates utilized in the DCF analysis are based on the respective reporting unit s weighted average cost of capital, which takes into account the relative weights of each component of capital structure (equity and debt) and represents the expected cost of new capital, adjusted as appropriate to consider the risk inherent in future cash flows of the respective reporting unit.

For 2015 and 2014, the results of IS&GS annual impairment tests of goodwill indicated that no impairment existed. Impairment assessments inherently involve management judgments regarding a number of assumptions such as those described above. Due to the many variables inherent in the estimation of a reporting unit s fair value and the relative size of IS&GS recorded goodwill, differences in assumptions could have a material effect on the estimated fair value of one or more of IS&GS reporting units.

Table of Contents

Intangible Assets

Identifiable intangible assets generally represent the value of contractual relationships and developed technology acquired in business combinations. In valuing these assets, IS&GS makes assumptions regarding useful lives and projected growth rates, and significant judgment is required. IS&GS periodically reviews identifiable intangible assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amounts of the assets exceed their respective fair values, impairment tests are performed to measure the amount of the impairment loss, if any.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard that will change the way IS&GS recognizes revenue and significantly expand the disclosure requirements for revenue arrangements. On July 9, 2015, the FASB approved a one-year deferral of the effective date of the standard to 2018 for public companies, with an option that would permit companies to adopt the standard in 2017. Early adoption prior to 2017 is not permitted. The new standard may be adopted either retrospectively or on a modified retrospective basis whereby the new standard would be applied to new contracts and existing contracts with remaining performance obligations as of the effective date, with a cumulative catch-up adjustment recorded to beginning retained earnings at the effective date for existing contracts with remaining performance obligations. In addition, the FASB is contemplating making additional changes to certain elements of the new standard. IS&GS is currently evaluating the methods of adoption allowed by the new standard and the effect the standard is expected to have on its combined financial statements and related disclosures. As the new standard will supersede substantially all existing revenue guidance affecting IS&GS under GAAP, it could impact revenue and cost recognition on thousands of contracts across IS&GS business, in addition to IS&GS business processes and IT systems. As a result, IS&GS evaluation of the effect of the new standard will extend over future periods.

In September 2015, the FASB issued a new standard that simplifies the accounting for adjustments made to preliminary amounts recognized in a business combination by eliminating the requirement to retrospectively account for those adjustments. Instead, adjustments will be recognized in the period in which the adjustments are determined, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. IS&GS adopted the standard on January 1, 2016 and will prospectively apply the standard to business combination adjustments identified after the date of adoption.

In November 2015, the FASB issued a new standard that simplifies the presentation of deferred income taxes and requires that deferred tax assets and liabilities, as well as any related valuation allowance, be classified as noncurrent in IS&GS Combined Balance Sheets. The standard is effective January 1, 2017, with early adoption permitted. The standard may be applied either prospectively from the date of adoption or retrospectively to all prior periods presented. IS&GS adopted the standard on December 31, 2015 and retrospectively applied the standard to all periods presented in its combined financial statements.

In February 2016, the FASB issued a new standard that increases transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet and the disclosure of key information about leasing arrangements. The standard is effective January 1, 2019 for public companies, with early adoption permitted. The standard will be applied using a modified retrospective approach to the beginning of the earliest period presented in the financial statements. IS&GS is currently evaluating when it will adopt the standard and the expected impact to the combined financial statements and related disclosures.

Quantitative and Qualitative Disclosures About Market Risk

IS&GS transacts business globally and is subject to risks associated with changing foreign currency exchange rates. Lockheed Martin monitors and manages these risks, including such risks associated with the IS&GS business, as an integral part of its overall risk management programs. To manage such risks, hedging transactions may be entered into pursuant to established guidelines and policies to mitigate the adverse effects of market risks from changes in foreign currency exchange rates. Lockheed Martin does not enter into or hold derivative instruments for speculative trading purposes. Lockheed Martin enters into foreign currency hedges such as forward and option contracts that change in value as foreign currency exchange rates change. These contracts hedge forecasted foreign currency transactions in order to mitigate fluctuations in its earnings and cash flows associated with changes in foreign currency exchange rates. Lockheed Martin designates foreign currency hedges as cash flow hedges. Lockheed Martin may also enter into derivative instruments that are not designated as hedges and do not qualify for hedge accounting, which are intended to mitigate certain economic exposures.

The aggregate notional amounts and fair value of outstanding foreign currency hedges related to the IS&GS business as of December 31, 2015 and 2014 were not significant. Derivative instruments did not have a significant impact on IS&GS net earnings or comprehensive income during the years ended December 31, 2015, 2014 and 2013.

Lockheed Martin evaluates the credit quality of potential counterparties to derivative transactions and only enter into agreements with those deemed to have acceptable credit risk at the time the agreements are executed. Lockheed Martin s foreign currency exchange hedge portfolio is diversified across various banks and it periodically monitors changes to counterparty credit quality as well as its concentration of credit exposure to individual counterparties.

SELECTED HISTORICAL FINANCIAL DATA

Selected Historical Combined Financial Data of the Splitco Business

Splitco is a newly formed holding company organized on January 19, 2016 for the purpose of holding the Splitco Business and consummating the Transactions. The data below as of December 31, 2015 and 2014, and for the three years in the period ended December 31, 2015, have been derived from the audited combined financial statements included elsewhere in this document. The data below as of December 31, 2013, 2012 and 2011 and for each of the years ended December 31, 2012 and 2011 has been derived from the unaudited financial statements not included or incorporated by reference in this document. The selected historical consolidated financial data presented below is not necessarily indicative of the results of operations or financial condition that may be expected for any future period or date. This information is only a summary and you should read the table below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations for the Splitco Business and the combined financial statements of the Splitco Business and the notes thereto included elsewhere in this document. The historical financial statements of the Splitco Business reflect the business as it was operated within Lockheed Martin. Since the Splitco Business is being transferred in the Transactions, the historical financial statements should be read in conjunction with the Unaudited Pro Forma Combined Consolidated Financial Statements of Leidos and the Splitco Business, which include adjustments for the impact of the Transactions.

(in millions)	2015	2014	2013	2012	2011
Combined Statement of Earnings Data:					
Revenues	$ 5,626	$ 5,702	$ 6,158	$ 6,666	$ 7,136
Earnings before income taxes (a)	471	438	365	456	529
Net earnings (a)	309	292	246	311	358
Less: Net earnings attributable to non-controlling interest	5	5	6	5	8
Net earnings attributable to parent (a)	$ 304	$ 287	$ 240	$ 306	$ 350
Combined Balance Sheet Data:					
Total assets (b)	$ 4,180	$ 4,251	$ 3,829	$ 3,748	$ 3,981

(a) Earnings before income taxes, net earnings and net earnings attributable to parent were affected by severance charges of $20 million ($13 million after tax) in 2015, $45 million ($29 million after tax) in 2013 and $12 million ($8 million after tax) in 2011.

(b) The increase in total assets from 2013 to 2014 and from 2012 to 2013 was primarily attributable to the acquisitions of Systems Made Simple, Inc., Industrial Defender, Inc. and Beontra AG in 2014; and Amor Group Ltd 2013.

Selected Historical Consolidated Financial Data of Lockheed Martin

The following selected historical consolidated financial data of Lockheed Martin as of December 31, 2015 and 2014, and for the years ended December 31, 2015, 2014 and 2013, have been derived from the audited consolidated financial statements of Lockheed Martin incorporated by reference in this document. The selected historical consolidated financial data of Lockheed Martin as of December 31, 2013, 2012 and 2011, and for the years ended December 31, 2012 and 2011 have been derived from Lockheed Martin s audited consolidated financial statements not included in or incorporated by reference into this document. The selected historical consolidated financial data presented below is not necessarily indicative of the results of operations or financial condition that may be expected for any future period or date. You should read the table below in conjunction with the financial statements of Lockheed Martin and the notes thereto and the Management s Discussion and Analysis of Financial Condition and Results of Operations section contained in Lockheed Martin s Annual Report on Form 10-K for the year ended December 31, 2015, which is incorporated by reference into this document. See Where You Can Find More Information; Incorporation by Reference.

Table of Contents

(in millions, except per-share data and ratios)	2015	2014	2013	2012	2011
Operating results					
Net sales	$ 46,132	$ 45,600	$ 45,358	$ 47,182	$ 46,499
Operating profit [(a)(b)]	5,436	5,592	4,505	4,434	4,020
Net earnings from continuing operations [(a)(b)]	3,605	3,614	2,950	2,745	2,667
Net earnings [(a)(b)]	3,605	3,614	2,981	2,745	2,655
Net earnings from continuing operations per common share					
Basic [(a)(b)]	11.62	11.41	9.19	8.48	7.94
Diluted [(a)(b)]	11.46	11.21	9.04	8.36	7.85
Net earnings per common share					
Basic [(a)(b)]	11.62	11.41	9.29	8.48	7.90
Diluted [(a)(b)]	11.46	11.21	9.13	8.36	7.81
Cash dividends declared per common share	$ 6.15	$ 5.49	$ 4.78	$ 4.15	$ 3.25
Balance sheet					
Total assets [(c)]	$ 49,128	$ 37,046	$ 36,163	$ 38,629	$ 37,878
Total debt, net [(d)]	15,261	6,142	6,127	6,280	6,430
Total liabilities [(b)(d)]	46,031	33,646	31,245	38,590	36,877
Stockholders equity [(b)]	3,097	3,400	4,918	39	1,001
Ratio of Earnings to Fixed Charges [(e)]	11.3	14.6	11.2	10.5	9.5

(a) Operating profit, earnings and earnings per share were affected by severance charges of $102 million ($66 million or $.21 per share, after tax) in 2015 and $201 million ($130 million or $.40 per share, after tax) in 2013; a non-cash goodwill impairment charge of $119 million ($107 million or $.33 per share, after tax) in 2014; and a non-cash goodwill impairment charge of $195 million ($176 million or $.54 per share, after tax) in 2013.

(b) The impact of Lockheed Martin s postretirement benefit plans can cause its operating profit, net earnings, cash flows and amounts recorded on its Balance Sheets to fluctuate. Accordingly, Lockheed Martin s earnings were affected by FAS/CAS pension income of $471 million and $376 million in 2015 and 2014 and expense of $482 million in 2013. Lockheed Martin had $5 million in pension contributions in 2015 (for Sikorsky plans), as compared to $2.0 billion in 2014 and $2.25 billion in 2013.

(c) The increase in total assets from 2014 to 2015 was primarily attributable to Lockheed Martin s acquisition of Sikorsky Aircraft Corporation (Sikorsky), a global company primarily engaged in the design, manufacture and support of military and commercial helicopters, from United Technologies Corporation, which resulted in an increase in total assets of $11.7 billion.

(d) The increase in total debt and total liabilities from 2014 to 2015 was primarily a result of the debt incurred to fund the Sikorsky acquisition, as well as the issuance of debt in February of 2015 for general corporate purposes.

(e) The ratio of earnings to fixed charges is a measure of Lockheed Martin s ability to meet the interest requirements of its outstanding debt securities and leases with current period earnings. A high ratio indicates that earnings are sufficient to cover its current interest requirements. Lockheed Martin s computation of the ratio of earnings to fixed charges includes its consolidated subsidiaries and equity investees. Earnings are determined by adding total fixed charges, excluding interest capitalized, to earnings from continuing operations before income taxes, eliminating undistributed earnings of its equity investees and adding back losses of its equity investees. Total fixed charges consists of interest on all indebtedness, amortization of debt discount or premium, interest capitalized and an interest factor attributable to rents.

Selected Historical Consolidated Financial Data of Leidos

The following selected historical consolidated financial data of Leidos, as of and for the 11-month period ended January 1, 2016, and as of January 30, 2015 and for the years ended January 30, 2015 and January 31, 2014, have been derived from Leidos audited consolidated financial statements, which are incorporated by reference herein from the Transition Report on Form 10-K for the 11-month period ended January 1, 2016. The selected historical consolidated financial data of Leidos as of January 31, 2014 and as of and for the years ended January 31, 2013 and 2012 have been derived from Leidos audited consolidated financial statements which are not included in or incorporated by reference into this document. The selected historical consolidated financial data presented below is not necessarily indicative of the results of operations or financial condition that may be expected for any future period or date. The table below should be read in conjunction with the financial statements of Leidos and the notes thereto and the Management s Discussion and Analysis of Financial Condition and Results of Operations section contained in Leidos Transition Report on Form 10-K for the 11-month period ended January 1, 2016, which is incorporated by reference in this document. See Where You Can Find More Information; Incorporation By Reference.

Table of Contents

As indicated in Leidos Transition Report on Form 10-K for the 11 months ended January 1, 2016, Leidos Board of Directors approved the amendment and restatement of Leidos bylaws to change Leidos year end from the Friday nearest the end of January to the Friday nearest the end of December. As a result of this change, Leidos filed a Transition Report on Form 10-K with the SEC on February 26, 2016, which covers the 11-month period that began on January 31, 2015 and ended on January 1, 2016. This change did not impact Leidos 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.

	11 Months Ended [(a)*]	12 Months Ended [(a)*]			
(in millions, except per share data)	**January 1, 2016** [(b)*]	**January 30, 2015** [(c)*]	**January 31, 2014** [(d)*]	**January 31, 2013** [*]	**January 31, 2012** [(e)*]
Consolidated Statement of Income Data:					
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	$

(in millions)	**January 1, 2016**	**January 30, 2015**	**January 31, 2014**	**January 31, 2013**	**January 31, 2012**
Consolidated Balance Sheet Data:					
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 and deferred income taxes	$ 183	$ 168	$ 227	$ 170	$ 158

* References in the following notes refer to Leidos Transition Report on Form 10-K for the 11-month period ended January 1, 2016.

(a) References to financial data are to Leidos continuing operations, unless otherwise noted. During the year ended January 31, 2014, Leidos completed the spin-off of Science Applications International Corporation. The operating results of Science Applications International Corporation are included in discontinued operations.

(b) Reflects the 11-month period of January 31, 2015, through January 1, 2016 as a result of the change in Leidos 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 the 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 the Transition Report on Form 10-K.

(c) 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 the Transition Report on Form 10-K.

(d) 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 the Transition Report on Form 10-K.

(e) 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 the Transition Report on Form 10-K.

Table of Contents

UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL COMBINED CONSOLIDATED STATEMENT OF INCOME

Unaudited Pro Forma Combined Consolidated Financial Statements as of and for the 11 Months Ended January 1, 2016

The following unaudited pro forma combined consolidated financial statements of Leidos (the pro forma financial statements) include the unaudited pro forma combined consolidated balance sheet (the pro forma balance sheet) as of January 1, 2016 and the unaudited pro forma combined consolidated statement of income for the 11 months ended January 1, 2016 (the pro forma statement of income), after giving effect to the Merger and other Transactions.

The pro forma balance sheet combines the historical consolidated balance sheet of Leidos as of January 1, 2016, and the historical combined balance sheet of the Splitco Business as of December 31, 2015, giving effect to the Merger and other Transactions as if they had been consummated on January 1, 2016. The pro forma statement of income combines the historical consolidated statement of income of Leidos for the 11 months ended January 1, 2016, and the historical combined statement of earnings of the Splitco Business for the year ended December 31, 2015, as adjusted by one month to align the length of the period presented for the Splitco Business to that of Leidos, giving effect to the Merger and other Transactions as if they had been consummated on January 31, 2015.

The historical combined financial statements of the Splitco Business have been carved-out from Lockheed Martin s consolidated financial statements and reflect assumptions and allocations made by Lockheed Martin. The Splitco Business historical combined financial statements include assets and liabilities specifically attributable to the Splitco Business, and certain assets and liabilities that are held by Lockheed Martin that are specifically identifiable or otherwise attributable to the Splitco Business. The Splitco Business historical combined financial statements include all revenues and costs directly attributable to the Splitco Business and an allocation of expenses related to certain Lockheed Martin corporate functions. The financial information in the Splitco Business historical combined financial statements does not necessarily include all expenses that would have been incurred by the Splitco Business had it been a separate, stand-alone entity. Actual costs that may have been incurred if the Splitco Business had been a stand-alone company would depend on a number of factors, including the chosen organizational structure and functions outsourced or performed by employees. As such, the Splitco Business historical combined financial statements do not necessarily reflect what the Splitco Business financial condition and results of operations would have been had the Splitco Business operated as a stand-alone company during the period or as of the date presented.

The pro forma financial statements have been prepared in accordance with Article 11 of Regulation S-X. The historical financial information has been adjusted in the pro forma financial statements to give effect to pro forma events that are (1) directly attributable to the Merger and other Transactions, (2) factually supportable, and (3) with respect to the statement of income, expected to have a continuing impact on the results of operations of the combined business.

The pro forma financial statements were prepared using the acquisition method of accounting with Leidos considered the accounting acquirer of the Splitco Business. Under the acquisition method of accounting, the purchase price is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair values, with any excess purchase price allocated to goodwill.

The Merger and the other Transactions have not been consummated. Accordingly, the pro forma purchase price allocation of the Splitco Business assets to be acquired and liabilities to be assumed is based on preliminary estimates of the fair values of the assets acquired and liabilities assumed, and the pro forma financial statements are based upon available information and certain assumptions that management of Leidos believes are factually supportable as of the date of this document. A final determination of the fair value of the Splitco Business assets acquired and liabilities assumed, including intangible assets, will be based on the actual net tangible and intangible assets and liabilities of the Splitco Business that exist as of the closing date of the Merger and, therefore, cannot be made prior to the completion of the Merger. As a result of the foregoing, the pro forma adjustments are preliminary and are subject to change as additional information becomes available and as additional analyses are performed. These potential changes to the purchase price allocation and related pro forma adjustments could be material.

The pro forma financial statements do not reflect the costs of integration activities or benefits that may result from realization of at least $120 million of anticipated annualized net cost synergies by the end of fiscal year 2018 or potential improved growth prospects. Leidos expects to incur significant, one-time costs, some of which will be capitalized, in connection with the Transactions, including approximately (1) $29 million of financing-related fees (which when added to the approximately $43 million that Splitco expects to incur, totals approximately $72 million), (2) $30 million of transaction-related costs including advisory, legal, accounting, and other professional fees, and (3) $150 million to $175 million of transition and integration-related costs, a portion of which will be incremental capital spending, which Leidos management believes are necessary to realize the anticipated synergies from the Transactions. The financing fees and transaction-related costs are expected to be incurred in 2016 and will primarily be funded through new term loans issued in connection with the Transactions. The transition and integration-related costs will be incurred during the first three years following the consummation of the Transactions, and will primarily be funded through cash generated from operations.

Table of Contents

Leidos management expects to recover approximately $50 million to $70 million of the transition and integration-related costs as allowable costs through cost-type contracts over a 5 year period. No assurances of the timing or amount of synergies able to be captured, or the costs necessary to achieve those cost synergies, can be provided.

The adjustments included in the pro forma financial statements are based upon current available information and assumptions that Leidos believes to be reasonable. These adjustments and related assumptions are described in the accompanying notes presented on the following pages.

The pro forma financial statements are for informational purposes only and are not intended to represent or to be indicative of the actual results of operations or financial position that the combined Leidos and Splitco Business would have reported had the Merger and other Transactions been completed as of the dates set forth in the pro forma financial statements, and should not be taken as being indicative of Leidos future consolidated results of operations or financial position. The actual results may differ significantly from those reflected in the pro forma financial statements for a number of reasons, including differences between the assumptions used to prepare the pro forma financial statements and actual amounts.

The pro forma financial statements should be read in conjunction with:

- the accompanying notes to the pro forma financial statements;
- Leidos audited historical consolidated financial statements and related notes as of and for the 11 months ended January 1, 2016, which are incorporated by reference in this document; and
- the Splitco Business audited historical combined financial statements and related notes as of and for the year ended December 31, 2015, which are included elsewhere in this document.

Table of Contents

UNAUDITED PRO FORMA COMBINED CONSOLIDATED BALANCE SHEET

AS OF JANUARY 1, 2016

	Historical Leidos as of January 1, 2016	Historical Splitco Business as of December 31, 2015	Pro Forma Adjustments (in millions)	Footnote Reference	Pro Forma Combined
ASSETS					
Current assets:					
Cash and cash equivalents	$ 656	$ 39	$ (440)	7.A	$ 255
Receivables, net	921	840	13	7.B	1,774
Inventory, prepaid expenses and other current assets	216	188	(55)	7.C	349
Total current assets	1,793	1,067	(482)		2,378
Property, plant and equipment, net	142	97	41	7.D	280
Goodwill	1,207	2,823	734	7.E	4,764
Intangible assets, net	25	128	1,522	7.F	1,675
Deferred income taxes	8	10			18
Other assets	202	55	15	7.G	272
	$ 3,377	$ 4,180	$ 1,830		$ 9,387
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable and accrued liabilities	$ 769	$ 236	$ 378	7.H	$ 1,383
Accrued payroll and employee benefits	268		205	7.I	473
Notes payable and long-term debt, current portion	2		81	7.J	83
Liabilities of discontinued operations	1				1
Customer advances and amounts in excess of costs incurred		297	(297)	6	
Salaries, benefits and payroll taxes		214	(214)	6	
Other current liabilities		254	(254)	6	
Total current liabilities	1,040	1,001	(101)		1,940
Notes payable and long-term debt, net of current portion	1,086		2,393	7.K	3,479
Deferred income taxes	34	150	651	7.L	835
Other long-term liabilities	149	88	(25)	7.M	212
Commitments and contingencies					
Stockholders equity:					
Preferred stock					

Common stock					
Additional paid-in capital	1,353		1,877	7.N	3,230
Accumulated deficit	(277)		(31)	7.N	(308)
Net parent investment		2,970	(2,970)	7.N	
Accumulated other comprehensive loss	(8)	(36)	36	7.N	(8)
Total stockholders equity	1,068	2,934	(1,088)		2,914
Noncontrolling interest		7			7
Total equity	1,068	2,941	(1,088)		2,921
	$ 3,377	$ 4,180	$ 1,830		$ 9,387

Table of Contents

UNAUDITED PRO FORMA COMBINED CONSOLIDATED STATEMENT OF INCOME

FOR THE 11 MONTHS ENDED JANUARY 1, 2016

	Historical					
	Leidos for the 11 Months Ended January 1, 2016	Splitco Business for the Year Ended December 31, 2015	Less: Splitco Business for the One Month Ended January 31, 2015	Pro Forma Adjustments	Footnote Reference	Pro Forma Combined
	(in millions, except per share amounts)					
Revenues	$ 4,712	$ 5,626	$ (431)	$ (38)	8.O	$ 9,869
Costs and expenses:						
Cost of revenues	4,146	5,177	(393)	(355)	8.P	8,575
Selling, general and administrative expenses	201			378	8.Q	579
Bad debt expense	8					8
Asset impairment charges	33					33
Separation transaction and restructuring expenses	4					4
Operating income	320	449	(38)	(61)		670
Non-operating income (expense):						
Interest income	4					4
Interest expense	(53)			(96)	8.R	(149)
Other income, net	84	22	(1)			105
Income from continuing operations before income taxes	355	471	(39)	(157)		630
Income tax expense	(112)	(162)	10	47	8.S	(217)
Income from continuing operations	243	309	(29)	(110)		413
Less: Net income attributable to noncontrolling interest		5				5
Income from continuing operations attributable to the company	$ 243	$ 304	$ (29)	$ (110)		$ 408
Earnings per share:						
Basic	$ 3.33					$ 2.72
Diluted	$ 3.28					$ 2.70

Weighted-average common shares:				
Basic	73	77	8.T	150
Diluted	74	77	8.T	151

Table of Contents

Unaudited Supplemental Combined Consolidated Statement of Income for the 12 Months Ended January 1, 2016

The following unaudited supplemental combined consolidated statement of income (the supplemental 12-month statement of income) combines the historical consolidated statement of income of Leidos for the 11 months ended January 1, 2016, the unaudited historical statement of income of Leidos for the one month ended January 30, 2015 and the historical combined statement of earnings of the Splitco Business for the year ended December 31, 2015, giving effect to the Merger and other Transactions as if they had been consummated on January 3, 2015.

The supplemental 12-month statement of income has been included to provide financial information about Leidos for a full-year period in light of the fact that the most recent Leidos audited consolidated financial statements reflect an 11-month transition period following Leidos change in its fiscal year-end in 2015, and provides information about the combined Leidos and Splitco Business for the full-year period. Leidos management believes that the supplemental 12-month statement of income is meaningful to a complete understanding of the Merger and other Transactions, but is not intended to, and does not, replace the pro forma financial statements prepared in accordance with Article 11 of Regulation S-X.

As is the case with the Article 11 pro forma financial statements, the supplemental 12-month statement of income was prepared using the historical combined financial statements of the Splitco Business and the acquisition method of accounting with Leidos considered the accounting acquirer of the Splitco Business. The adjustments included in the supplemental 12-month statement of income are based upon current available information and assumptions that Leidos believes to be reasonable. The adjustments and related assumptions are described in the accompanying notes and, except as described in those notes, are the same as those used in the preparation of the pro forma financial statements.

The supplemental 12-month statement of income does not reflect the costs of integration activities or benefits that may result from realization of at least $120 million of anticipated annualized net cost synergies by the end of fiscal year 2018 or potential improved growth prospects. Leidos expects to incur significant, one-time costs, some of which will be capitalized, in connection with the Transactions, including approximately (1) $29 million of financing-related fees (which, when added to the approximately $43 million that Splitco expects to incur, totals approximately $72 million), (2) $30 million of transaction-related costs including advisory, legal, accounting, and other professional fees, and (3) $150 million to $175 million of transition and integration-related costs, a portion of which will be incremental capital spending, which Leidos management believes are necessary to realize the anticipated synergies from the Transactions. The financing fees and transaction-related costs are expected to be incurred in 2016 and will primarily be funded through new term loans issued in connection with the Transactions. The transition and integration-related costs will be incurred during the first three years following the consummation of the Transactions, and will primarily be funded through cash generated from operations. Leidos management expects to recover approximately $50 million to $70 million of the transition and integration-related costs as allowable costs through its cost-type contracts over a 5 year period. No assurances of the timing or amount of synergies able to be captured, or the costs necessary to achieve those cost synergies, can be provided.

The supplemental 12-month statement of income is for informational purposes only and is not intended to represent or to be indicative of the actual results of operations or financial position that the combined Leidos and the Splitco Business would have reported had the Merger and other Transactions been completed as of January 3, 2015, and should not be taken as being indicative of Leidos future consolidated results of operations or financial position. The actual results may differ significantly from those reflected in the supplemental 12-month statement of income for a number of reasons, including differences between the assumptions used to prepare the supplemental 12-month statement of income and actual amounts.

The supplemental 12-month statement of income should be read in conjunction with:

the accompanying notes to the supplemental 12-month statement of income;

Leidos audited historical consolidated financial statements and related notes as of and for the 11 months ended January 1, 2016, which are incorporated by reference in this document; and

the Splitco Business audited historical combined financial statements and related notes as of and for the year ended December 31, 2015, which are included elsewhere in this document.

