

Leidos Holdings, Inc.  
Form PRER14A  
June 02, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

**SCHEDULE 14A**  
**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. 1)**

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

**Leidos Holdings, Inc.**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

76,958,918 (represents an estimate of the maximum number of shares of common stock of Leidos Holdings, Inc. ( Leidos ) 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 proxy statement).

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

\$50.90 (calculated in accordance with Rule 457(c) and 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).

4. Proposed maximum aggregate value of transaction: \$3,917,208,926.20

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.

5. Total fee paid: \$394,462.94

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.

x Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount previously paid:

The filing fee in the amount of \$394,462.94 was paid in connection with Leidos Registration Statement on Form S-4, which was filed on April 18, 2016 (Registration No. 333-210796).

2. Form, Schedule or Registration Statement No.: Registration No. 333-210796

3. Filing party: Leidos Holdings, Inc.

4. Date Filed: April 18, 2016

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**EXPLANATORY NOTE**

This proxy statement relates to the annual meeting of stockholders of Leidos Holdings, Inc. ( Leidos ) to approve the proposals described herein with respect to the merger (the Merger ) of Lion Merger Co., a Delaware corporation ( Merger Sub ), which is a wholly-owned subsidiary of Leidos, with and into Abacus Innovations Corporation, a Delaware corporation ( Splitco ), which is a wholly-owned subsidiary of Lockheed Martin Corporation ( Lockheed Martin ), 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. Splitco has filed a registration statement on Form S-4 and Form S-1 (Reg. No. 333-210797) to register the 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, which shares of Splitco common stock will be immediately converted into shares of Leidos common stock in the Merger. In addition, Leidos has filed a registration statement on Form S-4 (Reg. No. 333-210796) to register the shares of its common stock, par value \$.0001 per share, that will be issued in 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. Splitco is filing its registration statement on Form S-4 and Form S-1 under the assumption that the shares of Splitco common stock will be distributed to Lockheed Martin stockholders pursuant to a split-off. This proxy statement and Leidos registration statement on Form S-4 also assume 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 proxy statement, Leidos registration statement on Form S-4, and Splitco s registration statement on Form S-4 and Form S-1 will be amended to reflect that decision, if necessary.

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Preliminary Copy

, 2016

**MERGER PROPOSED YOUR VOTE IS IMPORTANT**

Dear Leidos Stockholder:

You are cordially invited attend the annual meeting of stockholders of Leidos Holdings, Inc. ( Leidos ), a Delaware corporation, which will be held at the company s offices at 11951 Freedom Drive, Reston, Virginia 20190, on , 2016 at , local time. A notice of the annual meeting and the proxy statement follow.

At the annual meeting you will be asked to:

authorize the issuance of shares of Leidos common stock in the Merger (the Share Issuance );

elect nine directors;

approve, by an advisory vote, the compensation of Leidos named executive officers;

approve, by an advisory vote, Transaction-related compensation of Leidos named executive officers;

ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 30, 2016; and

if it is determined by the board of directors to be necessary or appropriate, approve adjournments or postponements of the annual meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the annual meeting to approve the Share Issuance.

As previously announced, on January 26, 2016, Leidos entered into an Agreement and Plan of Merger (the Merger Agreement ) 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 Splitco Business ) in a Reverse Morris Trust transaction (the Transaction ), through 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 as a wholly-owned subsidiary of Leidos.

**If the proposal to approve the Share Issuance is not approved, the Merger cannot be completed.**

As more fully described in the accompanying proxy statement, in order to complete the Merger and the related transactions, Lockheed Martin will transfer the Splitco Business to Splitco and Lockheed Martin will distribute Splitco's stock to its stockholders, at Splitco Business's option, by way of a spin-off, a split-off or a combination thereof (the Distribution). Prior to the Distribution, Lockheed Martin will receive from Splitco distributions of cash and debt instruments of Splitco with an aggregate value of approximately \$1,800,000,000. Immediately after the Distribution, the Merger will be completed, and each outstanding share of Splitco common stock will be converted automatically into the right to receive one share of common stock of Leidos.

Immediately after the consummation of the Merger, approximately 50.5