UNAUDITED SUPPLEMENTAL COMBINED CONSOLIDATED STATEMENT OF INCOME

FOR THE 12 MONTHS ENDED JANUARY 1, 2016

	Leidos for the 11 Months Ended January 1, 2016	Historical Leidos for the One Month Ended January 30, 2015	Splitco Business for the Year Ended December 31, 2015	Adjustments	Footnote Reference	Supplemental Combined for the 12 Months Ended January 1, 2016
	(in millions, except per share amounts)					
Revenues	$ 4,712	$ 374	$ 5,626	$ (41)	8.O	$ 10,671
Costs and expenses:						
Cost of revenues	4,146	322	5,177	(383)	8.P	9,262
Selling, general and administrative expenses	201	31		409	8.Q	641
Bad debt expense	8	1				9
Asset impairment charges	33	40				73
Separation transaction and restructuring expenses	4	2				6
Operating income (loss)	320	(22)	449	(67)		680
Non-operating income (expense):						
Interest income	4					4
Interest expense	(53)	(5)		(104)	8.R	(162)
Other income (expense), net	84		22			106
Income (loss) from continuing operations before income taxes	355	(27)	471	(171)		628
Income tax (expense) benefit	(112)	20	(162)	51	8.S	(203)
Income (loss) from continuing operations	243	(7)	309	(120)		425
Less: Net income attributable to noncontrolling interest			5			5
Income (loss) from continuing operations attributable to the company	$ 243	$ (7)	$ 304	$ (120)		$ 420
Earnings per share:						
Basic	$ 3.33					$ 2.80

Diluted	$ 3.28			$ 2.78
Weighted-average common shares				
Basic	73	77	8.T	150
Diluted	74	77	8.T	151

98

Leidos Holdings, Inc. and Subsidiaries

Notes to the Unaudited Pro Forma Combined Consolidated Financial Statements and the Unaudited Supplemental Combined Consolidated Statement of Income

Note 1: Basis of Presentation

The accompanying pro forma financial statements were prepared in accordance with Article 11 of Regulation S-X and present the pro forma balance sheet and pro forma statement of income of Leidos based upon the historical financial statements of each of Leidos and the Splitco Business, after giving effect to the Merger and other Transactions and are intended to reflect the impact of the Merger and other Transactions on Leidos consolidated financial statements. The historical financial statements of Leidos and the Splitco Business have been adjusted in the accompanying pro forma financial statements to give effect to pro forma events that are (i) directly attributable to the Merger and other Transactions, (ii) factually supportable, and (iii) with respect to the pro forma statement of income, expected to have a continuing impact on the consolidated results of operations of the combined business.

The supplemental 12-month statement of income is also based upon the historical financial statements of each of Leidos and the Splitco Business, after giving effect to the Merger and other Transactions and is intended to reflect the full-year impact of the Merger and other Transactions on Leidos consolidated results of operations. The supplemental 12-month statement of income has been included to provide financial information about Leidos for a full-year period in light of the fact that the most recent Leidos audited consolidated financial statements reflect an 11-month transition period following Leidos change in its fiscal year-end in 2015, and provides information about the combined Leidos and Splitco Business for the full-year period. Leidos management believes that the supplemental 12-month statement of income is meaningful to a complete understanding of the Merger and other Transactions, but is not intended to, and does not, replace the pro forma financial statements prepared in accordance with Article 11 of Regulation S-X.

During 2015, the Board of Directors of Leidos approved a change to Leidos 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 historical consolidated financial statements of Leidos incorporated by reference within this document, and reflected within the pro forma financial statements and the supplemental 12-month statement of income, cover an 11-month period which began on January 31, 2015 and ended on January 1, 2016. The historical combined financial statements of the Splitco Business included elsewhere in this document and reflected within the pro forma financial statements and the supplemental 12-month statement of income cover a 12-month period which began on January 1, 2015 and ended on December 31, 2015. Accordingly, in the pro forma statement of income, an adjustment has been made to remove the results of operations of the Splitco Business for the one month ended January 31, 2015 to derive the results for the corresponding 11-month period ended December 31, 2015. In the supplemental 12-month statement of income, an adjustment has been made to add the unaudited results of operations of Leidos for the one month ended January 30, 2015 to derive the 12-month period ended January 1, 2016.

The accompanying pro forma financial statements and the supplemental 12-month statement of income are presented for illustrative purposes only and do not purport to be indicative of the actual results that would have been achieved by Leidos if the Merger and other Transactions had been consummated for the periods presented or that will be achieved in the future. The pro forma financial statements and supplemental 12-month statement of income do not reflect the costs of any integration activities or benefits that may result from realization of revenue or net cost synergies expected to result from the Merger. In addition, throughout the period presented in the pro forma financial statements and the supplemental 12-month statement of income, the operations of the Splitco Business were conducted and accounted for as part of Lockheed Martin. The audited historical combined financial statements of the Splitco Business have been derived from Lockheed Martin s historical accounting records and reflect certain allocations of direct costs and expenses. All of the allocations and estimates in such financial statements are based on assumptions that the management of Lockheed Martin believes are reasonable. The combined financial statements of the Splitco Business do not necessarily represent the financial position or results of operations of the Splitco Business had it been operated as a stand-alone company during the period or at the date presented.

Note 2: Accounting Policies

Acquisition accounting rules require evaluation of certain assumptions and estimates, as well as determination of financial statement classifications that are completed during the measurement period, as defined in current accounting standards. For the purposes of preparing the pro forma financial statements and supplemental 12-month statement of income, Leidos management has conducted a preliminary analysis of the adjustments required to conform the Splitco Business financial statements to reflect the current accounting policies of Leidos. Leidos management s assessment is ongoing and, at the time of preparing the pro forma financial statements and supplemental 12-month statement of income, other than the adjustments made herein, management is not aware of any other material differences. Upon consummation of the Merger, Leidos management will conduct an in-depth review of the Splitco Business accounting policies in an effort to determine if additional differences in accounting policies and/or financial statement classification exist that may require additional adjustments to or reclassification of the Splitco Business results of operations, assets or liabilities to conform to Leidos accounting policies and classifications. As a result of that review, Leidos management may identify differences that, when conformed, could have a material impact on the pro forma financial statements and supplemental 12-month statement of income.

Table of Contents

As a result of the preliminary analysis, Leidos identified certain adjustments needed to conform the revenue recognition polices of the Splitco Business and Leidos related to the timing of recognition of revenues and cost of revenues for certain contracts with the U.S. Government.

Leidos generally records revenues and cost of revenues from contracts with the U.S. Government in accordance with Accounting Standards Codification (ASC) 605-35, *Construction-type and production-type contracts,* utilizing the percentage-of-completion methodology. However, for services (e.g., help desk) and maintenance contracts with the U.S. Government under firm-fixed-price arrangements, Leidos recognizes revenues over the term of the respective contracts (i.e., straight-line revenue recognition) as the services are performed and revenue is earned. Further, for certain types of flexibly-priced contracts performed on a best efforts basis (e.g., time-and-materials and fixed-price-level-of-effort contracts) with the U.S. Government, Leidos recognizes revenue based on a rate times hours incurred and cost of revenues as incurred.

The Splitco Business records revenues and cost of revenues from contracts with the U.S. Government, including services and maintenance contracts, in accordance with ASC 605-35 utilizing the percentage-of-completion methodology. This includes services and maintenance contracts with the U.S. Government under firm-fixed-price arrangements. For certain types of flexibly-priced contracts with the U.S. Government (e.g. time-and-materials and fixed-price-level-of-effort contracts), the Splitco Business recognizes revenue based on a rate times hours incurred; however, cost of revenues are recognized utilizing the percentage-of-completion methodology.

In order to conform revenues and cost of revenues recognized for these contracts in the Splitco Business financial statements to Leidos revenue recognition accounting policy, two adjustments were identified. First, a revenue adjustment was recorded for services and maintenance contracts to adjust from the percentage of completion methodology to a straight-line revenue recognition methodology. This adjustment resulted in an increase of $91 million in *Receivables, net*, an increase of $35 million in *Deferred income taxes*, and an increase of $56 million in *Net parent investment*.

Second, a cost of revenues adjustment was recorded for flexibly-priced arrangements to adjust from the percentage of completion methodology to recognizing cost of revenues as incurred. This adjustment resulted in a decrease of $59 million in *Accounts payable and accrued liabilities*, an increase of $23 million in *Deferred income taxes*, and an increase of $36 million in *Net parent investment*.

The adjustments described above primarily relate to revenues and cost of revenues recognized prior to January 1, 2015. Accordingly, the impact of these adjustments on *Revenues* and *Cost of revenues* is not material and has not been reflected in the pro forma statement of income and supplemental 12-month statement of income.

Refer to Footnote 7 for additional information on how the adjustments described above have been reflected in the pro forma balance sheet.

Note 3: Purchase Price Allocation

The pro forma balance sheet has been adjusted to reflect the allocation of the preliminary estimated purchase price to identifiable assets to be acquired and liabilities to be assumed, with the excess recorded as goodwill. The final purchase price allocation may be different than that reflected in the pro forma purchase price allocation presented herein, and this difference may be material. The purchase price allocation in these pro forma financial statements is based upon an estimated purchase price of approximately $4,706 million. This amount was derived in accordance with the Merger Agreement, as described further below, based on the closing price of Leidos common stock on April 15, 2016, the Leidos Special Dividend of $1,029 million and 76,958,918 shares of Leidos common stock being issued in the Merger, and is subject to adjustment based on the Splitco Business working capital in accordance with the terms of the Separation Agreement, as described in the section entitled The Separation Agreement Separation of the IS&GS Business Cash and Working Capital Adjustment.

The following table represents the preliminary estimate of the purchase price to be paid in the Merger, excluding an estimate for the working capital adjustment (in millions, except share and per share data):

New shares (par value $0.0001) issued to Lockheed Martin stockholders		76,958,918
Closing price of Leidos common stock on April 15, 2016	$ 51.92	
Less: Estimated Leidos Special Dividend per share	(14.16)	
Estimated Leidos share price after Leidos Special Dividend on April 15, 2016		$ 37.76
Consideration to be transferred (i)		**$ 2,906**
Preliminary fair value of Splitco new indebtedness assumed by Leidos		1,800
Total purchase price		**$ 4,706**

100

(i) The total consideration paid by Leidos for the Splitco Business for purposes of preparing the pro forma financial statements was determined using the market price of Leidos common stock as of April 15, 2016 of $51.92 per share and adjusted for the estimated per share amount of the Leidos Special Dividend based on the number of shares of Leidos common stock outstanding on April 11, 2016. The Leidos Special Dividend will be paid to holders of Leidos common stock as of a record date prior to the Merger closing date, and the per share amount of the Leidos Special Dividend will be based on the number of shares outstanding on such record date. It is anticipated that the market value of Leidos common stock will decline on the trading date immediately following the record date as a result of the Leidos Special Dividend. The per share impact of the Leidos Special Dividend was calculated by dividing the total dividend amount of $1,029 million by the outstanding number of Leidos shares of approximately 72.7 million as of April 11, 2016.

The actual value of the Leidos common stock to be issued in the Merger will depend on the market price of shares of Leidos common stock at the closing date of the Merger, and therefore the actual purchase price will fluctuate with the market price of Leidos common stock until the Merger is consummated. As a result, the final purchase price could differ significantly from the current estimate, which could materially impact the pro forma financial statements. A 20% difference in Leidos stock price would change the purchase price by approximately $799 million, with a corresponding change in goodwill.

The preliminary estimated purchase price is allocated as follows (in millions):

Total current assets	$ 986
Property, plant and equipment (i)	138
Intangible assets (ii)	1,650
Other assets	65
Total assets acquired	2,839
Total current liabilities	819
Long-term debt (iii)	1,800
Deferred income taxes (iv)	801
Other liabilities	63
Total liabilities assumed	3,483
Net identifiable assets acquired	(644)
Add: Fair value of noncontrolling interest (v)	(7)
Goodwill	3,557
Total consideration to be transferred	**$ 2,906**

(i) For the purposes of the preliminary purchase price allocation, the carrying value of property, plant and equipment is assumed to approximate the preliminary fair value due to the limited availability of detailed data regarding the composition of property, plant and equipment prior to the consummation of the Merger and due to the fact that any step-up in the fair value of property, plant and equipment is not expected to be material. The final valuation may be materially different as more detailed information will become available after the consummation of the Merger.

(ii) The identifiable intangible asset fair value estimates are based on a preliminary valuation and may change. The identifiable intangible assets associated with the Merger consist of the programs / contracts intangible asset with a fair value of $1,650 million. The final valuation may be materially different and may result in the identification of additional intangible assets as more detailed information will become available after the consummation of the Merger. See Footnote 7(E) for further details on the intangible assets fair value adjustment.

(iii) On a consolidated basis, Leidos debt will include the debt incurred by Splitco to pay the Special Cash Payment of $1,800 million to Lockheed Martin and related expenses. See Footnote 4 for further details on this debt. As the debt is expected to be issued shortly before the consummation of the Merger, the preliminary fair value is calculated assuming that the terms of the debt approximate current market participant assumptions and that market participants would incur approximately the same amount of costs as Splitco to obtain the financing.

(iv) This balance includes the deferred tax liability resulting from the fair value adjustments for the identifiable intangible assets. This estimate of deferred tax liabilities was determined based on the book and tax basis differences attributable to the identifiable intangible assets acquired at a combined federal and state statutory tax rate of 39%. The combined federal and state statutory tax rate was based upon the jurisdictions in which the Splitco Business and Leidos operate. The goodwill recognized in the Merger is not expected to be deductible for income tax purposes. The final deferred tax liability may be materially different as more detailed information will become available after the consummation of the Merger.

(v) The preliminary fair value of noncontrolling interest is assumed to approximate carrying value due to the limited availability of detailed data prior to the consummation of the Merger and due to the fact that any step-up in the fair value of noncontrolling interest is not expected to be material. The final valuation may be different as more detailed information will become available after the consummation of the Merger.

For all other line items noted above, book value is assumed to approximate the preliminary fair value. The final valuation may be materially different as more detailed information will become available after the consummation of the Merger.

Refer to Footnote 7 for additional information on how the adjustments described above have been reflected in the pro forma balance sheet.

Note 4: Financing Adjustments

On or about the closing date of the Merger, Leidos, Inc. (a direct, wholly-owned subsidiary of Leidos) and Splitco expect to incur indebtedness of approximately $2,531 million in new term loans, of which $1,400 million will be in term loan A (New Term Loan A) and $1,131 million will be in term loan B (New Term Loan B collectively, the New Term Loans). Leidos, Inc. and Splitco will be the borrowers of $690 million and $710 million, respectively, of New Term Loan A, and Splitco will be the borrower of all of New Term Loan B. The New Term Loans are expected to bear interest at a blended rate of 3.44%. New Term Loan A will be separated into three tranches consisting of: (1) $400 million (Tranche 1) incurred by Splitco, (2) $310 million (Tranche 2) incurred by Splitco, and (3) $690 million (Tranche 3) incurred by Leidos, Inc. with maturities of three years, five years, and five years, respectively, provided that if any of Leidos 4.450% Notes due 2020 are outstanding on the date that is 91 days before their maturity, the New Term Loan A will mature on such date. New Term Loan B incurred by Splitco will have a maturity of seven years. Interest and principal amounts will be payable on a quarterly basis with amortization of the principal predominantly occurring in the year of maturity. The actual capital raised, including both the aggregate size and the individual tranche size, as well as interest rates, may change based on the market conditions and lender appetite for the specific issue at the time of syndication.

In addition to the New Term Loans, Leidos, Inc. will also enter into a revolving credit facility (the Leidos Revolving Credit Facility) providing for an aggregate principal amount of up to $750 million and term of five years to replace its existing revolving credit facility. Leidos does not expect to draw on the Leidos Revolving Credit Facility in connection with the Merger but will incur an annual fee of 0.375% on the unused portion of the total aggregate commitment.

Upon consummation of the Merger, on a consolidated basis, Leidos debt will include all of Splitco s indebtedness, which, combined with the new debt of Leidos, Inc., will be used to (i) finance the Leidos Special Dividend, (ii) pay the Special Cash Payment by Splitco to Lockheed Martin, and (iii) pay for transaction expenses incurred by Leidos in connection with the Merger.

Notes payable and long-term debt, current portion was adjusted as follows (in millions):

	Increase (Decrease)	
New Term Loan A (i)	$	70
New Term Loan B (ii)		11
Total pro forma adjustments to notes payable and long-term debt, current portion	**$**	**81**

(i)

Represents the current portion of borrowings incurred by Splitco of $35 million and by Leidos, Inc. of $35 million under New Term Loan A.

(ii) Represents the current portion of borrowings incurred by Splitco under New Term Loan B.

Notes payable and long-term debt, net of current portion was adjusted as follows (in millions):

	Increase (Decrease)	
New Term Loan A (i) (iii)	$	1,302
New Term Loan B (ii) (iii)		1,091
Total pro forma adjustments to notes payable and long-term debt, net of current portion	**$**	**2,393**

(i) Represents the long-term portion of borrowings incurred by Leidos, Inc., which is comprised of aggregate principal of $690 million, net of $14 million of debt issuance costs and $35 million of current portion of long-term debt, and the long-term portion of borrowings incurred by Splitco, which is comprised of aggregate principal of $710 million, net of $14 million of debt issuance costs and $35 million of current portion of long-term debt.

(ii) Represents the long-term portion of borrowings of Splitco, which is comprised of aggregate principal of $1,131 million, net of $29 million of debt issuance costs and $11 million of current portion of long-term debt.

(iii) Total debt issuance costs of $57 million for the New Term Loans consist of $32 million of underwriting fees, $24 million of other fees paid to the lenders, and $1 million of legal fees.

Table of Contents

Other assets were adjusted to include debt issuance costs for the Leidos Revolving Credit Facility of $15 million, which consists of $9 million of underwriting fees and $6 million of other fees paid to the lenders.

The pro forma statement of income and supplemental 12-month statement of income reflect adjustments to *Interest expense* of $96 million and $104 million, respectively, which represent an estimate of interest expense calculated using the effective interest method on the additional indebtedness to be incurred in connection with the Merger. These adjustments were calculated as if the New Term Loans and Leidos Revolving Credit Facility were entered into on January 31, 2015 for the pro forma statement of income and January 3, 2015 for the supplemental 12-month statement of income.

The adjustment to record interest expense for both the 11 months and 12 months ended January 1, 2016 is based on the 3-month LIBOR of 0.63% as of April 15, 2016. For each 0.125% change in estimated interest rate for the New Term Loans, interest expense would increase or decrease by approximately $3 million for both the 11 and 12 months ended January 1, 2016.

Refer to Footnotes 7 and 8 for additional information on how the adjustments described above have been reflected in the pro forma financial statements and supplemental 12-month statement of income.

Note 5: Excluded Assets and Excluded Liabilities

In accordance with the Separation Agreement, at or near the consummation of the Merger and other Transactions, Lockheed Martin will transfer to Splitco all rights, title and interest in certain assets of the Splitco Business, with the exception of the Excluded Assets, as defined in the Separation Agreement. At the same time, Splitco will assume from Lockheed Martin all obligations to perform, timely pay and fulfill and comply with the liabilities and obligations of the Splitco Business, with the exception of the Excluded Liabilities, as defined in the Separation Agreement. See The Separation Agreement Separation of the IS&GS Business Conveyance of Assets; Assumption and Discharge of Liabilities for additional information. To the extent the Excluded Assets and Excluded Liabilities are reflected in the historical combined balance sheet of the Splitco Business and are material, a pro forma adjustment has been made to eliminate these assets and liabilities as if the Merger and other Transactions took place on January 1, 2016. The balance sheet adjustment related to the material Excluded Assets and Excluded Liabilities consists of the following (in millions):

	Increase (Decrease)	
Cash and cash equivalents	$	(39)
Receivables, net		(44)
Inventory, prepaid expenses and other current assets		(16)
Total assets	$	(99)
Accounts payable and accrued liabilities		(82)
Accrued payroll and employee benefits		(9)
Deferred income taxes		(1)
Other long-term liabilities		(25)
Net parent investment		18

Total liabilities and net parent investment	$	(99)

Refer to Footnote 7 for additional information on how the adjustments described above have been reflected in the pro forma balance sheet.

Note 6: Reclassifications

Certain reclassifications have been made relative to the historical financial statements of the Splitco Business to conform to the financial statement presentation of Leidos.

The reclassification adjustments related to the balance sheet of the Splitco Business as of December 31, 2015 include the following:

(i) combination of *Inventories, net* of $168 million and *Other current assets* of $20 million within *Inventory, prepaid expenses and other current assets*;

(ii) reclassification of $2 million of other receivables from *Receivables, net* to *Inventory, prepaid expenses and other current assets*;

(iii) reclassification of $41 million of contract assets from *Inventory, prepaid expenses and other current assets* to *Property, plant and equipment, net*;

(iv) reclassification of *Customer advances and amounts in excess of costs incurred* of $297 million and *Other current liabilities* of $254 million to *Accounts payable and accrued liabilities*;

(v) netting of $32 million of customer advances on contracts (included in *Accounts payable and accrued liabilities*) against the related accounts receivable (included in *Receivables, net*); and

(vi) reclassification of *Salaries, benefits and payroll taxes* of $214 million to *Accrued payroll and employee benefits*.

The reclassification adjustments on the statement of earnings of the Splitco Business for the year ended December 31, 2015 pertain to the following:

(i) reclassification of $20 million of severance charges for the year ended December 31, 2015 (of which $0 was incurred during the one month ended January 31, 2015) from *Cost of revenues* to *Selling, general and administrative expenses*;

(ii) reclassification of $273 million of general and administrative expenses for the year ended December 31, 2015 (of which $21 million was incurred during the one month ended January 31, 2015) from *Cost of revenues* to *Selling, general and administrative expenses*; and

(iii) reclassification of $26 million of state income taxes (of which $2 million was incurred during the one month ended January 31, 2015) from *Cost of revenues* to *Income tax (expense) benefit*.

Refer to Footnotes 7 and 8 for additional information on how the adjustments described above have been reflected in the pro forma financial statements and supplemental 12-month statement of income.

Note 7: Balance Sheet Adjustments

The pro forma balance sheet reflects the following adjustments (in millions):

(A) Cash and cash equivalents were adjusted as follows:

		Increase (Decrease)
Excluded Assets (i)	$	(39)
Transaction costs (ii)		(31)
Special Cash Payment to Lockheed Martin (iii)		(1,800)
Payment of Leidos Special Dividend (iv)		(1,029)

Proceeds from New Term Loan Facilities (v)		2,531
Debt issuance costs (vi)		(72)
Total pro forma adjustment to Cash and cash equivalents	**$**	**(440)**

(i) Represents balances included in the historical combined balance sheet of the Splitco Business which will not be transferred under the Separation Agreement. See Footnote 5 for further discussion.

(ii) Represents transaction costs related to the Merger and other Transactions. The total balance consists of approximately $5 million related to legal fees, $24 million related to advisory services, and $2 million related to accounting and other professional fees.

(iii) Represents the Special Cash Payment of $1,800 million to Lockheed Martin by Splitco as part of the Merger. See This Exchange Offer Terms of this Exchange Offer for additional information.

(iv) Represents the Leidos Special Dividend of approximately $1,029 million paid to Leidos stockholders as part of the Merger. See The Merger Agreement Conditions to the Merger for additional information.

(v) Represents the proceeds from the New Term Loans obtained to finance the Merger and other Transactions. See Footnote 4 for further discussion.

(vi) Represents the debt issuance costs associated with the New Term Loans and Leidos Revolving Credit Facility obtained in connection with the Merger of $57 million and $15 million, respectively. See Footnote 4 for further discussion.

(B) Receivables, net were adjusted as follows:

	Increase (Decrease)	
Policy alignments (i)	$	91
Excluded Assets (ii)		(44)
Reclassifications (iii)		(34)
Total pro forma adjustment to Receivables, net	**$**	**13**

Table of Contents

(i) Represents adjustment to conform the accounting policies of the Splitco Business to those of Leidos, as described in additional detail in Footnote 2.
(ii) Represents balances included in the historical combined balance sheet of the Splitco Business which will not be transferred under the Separation Agreement. See Footnote 5 for further discussion.
(iii) Represents adjustment to conform the Splitco Business financial statement presentation of ($32) million of customer advances on contracts netted against the related accounts receivable and ($2) million of non-trade accounts receivable to Leidos presentation, as described in additional detail in Footnote 6.

(C) Inventory, prepaid expenses, and other current assets were adjusted as follows:

	Increase (Decrease)	
Excluded Assets (i)	$	(16)
Reclassifications (ii)		(39)
Total pro forma adjustment to Inventory, prepaid expenses and other current assets	**$**	**(55)**

(i) Represents certain assets included in the historical combined balance sheet of the Splitco Business which will not be transferred under the Separation Agreement. See Footnote 5 for further discussion.
(ii) Represents adjustment to conform the Splitco Business financial statement presentation of ($41) million of contract assets and $2 million of non-trade accounts receivable to Leidos presentation, as described in additional detail in Footnote 6.

(D) Property, plant and equipment, net were increased as follows:

Reclassifications (i)	$ 41

(i) Represents adjustment to conform the Splitco Business financial statement presentation of contract assets of $41 million to Leidos presentation, as described in additional detail in Footnote 6.

(E) Goodwill was adjusted as follows:

	Increase (Decrease)	
Elimination of the Splitco Business historical goodwill	$	(2,823)
Estimated transaction goodwill (i)		3,557
Total pro forma adjustment to Goodwill	**$**	**734**

(i) Reflects the preliminary value of goodwill associated with the Merger, as described in additional detail in Footnote 3. The adjustment is primarily due to the synergies expected to be achieved by combining the businesses of Leidos and the Splitco Business, expected future contract awards, as well as the acquired workforce. The cost-saving opportunities are expected to include improved operating efficiencies and asset optimization.

(F) Intangible assets, net were adjusted as follows:

		Increase (Decrease)
Elimination of the Splitco Business historical intangible assets	$	(128)
Preliminary fair value of acquisition-related intangible asset (i)		1,650
Total pro forma adjustment to Intangible assets, net	**$**	**1,522**

(i) Of the total consideration, approximately $1,650 million is estimated to be the preliminary fair value of identified intangible assets, which consist entirely of the programs / contracts intangible asset with a preliminary estimated useful life of 10 years. Refer to Footnote 3 for additional information.

The fair value of identifiable intangible assets is determined primarily using the income approach , which is a valuation technique that provides an estimate of the fair value of an asset based on market participant expectations of the cash flows an asset would generate over its remaining useful life. Some of the more significant assumptions inherent in the development of the identifiable intangible asset valuation, from the perspective of a market participant, include the estimated after-tax cash flows that will be received for the intangible asset, the appropriate discount rate selected in order to measure the risk inherent in each future cash flow stream, the assessment of each asset s life cycle, and competitive trends impacting the asset and each cash flow stream. No assurances can be given that the underlying assumptions used to prepare the discounted cash flow analysis will not change. For these and other reasons, actual results may vary significantly from estimated results. In addition, the discount rate selected is a significant assumption utilized to value the intangible asset, which is based on market participant assumptions for rates of return for similar assets and reflects the risks inherent in the cash flow stream based on the nature of the asset.

Table of Contents

The estimated fair value for this pro forma presentation for the programs / contracts intangible asset was measured using the multi-period excess earnings method. The principle behind the multi-period excess earnings method is that the value of an intangible is equal to the present value of the incremental after-tax cash flows attributable to the subject intangible asset, after taking charges for the use of other assets employed by the business. Significant assumptions required for this method are revenue growth rates, probabilities of renewal for existing contracts and related relationships, contributory asset charges and the asset discount rate.

(G) Other assets were increased as follows:

Leidos Revolving Credit Facility debt issuance costs (i)	$ 15

(i) Represents debt issuance costs related to the Leidos Revolving Credit Facility, as described in additional detail in Footnote 4.

(H) Accounts payable and accrued liabilities were adjusted as follows:

	Increase (Decrease)	
Policy alignments (i)	$	(59)
Excluded Liabilities (ii)		(82)
Reclassifications (iii)		519
Total pro forma adjustment to Accounts payable and accrued liabilities	**$**	**378**

(i) Represents adjustment to conform the accounting policies of the Splitco Business to those of Leidos, as described in additional detail in Footnote 2.

(ii) Represents certain liabilities included in the historical combined balance sheet of the Splitco Business which will not be assumed under the Separation Agreement. See Footnote 5 for further discussion.

(iii) Represents adjustment to conform the Splitco Business financial statement presentation of *Customer advances and amounts in excess of costs* incurred of $297 million, *Other current liabilities* of $254 million, and unbilled customer accounts receivable of ($32) million to Leidos presentation, as described in additional detail in Footnote 6.

(I) Accrued payroll and employee benefits were adjusted as follows:

	Increase (Decrease)	
Excluded Liabilities (i)	$	(9)
Reclassifications (ii)		214

Total pro forma adjustment to Accrued payroll and employee benefits	**$**	**205**

(i) Represents certain liabilities included in the historical combined balance sheet of the Splitco Business which will not be assumed under the Separation Agreement. See Footnote 5 for further discussion.

(ii) Represents adjustment to conform the Splitco Business financial statement presentation of *Salaries, benefits and payroll taxes* of $214 million to Leidos presentation, as described in additional detail in Footnote 6.

(J) Notes payable and long-term debt, current portion were adjusted as described in Footnote 4.

(K) Notes payable and long-term debt, net of current portion were adjusted as described in Footnote 4.

(L) Deferred income taxes were adjusted as follows:

	Increase (Decrease)	
Identifiable intangible assets fair value adjustment	$	594
Excluded Assets and Excluded Liabilities		(1)
Accounting policy alignment adjustments		58
Total pro forma adjustment to Deferred income taxes (i)	**$**	**651**

(i) Reflects an adjustment to deferred tax liabilities representing a combined federal and state statutory rate of approximately 39% multiplied by (i) the preliminary fair value adjustments to the identifiable intangible assets (as described in Footnote 3), (ii) the pro forma adjustments related to assets and liabilities that will not be acquired/assumed by the combined company (as described in Footnote 5) and for which a difference exists between the book and tax basis, or (iii) the pro forma adjustments related to accounting policy alignments (as described in Footnote 2), as applicable. This rate does not reflect Leidos expected effective tax rate which will include other tax charges and benefits, and does not take into account any historical or possible future tax events that may impact the combined company following the consummation of the Merger.

Table of Contents

(M) Other long-term liabilities were decreased as follows:

Excluded Liabilities (i)	$ (25)

(i) Represents certain liabilities included in the historical combined balance sheet of the Splitco Business which will not be assumed under the Separation Agreement. See Footnote 5 for further discussion.

(N) Stockholders equity was adjusted as follows:

	Increase (Decrease)			
	Additional Paid-In Capital	Accumulated Deficit	Net Parent Investment	Accumulated Other Comprehensive Loss
Policy alignments (i)	$	$	$ 92	$
Net impact of Excluded Assets and Excluded Liabilities (ii)			18	
Special Cash Payment to Lockheed Martin (iii)			(1,800)	
Elimination of total Splitco Business net parent investment and accumulated other comprehensive loss (iv)			(1,280)	36
Payment of Leidos Special Dividend (v)	(1,029)			
Issuance of shares of Leidos common stock (vi)	2,906			
Transaction costs (vii)		(31)		
Total pro forma adjustment	**$ 1,877**	**$ (31)**	**$ (2,970)**	**$ 36**

(i) Represents adjustment to conform the accounting policies of the Splitco Business to those of Leidos, as described in additional detail in Footnote 2.
(ii) Represents adjustment to eliminate Excluded Assets and Excluded Liabilities, as described in additional detail in Footnote 5.
(iii) Represents the Special Cash Payment of $1,800 million from Splitco to Lockheed Martin as part of the Merger and other Transactions. See This Exchange Offer Terms of this Exchange Offer for additional information.
(iv) Relates to the elimination of Splitco Business net parent investment of $1,280 million and accumulated other comprehensive loss of $36 million.
(v) Represents the Leidos Special Dividend of approximately $1,029 million paid to Leidos stockholders as part of the Merger and other Transactions. See The Merger Agreement Conditions to the Merger for additional information.
(vi) Relates to the shares of Leidos common stock to be issued as purchase consideration, as described further in Footnote 3.

(vii) Reflects transaction costs related to the Merger and other Transactions. For information on the composition of these costs, refer to Footnote 7(A). This amount has not been tax effected as the tax deductibility of these items has not been determined.

Note 8: Statement of Income Adjustments

The pro forma statement of income and supplemental 12-month statement of income reflect the following adjustments (in millions):

(O) Revenues were decreased as follows:

	For the 11 Months Ended January 1, 2016 (Pro Forma)	For the 12 Months Ended January 1, 2016 (Supplemental)
Adjustment of revenues related to Lockheed Martin s defined benefit pension plans (i)	$ (38)	$ (41)

(i) The historical combined statement of earnings of the Splitco Business includes an allocation of expenses related to Lockheed Martin s defined benefit pension plan in which the Splitco Business employees historically participated. Following the consummation of the Merger and other Transactions, the Splitco Business employees will no longer receive the defined benefit pension benefit from Lockheed Martin or Leidos on a recurring basis. Accordingly, there is an adjustment to *Cost of revenues* (as summarized in Footnote 8(P)), which represents the elimination of these employees defined benefit pension costs included within the historical combined statement of earnings of the Splitco Business. As a result of the defined benefit pension costs being reimbursable under certain customer contracts, there is a corresponding impact on *Revenues*.

Table of Contents

(P) Cost of revenues were decreased as follows:

	For the 11 Months Ended January 1, 2016 (Pro Forma)		For the 12 Months Ended January 1, 2016 (Supplemental)	
Adjustment of costs related to Lockheed Martin s defined benefit pension plans (i)	$	(59)	$	(64)
Reclassifications (ii)		(296)		(319)
Total adjustment to Cost of revenues	**$**	**(355)**	**$**	**(383)**

(i) Represents the adjustment to *Cost of revenues* to reflect the impact of the elimination of the Splitco Business employees defined benefit pension costs included within the historical combined statement of earnings of the Splitco Business, as described in Footnote 8(O) above.

(ii) Represents adjustments to conform the Splitco Business financial statement presentation of severance charges of $20 million for both the 11 and 12 months ended January 1, 2016, general and administrative expenses of $252 million and $273 million for the 11 and 12 months ended January 1, 2016, respectively, and state income taxes of $24 million and $26 million for the 11 and 12 months ended January 1, 2016, respectively, to Leidos presentation, as described in additional detail in Footnote 6.

(Q) Selling, general and administrative expenses were increased as follows:

	For the 11 Months Ended January 1, 2016 (Pro Forma)		For the 12 Months Ended January 1, 2016 (Supplemental)	
Change in amortization expense associated with acquired intangible asset (i)	$	106	$	116
Reclassifications (ii)		272		293
Total adjustment to Selling, general and administrative expenses	**$**	**378**	**$**	**409**

(i) All amortization adjustments related to identified definite-lived intangible assets is recorded to *Selling, general and administrative expenses*. Previously recorded amortization expense of $45 million in the historical combined statement of earnings of the Splitco Business for the 11 months ended December 31, 2015 and of $49 million for the 12 months ended December 31, 2015 was eliminated and replaced with the estimated amortization expense for the identified definite-lived intangible asset of $151 million and $165 million for the 11- and 12-month periods, respectively. The estimated amortization expense was computed using the straight-line method and an estimated useful life of 10 years.

An increase (decrease) of 10% in the estimated fair value allocated to the programs / contracts intangible asset would result in an increase (decrease) in the 11-month pro forma amortization expense of $15 million, and an increase (decrease) in the 12-month amortization expense of $17 million. An increase in estimated useful life of the programs / contracts intangible asset of one year would result in a decrease in the 11-month pro forma amortization expense and a decrease in the 12- month amortization expense of $14 million and $15 million, respectively, while a decrease in estimated useful life of one year would result in an increase in the 11-month pro forma amortization expense and an increase in the 12-month amortization expense of $17 million and $18 million, respectively.

(ii) Represents adjustments to reclassify severance charges of $20 million for both the 11 and 12 months ended January 1, 2016 and general and administrative expenses of $252 million and $273 million for the 11 and 12 months ended January 1, 2016, respectively, from *Cost of revenues* to *Selling, general and administrative expenses* to conform the financial statement presentation of the Splitco Business to Leidos presentation, as described in additional detail in Footnote 6.

(R) Interest expense was adjusted as described in Footnote 4.

(S) Income tax (expense) benefit was adjusted as follows:

	(Increase) Decrease	
	For the 11 Months Ended January 1, 2016 (Pro Forma)	**For the 12 Months Ended January 1, 2016 (Supplemental)**
Reclassifications (i)	$ (24)	$ (26)
Income tax impact of all other pro forma adjustments (ii)	71	77
Total adjustment to Income tax (expense) benefit	**$ 47**	**$ 51**

(i) Represents adjustments to conform the Splitco Business financial statement presentation of state income taxes of $24 million and $26 million for the 11 and 12 months ended January 1, 2016, respectively, to Leidos presentation, as described in additional detail in Footnote 6.

Table of Contents

(ii) Represents the income tax impact of the pro forma adjustments, using the combined federal and state statutory tax rate of approximately 39%. This does not represent Leidos effective tax rate, which will include other tax charges and benefits, and does not take into account any historical or possible future tax events that may impact Leidos following the consummation of the Merger and other Transactions.

(T) The adjustment to weighted average shares outstanding for both basic and diluted EPS is to reflect 76,958,918 shares of Leidos common stock that will be issued as purchase consideration in the Merger.

ADDITIONAL FINANCIAL INFORMATION

Non-GAAP Measures

The following table presents certain non-GAAP financial measures that Leidos management uses to evaluate Leidos operating performance and will use to evaluate the combined business going forward. These non-GAAP measures are not computed in accordance with GAAP, and are not meant to be considered in isolation or as a substitute for the comparable GAAP measures. Accordingly, these non-GAAP measures should be read in conjunction with Leidos consolidated financial statements and the combined financial statements of the Splitco Business, both of which were prepared in accordance with GAAP.

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

	Historical			
	Leidos for the 12 Months Ended January 1, 2016	Splitco Business for the Year Ended December 31, 2015	Adjustments*	Supplemental* Combined Consolidated Leidos and Splitco Business for the 12 Months Ended January 1, 2016
	(in millions, except per share amounts)			
Non-GAAP operating income (1)	$ 386	$ 518	$ 49	$ 953
Adjusted EBITDA (2)	$ 423	$ 584	$ 49	$ 1,056
Non-GAAP income from continuing operations (3)	$ 219	$ 354	$ (49)	$ 524
Non-GAAP earnings per share (EPS) from continuing operations:				
Basic	$ 3.00	$ NM	$ NM	$ 3.49
Diluted	$ 2.96	$ NM	$ NM	$ 3.47

* *See Unaudited Pro Forma Combined Consolidated Financial Statements and Supplemental Combined Consolidated Statement of Income for the unaudited supplemental combined consolidated statement of income for the 12 months ended January 1, 2016 (the supplemental 12-month statement of income) and the adjustments made to prepare the supplemental 12-month statement of income.*

NM = not meaningful

(1) Non-GAAP operating income is computed by excluding the following items from income (loss) from continuing operations: (i) other income (expense), net; (ii) interest expense; (iii) interest income; (iv) income tax (expense) benefit adjusted to reflect non-GAAP adjustments; and (v) the following discrete items:

Asset impairment charges Represents impairments of long-lived intangible and tangible assets.

Separation transaction and restructuring expenses Represents costs associated with lease termination and facility consolidation, including costs related to Leidos September 2013 spin-off of its former technical services and enterprise IT business.

Severance charges Represents the charges recognized for workforce reduction severance benefits that are provided to employees of the Splitco Business primarily under Lockheed Martin s ongoing benefit arrangements.

Gains and losses on disposal of assets and businesses Represents the gain on the sale of the remaining building and land associated with Leidos former headquarters.

Amortization of acquired intangible assets Represents the amortization expense associated with intangible assets recognized by Leidos upon the acquisition of various businesses, including the Splitco Business.

Table of Contents

(2) Adjusted EBITDA is computed by excluding the following items from income (loss) from continuing operations: (i) discrete items identified in footnote (1)(v) above; (ii) interest expense; (iii) interest income; (iv) depreciation expense; and (v) income tax (expense) benefit, adjusted to reflect non-GAAP adjustments.

(3) Non-GAAP income from continuing operations is computed by excluding the discrete items described in footnote (1)(v) above from income from continuing operations and adjusting the income tax provision for the effect of such exclusions.

Reconciliation of Non-GAAP Measures

The following tables present the reconciliation of the non-GAAP measures identified above to income (loss) from continuing operations, basic EPS from continuing operations and diluted EPS from continuing operations, the most directly comparable GAAP measures.

	Leidos for the 12 Months Ended January 1, 2016	Splitco Business for the Year Ended December 31, 2015	Adjustments*	Supplemental* Combined Consolidated Leidos and Splitco Business for the 12 Months Ended January 1, 2016
		(in millions)		
Non-GAAP operating income	**$ 386**	**$ 518**	**$ 49**	**$ 953**
Adjustments:				
Depreciation expense [1]	35	44		79
Other income, excluding gains and losses on disposal of assets and businesses [2]	2	22		24
Adjusted EBITDA	**$ 423**	**$ 584**	**$ 49**	**$ 1,056**
Adjustments:				
Depreciation expense [1]	(35)	(44)		(79)
Interest expense, net [3]	(54)		(104)	(158)
Income tax (expense) benefit, adjusted to reflect non-GAAP adjustments (below)	(115)	(186)	6	(295)
Non-GAAP income from continuing operations	**$ 219**	**$ 354**	**$ (49)**	**$ 524**
Adjustments:				
Asset impairment charges	(73)			(73)
Separation transaction and restructuring expenses	(6)			(6)
Splitco Business severance charges		(20)		(20)

Amortization of acquired intangible assets [4]	(9)	(49)	(116)	(174)
Gains and losses on disposal of assets and businesses [5]	82			82
Total non-GAAP adjustments	(6)	(69)	(116)	(191)
Adjustments to income tax provision to reflect non-GAAP adjustments [6]	23	24	45	92
Income from continuing operations	**$ 236**	**$ 309**	**$ (120)**	**$ 425**

* *See Unaudited Pro Forma Combined Consolidated Financial Statements and Supplemental Combined Consolidated Statement of Income for the supplemental 12-month statement of income and the adjustments made to prepare the supplemental 12-month statement of income.*

(1) Depreciation expense is included within Cost of revenues and Selling, general and administrative expenses in the supplemental 12-month statement of income. Depreciation expense for the Splitco Business for the year ended December 31, 2015 includes depreciation expense related to corporate assets that has been allocated from Lockheed Martin and recorded within Cost of revenues in the historical combined statement of earnings of the Splitco Business.

(2) Other income is derived as total Other income (expense), net in the supplemental 12-month statement of income less gains and losses on disposal of assets and businesses (described in footnote (5) below).

(3) Interest expense, net is calculated as the sum of Interest income and Interest expense, as shown in the supplemental 12-month statement of income.

(4) Amortization of acquired intangible assets is included within Selling, general and administrative expenses in the supplemental 12-month statement of income.

Table of Contents

(5) Gains and losses on disposal of assets and businesses are included within Other income (expense), net in the supplemental 12-month statement of income.
(6) The calculation of the adjustment to the income tax provision uses the applicable statutory income tax rates, adjusted for utilization of an existing capital loss carryforward for the taxable gain on disposal of assets and businesses.

(in millions, except per share amounts)	Combined Consolidated Leidos and Splitco Business for the 12 Months Ended January 1, 2016	
Non-GAAP basic EPS from continuing operations	**$**	**3.49**
Less: Total adjustments to non-GAAP income from continuing operations, including adjustment to income tax expense (above) [1]		(0.66)
Basic EPS from continuing operations	$	2.83
Non-GAAP diluted EPS from continuing operations	**$**	**3.47**
Less: Total adjustments to non-GAAP income from continuing operations, including adjustment to income tax expense (above) [1]		(0.66)
Diluted EPS from continuing operations	$	2.81
Weighted-average shares outstanding:		
Basic		150
Diluted		151

(1) Calculated as the sum of total pre-tax non-GAAP adjustments and the related income tax effect of such non-GAAP adjustments, divided by the weighted-average basic and diluted shares outstanding, as appropriate.

Backlog (Unaudited)

Backlog represents the estimated amount of future revenues to be recognized under negotiated contracts as work is performed. In this section, backlog is calculated based on the methodology historically used by Leidos in its reports filed with the SEC.

Backlog is segregated into two categories as follows:

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

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

The estimated value of backlog as of January 1, 2016 was as follows (in billions):

	Leidos	Splitco Business	Combined Leidos and Splitco Business
Funded backlog	$ 2.5	$ 3.1	$ 5.6
Negotiated unfunded backlog	7.4	6.4	13.8
Total backlog	**$ 9.9**	**$ 9.5**	**$ 19.4**

Leidos and the Splitco Business expect to recognize a substantial portion of their 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. Government customers included in funded backlog may include provisions that allow the customer to cancel at any time. Most of these contracts have cancellation terms that would permit the companies to recover all or a portion of the incurred costs and fees for work performed.

Table of Contents

HISTORICAL PER SHARE DATA, MARKET PRICE AND DIVIDEND DATA

Comparative Historical, Pro Forma and Supplemental Per Share Data

The following table sets forth certain historical, pro forma and supplemental per-share data for Leidos. The Leidos historical data has been derived from and should be read together with Leidos audited consolidated financial statements and related notes thereto contained in Leidos Transition Report on Form 10-K for the 11-month period ended January 1, 2016, which is incorporated by reference in this document. See Where You Can Find More Information; Incorporation by Reference. The pro forma data as of and for the 11 months ended January 1, 2016 has been derived from the unaudited pro forma combined consolidated financial statements included elsewhere in this document. The supplemental data as of and for the 12 months ended January 1, 2016 has been derived from the unaudited supplemental combined consolidated statement of income included elsewhere in this document. See Unaudited Pro Forma Combined Consolidated Financial Statements and Supplemental Combined Consolidated Statement of Income.

This comparative historical, pro forma and supplemental per-share data is being provided for illustrative purposes only. Leidos and the Splitco Business may have performed differently had the Transactions occurred prior to the periods or at the date presented. You should not rely on the pro forma and supplemental per-share data presented as being indicative of the results that would have been achieved had Leidos and the Splitco Business been combined during the periods or at the date presented or, of the future results or financial condition of Leidos or the Splitco Business to be achieved following the consummation of the Transactions.

	As of and for the 11 Months Ended January 1, 2016		For the 12 Months Ended January 1, 2016
(shares in millions)	**Leidos Historical**	**Pro Forma**	**Supplemental**
Earnings per share:			
Income from continuing operations - Basic	$ 3.33	$ 2.72	$ 2.80
Income from continuing operations - Diluted	$ 3.28	$ 2.70	$ 2.78
Weighted average common shares outstanding - Basic	73	150	150
Weighted average common shares outstanding - Diluted	74	151	151
Book value per share of common stock	$ 14.83	$ 19.56	NM[(i)]
Dividends declared per share of common stock	$ 1.28	$ 1.28	$ 1.28

(i) NM = Not meaningful

Historical Common Stock Market Price and Dividend Data

Historical market price data for Splitco has not been presented as the Splitco Business is currently operated by Lockheed Martin and there is no established trading market in Splitco common stock.

Shares of Lockheed Martin common stock currently trade on the NYSE under the symbol LMT. On January 25, 2016, the last trading day before the announcement of the Transactions, the last sale price of Lockheed Martin common stock reported by the NYSE was $ 211.01. On , 2016, the last trading day prior to the date of this document, the last sale price of Lockheed Martin common stock reported by the NYSE was $.

Shares of Leidos common stock currently trade on the NYSE under the symbol LDOS. On January 25, 2016, the last trading day before the announcement of the Transactions, the last sale price of Leidos common stock reported by the NYSE was $53.66. On , 2016, the last trading day prior to the date of this document, the last sale price of Leidos common stock reported by the NYSE was $.

The following table sets forth the high and low sale prices of Lockheed Martin common stock and Leidos common stock on the NYSE for the periods indicated as well as the dividends per share paid by Lockheed Martin to holders of Lockheed Martin common stock and Leidos to holders of Leidos common stock for these periods. The quotations are as reported in published financial sources.

	Lockheed Martin Per Share Dividends	Lockheed Martin Common Stock High	Lockheed Martin Common Stock Low
Year Ending December 31, 2016			
First Quarter	$ 1.65	$ 223.19	$ 200.47
Second Quarter (through April 15, 2016)		$ 228.00	$ 218.34
Year Ended December 31, 2015			
First Quarter	$ 1.50	$ 207.06	$ 186.01
Second Quarter	$ 1.50	$ 206.19	$ 185.65
Third Quarter	$ 1.50	$ 213.34	$ 181.91
Fourth Quarter	$ 1.65	$ 227.91	$ 199.01
Year Ended December 31, 2014			
First Quarter	$ 1.33	$ 168.41	$ 144.69
Second Quarter	$ 1.33	$ 168.87	$ 153.54
Third Quarter	$ 1.33	$ 182.27	$ 156.23
Fourth Quarter	$ 1.50	$ 198.72	$ 166.28
Year Ended December 31, 2013			
First Quarter	$ 1.15	$ 96.59	$ 85.88
Second Quarter	$ 1.15	$ 109.26	$ 94.00
Third Quarter	$ 1.15	$ 131.60	$ 105.54
Fourth Quarter	$ 1.33	$ 149.99	$ 121.52

Table of Contents

	Leidos Per Share Dividends	Leidos Common Stock High	Low
Year Ending December 30, 2016			
First Quarter	$ 0.32	$ 59.45	$ 40.15
Second Quarter (through April 15, 2016)		$ 52.15	$ 49.36
11 months ended January 1, 2016			
First Quarter	$ 0.00	$ 46.76	$ 41.30
Second Quarter	$ 0.32	$ 43.20	$ 39.63
Third Quarter	$ 0.32	$ 45.03	$ 38.05
Fourth Quarter	$ 0.64(3)	$ 59.05	$ 43.42
Year Ended January 30, 2015			
First Quarter	$ 0.32	$ 46.07	$ 34.64
Second Quarter	$ 0.32	$ 40.72	$ 36.66
Third Quarter	$ 0.32	$ 38.20	$ 33.21
Fourth Quarter	$ 0.32	$ 44.41	$ 36.64
Year Ended January 31, 2014(1)			
First Quarter	$ 0.48	$ 59.76	$ 45.28
Second Quarter	$ 4.48	$ 62.60	$ 51.68
Third Quarter (August 3, 2013 to September 27, 2013)	$	$ 64.12(2)	$ 57.32
Third Quarter (September 28, 2013 to November 1, 2013)	$ 0.32	$ 47.51(2)	$ 45.30
Fourth Quarter	$ 0.32	$ 49.02	$ 40.60

(1) Leidos paid a special cash dividend of $4.00 per share on June 28, 2013, to Leidos stockholders of record as of June 14, 2013.

(2) On September 27, 2013, Leidos effectuated a one-for-four reverse stock split of its shares of common stock, so that every four shares of Leidos common stock issued and outstanding were combined and converted into one share of Leidos common stock. The high and low prices for the third and fourth quarters reflect the price of Leidos common stock after the spin-off of Science Applications International Corporation by Leidos effective on September 27, 2013.

(3) Leidos declared a dividend of $0.32 on September 21, 2015, payable to stockholders of record as of October 15, 2015, payable on October 30, 2015. In March 2015, Leidos announced a change in 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, Leidos anticipated future quarterly dividends to be paid on or about the 30th day of the last month of each calendar quarter, one month earlier than previously paid, beginning with a quarterly dividend announced on December 4, 2015, payable to stockholders of record as of December 15, 2015, payable on December 30, 2015. As a result, Leidos stockholders received dividends of $0.64 during the fourth quarter of 2015.

Leidos Dividend Policy

Leidos currently intends to continue paying dividends on a quarterly basis, although the declaration of any future dividends will be determined by the Leidos Board 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 Leidos contractual agreements, applicable law, regulatory constraints, industry practice and other business considerations that the Leidos Board considers relevant. Leidos ability to declare and pay future dividends on Leidos common stock may be restricted by the provisions of the DGCL and covenants in Leidos then-existing indebtedness arrangements.

In connection with the Transactions, prior to the consummation of the Merger and subject to applicable law, Leidos shall declare and pay the Leidos Special Dividend, conditioned on completion of the Transactions. The Leidos Special Dividend will be funded by a combination of new borrowing and cash on hand.

Lockheed Martin Dividend Policy

Since its inception in 1995, Lockheed Martin has paid quarterly cash dividends. The payment of cash dividends is subject to limitations under applicable law and the discretion of the Lockheed Martin Board and will be determined in light of then-current conditions, including earnings and other operating results and capital requirements.

Table of Contents

THE TRANSACTIONS

On January 26, 2016, Lockheed Martin and Leidos announced that they, along with Splitco and Merger Sub, had entered into the Merger Agreement, and that Lockheed Martin and Splitco had entered into the Separation Agreement, which together provide for the combination of Leidos business and the Splitco Business. In the Transactions, Lockheed Martin will transfer the Splitco Business to Splitco. Prior to the Distribution, Splitco will incur new indebtedness and will pay to Lockheed Martin the Splitco Special Cash Payment.

On the closing date of the Merger, Lockheed Martin will distribute shares of Splitco common stock to its stockholders participating in the exchange offer. If the exchange offer is consummated but is not fully subscribed, Lockheed Martin will distribute the remaining shares of Splitco common stock on a *pro rata* basis to Lockheed Martin stockholders whose shares of Lockheed Martin common stock remain outstanding after the consummation of the exchange offer. Any Lockheed Martin stockholder who validly tenders (and does not properly withdraw) shares of Lockheed Martin common stock for shares of Splitco common stock in the exchange offer will waive their rights with respect to such tendered shares to receive, and forfeit any rights to, shares of Splitco common stock distributed on a *pro rata* basis to Lockheed Martin stockholders in the event the exchange offer is not fully subscribed. If there is a *pro rata* distribution, the exchange agent will calculate the exact number of shares of Splitco common stock not exchanged in the exchange offer and to be distributed on a *pro rata* basis, and the number of shares of Leidos common stock into which the remaining shares of Splitco common stock will be converted in the Merger will be transferred to Lockheed Martin stockholders (after giving effect to the consummation of the exchange offer) as promptly as practicable thereafter.

Immediately after the Distribution and on the closing date of the Merger, Merger Sub will merge with and into Splitco, whereby the separate corporate existence of Merger Sub will cease and Splitco will continue as the surviving company and a wholly-owned subsidiary of Leidos. In the Merger, subject to adjustment in accordance with the Merger Agreement, each share of Splitco common stock will be converted into the right to receive one share of Leidos common stock, as described in the section of this document entitled The Merger Agreement Merger Consideration.

Subject to adjustment under certain circumstances as set forth in the Merger Agreement, Leidos will issue 76,958,918 shares of Leidos common stock in the Merger. Based upon the reported closing sale price of $ per share for Leidos common stock on the NYSE on , 2016, and assuming the Leidos Special Dividend is $, the total value of the shares to be issued by Leidos and the cash expected to be received by Lockheed Martin in the Transactions would have been approximately $ million. The actual value of the Leidos common stock to be issued in the Merger will depend on the market price of shares of Leidos common stock at the time of the Merger.

After the Merger, Leidos will own and operate the Splitco Business through Splitco, which will be Leidos wholly-owned subsidiary, and will also continue its current businesses. All shares of Leidos common stock, including those issued in the Merger, will be listed on the NYSE under Leidos current trading symbol LDOS.

Below is a step-by-step description of the sequence of material events relating to the Transactions.

Step 1 Separation

Lockheed Martin will transfer the Splitco Business to Splitco following the Internal Reorganization.

Step 2 Issuance of Splitco Common Stock to Lockheed Martin, Incurrence of Splitco Debt and Splitco Cash Payment

In connection with the transfer of the Splitco Business to Splitco, Splitco will issue to Lockheed Martin additional shares of Splitco common stock. Following this issuance, subject to adjustment in accordance with the Merger Agreement, Lockheed Martin will own 76,958,918 shares of Splitco common stock, which will constitute all of the outstanding stock of Splitco. In addition, Splitco will incur new indebtedness in an aggregate principal amount of approximately $1,841,450,000. Splitco will use a portion of the proceeds of this loan to pay to Lockheed Martin the Splitco Special Cash Payment in connection with the transfer of the Splitco Business to Splitco. Splitco will use the balance to pay certain fees and expenses related to such indebtedness.

Step 3 Distribution Exchange Offer

Lockheed Martin will offer to Lockheed Martin stockholders the right to exchange all or a portion of their shares of Lockheed Martin common stock for shares of Splitco common stock at a   percent discount, calculated as set forth in this document, to the equivalent per-share value of Leidos common stock, after giving effect to the approximate amount of the Leidos Special Dividend, based on the conversion in the Merger of each share of Splitco common stock into one share of Leidos common stock. If the exchange offer is consummated but is not fully subscribed, Lockheed Martin will distribute the remaining shares of Splitco common stock on a *pro rata* basis to Lockheed Martin stockholders whose shares of Lockheed Martin common stock remain outstanding after the consummation of the exchange offer.

Table of Contents

Any Lockheed Martin stockholder who validly tenders (and does not properly withdraw) shares of Lockheed Martin common stock for shares of Splitco common stock in the exchange offer will waive their rights with respect to such tendered shares to receive, and forfeit any rights to, shares of Splitco common stock distributed on a *pro rata* basis to Lockheed Martin stockholders in the event the exchange offer is not fully subscribed.

Step 4 Incurrence of Leidos Debt

Prior to the closing of the Merger, the Leidos Borrower will incur new indebtedness in the form of a $690,000,000 Term Loan A Facility and a $750,000,000 Revolving Credit Facility. The proceeds of the Term Loan A Facility and up to $50,000,000 of borrowings under the Revolving Credit Facility, together with cash on hand at Leidos (which shall not exceed $500,000,000), will be used to pay the Leidos Special Dividend, and additional proceeds of borrowings under the Revolving Credit Facility will be used to (i) repay in full all outstanding indebtedness for borrowed money of Splitco (if any) (other than the debt incurred by Splitco described above in Step 2), (ii) repay in full all indebtedness, and terminate all commitments, under the Amended and Restated Four Year Credit Agreement, dated as of March 11, 2011, among Leidos, as borrower, Leidos, Inc., as guarantor, and Citibank, N.A., as administrative agent, the lenders, other agents and other parties party thereto from time to time and (iii) pay the fees, costs and expenses associated therewith.

Step 5 Merger

Immediately after the Distribution, Merger Sub will merge with and into Splitco, whereby the separate corporate existence of Merger Sub will cease and Splitco will continue as the surviving company and as a wholly-owned subsidiary of Leidos. In the Merger, each share of Splitco common stock will be converted into the right to receive one share of Leidos common stock, as described in the section of this document entitled The Merger Agreement Merger Consideration. Immediately after the consummation of the Merger, approximately 50.5 percent of the outstanding shares of Leidos common stock is expected to be held by pre-Merger Splitco (former Lockheed Martin) stockholders and approximately 49.5 percent of the outstanding shares of Leidos common stock is expected to be held by pre-Merger Leidos stockholders, on a fully diluted basis.

Set forth below are diagrams that graphically illustrate, in simplified form, the existing corporate structures, the corporate structures immediately following the Separation and the Distribution but before the Merger and the corporate structures immediately following the consummation of the Merger.

Table of Contents

After completion of all of the steps described above, Leidos wholly-owned subsidiary, Splitco, will hold the Splitco Business directly and through its subsidiaries and will continue as the obligor under the new indebtedness to be incurred by Splitco on or about the date of the Distribution, which, after the consummation of the Merger, is expected to be guaranteed by Leidos.

In connection with the Transactions, on the date of the Distribution, Lockheed Martin or its subsidiaries and Splitco or the Splitco Subsidiaries will enter into the Additional Agreements relating to, among other things, intellectual property, real property, shared contracts, supply arrangements, contract novation and transition services. See Other Agreements Additional Agreements.

Determination of Number of Shares of Splitco Common Stock to Be Distributed to Lockheed Martin Stockholders

Lockheed Martin is offering to exchange all shares of Splitco common stock for shares of Lockheed Martin common stock validly tendered and not properly withdrawn. Immediately prior to the Distribution, the total number of shares of Splitco common stock outstanding will equal 76,958,918 shares, subject to adjustment pursuant to the Merger Agreement. Accordingly, subject to such adjustment, the total number of shares of Splitco common stock to be exchanged for shares of Lockheed Martin common stock in the exchange offer will be equal to 76,958,918 shares.

No Fractional Shares; Exchange of Certificates

Each issued and outstanding share of Splitco common stock will be converted in the Merger into the right to receive one share of Leidos common stock. In the conversion, no fractional shares of Leidos common stock will be delivered to Splitco stockholders. All fractional shares of Leidos common stock that any Splitco stockholder otherwise would be entitled to receive as a result of the Merger will be aggregated by the exchange agent on behalf of Leidos. The exchange agent will cause the whole shares obtained thereby to be sold on behalf of the Splitco stockholders that otherwise would be entitled to receive such fractional shares of Leidos common stock in the Merger, in the open market or otherwise, in each case at then-prevailing market prices as soon as practicable after the Merger and, in any case, no later than five business days after the Merger.

Table of Contents

The exchange agent then will make available the net proceeds thereof, after deducting any required withholding taxes and brokerage charges, commissions and transfer taxes, on a *pro rata* basis, without interest, as soon as practicable to the Splitco stockholders that otherwise would be entitled to receive such fractional shares of Leidos common stock in the Merger.

Upon consummation of the Merger, shares of Splitco common stock will no longer be outstanding and will automatically be canceled and retired. Prior to the Merger, Leidos will deposit in a reserve account with its transfer agent the certificates or book-entry authorizations representing the shares of Leidos common stock issuable in the Merger.

Background of the Transactions

The boards of directors of each of Leidos and Lockheed Martin periodically, and in the ordinary course, evaluate and consider a variety of financial and strategic opportunities to enhance stockholder value as part of their respective long-term business plans. During calendar year 2015 and January 2016, each of the companies respective management teams discussed with their boards of directors a variety of financial and strategic alternatives and opportunities regarding their respective company s future growth and strategic development. In the case of Lockheed Martin, those discussions included alternatives relating to its government information technology and technical services businesses.

On July 20, 2015, Lockheed Martin announced an agreement to acquire Sikorsky Aircraft Corporation, a global leader in military and commercial rotary-wing aircraft. At the same time, Lockheed Martin announced its intention to conduct a strategic review of alternatives for its government information technology and technical services businesses, which includes the Splitco Business. In connection with the strategic review, Lockheed Martin engaged J.P. Morgan Securities LLC (J.P. Morgan) and Goldman, Sachs & Co. (Goldman Sachs) as its financial advisors and Hogan Lovells US LLP (Hogan Lovells) as its lead legal advisor. The purpose of the strategic review was to explore whether the businesses could achieve greater growth and create more value for customers and stockholders outside of Lockheed Martin. As part of that strategic review, Lockheed Martin also considered whether certain elements of its government information technology business should be retained and realigned with its other business segments based on the nature of the work and the customers served.

Following the announcement by Lockheed Martin of its intention to conduct this strategic review, management of Lockheed Martin received inquiries from third parties expressing interest in the acquisition of all or a portion of the businesses that were under review. Lockheed Martin and its advisors considered the unsolicited indications of interest as well as feedback received from a number of parties contacted by J.P. Morgan and Goldman Sachs to evaluate their potential interest in a transaction involving the businesses under review. Throughout the late summer and fall of 2015, management updated the Lockheed Martin Board on the status of the strategic review, the level of interest expressed by third parties and the progress made in discussions with interested parties through periodic reports of management between meetings of the Board and through presentations and updates at each of the Lockheed Martin Board meetings in September, October and December 2015.

On August 25, 2015, Mr. Roger Krone, Leidos Chairman and Chief Executive Officer, telephoned Mr. Bruce Tanner, Lockheed Martin s Executive Vice President and Chief Financial Officer, to discuss the possibility of a transaction involving Leidos and the Lockheed Martin businesses that were under strategic review. Mr. Tanner indicated that Lockheed Martin would be willing to engage in preliminary discussions about Leidos interest. Prior to this discussion, Leidos had existing business relationships with Lockheed Martin through various subcontracting and teaming arrangements in support of U.S. government customers.

In early September 2015, Lockheed Martin entered into confidentiality agreements with a number of parties that had expressed an interest in evaluating the Lockheed Martin businesses under strategic review. On September 3, 2015, Lockheed Martin and Leidos executed an initial confidentiality agreement in order to facilitate exploratory discussions and enable Leidos to receive confidential information about the businesses under strategic review to determine whether there was mutual interest in pursuing a possible transaction. The initial exploratory discussions involved the sharing by Lockheed Martin with Leidos of certain limited non-public, confidential and proprietary information regarding Lockheed Martin and its government information technology and technical services businesses.

On September 18, 2015, representatives of Lockheed Martin, including Mr. Greg Psihas, Lockheed Martin s Vice President, Corporate Development, along with representatives of J.P. Morgan and Goldman Sachs, met with Mr. Krone and Michael Leiter, Executive Vice President for Business Development and Strategy for Leidos, at the McLean, Virginia offices of Hogan Lovells. At the meeting, Lockheed Martin s representatives provided an overview of the businesses under strategic review from an operational and a financial perspective. The parties engaged in preliminary discussions regarding a potential transaction involving Leidos and the businesses under strategic review, and outlined potential next steps and a possible decision-making timeline. During the month of September 2015, Lockheed Martin and its advisors from J.P. Morgan and Goldman Sachs also met with other interested parties and discussed the same information and proposed timeline with those parties.

Table of Contents

Over the subsequent weeks, representatives of Lockheed Martin and Leidos discussed the progress of Lockheed Martin s strategic review and its consideration of the process by which Lockheed Martin intended to conclude its evaluation of its government information technology and technical services businesses and the possible structure of a transaction or transactions involving those businesses. During these discussions, Leidos expressed its continuing interest in pursuing a potential transaction.

On October 14, 2015, Messrs. Krone and Leiter and James Reagan, Executive Vice President and Chief Financial Officer of Leidos, met with Mr. Psihas and other Lockheed Martin employees, as well as representatives of J.P. Morgan, Goldman Sachs and Hogan Lovells at the McLean, Virginia offices of Hogan Lovells. At that meeting, the Leidos management team provided certain information to Lockheed Martin about Leidos business and a potential combination of Leidos and Lockheed Martin s government information technology and technical services businesses. In the course of those discussions, Leidos and Lockheed Martin discussed the possible structure of a transaction in which the businesses would be combined, including a general outline and structure of a potential Reverse Morris Trust transaction involving Leidos and the Lockheed Martin businesses. During that same week, Lockheed Martin held similar discussions with other interested parties.

On October 28, 2015, Leidos management updated and briefed the Audit Committee of the Leidos Board with respect to discussions that had taken place with Lockheed Martin regarding a potential combination of Leidos with the Lockheed Martin information technology and technical services businesses in a Reverse Morris Trust transaction. Later that same day, Messrs. Krone and Leiter briefed members of the Leidos Board during a teleconference regarding the preliminary discussions that had been held between Lockheed Martin and Leidos, and provided an overview of the Lockheed Martin government information technology and technical services businesses. The Leidos Board authorized Leidos management to continue to explore a potential transaction.

In order to facilitate mutual due diligence processes and the exchange of non-public information regarding what is now the Splitco Business and Leidos, on November 5, 2015, Lockheed Martin and Leidos executed a more comprehensive confidentiality agreement that superseded the prior confidentiality agreement.

On November 19, 2015, representatives of Lockheed Martin, including senior management of businesses under strategic review, held a management presentation for representatives of Leidos at the McLean, Virginia offices of Hogan Lovells. Also in attendance at this meeting were representatives of Lockheed Martin s financial and legal advisors, J.P. Morgan, Goldman Sachs and Hogan Lovells, as well representatives of Leidos financial advisor, Citigroup Global Markets Inc. (Citi). During the course of this meeting, the Lockheed Martin team explained the results of the strategic review that it had been conducting and the programs and business areas that were to be included in the Splitco Business. Later that day, Lockheed Martin provided certain members of the Leidos team with access to an on-line data room for purposes of sharing information about the Splitco Business and the proposed transaction. During that same week, Lockheed Martin and its representatives held similar discussions with other interested parties.

On November 24, 2015, at the direction of Lockheed Martin, J.P. Morgan and Goldman Sachs delivered a process letter to prospective bidders participating in the auction process for a transaction involving the Splitco Business, including Leidos, outlining the anticipated steps of the transaction process being run by Lockheed Martin and the timing and procedures for submitting a non-binding proposal. In the process letter, Goldman Sachs and J.P. Morgan requested that parties submit a non-binding proposal for a strategic combination with the Splitco Business by way of a Reverse Morris Trust transaction no later than December 9, 2015.

On December 3, 2015, at a meeting of the Finance Committee of the Leidos Board (the Leidos Finance Committee), Leidos management updated the committee on the status of the potential transaction with Lockheed Martin, and provided additional information about the Splitco Business, a timeline of key transaction dates and an overview of its due diligence findings to date. Leidos management also reviewed and discussed with the Leidos Finance Committee a summary of the key terms of a draft of Leidos non-binding proposal for a combination with the Splitco Business. The Leidos Finance Committee authorized management to continue pursuing the potential transaction and to submit a non-binding proposal to Lockheed Martin. Representatives of Citi attended the meeting.

On December 9, 2015, Leidos submitted a preliminary, non-binding proposal to Lockheed Martin for the strategic combination between Leidos and the Splitco Business. Leidos non-binding proposal contemplated that the business combination between Leidos and the Splitco Business would be effected through a Reverse Morris Trust transaction which would result in Lockheed Martin stockholders and existing Leidos stockholders holding approximately 50.5 percent and 49.5 percent of the combined entity on a fully diluted basis, respectively. Leidos non-binding proposal valued the Splitco Business on a debt-free, cash-free basis at approximately $5.3 billion, $2.3 billion of which would be delivered in the form of a special cash payment by Splitco to Lockheed Martin. In order to achieve the 50.5 percent/49.5 percent post-transaction ownership split, Leidos proposal also contemplated that Leidos would pay a special dividend of approximately $1.2 billion to its stockholders in connection with the proposed transaction. Leidos noted in its proposal that it was based on the limited due diligence that then had been conducted to date, and in particular, that the valuation was based, in part, on preliminary assumptions as to the financial performance and tax basis of the business under review and was subject to further adjustment following Leidos due diligence review of the Splitco Business.

Also on December 9, 2015, Lockheed Martin received a preliminary, non-binding proposal from Party A, another prospective bidder with which Lockheed Martin had held discussions, regarding a potential strategic combination with the Splitco Business.

Over the next two weeks, representatives of Lockheed Martin and representatives of Leidos, including their respective legal and financial advisors, spoke by phone and held in-person meetings on a number of occasions to allow Leidos the opportunity to conduct additional financial and legal due diligence in support of its proposal. Over the same period, Lockheed Martin and its financial advisors held similar discussions and had similar in-person meetings with Party A to allow Party A to conduct additional financial and legal due diligence on the Splitco Business. On December 14, 2015, J.P. Morgan and Goldman Sachs advised both Citi and Party A s financial advisor that Leidos and Party A should submit a revised proposal on December 23, 2016 based on the additional financial and legal due diligence conducted by Leidos and Party A following the submission of their respective initial proposals on December 9, 2015.

On December 22, 2015, the Leidos Finance Committee held a meeting at which Leidos management updated the Leidos Finance Committee with respect to the additional due diligence that had been conducted following the submission of Leidos December 9, 2015 non-binding proposal. Mr. Krone provided an update on the auction bidding process undertaken by Lockheed Martin for the possible disposition of the Splitco Business in a Reverse Morris Trust transaction, and summarized Lockheed Martin s reaction to Leidos initial non-binding proposal. In addition, Leidos management described for the Leidos Finance Committee the terms of the revised proposal that Leidos management had developed based on the additional due diligence conducted following the submission of Leidos initial non-binding proposal. The Leidos Finance Committee authorized management to proceed with the submission of the revised proposal. Representatives of Citi attended the meeting.

On December 23, 2015, Leidos submitted its revised non-binding proposal for a Reverse Morris Trust transaction between Leidos and the Splitco Business to J.P. Morgan and Goldman Sachs. Based on the Leidos stock price at the time, Leidos revised proposal valued the Splitco Business on a debt-free, cash-free basis at approximately $4.7 billion, $1.8 billion of which would be delivered in the form of a special cash payment by Splitco to Lockheed Martin. In order to achieve the 50.5 percent/49.5 percent post-transaction ownership split, Leidos proposal also contemplated that Leidos would pay a special dividend of approximately $1.3 billion to its stockholders in connection with the proposed transaction.

Also on December 23, 2015, Lockheed Martin received a revised proposal from Party A.

On December 29, 2015, J.P. Morgan and Goldman Sachs advised Citi that Leidos was one of two potential acquirors with which Lockheed would negotiate the terms of the Transaction Documents, and that drafts of the Transaction Documents would be distributed in early January 2016.

On January 5, 2016, on behalf of Lockheed Martin, Hogan Lovells sent initial drafts of the Transaction Documents, including the Merger Agreement, to Leidos, Citi and Skadden, Arps, Slate, Meagher & Flom LLP (Skadden), Leidos legal advisor.

On January 7, 2016, representatives of Leidos met with representatives of Lockheed Martin, including Mr. Tanner and Mr. Psihas, and senior management of Splitco at the offices of Hogan Lovells in McLean, Virginia. Each party s respective legal and financial advisors also attended the meeting. At the meeting, Leidos management provided further information to Lockheed Martin and its representatives with respect to Leidos business and operations, and the benefits to the Splitco Business of a combination with Leidos. Following that meeting, Leidos provided Lockheed Martin and its financial and legal advisors with access to an on-line data room for purposes of conducting an operational, financial and legal review of Leidos, and Lockheed Martin provided additional information about the Splitco Business through the on-line data room it previously had established for purposes of the auction process involving the Splitco Business. During that same week, Lockheed Martin representatives, including Lockheed Martin s financial and legal representatives, attended a similar presentation and received access to similar due diligence materials from Party A.

Commencing in early January 2016, Leidos began formalizing its financing commitments for the proposed transaction with various lenders, including Citi and the other Leidos Commitment Parties and Splitco Commitment Parties, J.P. Morgan and Goldman Sachs.

On January 12, 2016, on behalf of Leidos, Skadden sent revised versions of the Merger Agreement and the other Transaction Documents earlier provided to Leidos, Citi and Skadden by Hogan Lovells on behalf of Lockheed Martin to Lockheed Martin and its advisors. The law firm representing Party A did likewise.

On January 13, 2016, J.P. Morgan and Goldman Sachs, on behalf of Lockheed Martin, engaged in discussions with Citi and Party A s financial advisor and provided feedback about certain terms and conditions included in the proposals that had been submitted by each of Leidos and Party A.

Over the course of the day on January 14, 2016, representatives of Lockheed Martin, J.P. Morgan, Goldman Sachs and Hogan Lovells met in person at Hogan Lovells offices in McLean, Virginia and engaged in telephone conversations with representatives of Leidos, Citi and Skadden, and with representatives of Party A and its financial and legal advisors. Leidos and Party A were advised that, based on the results of those discussions, Lockheed Martin intended to proceed in earnest with the negotiation of final Transaction Documents that could be presented to Lockheed Martin s Board for its review and consideration and that Lockheed Martin desired to announce the transaction in conjunction with its fourth quarter / year-end earnings call scheduled for January 26, 2016. In the course of those discussions, J.P. Morgan and Goldman Sachs advised Citi that Lockheed Martin had concerns regarding certain provisions in Leidos revised draft of the Merger Agreement, including the inclusion by Leidos of post-signing value adjustments and post-closing indemnities.

Table of Contents

Late in the day on January 14, 2016, Messrs. Krone and Reagan met at Hogan Lovells offices with Mr. Psihas of Lockheed Martin to discuss the terms of the proposed transaction and certain of the changes made by Leidos to the draft Merger Agreement. Representatives of the parties respective legal and financial advisors joined a portion of the meeting in person or by telephone. In a series of discussions during the evening of January 14, 2016, and on January 15, 2016, Lockheed Martin and Leidos reached agreement in principle on a number of important points relating to the proposed transaction, including the elimination of Leidos proposed post-signing value adjustments, the inclusion of a limited post-closing indemnity, a termination fee in an amount equal to $150 million and an aggregate value to Lockheed Martin and its stockholders based on the value of Leidos stock prior to a signing of the Merger Agreement in an amount equal to approximately $5 billion.

Following these discussions, on January 15, 2016, Mr. Psihas advised Mr. Krone that Lockheed Martin was prepared to meet in person with representatives of Leidos and its financial and legal advisors to negotiate the final terms of the Transaction Documents based on the agreements in principle that had been reached on a number of the principal economic and other terms. On January 16, 2016, Mr. Psihas advised Party A that Lockheed Martin was proceeding with final negotiations with another party. Early in the morning of January 16, 2016, on behalf of Lockheed Martin, Hogan Lovells sent a revised version of the Merger Agreement to Leidos, Citi and Skadden.

On January 17, 2016, representatives of Leidos and Lockheed Martin and their respective financial and legal advisors, including representatives of Lockheed Martin s outside tax advisors from Davis Polk & Wardwell LLP (Davis Polk), met at the McLean, Virginia offices of Hogan Lovells to continue negotiating the terms of the Merger Agreement and the other Transaction Documents.

During the course of the following week, representatives of Leidos and Lockheed Martin continued to negotiate the terms of the Merger Agreement and the other Transaction Documents, both in person at Hogan Lovells offices and by telephone.

On January 18, 2016, representatives of Leidos shared with Lockheed Martin drafts of the financing commitment letter obtained by Leidos for the borrowing contemplated by Leidos and Splitco in connection with the proposed transaction. On January 20, 2016, Lockheed Martin and Leidos agreed that Leidos and Splitco would each obtain its own financing commitment letter in connection with the proposed transaction.

On January 21, 2016, the Leidos Board held a special meeting at which Leidos management and representatives of Skadden and Citi also were present. Leidos management provided an update on the negotiations with respect to the proposed transaction and the status of financing arrangements. In addition, Leidos management provided an update on the status of the due diligence investigation conducted by Leidos and its subject matter experts, noted key due diligence findings, and discussed key post-signing milestones and a post-closing integration timeline. Leidos management also reviewed with the Leidos Board the key terms and conditions of the Merger Agreement and the other Transaction Documents. The Leidos Board and management further discussed the overall merits of the proposed transaction in view of the detailed information presented. Following the discussion, the Leidos Board authorized Leidos management to continue negotiation of definitive agreements to effectuate the transaction, subject to the Leidos Board s final consideration and approval.

During the period from January 21, 2016 through January 25, 2016, Leidos and Lockheed Martin, together with their respective financial and legal advisors, continued to negotiate definitive agreements with respect to the transaction. In addition, during this period, Leidos and Lockheed Martin completed their respective due diligence investigations in connection with the transaction.

On January 25, 2016, the Leidos Board held a special telephonic meeting, which members of Leidos management and representatives of Citi and Skadden also attended, to review the final structure and terms of the proposed transaction, including the related financing arrangements with Citi and the other Leidos Commitment Parties, and to discuss developments since the previous Leidos Board meeting. Members of Leidos management reviewed with the Leidos Board, among other things, the components of the consideration to be delivered to Lockheed Martin and its stockholders, and the methodology used by the parties to determine the amount of Leidos common stock to be issued in the transaction. Also at this meeting, Citi reviewed with the Leidos Board its financial analysis of the exchange ratio and rendered an oral opinion, confirmed by delivery of a written opinion dated January 25, 2016, to the Leidos Board to the effect that, as of such date and based on and subject to various assumptions made, procedures followed, matters considered and limitations and qualifications on the review undertaken described in such opinion, the exchange ratio provided for pursuant to the Merger Agreement of 1.020202 (which represents the number of shares of Leidos common stock to be issued in the Merger, divided by the number of fully diluted shares of Leidos common stock as of the date of Citi s opinion) was fair, from a financial point of view, to Leidos. Leidos management also provided an update on the status of the proposed debt financing, as well as the various agreements to be entered into in connection with the transaction, including providing an update that the terms and conditions were substantially complete and the agreements in substantially final form, and that subject to the Leidos Board s approval and the Lockheed Martin Board s approval, both parties were prepared to execute and deliver the agreements. Following discussion with Leidos management and advisors, the Leidos Board unanimously determined, among other things, that the Merger Agreement and the Transactions, including the Merger and the Share Issuance, were advisable, fair to and in the best interests of Leidos and its stockholders, authorized and approved the Merger Agreement and authorized and approved the proposed debt financing.

Table of Contents

On January 25, 2016, the Lockheed Martin Board held a meeting to review the final results of the strategic review of Lockheed Martin s government information technology and technical services businesses, review the auction process that led to the proposed Reverse Morris Trust transaction involving Leidos, including the interest expressed by other parties in the Splitco Business and the course of negotiations with such parties subsequent to Lockheed Martin s announcement of the strategic review on July 20, 2015, review the terms and conditions of the Transaction Documents that had been negotiated between representatives of Leidos and Lockheed Martin and which were substantially complete, including the terms that were subject to final resolution of the parties, review the tax requirements with respect to Reverse Morris Trust transactions and review the nature and scope of the tax opinions of Davis Polk and Skadden that would be conditions to the closing the Transactions, review with Lockheed Martin s financial and legal advisors their views on the proposed Transactions and the benefits afforded by the Transactions to Lockheed Martin and its stockholders as well as the Splitco Business and to consider the communications to be made and the actions to be taken by Lockheed Martin and Leidos following execution of the Transaction Documents. Following discussion with Lockheed Martin s management and advisors, the Lockheed Martin Board unanimously determined, among other things, that the Separation Agreement, the Merger Agreement and the Transactions, including the Merger and the receipt by Lockheed Martin of the Splitco Special Cash Payment, were advisable and in the best interests of Lockheed Martin and its stockholders, and authorized and approved the Separation Agreement, the Merger Agreement and the other Transactions.

On the morning of January 26, 2016, Leidos and Splitco received the final Leidos Commitment Letter and the final Splitco Commitment Letter, respectively, to provide financing for the proposed Transactions, executed by the Leidos Commitment Parties and the Splitco Commitment Parties, Lockheed Martin and Splitco entered into the Separation Agreement and Leidos and Lockheed Martin and certain of their affiliates, including Splitco, entered into the Merger Agreement, the Tax Matters Agreement and the Employee Matters Agreement.

Following the execution of the Merger Agreement and the other Transaction Documents referenced in the preceding paragraph, on the morning of January 26, 2016, before the opening of trading on the NYSE, Leidos and Lockheed Martin each issued press releases announcing the Transactions.

Leidos Reasons for the Transactions

In reaching its decision to approve the Merger Agreement and the Transactions and recommend that Leidos stockholders approve the Share Issuance, the Leidos Board considered, among other things, the potential strategic and financial benefits expected to be achieved by combining Leidos and the Splitco Business relative to the future prospects of Leidos on a standalone basis, the relative actual results of operations and prospects of Leidos and of the Splitco Business, as well as other potential strategic alternatives that might be available to Leidos, and the risks and uncertainties associated with the Transactions and with these alternatives.

In that process, the Leidos Board considered, among other things, the following factors as generally supporting its decision to approve the Merger Agreement and recommend that Leidos stockholders approve the Share Issuance:

Strategic Considerations

- the Merger will result in a combined company with increased scale and a more balanced portfolio, with 45% of combined annual revenues coming from civil and commercial and 55% from defense and intelligence sectors, versus 28% and 72%, respectively, with Leidos as a standalone company;

the Merger will add Splitco expertise in such areas as IT operations, financial and HR enterprise resource planning (ERP) outsourcing, data center consolidation, and facilities management;

the acquisition of the Splitco Business is expected to result in a substantial expansion of Leidos addressable opportunities in the government services industry, with more than 2,000 individual contracts and task orders and over 100 contract vehicles brought to the combined company by the Splitco Business that have minimal overlap with Leidos current contract vehicles and customers;

the acquisition of the Splitco Business will diversify Leidos offerings across the government services industry and create a meaningful presence and longstanding relationships for the combined company with an attractive and expanded customer set, including new key customer relationships with the Department of Health and Human Services, the Department of Veterans Affairs, the Federal Aviation Administration, the Defense Information Systems Agency, the Department of Homeland Security and the Social Security Administration;

the complementary market access and capabilities of Leidos and the Splitco Business, including the experience that the management and employees of the Splitco Business will bring to the combined company in federal and international IT solutions and services, with capabilities across the full lifecycle of large, complex IT systems design, implementation and operation;

Table of Contents

with a collective workforce of approximately 33,000 employees, the size and scale of the combined company will enhance its ability to provide value to its customers through a broader range of services to meet their needs, and will allow its customers to realize future savings on work under cost plus contracts given the savings that the combined company expects to realize as it distributes overhead costs over a larger revenue base; and

the Merger is expected to enable Leidos to become an industry leader in the government services industry by revenue, growing from a revenue base of approximately $5,000,000,000 for calendar year 2015 to a combined annual revenue base of approximately $10,000,000,000.

Financial Considerations

the Merger is expected to result in enhanced EBITDA margins and revenue growth opportunities for the combined company with strong free cash flow;

the Merger is expected to result in significant cost synergies during 2017 and annualized net cost synergies of approximately $120,000,000 by the end of 2018 with the potential for additional longer term revenue synergies, although the magnitude and timing of any such longer term synergies is yet to be determined; and

the Transactions are expected to be accretive to earnings per share on a non-GAAP basis after adjusting for, among other things, acquisition and integration costs and amortization of acquired intangibles in the second full year of operations after the Merger and neutral in the first full year of operations after the Merger.

Transaction Terms and Other Considerations

the structure of the Transactions delivers significant value to existing stockholders of Leidos by providing that the Leidos Board will, subject to applicable law, declare the Leidos Special Dividend in an aggregate amount equal to $1,029,210,261 (approximately $ per share);

subject to certain limited adjustments that are not expected to be triggered, the number of shares of common stock to be issued by Leidos is fixed and will not fluctuate based upon changes in the stock price of Leidos or Lockheed Martin prior to the completion of the Merger;

the terms of the Merger Agreement, including the Merger exchange ratio, were the result of extensive arms -length negotiations between representatives of Leidos and Lockheed Martin;

the prospective financial results of the Splitco Business (as well as the risks involved in achieving those results), the fit of the business combination with Leidos previously established strategic goals and the results of Leidos due diligence review of the Splitco Business;

the opinion of Citi, dated January 25, 2016, to the Leidos Board as to the fairness, from a financial point of view and as of the date of the opinion, to Leidos of the exchange ratio provided for pursuant to the Merger Agreement of 1.020202 (which represents the number of shares of Leidos common stock to be issued in the Merger, divided by the number of fully diluted shares of Leidos common stock as of the date of Citi s opinion), which opinion was based on and subject to the assumptions made, procedures followed, matters considered and limitations and qualifications on the review undertaken as more fully described in the section of this document entitled Opinion of Leidos Financial Advisor;

immediately following the Merger, the Leidos Board would be expanded to include three additional directors to be designated by Lockheed Martin;

immediately following the Merger, the current executive officers of Leidos would continue in their current positions, with additional executive management talent to be gained from former management of the Splitco Business;

the Transactions are expected to be approved by regulatory authorities without any significant disruption in the business of Leidos or Splitco; and

the Merger Agreement permits the Leidos Board to withdraw or modify its recommendation to the Leidos stockholders to approve the Share Issuance in certain circumstances and subject, under certain circumstances, to the payment of a termination fee.

The Leidos Board also considered, among other things, the following risk factors but determined that the benefits of the Transactions substantially outweighed such risks:

the inability of Leidos to influence the operations of the Splitco Business during the potentially significant time period prior to consummating the Transactions;

the possibility that the increased revenues, earnings and efficiencies expected to result from the Transactions would fail to materialize;

the challenges inherent in fully and successfully separating the operations of the Splitco Business from Lockheed Martin and integrating such business with Leidos;

the potential impact of the restrictions under the Merger Agreement on Leidos ability to take certain actions during the period between execution of the Merger Agreement and the consummation of the Transactions, generally requiring the company to conduct business only in the ordinary course or, if not in the ordinary course, to first seek and obtain Lockheed Martin s consent (which could delay or prevent Leidos from undertaking business opportunities that may arise pending completion of the Transactions);

the dilution of the ownership interests of Leidos current stockholders that would result from the Share Issuance and that Leidos current stockholders, as a group, would control less than a majority of Leidos after consummation of the Transactions;

the possibility that the public announcement of the Merger Agreement could have an adverse effect on Leidos, including effects on Leidos customers, operating results and share price, and Leidos ability to attract and retain key management and personnel;

the risk that the Transactions and integration may divert management attention and resources away from other strategic opportunities and from operational matters;

the Splitco Business will be dependent on the provision of transition services by Lockheed Martin for a period of time after completion of the Merger;

the need for Leidos and Splitco to incur substantial indebtedness in connection with the Transactions;

the potential payment of termination fees of $150,000,000 that Leidos could be required to make in certain circumstances under the Merger Agreement;

the restrictions imposed on Leidos ability to take certain corporate actions under the terms of the Tax Matters Agreement among Leidos, Lockheed Martin and Splitco, which could reduce its ability to engage in certain future business transactions that might be advantageous;

the requirement in the Merger Agreement that Leidos call and hold a vote of its stockholders to approve the Share Issuance even in circumstances where the Leidos Board has withdrawn or adversely changed its recommendation to the Leidos stockholders;

the indemnities being provided by Lockheed Martin for breaches of representations and warranties under the Merger Agreement are limited in scope and duration;

- the possibility that the Transactions may not be consummated and the potential adverse consequences, including substantial costs that would be incurred and potential damage to Leidos reputation, if the Transactions are not completed; and

- the other risks described above under the section entitled Risk Factors beginning on page 37.

The foregoing discussion of the information and factors considered by the Leidos Board is not exhaustive, but includes the material factors considered by the Leidos Board, including factors that support the Transactions as well as those that weigh against them. In view of the wide variety of factors considered by the Leidos Board in connection with its evaluation of the Transactions and the complexity of these matters, the Leidos Board did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision. Rather, the Leidos Board based its recommendation on the totality of the information presented to and considered by it. The Leidos Board evaluated the factors described above with the assistance of Leidos senior management and legal and financial advisors. In considering the factors described above, individual members of the Leidos Board may have given different weights to other or different factors.

This explanation of the factors considered by the Leidos Board is in part forward-looking in nature and, therefore, should be read in light of the factors discussed in the sections of this document entitled Cautionary Statement on Forward-Looking Statements and Risk Factors.

After careful consideration, the Leidos Board unanimously approved the Merger Agreement and the Transactions, and determined that the Merger Agreement and the Transactions, including the Merger and the Share Issuance, are advisable, fair to and in the best interests of, Leidos and its stockholders.

Table of Contents

Opinion of Leidos Financial Advisor

Leidos has engaged Citi as its financial advisor in connection with the proposed Merger. In connection with this engagement, Leidos requested that Citi evaluate the fairness, from a financial point of view, to Leidos of the exchange ratio provided for pursuant to the Merger Agreement. On January 25, 2016, at a meeting of the Leidos Board held to evaluate the Merger, Citi rendered an oral opinion, confirmed by delivery of a written opinion dated January 25, 2016, to the Leidos Board to the effect that, as of that date and based on and subject to various assumptions made, procedures followed, matters considered and limitations and qualifications described in its opinion, the exchange ratio provided for pursuant to the Merger Agreement was fair, from a financial point of view, to Leidos. For purposes of Citi s financial analyses and opinion, the term exchange ratio means, after giving effect to the Distribution and certain related transactions contemplated by the Separation Agreement, 1.020202 (which represents the number of shares of Leidos common stock to be issued in the Merger, divided by the number of fully diluted shares of Leidos common stock as of the date of Citi s opinion).

The description of Citi s opinion, dated January 25, 2016, to the Leidos Board set forth below is qualified in its entirety by reference to the full text of such opinion. **Citi s opinion was provided for the information of the Leidos Board (in its capacity as such) in connection with its evaluation of the exchange ratio from a financial point of view to Leidos and did not address any other terms, aspects or implications of the Merger or any related transactions. Citi expressed no view as to, and its opinion did not address, the underlying business decision of Leidos to effect the Merger or related transactions, the relative merits of the Merger or related transactions as compared to any alternative business strategies that might exist for Leidos or the effect of any other transaction in which Leidos might engage. Citi s opinion is not intended to be and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matters relating to the proposed Merger, any related transaction or otherwise.**

In arriving at its opinion, Citi:

- reviewed drafts, each dated January 25, 2016, of the Merger Agreement and the Separation Agreement;

- held discussions with certain senior officers, directors and other representatives of Leidos and certain senior officers and other representatives of Lockheed Martin concerning the businesses, operations and prospects of Leidos and the Splitco Business on a standalone basis;

- reviewed certain publicly available and other business and financial information relating to Leidos and the Splitco Business, including third-party prepared quality of earnings reports relating to the Splitco Business, as well as certain financial forecasts and other information and data relating to Leidos and the Splitco Business which were provided to or discussed with Citi by the respective managements of Leidos and Lockheed Martin, including alternative financial forecasts and other information and data relating to the Splitco Business prepared or discussed with Citi by the management of Leidos that Citi was directed to utilize in its analyses and certain information and data relating to the potential strategic implications and financial and operational benefits (including the amount, timing and achievability thereof) anticipated by the management of Leidos to result from the Merger and related transactions;

reviewed the financial terms of the Merger as set forth in the Merger Agreement in relation to, among other things, current and historical market prices of Leidos common stock, the financial condition and historical and projected earnings and other operating data of Leidos and the Splitco Business, and the capitalization of Leidos and Splitco;

analyzed certain financial, stock market and other publicly available information relating to the businesses of other companies whose operations Citi considered relevant in evaluating those of Leidos and the Splitco Business;

evaluated certain potential pro forma financial effects of the Merger and related transactions relative to Leidos on a standalone basis utilizing the financial forecasts and other information and data relating to Leidos and the Splitco Business described above; and

conducted such other analyses and examinations and considered such other information and financial, economic and market criteria as Citi deemed appropriate in arriving at its opinion.

In rendering its opinion, Citi assumed and relied, without independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with Citi and upon assurances that no relevant information was omitted or remained undisclosed to Citi. With respect to financial forecasts and other information and data that Citi was directed to utilize in its analyses, including estimates as to the potential strategic implications and financial and operational benefits anticipated by the management of Leidos to result from the Merger and the related transactions, Citi was advised by the management of Leidos, and Citi assumed, with Leidos consent, that they were reasonably prepared on bases reflecting the best currently available estimates and judgments of such management as to the future financial performance of Leidos and the Splitco Business, the potential strategic implications and financial and operational benefits (including the amount, timing and achievability thereof) anticipated by the management of Leidos to result from, and other potential pro forma financial effects of, the Merger and related transactions and the other matters covered thereby.

Table of Contents

With respect to third-party prepared quality of earnings reports relating to the Splitco Business provided to or discussed with Citi, Citi assumed, with Leidos consent, that such reports were reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of the preparer thereof and were a reasonable basis on which to evaluate the matters covered thereby. Citi assumed, with Leidos consent, that the financial results, including with respect to the potential strategic implications and financial and operational benefits anticipated to result from the Merger and related transactions, reflected in such financial forecasts and other information and data would be realized in the amounts and at the times projected. Citi was advised that an audit of the financial statements relating to the Splitco Business and Splitco had not been completed as of the date of Citi s opinion and Citi assumed, with Leidos consent, that, upon completion, such final audited financial statements would not reflect any information that would be meaningful in any material respect to Citi s analyses or opinion.

Citi relied, at Leidos direction, upon the assessments of the managements of Leidos and Lockheed Martin as to, among other things, (i) the related transactions, including with respect to the timing thereof and assets, liabilities and financial and other terms involved, (ii) the potential impact on Leidos and the Splitco Business of market, competitive and other trends and developments in and prospects for, and governmental, regulatory and legislative matters relating to or otherwise affecting, the industries in which Leidos and the Splitco Business operate, (iii) existing and future relationships, agreements and arrangements with, and the ability to attract, retain and/or replace, key employees, contractors, customers and other commercial relationships of Leidos and the Splitco Business, and (iv) the ability to integrate the operations of Leidos and the Splitco Business. Citi assumed, with Leidos consent, that there would be no developments with respect to any such matters or adjustments to the exchange ratio that would have an adverse effect on Leidos, Splitco (including the Splitco Business), the Merger or related transactions (including the contemplated benefits thereof) or that would otherwise be meaningful in any material respect to Citi s analyses or opinion.

Citi evaluated Splitco (including the Splitco Business) and the Merger for purposes of Citi s analyses and opinion after giving effect to the related transactions. Citi did not make and, except for certain third-party prepared quality of earnings reports relating to the Splitco Business, was not provided with an independent evaluation or appraisal of the assets or liabilities (contingent, off-balance sheet or otherwise) of Leidos, the Splitco Business or any entity or other business and Citi did not make any physical inspection of the properties or assets of Leidos, the Splitco Business or any entity or other business. Citi assumed, with Leidos consent, that the Merger and related transactions would be consummated in accordance with their respective terms and in compliance with all applicable laws, documents and other requirements, without waiver, modification or amendment of any material term, condition or agreement, and that, in the course of obtaining the necessary governmental, regulatory or third party approvals, consents, releases, waivers and agreements for the Merger and related transactions, no delay, limitation, restriction or condition, including any divestiture requirements, amendments or modifications, would be imposed or occur that would have an adverse effect on Leidos, Splitco (including the Splitco Business), the Merger or related transactions (including the contemplated benefits thereof) or that otherwise would be meaningful in any respect to Citi s analyses or opinion. Citi also assumed, with Leidos consent, that the Merger and related transactions would qualify, as applicable, for the intended tax treatment contemplated by the Merger Agreement and the Separation Agreement. Citi s opinion, as set forth in its written opinion, related to the relative values of Leidos and the Splitco Business. Citi did not express any view or opinion as to the actual value of Leidos common stock or any other securities when issued or distributed or the prices at which Leidos common stock or any other securities would trade or otherwise be transferable at any time, including following announcement or consummation of the Merger and related transactions. Citi assumed, with Leidos consent, that Splitco would retain or acquire all assets, properties and rights necessary for the operations of the Splitco Business, that appropriate reserves, indemnification arrangements or other provisions were made with respect to liabilities of or relating to Splitco (including the Splitco Business) that would be assumed in connection with the Merger and related transactions, and that Splitco would not directly or indirectly assume or incur any liabilities that are contemplated to be excluded as a result of the Merger, the related transactions or otherwise. Representatives of Leidos advised Citi, and Citi further assumed, that the final terms of the Merger Agreement and the Separation

Agreement would not vary materially from those set forth in the drafts Citi reviewed. Citi did not express any opinion with respect to accounting, tax, regulatory, legal or similar matters and it relied, with Leidos consent, upon the assessments of representatives of Leidos and Lockheed Martin as to such matters.

Citi s opinion did not address any terms (other than the exchange ratio to the extent expressly specified in such opinion), aspects or implications of the Merger or related transactions, including, without limitation, the form or structure of the Merger, the form or structure, or financial or other terms, of any related transactions, or any terms, aspects or implications of any related agreements, any indemnification or other agreement, arrangement or understanding to be entered into in connection with or contemplated by the Merger, the related transactions or otherwise. Citi expressed no view as to, and its opinion did not address, the fairness (financial or otherwise) of the amount or nature or any other aspect of any compensation to any officers, directors or employees of any parties to the Merger or related transactions, or any class of such persons, relative to the exchange ratio or otherwise. Citi s opinion was necessarily based upon information available, and financial, stock market and other conditions and circumstances existing and disclosed, to Citi as of the date of its opinion. Although subsequent developments may affect Citi s opinion, Citi has no obligation to update, revise or reaffirm its opinion. As the Leidos Board was aware, the credit, financial and stock markets, and the industries in which Leidos and the Splitco Business operate, have experienced and continue to experience volatility and Citi expressed no opinion or view as to any potential effects of such volatility on Leidos, Splitco (or their respective businesses), the Merger or related transactions (including the contemplated benefits thereof). The issuance of Citi s opinion was authorized by Citi s fairness opinion committee.

In preparing its opinion, Citi performed a variety of financial and comparative analyses, including those described below. The summary of the analyses below is not a complete description of Citi s opinion or the analyses underlying, and factors considered in connection with, Citi s opinion. The preparation of a financial opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a financial opinion is not readily susceptible to summary description. Citi arrived at its ultimate opinion based on the results of all analyses undertaken by it and factors assessed as a whole, and it did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis. Accordingly, Citi believes that the analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying such analyses and its opinion.

In its analyses, Citi considered industry performance, general business, economic, market and financial conditions and other matters existing as of the date of its opinion, many of which are beyond the control of Leidos, Lockheed Martin and Splitco. No company or business reviewed is identical or directly comparable to Leidos, Splitco or their respective businesses and an evaluation of these analyses is not entirely mathematical; rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the public trading or other values of the companies or business segments reviewed.

The estimates contained in Citi s analyses and the valuation ranges resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by such analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold or acquired. Accordingly, the estimates used in, and the results derived from, Citi s analyses are inherently subject to substantial uncertainty.

Citi was not requested to, and it did not, recommend or determine the specific consideration payable in the Merger. The type and amount of consideration payable in the Merger were determined through negotiations between Leidos and Lockheed Martin and the decision to enter into the Merger Agreement, the Separation Agreement and related documents was solely that of the Leidos Board. Citi s opinion was only one of many factors considered by the Leidos Board in its evaluation of the Merger and related transactions and should not be viewed as determinative of the views of such board of directors or the management of Leidos with respect to the Merger or related transactions or the consideration payable in the Merger or related transactions.

The following is a summary of the material financial analyses presented to the Leidos Board in connection with Citi s opinion, dated January 25, 2016. **The summary set forth below does not purport to be a complete description of the financial analyses performed by, and underlying the opinion of, Citi, nor does the order of the financial analyses described represent the relative importance or weight given to those financial analyses by Citi. Certain financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses, the tables must be read together with the text of each summary as the tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the financial analyses, could create a misleading or incomplete view of such financial analyses. None of Leidos, Lockheed Martin, Splitco, Citi or any other person assumes responsibility if future results are different from those described, whether or not any such difference is material.** For purposes of the financial analyses described below, the term (a) EBITDA means earnings before interest, taxes, depreciation and amortization, excluding one-time, non-recurring and non-cash items and including stock-based compensation expense and, in the case of the Splitco Business, excluding pension expense, quality of earnings savings and incremental overhead costs (none of which were expected by the management of Leidos to be applicable in the ongoing operations of the Splitco Business) and (b) non-GAAP EPS means earnings per share after adding back, in the case of Leidos, non-cash amortization expense, net of tax, and, in the case of the combined company, non-cash transaction amortization expense, Leidos standalone non-cash amortization expense and integration cost, net of tax. Approximate implied equity value reference ranges for the Splitco Business and Leidos were calculated, as applicable, after taking into account the net debt of the Splitco Business and Leidos as of June 30, 2016 as estimated by Leidos management and after giving effect to the Splitco Special Cash Payment and the Leidos Special Dividend. In calculating implied exchange ratio reference ranges as reflected in the financial analyses described below, Citi (i) divided the low-end of the approximate implied equity value reference ranges derived for the Splitco Business from such analyses by the high-end of the approximate implied equity value reference ranges derived for Leidos from such analyses in order to calculate the low-end of the implied exchange ratio reference ranges and (ii) divided the high-end of the approximate implied equity value reference ranges derived for the Splitco Business from such analyses by the low-end of the approximate implied equity value reference ranges derived for Leidos from such analyses in order to calculate the high-end of the implied exchange ratio reference ranges. Financial data utilized for the Splitco Business and Leidos in the financial analyses described below, to the extent based on internal financial forecasts and estimates of management, were based on financial forecasts and other estimates and data prepared or discussed with Citi by the management of Leidos, referred to as the Splitco Business forecasts and the Leidos forecasts, respectively. Citi did not rely, for purposes of its opinion, on a comparison of the financial terms of the Merger to the financial terms of other transactions given, in Citi s view, the lack of sufficient comparability of other transactions with the Merger.

Selected Public Companies Analyses. Citi performed separate selected public companies analyses of the Splitco Business and Leidos in which Citi reviewed certain financial and stock market information, as applicable, relating to the Splitco Business, Leidos and the following six selected companies that Citi considered generally relevant as publicly traded companies with operations in the industries in which the Splitco Business and Leidos operate, collectively referred to as the selected companies:

- Booz Allen Hamilton Holding Corporation
- CACI International Inc.
- CSRA Inc.
- Engility Holdings, Inc.
- ManTech International Corporation
- Science Applications International Corporation

Citi reviewed enterprise values (calculated as fully diluted equity values based on closing stock prices on January 25, 2016, plus total debt and non-controlling interests (as applicable) and less cash and cash equivalents and investments in unconsolidated affiliates (as applicable)) as a multiple of calendar year 2016 and calendar year 2017 estimated EBITDA. Financial data of the selected companies were based on public filings, Wall Street research analysts consensus estimates and other publicly available information. Financial data of the Splitco Business was based on the Splitco Business forecasts. Financial data of Leidos was based on publicly available Wall Street research analysts consensus estimates and the Leidos forecasts.

The overall low to high calendar year 2016 and calendar year 2017 estimated EBITDA multiples observed for the selected companies were 8.2x to 10.6x (with a median of 9.1x, excluding Leidos) and 8.0x to 10.0x (with a median of 8.7x, excluding Leidos), respectively. Citi noted that the calendar year 2016 and calendar year 2017 estimated EBITDA multiples observed for Leidos were 10.4x and 9.9x, respectively, based on publicly available Wall Street research analysts consensus estimates.

Citi then applied selected ranges of calendar year 2016 and calendar year 2017 estimated EBITDA multiples of 8.2x to 10.6x and 8.0x to 10.0x, respectively, derived from the selected companies to the respective calendar year 2016 and calendar year 2017 estimated EBITDA of the Splitco Business and Leidos, based on, in the case of the Splitco Business, the Splitco Business forecasts and, in the case of Leidos, the Leidos forecasts. These analyses indicated approximate implied equity value reference ranges based on calendar year 2016 and calendar year 2017 estimated EBITDA of $2.161 billion to $3.314 billion and $1.805 billion to $2.718 billion, respectively, for the Splitco Business and $1.985 billion to $2.993 billion and $1.961 billion to $2.831 billion, respectively, for Leidos.

Utilizing the approximate implied equity value reference ranges derived for the Splitco Business and Leidos described above, Citi calculated the following implied exchange ratio reference ranges, as compared to the exchange ratio:

Implied Exchange Ratio Reference Range Based on:		Exchange Ratio
CY 2016E EBITDA	CY 2017E EBITDA	
0.722x 1.669x	0.638x 1.386x	1.020202x

Citi noted that the above exchange ratio reference ranges indicated overall ranges of implied contributed equity values by the Splitco Business and Leidos to the combined company (i) based on the approximate implied equity value reference ranges derived from the calendar year 2016 estimated EBITDA of the Splitco Business and Leidos, of approximately 41.9% to 62.5% and approximately 37.5% to 58.1%, respectively, and (ii) based on the approximate implied equity value reference ranges derived from the calendar year 2017 estimated EBITDA of the Splitco Business and Leidos, of approximately 38.9% to 58.1% and approximately 41.9% to 61.1%, respectively, as compared to the pro forma ownership of holders of Splitco common stock and Leidos common stock in the combined company upon consummation of the Merger of approximately 50.5% and 49.5%, respectively.

Discounted Cash Flow Analyses. Citi performed separate discounted cash flow analyses of the Splitco Business and Leidos in which Citi calculated the estimated present value (as of June 30, 2016) of the standalone unlevered, after-tax free cash flows that the Splitco Business and Leidos were forecasted to generate during the second half of the calendar year ending December 31, 2016 through the full calendar year ending December 31, 2020 based on, in the case of the Splitco Business, the Splitco Business forecasts and, in the case of Leidos, the Leidos forecasts. For purposes of this analysis, stock-based compensation was treated as a cash expense. Citi calculated terminal values for the Splitco Business and Leidos by applying to the standalone unlevered, after-tax free cash flows of the Splitco Business and Leidos for the calendar year ending December 31, 2020 (assuming normalized depreciation equal to capital expenditures in the terminal year) a selected range of perpetuity growth rates of 1.0% to 2.0%. The present values (as of June 30, 2016) of the cash flows and terminal values were then calculated using a selected range of discount rates of 6.7% to 8.0% derived from a weighted average cost of capital calculation. These analyses indicated approximate implied equity value reference ranges of $1.991 billion to $3.602 billion for the Splitco Business and $2.455 billion to $4.197 billion for Leidos.

Table of Contents

Utilizing the approximate implied equity value reference ranges derived for the Splitco Business and Leidos described above, Citi calculated the following implied exchange ratio reference range, as compared to the exchange ratio:

Implied Exchange Ratio Reference Range	Exchange Ratio
0.474x 1.467x	1.020202x

Citi noted that the above exchange ratio reference range implied an overall range of contributed equity values by the Splitco Business and Leidos to the combined company of approximately 32.2% to 59.5%, in the case of the Splitco Business, and approximately 40.5% to 67.8%, in the case of Leidos, as compared to the pro forma ownership of holders of Splitco common stock and Leidos common stock in the combined company upon consummation of the Merger of approximately 50.5% and 49.5%, respectively.

Relative Contributions Analysis. Citi performed a relative contributions analysis in which Citi reviewed the relative contributions of the Splitco Business and Leidos to the combined company s calendar years 2016 and 2017 estimated EBITDA. Financial data of the Splitco Business was based on the Splitco Business forecasts and financial data of Leidos was based on the Leidos forecasts. This analysis indicated overall relative contributions of the Splitco Business and Leidos to the combined company s calendar years 2016 and 2017 estimated EBITDA of approximately 49.2% (based on calendar 2017 estimated EBITDA) to 52.6% (based on calendar year 2016 estimated EBITDA) and 47.4% (based on calendar year 2016 estimated EBITDA) to 50.8% (based on calendar 2017 estimated EBITDA), respectively.

Utilizing the approximate implied percentage equity value contribution ranges derived for the Splitco Business and Leidos described above, Citi calculated the following implied exchange ratio reference range, as compared to the exchange ratio:

Implied Exchange Ratio Reference Range	Exchange Ratio
0.967x 1.108x	1.020202x

Citi noted that the pro forma ownership of holders of Splitco common stock and Leidos common stock in the combined company upon consummation of the Merger will be approximately 50.5% and 49.5%, respectively.

Other Information. Citi observed certain additional information that was not considered part of its financial analyses for its opinion but was noted for informational purposes, including the following:

the illustrative potential pro forma impact of the Merger and related transactions on the implied per share equity value of Leidos after taking into account the potential net cost synergies anticipated by Leidos management to result from the Merger and related transactions and, additionally, assumed annual run-rate revenues of $0 to $1 billion, which indicated, based on the Leidos forecasts and the Splitco Business forecasts and utilizing the methodology described in the section above under Discounted Cash Flow Analyses, that the Merger and related transactions could have a positive impact, both with or without incremental annual run-rate revenues, on the implied per share equity value of Leidos on a standalone basis;

the illustrative pro forma financial impact of the Merger and related transactions on, among other things, Leidos estimated non-GAAP EPS for the calendar years ending December 31, 2017 through December 31, 2020 based on the Leidos forecasts and the Splitco Business forecasts, after giving effect to the Leidos Special Dividend and taking into account potential phased-in and run-rate net cost synergies anticipated by Leidos management to result from the Merger and related transactions, which indicated that the Merger could be accretive to Leidos estimated non-GAAP EPS for each of the calendar years ending December 31, 2017 through December 31, 2020; and

the implied latest 12 months EBITDA multiples paid in selected transactions with transaction values in excess of $100 million involving target companies with operations in the federal information technology services industry, based on publicly available Wall Street research analysts estimates, public filings and other publicly available information, which, after applying a selected range of latest 12 months estimated EBITDA multiples derived from such selected transactions of 7.9x to 10.6x to the calendar year 2016 estimated EBITDA of the Splitco Business (based on the Splitco Business forecasts), indicated an approximate implied enterprise value reference range for the Splitco Business of $3.823 billion to $5.136 billion as compared to the implied purchase price (on an enterprise value basis) for the Splitco Business based on the exchange ratio of approximately $5.000 billion.

Actual results achieved by the combined company may vary from forecasted results and variations may be material.

Miscellaneous

Leidos has agreed to pay Citi for its services in connection with the proposed Merger and the related transactions an aggregate fee of $21.5 million, of which a portion was payable upon delivery of Citi s opinion and $20.5 million is payable contingent upon consummation of the Merger. In addition, Leidos has agreed to reimburse Citi for Citi s expenses, including fees and expenses of counsel, and to indemnify Citi and related parties against certain liabilities, including liabilities under federal securities laws, arising out of Citi s engagement.

As the Leidos Board was aware, at Leidos request, Citi and certain of its affiliates were engaged by Leidos and Splitco to participate in certain financings to be undertaken in connection with the Merger and related transactions, for which services Citi and such affiliates will receive an aggregate fee currently estimated to be approximately $11 million, including acting as lead bookrunner for, and as a lender under, such financings. As the Leidos Board also was aware, Citi and its affiliates in the past have provided, currently are providing and in the future may provide investment banking, commercial banking and other similar financial services to Leidos and its affiliates unrelated to the proposed Merger and related transactions, for which services Citi and its affiliates have received and expect to receive compensation, including, during the two-year period prior to the date of Citi s opinion, having acted or acting as (i) lead arranger for a stock repurchase of Leidos and (ii) administrative agent for, and as a lender under, a credit facility of Leidos, for which services described in clauses (i) and (ii) above Citi and its affiliates received during such two-year period aggregate fees of approximately $1 million. As the Leidos Board further was aware, Citi and its affiliates in the past have provided, currently are providing and in the future may provide investment banking, commercial banking and other similar financial services to Lockheed Martin and its affiliates, for which services Citi and its affiliates have received and expect to receive compensation, including, during the two-year period prior to the date of Citi s opinion, having acted or acting as (i) joint bookrunning manager for certain notes offerings of Lockheed Martin and (ii) joint lead arranger, joint bookrunner or bookrunner and syndication or documentation agent for, and as a lender under, certain credit facilities of Lockheed Martin, for which services described in clauses (i) and (ii) above Citi and its affiliates received during such two-year period aggregate fees of approximately $8 million. In the ordinary course of business, Citi and its affiliates may actively trade or hold the securities of Leidos, Lockheed Martin, Splitco and their respective affiliates for their own account or for the account of their customers and, accordingly, may at any time hold a long or short position in such securities. In addition, Citi and its affiliates (including Citigroup Inc. and its affiliates) may maintain relationships with Leidos, Lockheed Martin, Splitco and their respective affiliates.

Leidos selected Citi as its financial advisor in connection with the proposed Merger and related transactions based on Citi s reputation, experience and familiarity with Leidos and its business. Citi is an internationally recognized investment banking firm that regularly engages in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

Certain Financial Projections

In connection with its consideration of the potential combination of Leidos and the Splitco Business, the Leidos Board was provided with certain non-public financial projections initially prepared by management of Lockheed Martin and the Splitco Business and subsequently adjusted by management of Leidos, as discussed below, with respect to the Splitco Business for the years ending December 31, 2016 through December 31, 2018 (the Splitco Financial Projections and, as adjusted and extended by Leidos to include the years ended December 31, 2019 and December 31, 2020, the Leidos Adjusted Splitco Financial Projections) and certain non-public financial projections prepared by management of Leidos with respect to Leidos business, as a stand-alone company, for the years ending December 31, 2016 through December 31, 2020 (the Leidos Financial Projections, and, collectively with the Splitco Financial Projections and the Leidos Adjusted Splitco Financial Projections, the Financial Projections). The Financial Projections also were provided to Leidos financial advisor.

The Leidos Adjusted Splitco Financial Projections and the Leidos Financial Projections are included in this document solely to give stockholders access to information that was made available in connection with, and material to, the Leidos Board s consideration of the Transactions, and are not included in this document to influence any stockholder to make any investment decision with respect to the Transactions or for any other purpose.

The Financial Projections were not prepared with a view towards public disclosure or compliance with published guidelines of the SEC or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Neither the independent auditor of Leidos nor the independent auditor of Lockheed Martin, the Splitco Business or Splitco, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the Financial Projections, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and no such auditor assumes responsibility for, and each disclaims any association with, the Financial Projections. Furthermore, the Financial Projections:

were based upon numerous estimates or expectations, beliefs, opinions and assumptions with respect to the Splitco Business and Leidos business, respectively, including their respective results of operations and financial conditions, customer requirements and competition, and with respect to general business, economic, market, regulatory and financial conditions and other future events, all of which are difficult to predict and many of which are beyond Leidos or Lockheed Martin s control and may not be realized;

do not take into account any transactions, circumstances or events occurring after the date they were prepared, including the Transactions, or the effect of any failure of the Merger or the other Transactions to occur;

are not necessarily indicative of current market conditions or values or future performance, which may be significantly more or less favorable than as set forth in the Financial Projections; and

are not, and should not be regarded as, a representation that any of the expectations contained in, or forming a part of, the Financial Projections will be achieved.

Table of Contents

Leidos management believes that the assumptions used as a basis for the Financial Projections were reasonable based on the information available to Leidos management at the time prepared. However, the Financial Projections are not a guarantee of future actual performance. The future financial results of the Splitco Business and Leidos business, respectively, may differ materially from those expressed in the Financial Projections due to factors that are beyond Leidos or Lockheed Martin s ability to control or predict.

Although the Financial Projections were prepared with numerical specificity, they are forward-looking statements that involve inherent risks and uncertainties. Further, the Financial Projections cover multiple years and such information by its nature becomes less predictive with each successive quarter and year. Stockholders are urged to read the section of this document entitled Cautionary Statement on Forward-Looking Statements for additional information regarding the risks inherent in forward-looking information such as the Financial Projections. Stockholders also should review the factors described in the section of this document entitled Risk Factors and those risk factors incorporated in this document by reference from Item 1A of Leidos Transition Report on Form 10-K for the fiscal year ended January 1, 2016, and Item 1A of Lockheed Martin s Annual Report on Form 10-K for the year ended December 31, 2015.

None of Leidos, Lockheed Martin or Splitco or any of their respective affiliates intends to, and, except to the extent required by applicable law, each of them expressly disclaims any obligation to, update, revise or correct the Financial Projections to reflect circumstances existing or arising after the date such projections were generated or to reflect the occurrence of future events, even in the event that any or all of the assumptions underlying the projections are shown to be in error or any of the Financial Projections otherwise would not be realized. Neither Lockheed Martin nor Splitco made any representations to Leidos in the Merger Agreement or otherwise concerning the Splitco Financial Projections or the Leidos Adjusted Splitco Financial Projections.

Certain of the financial information contained in the Financial Projections, including EBITDA, may be considered non-GAAP financial measures. Leidos management provided this information to the Leidos Board and Leidos financial advisor because Leidos management believed it could be useful in evaluating the Splitco Business, in the case of the Splitco Financial Projections and the Leidos Adjusted Splitco Financial Projections, and Leidos business, in the case of the Leidos Financial Projections. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, and non-GAAP financial measures as used by Leidos or Lockheed Martin may not be comparable to similarly titled amounts used by other companies.

For the foregoing reasons, the inclusion of the Leidos Adjusted Splitco Financial Projections and Leidos Financial Projections in this document should not be regarded as an indication that Leidos, Lockheed Martin, Splitco or their respective affiliates or representatives considered or consider the Leidos Adjusted Splitco Financial Projections or the Leidos Financial Projections to be necessarily predictive of actual future events, and the Leidos Adjusted Splitco Financial Projections and Leidos Financial Projections should not be relied upon as such. The Leidos Adjusted Splitco Financial Projections should be evaluated in conjunction with the limitations described above and the historical financial statements and other information regarding the Splitco Business contained elsewhere in this document, and the Leidos Financial Projections should be evaluated in conjunction with the limitations described above and the historical financial statements and other information regarding Leidos business contained elsewhere in this document.

The Splitco Financial Projections

Leidos was provided with non-public financial projections prepared by management of Lockheed Martin and Splitco with respect to the Splitco Business. Subsequently, Leidos management made certain adjustments to these financial projections based on its judgment and experience in the industry to reflect Leidos management s alternative perspectives regarding the Splitco Business and changes in the terms of the separation of the Splitco Business that were negotiated after the financial projections were delivered by management of Lockheed Martin but prior to the execution of the Merger Agreement. These changes, together with the addition by Leidos management of two additional years of projected financial results, resulted in the Leidos Adjusted Splitco Financial Statements.

The following is a summary of the Leidos Adjusted Splitco Financial Projections:

	2016E	2017E	2018E	2019E	2020E
			(in millions)		
Leidos Adjusted Case					
Revenue	$ 4,715	$ 4,760	$ 4,801	$ 4,898	$ 4,995
Base EBITDA[(1)]	$ 392	$ 377	$ 373	$ 384	$ 394
Adjusted EBITDA[(2)]	$ 484	$ 453	$ 437	$ 441	$ 450

(1) Defined as earnings before interest and tax, plus depreciation and amortization.
(2) Includes certain adjustments related to pension, incremental overhead cost, stock-based compensation and other adjustments.

The Leidos Financial Projections

Leidos management prepared non-public financial projections with respect to Leidos business as a stand-alone company. These projections do not give pro forma effect to the combination of Leidos and the Splitco Business.

The following is a summary of the Leidos Financial Projections:

	2016E	2017E	2018E	2019E	2020E
			(in millions)		
Revenue	$ 5,054	$ 5,151	$ 5,340	$ 5,686	$ 5,913
EBITDA(1)	$ 423	$ 433	$ 454	$ 497	$ 523

(1) 2016E includes a $14 million adjustment for anticipated nonrecurring facility consolidation expenses.

Lockheed Martin s Reasons for the Transactions

As discussed in the section of this document entitled Background of the Transactions, Lockheed Martin s Board and senior management periodically review Lockheed Martin s business portfolio to determine whether changes are advisable or whether the then-existing mix of products and services is appropriate. These reviews include consideration of various acquisition and divestiture opportunities that would enable Lockheed Martin to adjust its business portfolio to accommodate changes in business strategy and the competitive environment in which Lockheed Martin operates. As a result of this ongoing process, in July 2015, Lockheed Martin announced that it was conducting a strategic review of alternatives for its government information technology and technical services businesses to explore whether these businesses could achieve greater growth and create more value for customers and stockholders outside of Lockheed Martin.

In reaching a decision to approve the Merger Agreement and the Separation Agreement and to proceed with the Transactions, the Lockheed Martin Board and senior management, in consultation with its financial advisors, considered a variety of factors, including the significant factors listed below in support of the decision:

- combining the Splitco Business with Leidos would result in a combined business with greater scale and a business structure that was better suited to compete for new business, maintain existing business and grow profitably;

- the changing competitive landscape for the Splitco Business in which consolidation among smaller competitors focused entirely on work of the type conducted by the Splitco Business was resulting in more capable competitors with broader services offerings and a more competitive cost structure than the Splitco Business;

- changes in the manner in which customers of the Splitco Business acquire goods and services and the U.S. government s increased focus on cost as the discriminating factor in the procurement process;

the separation of the Splitco Business from Lockheed Martin could result in a significantly reduced cost structure for the Splitco Business;

differences in the scope and nature of the resources that are required to support the Splitco Business and the other businesses of Lockheed Martin and the different business models and contract types that are required by the businesses;

the separation of the Splitco Business from Lockheed Martin would allow the management of each to pursue its own strategic objectives in a manner that was most appropriate given the different business models and contract types;

the fact that key leadership, personnel and expertise familiar with the Splitco Business are expected to transfer with the Splitco Business to Leidos;

the desire of some customers of the Splitco Business to diversify their supplier base and the difficulty of achieving those objectives when other Lockheed Martin businesses are major suppliers to those customers on long-term strategic programs;

the timing of the acquisition of Sikorsky Aircraft Corporation provided an opportunity to reshape Lockheed Martin s portfolio of businesses;

the separation of the Splitco Business from Lockheed Martin would enable Lockheed Martin to focus on strategically important programs in other business segments without the distractions of managing the Splitco Business;

1 273 1,251 68,265

Provision for loan losses

3,330 3,330

Noninterest income

18,823 2,947 5,386 517 27,673

Noninterest expense

46,427 2,552 4,878 3,468 57,325

Depreciation expense

1,795 22 16 1,833

Amortization of intangible assets

792 26 26 844

Provision (benefit) for income taxes

7,438	122	313	(1,700)	6,173

Net Income (Loss)

$25,781	**$226**	**$426**	**$**	**$26,433**

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 12. SEGMENTS continued

	Six Months Ended June 30, 2012				
(dollars in thousands)	**Community Banking**	**Insurance**	**Wealth Management**	**Eliminations**	**Consolidated**
Interest income	$ 78,252	$ 1	$ 206	$ 51	$ 78,510
Interest expense	11,904			(534)	11,370
Net interest income (expense)	66,348	1	206	585	67,140
Provision for loan losses	16,296				16,296
Noninterest income	17,500	2,714	4,981	406	25,601
Noninterest expense	49,263	2,721	4,637	2,689	59,310
Depreciation expense	1,918	25	15		1,958
Amortization of intangible assets	803	26	30		859
Provision (benefit) for income taxes	3,724	(20)	232	(1,698)	2,238
Net Income (Loss)	**$ 11,844**	**$ (37)**	**$ 273**	**$**	**$ 12,080**

NOTE 13. SALE OF MERCHANT CARD SERVICING BUSINESS

We sold our merchant card servicing business for $4.8 million during the first quarter of 2013. Consequently, we terminated an agreement with our existing merchant processor and incurred deconversion and termination fees of $1.7 million. As a result of this transaction, we recognized a gain of $3.1 million in the first quarter of 2013. In conjunction with the sale of the merchant card servicing business, we entered into a marketing and sales alliance agreement with the purchaser for an initial term of ten years. The agreement provides that we will actively market and refer our customers to the purchaser and in return will receive a share of the future revenue. Future revenue is dependent on the number of referrals, number of new merchant accounts and volume of activity.

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, represents an overview of our consolidated results of operations and financial condition and highlights material changes in our financial condition and results of operations as of and for the three and six month periods ended June 30, 2013 and 2012. Our MD&A should be read in conjunction with our Consolidated Financial Statements and notes thereto. The results of operations reported in the accompanying Consolidated Financial Statements are not necessarily indicative of results to be expected in future periods.

Important Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains or incorporates statements that we believe are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements generally relate to our financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language such as will likely result, may, are expected to, is anticipated, estimate, forecast, projected, intends to or other similar words. You should not place undue reliance on the statements, as they are subject to risks and uncertainties, including, but not limited to, those described in this Form 10-Q or the documents incorporated by reference. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements we may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information actually known to us at that time. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

These forward-looking statements are based on current expectations, estimates and projections about our business and beliefs and assumptions made by management. These Future Factors, are not guarantees of our future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in these forward-looking statements.

Future Factors include:

- changes in interest rates, spreads on interest-earning assets and interest-bearing liabilities, the shape of the yield curve and interest rate sensitivity;
- a prolonged period of low interest rates;
- a rapid increase in interest rates;
- credit losses;
- an interruption or breach in security of our information systems;
- rapid technological developments and changes;
- access to capital in the amounts, at the times and on the terms required to support our future businesses;
- legislation affecting the financial services industry as a whole, and/or S&T Bancorp, Inc., or S&T, in particular, including the effects of the Dodd-Frank Act;
- regulatory supervision and oversight, including Basel III required capital levels, and public policy changes, including environmental regulations;
- increasing price and product/service competition, including new entrants;
- the ability to continue to introduce competitive new products and services on a timely, cost-effective basis;
- deterioration of the housing market and reduced demand for mortgages;
- containing costs and expenses;
- reliance on significant customer relationships;
- the outcome of pending and future litigation and governmental proceedings;
- managing our internal growth and acquisitions;
- the possibility that the anticipated benefits from our acquisitions cannot be fully realized in a timely manner or at all, or that integrating future acquired operations will be more difficult, disruptive or costly than anticipated;
- general economic or business conditions, either nationally or regionally in Western Pennsylvania, may be less favorable than expected, resulting in among other things, a reduced demand for credit and other services;
- a deterioration in the overall macroeconomic conditions or the state of the banking industry may warrant further analysis of the carrying value of goodwill and could result in an adjustment to its carrying value resulting in a non-cash charge to net income; and
- a reemergence of turbulence in significant portions of the global financial and real estate markets could impact our performance, both directly, by affecting our revenues and the value of our assets and liabilities and indirectly, by affecting the economy generally.

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

These are representative of the Future Factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, general economic conditions, including interest rate fluctuations and other Future Factors.

Critical Accounting Policies and Estimates

Our critical accounting policies involving the significant judgments and assumptions used in the preparation of the Consolidated Financial Statements as of June 30, 2013 have remained unchanged from the disclosures presented in our Annual Report on Form 10-K for the year ended December 31, 2012 under the section Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are a bank holding company headquartered in Indiana, Pennsylvania with assets of $4.5 billion at June 30, 2013. We provide a full range of financial services through offices located in Allegheny, Armstrong, Blair, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson, Washington and Westmoreland counties of Pennsylvania and one loan production office in Akron, Ohio. We provide full service retail and commercial banking products as well as cash management services, insurance, estate planning and administration, employee benefit plan investment management and administration, corporate services and other fiduciary services. Our common stock trades on the NASDAQ Global Select Market under the symbol STBA.

We earn revenue primarily from interest on loans and securities and fees charged for financial services provided to our customers. Offsetting these revenues are the cost of deposits and other funding sources, provision for loan losses and other operating costs such as salaries and employee benefits, data processing, occupancy and tax expense.

Our mission is to become the financial services provider of choice within the markets that we serve. We plan to do this by delivering exceptional service and value, one customer at a time. Our strategic plan focuses on growth through expansion, acquisition and organic growth. Our strategic plan includes a collaborative model that combines expertise from all of our business segments and focuses on satisfying each customer s individual financial objectives.

During the six months ended June 30, 2013, we successfully executed on our key strategic initiatives of loan growth and improving asset quality. Loan growth was strong in the first half of 2013 with portfolio loans increasing $96.6 million, or 2.9 percent, since December 31, 2012. This growth was primarily in our commercial real estate, or CRE, commercial and industrial, or C&I, and residential mortgage loan portfolios. Asset quality continued to improve during the first half of 2013 with nonperforming assets, or NPAs, decreasing $17.6 million, or 31 percent, from December 31, 2012. During the second quarter of 2013, we repaid $45.0 million of subordinated debt due to its diminishing regulatory capital benefit and the future positive impact on net interest income.

Our total risk-based capital ratio decreased by 109 basis points to 14.30 percent at June 30, 2013 from 15.39 percent at December 31, 2012, due to the above mentioned repayment of subordinated debt. Our other capital ratios improved and all remain significantly above the well capitalized thresholds of federal bank regulatory agencies, with a leverage ratio of 9.54 percent and tier 1 risk-based capital ratio of 12.28 percent.

Our focus throughout the second half of 2013 will be on loan growth to increase our net interest income, implementing opportunities to increase fee income, improving asset quality and closely monitoring operating expenses. We strive to be well positioned for changes in both the economy and interest rates, regardless of the timing or direction of these changes. Management regularly assesses our balance sheet, capital, liquidity and operation infrastructure in order to be positioned to take advantage of internal or acquisition growth opportunities.

Earnings Summary

Net income for the three months ended June 30, 2013 was $14.1 million, or diluted earnings per share of $0.47, compared to $8.6 million, or $0.30, for the same period in 2012. Net income for the six months ended June 30, 2013 was $26.4 million, or diluted earnings per share of $0.89, compared to $12.1 million, or $0.42, for the same period in 2012. The significant improvement in net income for both the three and six months ended June 30, 2013 was primarily driven by a lower provision for loan losses.

Net interest income increased $0.8 million and $1.1 million for the three and six month periods ended June 30, 2013 compared to the same periods in 2012. Net interest income and net interest margin were positively impacted by a $0.5 million interest recovery on a previously charged-off loan partially offset by $0.1 million of expenses related to the repayment of $45.0 million of subordinated debt during the second quarter of 2013. Total average interest earning assets increased $168.8 million, or 4.3 percent, and $233.8 million, or 6.1 percent, for the three and six month periods ended June 30, 2013 compared to the same periods in the prior year. The increase was driven by higher average loans which is due to our two acquisitions in 2012 and organic loan growth. The increase in loan volume has mitigated the impact on net interest income resulting from the low interest rate environment. Further positively impacting net interest income is lower funding costs in both the three and six months ended June 30, 2013 compared to the same periods in 2012.

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

The provision for loan losses decreased $6.0 million and $13.0 million for the three and six month periods ended June 30, 2013 compared to the same periods in 2012. The decrease in the provision for loan losses is a result of the improving economic conditions which have positively impacted our asset quality metrics in all categories, including decreases in loan charge-offs, nonaccrual loans, special mention and substandard loans and the delinquency status of our loan portfolio. Net loan charge-offs decreased $7.3 million for the three months ended June 30, 2013 and $14.7 million for the six months ended June 30, 2013 compared to the same periods in 2012. Total special mention and substandard loans have decreased 14.7 percent over the last twelve months to $268.7 million at June 30, 2013.

Total noninterest income increased $0.3 million to $12.9 million for the three month period ended June 30, 2013 and increased $2.1 million to $27.7 million for the six month period ended June 30, 2013 compared to the same periods in 2012. Almost all categories of noninterest income increased for the three and six months ended June 30, 2013 compared to the same periods in the prior year with the exception of securities gains and other noninterest income. The decrease in other noninterest income of $0.6 million and $1.0 million for the three and six months ended June 30, 2013 was attributed to lower fee income on letters of credit and commercial loan swaps and lower bank owned life insurance, or BOLI, income. The significant increase in total noninterest income of $2.1 million for the six months ended June 30, 2013 was driven by the sale of our merchant card servicing business in the first quarter of 2013, resulting in a net gain of $3.1 million. This increase was offset by a gain on a sale of one equity security of $0.8 million in the first quarter of 2012.

Total noninterest expenses decreased $1.0 million to $28.4 million for the three month period ended June 30, 2013 and decreased $2.1 million to $60.0 million for the six month period ended June 30, 2013 compared to the same periods in 2012. The decrease in expense was primarily due to decreases in merger related expenses and other noninterest expense. One-time merger related expenses decreased by $0.3 million and $3.4 million in the three and six month periods ended June 30, 2013 compared to the same periods in 2012. Excluding the effect of merger related expenses, we experienced higher expenses in several categories, including net occupancy, other taxes and Federal Deposit Insurance Corporation, or FDIC, assessment resulting from the two acquisitions that occurred in 2012. Other noninterest expense decreased due to lower expense associated with other real estate owned, or OREO, and a decrease in the reserve for unfunded commitments.

Explanation of Use of Non-GAAP Financial Measures

In addition to the results of operations presented in accordance with GAAP, management uses, and this quarterly report contains or references, certain non-GAAP financial measures, such as net interest income on a fully taxable equivalent, or FTE, basis and operating revenue. Management believes these non-GAAP financial measures provide information useful to investors in understanding our underlying operational performance and its business and performance trends as they facilitate comparisons with the performance of others in the financial services industry. Although management believes that these non-GAAP financial measures enhance investors understanding of our business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP.

We believe the presentation of net interest income on a FTE basis ensures the comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per Consolidated Statements of Comprehensive Income is reconciled to net interest income adjusted to a FTE basis in the next section for the three and six months ended June 30, 2013 and 2012.

Operating revenue is the sum of net interest income and noninterest income less one-time gains/losses and securities gains/losses. In order to understand the significance of net interest income to our business and operating results, we believe it is appropriate to evaluate the significance of net interest income as a component of operating revenue.

RESULTS OF OPERATIONS

Three and Six Months Ended June 30, 2013 Compared to

Three and Six Months Ended June 30, 2012

Net Interest Income

Our principal source of revenue is net interest income. Net interest income represents the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the average balance of interest-earning assets and interest-bearing liabilities and changes in interest rates and spreads. Maintaining consistent spreads between interest-earning assets and interest-bearing liabilities is significant to our financial performance because net interest income comprised 73 percent of operating revenue (net interest income plus noninterest income, excluding one-time gains/losses and security gains/losses) for the three month periods ended June 30, 2013 and 2012 and 74 percent of operating revenue for the six month periods ended June 30, 2013 and 2012. The level and mix of interest-earning assets and interest-bearing liabilities

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

are managed by our Asset and Liability Committee, or ALCO, in order to mitigate interest rate and liquidity risks of the balance sheet. A variety of ALCO strategies were implemented, within prescribed ALCO risk parameters, to maintain an acceptable net interest margin on interest-earning assets given the challenges of the current interest rate environment.

The interest income on interest-earning assets and the net interest margin are presented on a FTE basis. The FTE basis adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35 percent for each period. We believe this measure to be the preferred industry measurement of net interest income that provides a relevant comparison between taxable and non-taxable amounts.

The following table reconciles interest income and interest rates per the Consolidated Statements of Comprehensive Income to net interest income and rates adjusted to a FTE basis for the periods presented:

(dollars in thousands)	**Three Months Ended June 30, 2013**	**2012**	**Six Months Ended June 30, 2013**	**2012**
Total interest income	$ 38,553	$ 39,370	$ 76,396	$ 78,510
Total interest expense	3,957	5,551	8,131	11,370
Net interest income per consolidated statements of comprehensive income	34,596	33,819	68,265	67,140
Adjustment to FTE basis	1,169	1,129	2,341	2,258
Net Interest Income (FTE) (non-GAAP)	**$ 35,765**	**$ 34,948**	**$ 70,606**	**$ 69,398**
Net interest margin	3.40%	3.45%	3.38%	3.51%
Adjustment to FTE basis	0.11	0.12	0.12	0.12
Net Interest Margin (FTE) (non-GAAP)	**3.51%**	**3.57%**	**3.50%**	**3.63%**

Income amounts are annualized for rate calculations.

38

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

Average Balance Sheet and Net Interest Income Analysis

The following table provides information regarding the average balances, interest and rates earned on interest-earning assets and the average balances, interest and rates paid on interest-bearing liabilities for the periods presented:

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
(dollars in thousands)	**Balance**	**Interest**	**Rate**	**Balance**	**Interest**	**Rate**
ASSETS						
Loans [(1)] [(2)]	$ 3,419,393	$ 36,459	4.28%	$ 3,203,349	$ 37,265	4.67%
Interest-bearing deposits with banks	186,265	132	0.28%	330,647	184	0.22%
Taxable investment securities [(3)]	365,799	1,866	2.04%	277,677	1,848	2.66%
Tax-exempt investment securities [(2)]	106,194	1,255	4.73%	90,625	1,197	5.28%
Federal Home Loan Bank and other restricted stock	12,420	10	0.31%	19,003	5	0.10%
Total Interest-earning Assets	**4,090,071**	**39,722**	**3.89%**	**3,921,301**	**40,499**	**4.14%**
Noninterest-earning assets	400,592			404,124		
Total Assets	**$ 4,490,663**			**$ 4,325,425**		
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing demand	$ 303,461	$ 18	0.02%	$ 303,535	$ 49	0.07%
Money market	327,733	112	0.14%	297,555	135	0.18%
Savings	1,001,258	452	0.18%	888,434	621	0.28%
Certificates of deposit	1,047,868	2,369	0.91%	1,146,931	3,671	1.28%
Securities sold under repurchase agreements	67,461	22	0.13%	50,353	21	0.16%
Short-term borrowings	71,429	44	0.25%	71,154	46	0.26%
Long-term borrowings	23,196	176	3.05%	34,534	280	3.25%
Junior subordinated debt securities	82,817	764	3.70%	90,619	728	3.23%
Total Interest-bearing Liabilities	**2,925,223**	**3,957**	**0.54%**	**2,883,115**	**5,551**	**0.77%**
Noninterest-bearing liabilities:						
Demand deposits	946,862			864,437		
Other liabilities	72,370			69,167		
Shareholders equity	546,208			508,706		
Total Liabilities and Shareholders Equity	**$ 4,490,663**			**$ 4,325,425**		
Net Interest Income[(2)]		**$ 35,765**			**$ 34,948**	
Net Interest Margin[(2)]			**3.51%**			**3.57%**

(1) *Nonaccruing loans are included in the daily average loan amounts outstanding.*

(2) *Tax-exempt income is on a FTE basis using the statutory federal corporate income tax rate of 35 percent for 2013 and 2012.*

(3) *Taxable investment income includes the dividend-received deduction for equity securities.*

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
(dollars in thousands)	Balance	Interest	Rate	Balance	Interest	Rate
ASSETS						
Loans [1] [2]	$ 3,388,915	$ 72,190	4.30%	$ 3,169,433	$ 74,287	4.70%
Interest-bearing deposits with banks	198,379	252	0.25%	280,944	297	0.21%
Taxable investment securities[3]	359,622	3,731	2.07%	276,360	3,814	2.76%
Tax-exempt investment securities [2]	108,310	2,536	4.68%	89,057	2,356	5.29%
Federal Home Loan Bank and other restricted stock	13,415	28	0.42%	19,011	14	0.15%
Total Interest-earning Assets	**4,068,641**	**78,737**	**3.90%**	**3,834,805**	**80,768**	**4.22%**
Noninterest-earning assets	400,901			399,850		
Total Assets	**$ 4,469,542**			**$ 4,234,655**		
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing demand	$ 306,792	$ 37	0.02%	$ 298,261	$ 92	0.06%
Money market	332,961	237	0.14%	288,086	248	0.17%
Savings	987,616	945	0.19%	859,339	1,080	0.25%
Certificates of deposit	1,045,521	4,934	0.95%	1,139,809	7,806	1.37%
Securities sold under repurchase agreements	65,411	48	0.15%	43,983	33	0.15%
Short-term borrowings	66,298	78	0.24%	73,242	92	0.25%
Long-term borrowings	26,323	407	3.12%	33,065	550	3.34%
Junior subordinated debt securities	86,696	1,445	3.36%	90,619	1,469	3.25%
Total Interest-bearing Liabilities	**2,917,618**	**8,131**	**0.56%**	**2,826,404**	**11,370**	**0.81%**
Noninterest-bearing liabilities:						
Demand deposits	936,141			836,950		
Other liabilities	72,450			68,496		
Shareholders equity/other	543,333			502,805		
Total Liabilities and Shareholders Equity	**$ 4,469,542**			**$ 4,234,655**		
Net Interest Income[2]		**$ 70,606**			**$ 69,398**	
Net Interest Margin[2]			**3.50%**			**3.63%**

[1] *Nonaccruing loans are included in the daily average loan amounts outstanding.*

[2] *Tax-exempt income is on a FTE basis using the statutory federal corporate income tax rate of 35 percent for 2013 and 2012.*

[3] *Taxable investment income includes the dividend-received deduction for equity securities.*

Net interest income on an FTE basis increased $0.8 million, or 2.3 percent, for the three months ended June 30, 2013 and $1.1 million, or 1.7 percent, for the six months ended June 30, 2013 while net interest margin on an FTE basis declined 6 basis points and 13 basis points for the same periods. The low interest rate environment continues to be a challenge to our net interest income and net interest margin, as earning asset rates decreased faster than our ability to offset those decreases on the liability side.

Interest income on an FTE basis decreased $0.8 million and $2.0 million to $39.7 million and $78.7 million for the three and six months ended June 30, 2013 compared to $40.5 million and $80.8 million for the same periods in 2012. The decrease in interest income is primarily driven by declining loan rates with a 39 basis point decrease for the three months ended June 30, 2013 compared to June 30, 2012 and a 40 basis point decline for the six months ended June 30, 2013 compared to June 30, 2012. The impact of lower loan rates on interest income was mitigated by increasing average loan balances of $216.0 million for the three months ended June 30, 2013 compared to the three months ended June 30, 2012, and an increase in average loans of $219.5 million for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. Average loans increased as a result of the effect of our two acquisitions that occurred in 2012 and organic loan growth, primarily in our commercial loan portfolio. Further positively impacting interest income was a $0.5 million interest recovery in the second quarter of 2013. This interest recovery related to a previously charged off loan where a payment of $1.1 million was received and $0.6 million was applied to fully recover the principal and the remaining amount was recognized as recovered interest. Average securities increased $103.7 million and $102.5 million for the three months and six months ended June 30, 2013 compared to the same periods in the prior year. Overall, the FTE rate on total interest-earning assets decreased 25 basis points to 3.89 percent for the three months ended June 30, 2013 and decreased 32 basis points to 3.90 percent for the six months ended June 30, 2013 as compared to 4.14 percent and 4.22 percent for the same periods in 2012.

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

Interest expense decreased $1.6 million to $4.0 million for the three months ended June 30, 2013 compared to $5.6 million for the three months ended June 30, 2012 and decreased $3.3 million to $8.1 million for the six months ended June 30, 2013 compared to $11.4 million for the six months ended June 30, 2012. The decrease in interest expense was due to the maturity of higher costing certificates of deposits, or CDs. Average CDs decreased by $99.1 million and $94.3 million for the three and six month periods ended June 30, 2013, as the average of other interest-bearing deposits increased by $142.9 million and $181.7 million for the same periods, resulting in average interest-bearing deposit increases of $43.9 million and $87.4 million. The increase from $2.6 billion in average interest-bearing deposits for both the three and six month periods ended June 30, 2012 as compared with $2.7 billion in average interest-bearing deposits for the three and six month periods ended June 30, 2013 is mainly due to our two acquisitions in 2012. The cost of interest-bearing deposits was 0.44 percent and 0.46 percent for the three and six month periods ended June 30, 2013, a decrease of 24 basis points and 25 basis points from the three month and six month periods ended June 30, 2012 primarily due to the maturity of higher rate CDs and a shift to other lower cost interest-bearing deposits. Interest expense on average borrowings also decreased over both the three and six month periods ended June 30, 2013 compared to the same periods in 2012, by $0.1 million and $0.2 million due to the maturity of higher cost long-term borrowings. Overall, the cost of interest-bearing liabilities decreased 23 basis points and 25 basis points to 0.54 percent and 0.56 percent for the three and six month periods ended June 30, 2013 as compared to 0.77 percent and 0.81 percent for the three and six month periods ended June 30, 2012.

The following table sets forth for the periods indicated a summary of the changes in interest earned and interest paid resulting from changes in volume and changes in rates:

	Three Months Ended June 30, 2013			**Six Months Ended June 30, 2013**		
	Compared to June 30, 2012(2)			**Compared to June 30, 2012(2)**		
(dollars in thousands)	**Volume**	**Rate**	**Net**	**Volume**	**Rate**	**Net**
Interest earned on:						
Loans (1) (2)	$ 2,513	$ (3,319)	$ (806)	$ 5,144	$ (7,241)	$ (2,097)
Interest-bearing deposits with banks	(80)	28	(52)	(87)	42	(45)
Taxable investment securities(3)	586	(568)	18	1,149	(1,232)	(83)
Tax-exempt investment securities (2)	206	(148)	58	509	(329)	180
Federal Home Loan Bank and other restricted stock	(2)	7	5	(4)	18	14
Total Interest-earning Assets	**3,223**	**(4,000)**	**(777)**	**6,711**	**(8,742)**	**(2,031)**
Interest paid on:						
Interest-bearing demand		(31)	(31)	3	(58)	(55)
Money market	14	(37)	(23)	39	(50)	(11)
Savings	79	(248)	(169)	162	(297)	(135)
Certificates of deposit	(317)	(985)	(1,302)	(647)	(2,225)	(2,872)
Securities sold under repurchase agreements	7	(6)	1	16	(1)	15
Short-term borrowings		(2)	(2)	(9)	(5)	(14)
Long-term borrowings	(92)	(12)	(104)	(112)	(31)	(143)
Junior subordinated debt securities	(63)	97	36	(63)	39	(24)
Total Interest-bearing Liabilities	**(372)**	**(1,222)**	**(1,594)**	**(611)**	**(2,628)**	**(3,239)**
Net Change in Net Interest Income	**$ 3,595**	**$ (2,778)**	**$ 817**	**$ 7,322**	**$ (6,114)**	**$ 1,208**

(1) *Nonaccruing loans are included in the daily average loan amounts outstanding.*

(2) *Tax-exempt income is on a FTE basis using the statutory federal corporate income tax rate of 35 percent for 2013 and 2012.*

(3) *Taxable investment income includes the dividend-received deduction for equity securities.*

Provision for Loan Losses

The provision for loan losses is the amount to be added to the allowance for loan losses, or ALL, after adjusting for charge-offs and recoveries to bring the ALL to a level considered appropriate to absorb probable losses inherent in the loan portfolio at June 30, 2013. The provision for loan losses decreased $6.0 million to $1.0 million for the three months ended June 30, 2013 and decreased $13.0 million to $3.3 million for the six months ended June 30, 2013 compared to the same periods in 2012. The decrease in the provision for loan losses reflects the improving economic environment throughout 2013 which has resulted in significant improvements in our asset quality. Net loan charge-offs decreased $7.3 million to $0.9 million for the three months ended

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

June 30, 2013 compared to $8.2 million for the three months ended June 30, 2012 and decreased $14.7 million to $3.7 million for the six months ended June 30, 2013 compared to $18.4 million for the six months ended June 30, 2012. Nonaccrual loans decreased 45 percent to $37.9 million at June 30, 2013 compared to $69.1 million at June 30, 2012. Total special mention and substandard loans have decreased $46.4 million, or 15 percent, over the last twelve months to $268.7 million at June 30, 2013. The ALL was 1.34 percent of total loans at June 30, 2013 compared to 1.46 percent at June 30, 2012. Refer to Allowance for Loan Losses in the MD&A of this report for additional information.

Noninterest Income

	Three Months Ended June 30,				Six Months Ended June 30,			
(dollars in thousands)	**2013**	**2012**	**$ Change**	**% Change**	**2013**	**2012**	**$ Change**	**% Change**
Debit and credit card fees	$ 3,150	$ 2,839	$ 311	11.0	$ 5,601	$ 5,506	$ 95	1.7
Wealth management fees	2,820	2,577	243	9.4	5,396	4,996	400	8.0
Service charges on deposit accounts	2,495	2,432	63	2.6	4,943	4,841	102	2.1
Insurance fees	1,643	1,519	124	8.2	3,418	3,210	208	6.5
Mortgage banking	911	705	206	29.2	1,393	1,376	17	1.2
Gain on sale of merchant card servicing business					3,093		3,093	
Securities gains, net		6	(6)	(100.0)	2	846	(844)	(99.8)
Other	1,848	2,453	(605)	(24.7)	3,827	4,826	(999)	(20.7)
Total Noninterest Income	**$ 12,867**	**$ 12,531**	**$ 336**	**2.7**	**$ 27,673**	**$ 25,601**	**$ 2,072**	**8.1**

Noninterest income increased $0.3 million, or 2.7 percent, and $2.1 million, or 8.1 percent, to $12.9 million and $27.7 million for the three and six month periods ended June 30, 2013 compared to the same periods in 2012. Almost all categories of noninterest income increased for the three and six months ended June 30, 2013 compared to the same periods in the prior year except for securities gains and other noninterest income.

The significant increase in total noninterest income of $2.1 million for the six months ended June 30, 2013 was driven by the sale of our merchant card servicing business in the first quarter of 2013. We sold our merchant card servicing business for $4.8 million and paid deconversion and termination fees of $1.7 million to the merchant processor resulting in a net gain of $3.1 million. In conjunction with the sale of the merchant card servicing business, we entered into a marketing and sales alliance agreement with the purchaser. The agreement is for an initial term of ten years and provides us with a share of future revenue and incentives to refer new customers. This agreement contributed to the increases in debit and credit card fee revenue for the three and six month periods ended June 30, 2013 over the same periods of 2012 by $0.3 million and $0.1 million. Our wealth management fees have increased $0.2 million and $0.4 million for the three and six months ended June 30, 2013, compared to the same periods in 2012 due to an increase in brokerage activity and higher assets under management. Assets under management have increased to $1.7 billion at June 30, 2013 compared to $1.6 billion at June 30, 2012. Our wealth management business continues to grow as we are seeing the benefits of additional resources added in this business line during 2012. Mortgage banking income increased $0.2 million for the three months ended June 30, 2013 due to the positive impact of increased interest rates on the valuation of mortgage servicing rights and mortgage commitments as compared to the same period in the prior year. The decrease in securities gains of $0.8 million for the six month period ended June 30, 2013 compared to the same period in 2012 was the result of a sale of one equity position during the first quarter of 2012, while there has been no significant sales activity in the first half of 2013. The decrease in other noninterest income of $0.6 million and $1.0 million for the three and six months ended June 30, 2013 was attributed to lower fee income on letters of credit and commercial loan swaps and lower BOLI income.

42

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

Noninterest Expense

	Three Months Ended June 30,				Six Months Ended June 30,			
(dollars in thousands)	**2013**	**2012**	**$ Change**	**% Change**	**2013**	**2012**	**$ Change**	**% Change**
Salaries and employee benefits [1]	$ 14,725	$ 14,595	$ 130	0.9	$ 30,737	$ 29,316	$ 1,421	4.8
Net occupancy[1]	1,958	1,832	126	6.9	4,122	3,616	506	14.0
Data processing [1]	2,110	1,876	234	12.5	4,043	3,500	543	15.5
Furniture and equipment	1,230	1,209	21	1.7	2,538	2,447	91	3.7
Other taxes	915	777	138	17.8	1,914	1,551	363	23.4
Professional services and legal [1]	1,171	1,168	3	0.3	2,143	2,753	(610)	(22.2)
Merger related expense	28	341	(313)	(91.8)	838	4,255	(3,417)	(80.3)
FDIC assessment	707	719	(12)	(1.7)	1,483	1,327	156	11.8
Marketing	793	655	138	21.1	1,482	1,397	85	6.1
Other noninterest expense [1]	4,749	6,172	(1,423)	(23.1)	10,702	11,965	(1,263)	(10.6)
Total Noninterest Expense	**$ 28,386**	**$ 29,344**	**$ (958)**	**(3.3)**	**$ 60,002**	**$ 62,127**	**$ (2,125)**	**(3.4)**

[1] *Excludes one-time merger related expense.*

Noninterest expense decreased $1.0 million, or 3.3 percent, and $2.1 million, or 3.4 percent, to $28.4 million and $60.0 million, for the three and six month periods ended June 30, 2013 compared to the same periods in 2012. The decrease in noninterest expense was due to a significant decline in merger related and other noninterest expenses for both the three and six months ended June 30, 2013. Additionally, we experienced higher expenses in several categories during 2013 due to the full integration of our two acquisitions that occurred in 2012.

Merger expense was minimal for the three months ended June 30, 2013 and $0.8 million for the six months ended June 30, 2013 compared to $0.3 million and $4.3 million for the same periods in the prior year. In the first quarter of 2013, we incurred $0.8 million of merger related expense for the data processing system conversion of Gateway Bank into S&T Bank. We acquired Gateway Bank on August 8, 2012; however, the system conversion and merger into S&T Bank occurred on February 8, 2013.

Salaries and employee benefits increased $0.1 million and $1.4 million for the three and six month periods ended June 30, 2013 due to additional employees, annual merit increases and higher commissions. The increase of $1.4 million for the six months ended June 30, 2013 was primarily due to approximately $1.0 million of expense related to new employees resulting from our two acquisitions in the prior year and an increase in full time equivalents. Adding to the increase was our annual salary merit increase of $0.4 million and commission expense of $0.6 million for the six months ended June 30, 2013. Commission expense has increased due to increased loan production and strong performance in our other business lines. Offsetting these increases was a decrease in pension expense of $0.5 million resulting from a change in actuarial assumptions and a decrease of $0.2 million of stock compensation expense.

Occupancy, other taxes and the FDIC assessment increased primarily due to our two acquisitions in 2012. The increase of $0.1 million and $0.4 million in other taxes primarily relates to an additional shares tax obligation for Gateway Bank. Data processing increased $0.2 million and $0.5 million in the three and six month periods ended June 30, 2013 as compared to the same periods in 2012 due to the increased processing charges related to our acquisitions, the annual increase with our third party data processor and the implementation of software that significantly strengthens the authentication of our customers that use our online banking products. Professional services and legal expense were unchanged for the three months ended June 30, 2013 compared to the same period in the prior year and decreased $0.6 million for the six months ended June 30, 2013 compared to the same period in the prior year due to additional external accounting and consulting charges that were incurred in the first quarter of 2012.

Other noninterest expense decreased $1.4 million and $1.3 million for the three and six months ended June 30, 2013 as compared to the same periods in 2012. The decreases in other noninterest expense for both the three and six month periods were primarily due to decreases in the reserve for unfunded loan commitments and OREO expense. The reserve for unfunded commitments has decreased in both periods as a result of improving asset quality. The decreases in OREO expense of $0.4 million and $0.8 million for the three and six months ended June 30, 2013 are due to a significant decline in OREO properties during 2013. As of June 30, 2013, we had only $0.4 million of OREO compared to $2.9 million at June 30, 2012.

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

Provision for Income Taxes

The provision for income taxes increased $2.6 million and $3.9 million to $4.0 million and $6.2 million for the three and six month periods ended June 30, 2013 compared to $1.4 million and $2.2 million for the same periods in the prior year, primarily due to $8.1 million and $18.3 million increases in pretax income. Our effective tax rate, inclusive of discrete items, for the six months ended June 30, 2013 increased to 18.9 percent as compared to 15.6 percent for six months ended June 30, 2012. The increase in the ETR was primarily due to increased taxable income partially offset by increased tax-exempt interest and a nonrecurring tax benefit in the first quarter of 2013.

Financial Condition

June 30, 2013

Total assets remained relatively unchanged at $4.5 billion at June 30, 2013 compared to December 31, 2012. Loan production was strong, resulting in an increase to total portfolio loans of $96.6 million, or 2.9 percent. Our commercial loan portfolio grew by $83.7 million, or 3.5 percent, to $2.5 billion while our consumer loan portfolio increased by $12.9 million, or 1.4 percent, to $947.8 million. Securities increased $27.6 million, or 6.1 percent, compared to December 31, 2012 due to the investment of cash into higher yielding securities. Our deposit base remains stable with total deposits of $3.6 billion at both June 30, 2013 and December 31, 2012. The $37.2 million increase in CDs was due to the issuance of $77.1 million of Certificate of Deposit Account Registry Services, or CDARS, One-Way Buy, or OWB, deposits during the first six months of 2013 offset by CD maturities. Junior subordinated debt securities and other long-term borrowings decreased by $56.1 million, primarily due to the repayment of $45.0 million of subordinated debt and $11.1 million of long-term borrowings during the six months ended June 30, 2013. Short-term borrowings increased $50.0 million resulting from the pay-off of the subordinated debt and long-term borrowings. Total shareholder s equity increased by approximately $9.4 million, or 1.8 percent, compared to December 31, 2012. The increase was primarily due to net income of $26.4 million offset by $8.9 million in dividends and a charge to other comprehensive income of $8.2 million resulting from a decline in the market value of our available-for-sale securities for the period.

Securities Activity

(dollars in thousands)	June 30, 2013	December 31, 2012	$ Change
Obligations of U.S. government corporations and agencies	$ 232,856	$ 212,066	$ 20,790
Collateralized mortgage obligations of U.S. government corporations and agencies	47,336	57,896	(10,560)
Residential mortgage-backed securities of U.S. government corporations and agencies	53,687	50,623	3,064
Commercial mortgage-backed securities of U.S. government corporations and agencies	30,547	10,158	20,389
Obligations of states and political subdivisions	106,320	112,767	(6,447)
Debt Securities Available-for-Sale	**470,746**	**443,510**	**27,236**
Marketable equity securities	9,075	8,756	319
Total Securities Available-for-Sale	**$ 479,821**	**$ 452,266**	**$ 27,555**

We invest in various securities in order to provide a source of liquidity, to satisfy various pledging requirements, increase net interest income and as a tool of the ALCO to reposition the balance sheet for interest rate risk purposes. Securities are subject to market risk that could negatively affect the level of liquidity available to us. Security purchases are subject to investment policies approved annually by our Board of

Directors and administered through ALCO and our treasury function. The securities portfolio increased $27.6 million, or 6.1 percent, from December 31, 2012. The increase is due to the investment of cash into higher yielding assets offset by a decline in value of the bond portfolio due to the rise in interest rates.

On a quarterly basis, management evaluates the securities portfolio for other than temporary impairment, or OTTI. The bond portfolio had $6.3 million of unrealized losses at June 30, 2013 compared to $0.1 million at December 31, 2012. The significant increase in unrealized losses was a result of the increase in interest rates during the second quarter of 2013 and is not related to the underlying credit quality of the bond portfolio. There was no OTTI recorded in the three or six months ended June 30, 2013.

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

Loan Composition

	June 30, 2013		December 31, 2012	
(dollars in thousands)	**Amount**	**% of Loans**	**Amount**	**% of Loans**
Commercial				
Commercial real estate	$ 1,501,491	43.6%	$ 1,452,133	43.4%
Commercial and industrial	826,696	24.0%	791,396	23.7%
Construction	167,225	4.9%	168,143	5.0%
Total Commercial Loans	**2,495,412**	**72.5%**	**2,411,672**	**72.1%**
Consumer				
Residential mortgage	463,446	13.4%	427,303	12.7%
Home equity	413,585	12.0%	431,335	12.9%
Installment and other consumer	67,983	2.0%	73,875	2.2%
Construction	2,807	0.1%	2,437	0.1%
Total Consumer Loans	**947,821**	**27.5%**	**934,950**	**27.9%**
Total Portfolio Loans	**3,443,233**	**100.0%**	**3,346,622**	**100.0%**
Loans Held for Sale	3,185		22,499	
Total Loans	**$ 3,446,418**		**$ 3,369,121**	

Our loan portfolio represents the most significant source of interest income for us. The risk that borrowers will be unable to pay such obligations is inherent in the loan portfolio. Other conditions such as the overall economic climate can significantly impact a borrower s ability to pay. Total portfolio loans increased $96.6 million, or 2.9 percent, since December 31, 2012, to $3.4 billion at June 30, 2013 primarily due to organic loan growth in our CRE, C&I and residential mortgage portfolios. The increase in loans can be attributed to the execution of our strategic initiative to grow our loan portfolio by adding seasoned lenders to our staff and the addition of a loan production office, or LPO, in Northeast Ohio. During the six months ended June 30, 2013, we added nine commercial lenders to our staff and we continue to actively recruit seasoned lenders. Additionally, the loan production office that we established in Northeast Ohio in the third quarter of 2012 is performing ahead of our expectations and we are in process of recruiting additional lenders in that market.

Total commercial loans have increased $83.7 million, or 3.5 percent, from December 31, 2012. CRE loans increased $49.4 million, or 3.4 percent, due to new loan originations and the transfers of construction loans into the CRE portfolio. C&I loans increased $35.3 million, or 4.5 percent, due to new loan originations and increased utilization of lines of credit. Constructions loans remain relatively unchanged.

Although commercial loans, including CRE, C&I and construction, can have a relatively higher risk profile, management believes these risks are mitigated through active portfolio management, underwriting and continuous review. The loan-to-value policy guidelines for CRE loans are generally 65-85 percent.

Residential mortgages increased $36.1 million, or 8.5 percent, due to strong originations in the first six months of 2013. In addition, we are retaining 10, 15 and 20 year residential real estate loans in our portfolio rather than selling these loans in the secondary market. Prior to the fourth quarter of 2012, we were selling loans with terms of 20 years or more.

Residential mortgage lending continues to be a strategic focus through a centralized mortgage origination department, ongoing product redesign, secondary market activities and the utilization of commission compensated originators. Management believes that continued adherence to our conservative mortgage lending policies for portfolio loans will be as important in a growing economy as it was during the downturn in recent years. The loan-to-value policy guideline is 80 percent for residential first lien mortgages. We may approve higher loan-to-value loans, but generally with the appropriate private mortgage insurance coverage. Second lien positions may be assumed with home equity loans, but normally only to the extent that the combined credit exposure for both the first and second liens does not exceed 100 percent of the estimated fair value of the property. Portfolio loans are limited to a maximum term of 20 years for traditional mortgages and 15 years with a maximum amortization term of 30 years for balloon payment mortgages. Combo mortgage loans consisting of a residential first mortgage and a home equity second mortgage are also available to creditworthy borrowers. We also originate loans for sale into the secondary market, primarily to Fannie Mae.

Currently, we are selling 30 year mortgages into the secondary market. The rationale for these sales is to mitigate interest-rate risk associated with holding lower rate, long-term residential mortgages in the loan portfolio, generate fee revenue from sales and servicing and maintain the primary customer relationship. During the six months ended June 30, 2013 and 2012, we sold $35.6 million and $38.0 million of 1-4 family mortgages and currently service $324.0 million of secondary market mortgage loans sold to Fannie Mae at June 30, 2013. We intend to continue to sell 30 year loans to Fannie Mae in the future.

Loans held for sale decreased $19.3 million due to a participation loan that was in process at December 31, 2012.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

Allowance for Loan Losses

We maintain an ALL at a level determined to be adequate to absorb estimated probable credit losses inherent within the loan portfolio as of the balance sheet date. Determination of an adequate ALL is subjective, as it requires estimations of the occurrence of future events, as well as the timing of such events, and it may be subject to significant changes from period to period. We continuously monitor our ALL methodology to ensure that it is responsive to the current economic environment. The ALL methodology for groups of homogeneous loans, known as the general reserve, is comprised of both a quantitative and qualitative analysis. Due to the economic environment over the past two years, we used a relatively shorter time horizon of four quarters to calculate our historic loss rates for all loan portfolios. Given that the credit quality has been improving in recent periods, the historic loss rates in certain portfolios have been decreasing to rates below what we believe is reflective of the inherent losses within these portfolios. As such, during the first quarter of 2013, we lengthened the historic loss calculation for our CRE and C&I portfolios to consider eight quarters. After consideration of the loss calculations, management applies additional qualitative adjustments so that the ALL is reflective of the inherent losses that exist in the loan portfolio at the historic balance sheet date. The evaluation of the various components of the ALL requires considerable judgment in order to estimate inherent loss exposures.

The methodology for determining the ALL has two main components: 1) evaluation and impairment tests of individual loans, and 2) evaluation of certain groups of homogeneous loans with similar risk characteristics.

An inherent risk to the loan portfolio as a whole is the condition of the local economy. In addition, each loan segment carries with it risks specific to the segment. The following is a discussion of the key risks by portfolio segment that management assesses in preparing the ALL.

CRE loans are secured by commercial purpose real estate, including both owner occupied properties and investment properties for various purposes such as hotels, strip malls and apartments. Individual project cash flows, as well as global cash flows, are generally the sources of repayment for these loans. Besides cash flow risks, CRE loans have collateral risk and risks based upon the business prospects of the lessee, if the project is not owner occupied.

C&I loans are made to operating companies or manufacturers for the purpose of production, operating capacity, accounts receivable, inventory or equipment financing. Collateral for these types of loans often do not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt. Cash flow from the operations of the company is the primary source of repayment for these loans and the cash flow depends not only on the economy as a whole, but also on the health of the company s industry.

Commercial construction loans are made to finance construction of buildings or other structures, as well as to finance the acquisition and development of raw land for various purposes. During the construction phase, a number of factors can result in delays and cost overruns. While the risk is generally confined to the construction and absorption periods, if there are problems, the project may not be completed, and as such, may not provide sufficient cash flow on its own to service the debt or the value of the property securing the loan may not have sufficient value in a liquidation to cover the outstanding principal. There are also various risks depending on the type of project and the experience and resources of the developer.

Consumer real estate loans are secured by 1-4 family residences, including purchase money mortgages, first and second lien home equity loans and home equity lines of credit. The primary source of repayment for these loans is the income and assets of the borrower. The unemployment rate, as well as the state of the local housing market, had a significant impact on the risk determination since low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

Other consumer loans are made to individuals and may be secured by assets other than 1-4 family residences, or may be unsecured. This class of loans includes auto loans, unsecured lines and credit cards. The primary source of repayment for these loans is the income and assets of the borrower so the local unemployment rate is an important indicator of risk. The value of the collateral, if there is any, is less likely to be a source of repayment due to less certain collateral values.

At June 30, 2013, approximately 83.3 percent of the ALL was related to our commercial loan portfolio, while commercial loans comprised 72.5 percent of our loan portfolio. Commercial loans have been more impacted by the economic slowdown in our markets. The ability of customers to repay commercial loans is more dependent upon the success of their business, continuing income and general economic conditions. Accordingly, the risk of loss is higher on such loans compared to consumer loans, which have incurred lower losses in our market.

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

The following tables summarize the ALL and recorded investments in loans by category for the dates presented:

	June 30, 2013					
	Allowance for Loan Losses			Portfolio Loans		
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$ 64	$ 23,420	$ 23,484	$ 29,883	$ 1,471,608	$ 1,501,491
Commercial and industrial		9,123	9,123	11,767	814,929	826,696
Commercial construction		5,812	5,812	16,278	150,947	167,225
Consumer real estate	59	6,596	6,655	8,699	871,139	879,838
Other consumer	17	1,014	1,031	139	67,844	67,983
Total	**$ 140**	**$ 45,965**	**$ 46,105**	**$ 66,766**	**$ 3,376,467**	**$ 3,443,233**

	December 31, 2012					
	Allowance for Loan Losses			Portfolio Loans		
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$ 1,226	$ 24,020	$ 25,246	$ 39,994	$ 1,412,139	$ 1,452,133
Commercial and industrial	1,002	6,757	7,759	13,283	778,113	791,396
Commercial construction	3	7,497	7,500	18,512	149,631	168,143
Consumer real estate		5,058	5,058	10,827	850,248	861,075
Other consumer		921	921	25	73,850	73,875
Total	**$ 2,231**	**$ 44,253**	**$ 46,484**	**$ 82,641**	**$ 3,263,981**	**$ 3,346,622**

	June 30, 2013	December 31, 2012
Ratio of net charge-offs to average loans outstanding	0.22%*	0.78%
Allowance for loan losses as a percentage of total loans	1.34%	1.38%
Allowance for loan losses to nonperforming loans	122%	85%

* *Annualized*

The balance in the ALL decreased $0.4 million to $46.1 million, or 1.34 percent, of total portfolio loans at June 30, 2013 as compared to $46.5 million, or 1.38 percent, of total portfolio loans at December 31, 2012. The slight decline in the ALL was due to a decrease in the reserves for loans individually evaluated for impairment of $2.1 million offset by an increase in the reserve for loans collectively evaluated for impairment of $1.7 million. Impaired loans decreased $15.9 million from December 31, 2012, primarily a result of loan paydowns. Further, new impaired loan formation has not been significant during 2013 with only $6.3 million of new impaired loans. The reserve for loans collectively evaluated for impairment increased $1.7 million primarily due to an increase in the C&I reserve of $2.4 million due to higher historic loss rates and increased loan volume. The commercial construction general reserve decreased $1.7 million primarily due to a decrease in volume of special mention construction loans. The reserve for loans collectively evaluated for impairment on the consumer real estate portfolio increased $1.5 million due to higher historic loss rates and additional qualitative reserve added during the quarter to reflect the current level of risk expected within this portfolio.

Overall asset quality continued to improve as a result of decreases in loan charge-offs, nonaccrual loans and special mention and substandard loans from December 31, 2012. Special mention and substandard loans decreased $68.4 million, or 20 percent, to $268.7 million at June 30, 2013, from $337.1 million at December 31, 2012.

We determine loans to be impaired when based upon current information and events, it is probable that we will be unable to collect all principal and interest payments due according to the original contractual terms of the loan agreement. Our methodology for evaluating whether a loan is impaired includes risk-rating credits on an individual basis and consideration of the borrower s overall financial condition, payment record and available cash resources. In measuring impairment, we primarily look to the discounted cash flows of the credit itself or to the value of the collateral. We may consider the existence of guarantees and the financial strength of the guarantors involved. Guarantees may be considered as a source of repayment; however, absent a verifiable payment capacity, a guarantee alone would not be sufficient to avoid classifying the loan as impaired.

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

Troubled debt restructurings, or TDRs, whether on accrual or nonaccrual status, are also classified as impaired loans. TDRs are loans where we, for economic or legal reasons related to a borrower s financial difficulties, grant a concession to the borrower that we would not otherwise consider. These modified terms generally include extensions of maturity dates at a stated interest rate lower than the current market rate for a new loan with similar risk characteristics, reductions in contractual interest rates or principal deferment. While unusual there may be instances of principal forgiveness. Generally these concessions are for a period of at least six months. Additionally, we classify loans where the debt obligation has been discharged through a Chapter 7 Bankruptcy and not reaffirmed by the borrower as TDRs.

TDRs can be returned to accruing status if the following criteria are met: 1) the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and 2) there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring. All TDRs are considered to be impaired loans and will be reported as impaired loans for their remaining lives, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and we fully expected that the remaining principal and interest will be collected according to the restructured agreement. All impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements noted above to be returned to accruing status.

As an example, consider a substandard commercial construction loan that is currently 90 days past due where the loan is restructured to extend the maturity date for a period longer than would be considered an insignificant period of time. The post-modification interest rate is not increased to correspond with the current credit risk of the borrower, and all other terms remain the same according to the original loan agreement. This loan will be considered a TDR as the borrower is experiencing financial difficulty and a concession has been granted. The loan will be reported as nonaccrual status and as an impaired loan and a TDR. In addition, the loan could be charged down to the fair value of the collateral if a confirmed loss exists. If the loan subsequently performs, by means of making on-time principal and interest payments according to the newly restructured terms for a period of six months, and it is expected that all remaining principal and interest will be collected according to the terms of the restructured agreement, the loan will be returned to accrual status and reported as an accruing TDR. The loan will remain an impaired loan for the remaining life of the loan since the interest rate was not adjusted to be equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with the comparable risk of a longer term.

As of June 30, 2013, we had $57.0 million in total TDRs, including $40.9 million that were accruing and $16.1 that were in nonaccrual status. During the six months ended June 30, 2013, we had $8.7 million of new TDRs with the most significant TDR of $4.3 million due to principal forgiveness of $0.1 million, a $0.8 million TDR related to a maturity date extension and others related to bankruptcy filings that were not reaffirmed resulting in discharged debt. During the six months ended June 30, 2013, we had one TDR for $0.2 million that met the above requirements for being placed back to accrual status.

The charge-off policy for commercial loans requires that loans and other obligations that are not collectible be promptly charged-off in the month the loss becomes probable, regardless of the delinquency status of the loan. We may elect to recognize a partial charge-off when management has determined that the value of collateral is less than the remaining investment in the loan. A loan or obligation does not need to be charged-off, regardless of delinquency status, if (i) management has determined there exists sufficient collateral to protect the remaining loan balance and (ii) there exists a strategy to liquidate the collateral. Management may also consider a number of other factors to determine when a charge-off is appropriate. These factors may include, but are not limited to:

- The status of a bankruptcy proceeding
- The value of collateral and probability of successful liquidation; and/or
- The status of adverse proceedings or litigation that may result in collection

Consumer unsecured loans and secured loans that are not secured by real estate are evaluated for charge-off after the loan becomes 90 days past due. Unsecured loans are fully charged-off and secured loans are charged-off to the estimated fair value of the collateral less the cost to sell. Consumer loans secured by real estate are evaluated for charge-off after the loan balance becomes 90 days past due and are charged down to the estimated fair value of the collateral less cost to sell.

Our allowance for lending-related commitments is computed using a methodology similar to that used to determine the ALL. Amounts are added to the allowance for lending-related commitments by a charge to current earnings through noninterest expense. The balance in the allowance for lending-related commitments increased to $3.3 million at June 30, 2013 as compared to $3.0 million at December 31, 2012 due to an increase in the volume of commitments. The allowance for lending-related commitments is included in other liabilities in the Consolidated Balance Sheets.

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

Nonperforming assets consist of nonaccrual loans, nonaccrual TDRs and OREO. The following summarizes nonperforming assets for the dates presented:

(dollars in thousands)	June 30, 2013	December 31, 2012	$ Change
Nonaccrual Loans			
Commercial real estate	$ 12,053	$ 20,972	$ (8,919)
Commercial and industrial	3,985	5,496	(1,511)
Commercial construction	268	1,454	(1,186)
Residential mortgage	2,035	4,526	(2,491)
Home equity	3,445	3,312	133
Installment and other consumer	33	40	(7)
Consumer construction		218	(218)
Total Nonaccrual Loans	**21,819**	**36,018**	**(14,199)**
Nonaccrual Troubled Debt Restructurings			
Commercial real estate	8,679	9,584	(905)
Commercial and industrial	1,219	939	280
Commercial construction	4,507	5,324	(817)
Residential mortgage	1,430	2,752	(1,322)
Home equity	229	341	(112)
Total Nonaccrual Troubled Debt Restructurings	**16,064**	**18,940**	**(2,876)**
Total Nonaccrual Loans	**37,883**	**54,958**	**(17,075)**
OREO	408	911	(503)
Total Nonperforming Assets	**$ 38,291**	**$ 55,869**	**$ (17,578)**
Asset Quality Ratios:			
Nonperforming loans as a percent of total loans	1.10%	1.63%	
Nonperforming assets as a percent of total loans plus OREO	1.11%	1.66%	

Our policy is to place loans in all categories in nonaccrual status when collection of interest or principal is doubtful, or generally when interest or principal payments are 90 days or more past due. There were no loans 90 days or more past due and still accruing at June 30, 2013 or December 31, 2012.

NPAs decreased to $38.3 million at June 30, 2013 compared to $55.9 million at December 31, 2012. The significant decline is primarily related to $14.8 million in NPL payoffs and $7.1 million in loan charge-offs. New NPL formation was $6.8 million for the first six months of 2013.

Deposits

(dollars in thousands)	June 30, 2013	December 31, 2012	$ Change
Noninterest-bearing demand	$ 947,747	$ 960,980	$ (13,233)
Interest-bearing demand	297,028	316,760	(19,732)
Money market	329,065	361,233	(32,168)
Savings	1,003,705	965,571	38,134
Certificates of deposit	1,071,083	1,033,884	37,199
Total Deposits	**$ 3,648,628**	**$ 3,638,428**	**$ 10,200**

Deposits are the primary source of funds for us. We believe that our deposit base is stable and that we have the ability to attract new deposits, mitigating a funding dependency on other more volatile sources. Total deposits increased $10.2 million at June 30, 2013 compared to December 31, 2012.

Noninterest-bearing demand and interest-bearing demand decreased $33.0 million at June 30, 2013 compared to December 31, 2012. The decrease in demand balances is not unusual when comparing point in time balances, particularly when comparing to December 31, 2012, as we typically experience an increase in business demand balances at year-end that tend to be temporary in nature. Money market deposits decreased $32.2 million at June 30, 2013 compared to December 31, 2012 mainly as a result of our Wealth Management division reallocating assets under management to other types of investments.

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

The low interest rate environment had an impact on our overall deposit mix as CD maturities at higher rates shifted into our savings products. The $37.2 million increase in CDs was impacted by the addition of $77.1 million of CDARS OWB deposits and a $5.1 million brokered CD during the second quarter of 2013. Participation in the CDARS OWB program allows us to issue deposits from insured depository institutions that are members of the CDARS deposit placement service. The issuance of brokered certificates of deposit and participation in the CDARS OWB program is an ALCO strategy to increase and diversify funding sources. CDs of $100,000 and over increased to 12 percent compared to 10 percent of total deposits at June 30, 2013 and at December 31, 2012 with the increase primarily due to the addition of the CDARS OWB deposits.

Borrowings

(dollars in thousands)	June 30, 2013	December 31, 2012	$ Change
Securities sold under repurchase agreements, retail	$ 74,151	$ 62,582	$ 11,569
Short-term borrowings	125,000	75,000	50,000
Long-term borrowings	22,965	34,101	(11,136)
Junior subordinated debt securities	45,619	90,619	(45,000)
Total Borrowings	**$ 267,735**	**$ 262,302**	**$ 5,433**

Borrowings are an additional source of funding for us. Total borrowings have increased by $5.4 million from December 31, 2012. We repaid $45.0 million in junior subordinated debt during the second quarter of 2013 and had $10.0 million of long-term borrowings mature during the first six months of 2013. The junior subordinated debt was repaid because of its diminishing regulatory capital benefit and the future positive impact on net interest income. We replaced the funding with FHLB advances and deposits through the CDARS OWB program.

Information pertaining to short-term borrowings is summarized in the tables below for the dates presented and for the six month and twelve month periods ended June 30, 2013 and December 31, 2012.

	Securities Sold Under Repurchase Agreements	
(dollars in thousands)	June 30, 2013	December 31, 2012
Balance at the period end	$ 74,151	$ 62,582
Average balance during the period	65,411	47,388
Average interest rate during the period	0.15%	0.17%
Maximum month-end balance during the period	$ 74,151	$ 62,582
Average interest rate at the period end	0.12%	0.20%

	Short-Term Borrowings	
(dollars in thousands)	June 30, 2013	December 31, 2012
Balance at the period end	$ 125,000	$ 75,000
Average balance during the period	66,298	50,212
Average interest rate during the period	0.24%	0.24%
Maximum month-end balance during the period	$ 125,000	$ 75,000

Average interest rate at the period end	0.27%	0.19%

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

Information pertaining to long-term borrowings is summarized in the tables below for the dates presented and for the six month and twelve month periods ended June 30, 2013 and December 31, 2012.

	Long-Term Borrowings	
(dollars in thousands)	**June 30, 2013**	**December 31, 2012**
Balance at the period end	$ 22,965	$ 34,101
Average balance during the period	26,323	33,841
Average interest rate during the period	3.12%	3.26%
Maximum month-end balance during the period	$ 28,913	$ 40,669
Average interest rate at the period end	3.02%	3.17%

	Junior Subordinated Debt Securities	
(dollars in thousands)	**June 30, 2013**	**December 31, 2012**
Balance at the period end	$ 45,619	$ 90,619
Average balance during the period	86,696	90,619
Average interest rate during the period	3.36%	3.21%
Maximum month-end balance during the period	$ 90,619	$ 90,619
Average interest rate at the period end	2.73%	3.01%

Liquidity and Capital Resources

Liquidity is defined as a financial institution s ability to meet its cash and collateral obligations at a reasonable cost. This includes the ability to satisfy the financial needs of depositors who want to withdraw funds or of borrowers needing to access funds to meet their credit needs. Liquidity risk management involves monitoring and maintaining sufficient levels of a diverse set of funding sources that are available for normal operations and for unanticipated stress events. In order to manage liquidity risk our Board of Directors has delegated authority to the ALCO for formulation, implementation and oversight of liquidity risk management. ALCO s goal is to maintain adequate levels of liquidity to meet our funding needs in both a normal operating environment and for potential liquidity stress events.

Our primary funding and liquidity source is a stable deposit base. We believe that the bank has the ability to retain existing and attract new deposits, mitigating a funding dependency on other more volatile sources. Although deposits are the primary source of funds, we have identified various funding sources that can be used as part of our normal funding program when either a structure or cost efficiency has been identified. These funding sources include a cushion of highly liquid assets, borrowing availability at the FHLB, Federal Funds lines with other financial institutions and access to the brokered certificates of deposit market including CDARs OWB deposits.

Since the beginning of the financial industry crisis in 2008, monitoring and maintaining appropriate liquidity levels has become a focus of regulators, bankers and investors. ALCO has enhanced the measurement, monitoring and reporting systems for liquidity risk management for potential liquidity stress events. Specific focus has been on maintaining an adequate level of asset liquidity, performing short-term and long-term stress tests and developing a more detailed contingency funding plan. We also work to ensure access to various wholesale funding sources is available, even in a stress event.

ALCO uses a variety of ratios and reports to monitor our liquidity position. ALCO monitors an asset liquidity ratio, which is defined as the sum of interest-bearing deposits with banks, unpledged securities and loans held for sale to total assets. In addition to the asset liquidity ratio, ALCO reviews cash flow projections and various balance sheet liquidity ratios. ALCO policy guidelines are in place for each ratio that defines graduated risk tolerance levels. If a ratio moves to high risk, specific actions are defined, such as increased monitoring or the development of an action plan to reduce the risk position.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

The following summarizes risk-based capital amounts and ratios for S&T Bancorp, Inc. and S&T Bank for the dates presented:

(dollars in thousands)	Adequately Capitalized *(1)*	Well-Capitalized *(2)*	June 30, 2013 Amount	June 30, 2013 Ratio	December 31, 2012 Amount	December 31, 2012 Ratio
S&T Bancorp, Inc.						
Tier 1 leverage	4.00%	5.00%	$ 410,484	9.54%	$ 392,506	9.31%
Tier 1 capital to risk-weighted assets	4.00%	6.00%	410,484	12.28%	392,506	11.98%
Total capital to risk-weighted assets	8.00%	10.00%	478,030	14.30%	504,041	15.39%
S&T Bank						
Tier 1 leverage	4.00%	5.00%	$ 375,291	8.76%	$ 343,331	8.45%
Tier 1 capital to risk-weighted assets	4.00%	6.00%	375,291	11.29%	343,331	10.88%
Total capital to risk-weighted assets	8.00%	10.00%	441,950	13.30%	452,906	14.35%

(1) For an institution to qualify as adequately capitalized under regulatory guidelines, total risk-based capital, Tier I risk-based capital and Tier I capital to average asset ratios must be at least 8 percent, 4 percent and 4 percent. At June 30, 2013, we exceeded those requirements.

(2) For an institution to qualify as well capitalized under regulatory guidelines, total risk-based capital, Tier I risk-based capital and Tier I capital to average asset ratios must be at least 10 percent, 6 percent and 5 percent. At June 30, 2013, we exceeded those requirements.

Our total risk based capital ratio decreased by 109 basis points to 14.30 percent at June 30, 2013 from 15.39 percent at December 31, 2012. The decrease was due to the repayment of $45.0 million of subordinated debt during the second quarter of 2013.

In October 2012, we filed a shelf registration statement on Form S-3 under the Securities Act of 1933 as amended, with the SEC for the issuance of up to $300 million of a variety of securities including, debt and capital securities, preferred and common stock and warrants. We may use the proceeds from the sale of securities for general corporate purposes, which could include investments at the holding company level, investing in, or extending credit to subsidiaries, possible acquisitions and stock repurchases. As of June 30, 2013, we had not issued any securities pursuant to the shelf registration statement.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is defined as the degree to which changes in interest rates, foreign exchange rates, commodity prices or equity prices can adversely affect a financial institution s earnings or capital. For most financial institutions, including S&T, market risk primarily reflects exposures to changes in interest rates. Interest rate fluctuations affect earnings by changing net interest income and other interest-sensitive income and expense levels. Interest rate changes affect capital by changing the net present value of a bank s future cash flows, and the cash flows themselves, as rates change. Accepting this risk is a normal part of banking and can be an important source of profitability and shareholder value. However, excessive interest rate risk can threaten a bank s earnings, capital, liquidity and solvency. Our sensitivity to changes in interest rate movements is continually monitored by ALCO. ALCO monitors and manages market risk through rate shock analyses, economic value of equity, or EVE, analysis and simulations in order to avoid unacceptable earnings and market value fluctuations due to changes in interest rates.

Rate shock analyses results are compared to a base case to provide an estimate of the impact that market rate changes may have on 12 months of pretax net interest income. The base case and rate shock analyses are performed on a static balance sheet. A static balance sheet is a no growth balance sheet in which all maturing and/or repricing cash flows are reinvested in the same product at the existing product spread. Rate shock analyses assume an immediate parallel shift in market interest rates and also include management assumptions regarding the level of interest rate changes on non-maturity deposit products (noninterest-bearing demand, interest-bearing demand, money market and savings) and changes in the prepayment behavior of fixed rate loans and securities with optionality. S&T policy guidelines limit the change in pretax net interest income over a 12 month horizon using rate shocks of +/- 300 basis points. Policy guidelines define the percent change in pretax net interest income by graduated risk tolerance levels of minimal, moderate and high. We have temporarily suspended the -200 and -300 basis point rate shock analyses. Due to the low interest rate environment we believe the impact to net interest income when evaluating the -200 and -300 basis point rate shock scenarios did not provide meaningful insight into our interest rate risk position.

In order to monitor interest rate risk beyond the 12 month time horizon of rate shocks, we also perform EVE analysis. EVE represents the present value of all asset cash flows minus the present value of all liability cash flows. EVE rate change results are compared to a base case to determine the impact that market rate changes may have on our EVE. As with rate shock analysis, EVE incorporates management assumptions regarding prepayment behavior of fixed rate loans and securities with optionality and core deposit behavior and value. S&T policy guidelines limit the change in EVE given changes in rates of +/- 300 basis points. Policy guidelines define the percent change in EVE by graduated risk tolerance levels of minimal, moderate and high. We have also temporarily suspended the EVE -200 and -300 basis point scenarios due to the low interest rate environment.

Table of Contents

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK continued

The table below reflects the rate shock analyses and EVE results. Both are in the minimal risk tolerance level.

	June 30, 2013		December 31, 2012	
Change in Interest Rate (basis points)	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity
+300	9.0	15.3	8.2	23.2
+200	5.5	11.3	5.0	16.8
+100	2.1	6.2	2.0	9.1
- 100	(3.5)	(10.6)	(2.4)	(9.7)

The results from the rate shock analyses are consistent with having an asset sensitive balance sheet. Having an asset sensitive balance sheet means more assets than liabilities will reprice during the measured time frames. The implications of an asset sensitive balance sheet will differ depending upon the change in market interest rates. For example, with an asset sensitive balance sheet in a declining interest rate environment, more assets than liabilities will decrease in rate. This situation could result in a decrease in net interest income and operating income. Conversely, with an asset sensitive balance sheet in a rising interest rate environment, more assets than liabilities will increase in rate. This situation could result in an increase in net interest income and operating income. As measured by rate shock analyses, there was not a material change in our asset sensitive balance sheet position when comparing June 30, 2013 and December 31, 2012.

When comparing the EVE results for June 30, 2013 and December 31, 2012 the percent change to EVE has decreased. The change in EVE is due to the increase in long term rates between June 30, 2013 and December 31, 2012. The increase in long term rates resulted in a higher June 30, 2013 base case EVE mainly as a result of higher core deposit values. With a higher base EVE at June 30, 2013 and a similar dollar change between the base case and rate change scenarios at June 30, 2013 and December 31, 2012 the result is a lower percent change.

In addition to rate shocks and EVE, simulations are performed periodically to assess the sensitivity of scenario assumptions on pretax net interest income. Simulation analyses most often test for sensitivity to yield curve shape and slope changes, severe rate shocks, changes in prepayment assumptions and significant balance mix changes. Simulations indicate that an increase in rates, particularly if the yield curve steepens, will most likely result in an improvement in pretax net interest income. We realize that some of the benefit reflected in our scenarios may be offset by a change in the competitive environment and a change in product preference by our customers

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of S&T s Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO (its principal executive officer and principal financial officer, respectively), management has evaluated the effectiveness of the design and operation of S&T s disclosure controls and procedures as of June 30, 2013. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. We maintain disclosure controls and procedures that are 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, as amended, or the Exchange Act, is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission, or the SEC, and that such information is accumulated and communicated to S&T s management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Based on and as of the date of such evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective in all material respects, as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

During the quarter ended June 30, 2013, there were no changes made to S&T s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that materially affected, or are reasonably likely to materially affect, S&T s internal control over financial reporting.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable

Item 1A. Risk Factors

There have been no material changes to the risk factors that we have previously disclosed in Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC on February 25, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits

31.1	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer.
32	Rule 13a-14(b) Certification of the Chief Executive Officer and Chief Financial Officer.
101	The following financial information from the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 is formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Consolidated Balance Sheets at June 30, 2013 and December 31, 2012, (ii) Unaudited Consolidated Statements of Comprehensive Income for the Three Months and Six Months ended June 30, 2013 and 2012, (iii) Unaudited Consolidated Statements of Changes in Shareholders Equity for the Six Months ended June 30, 2013 and 2012 and (iv) Unaudited Consolidated Statements of Cash Flows for the Six Months ended June 30, 2013 and 2012 and (iv) Notes to Unaudited Consolidated Financial Statements.*

* This exhibit is furnished and will not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

S&T Bancorp, Inc.

(Registrant)

Date: July 31, 2013

/s/ Mark Kochvar
Mark Kochvar

Senior Executive Vice President and

Chief Financial Officer

(Principal Financial Officer and Duly Authorized Signatory)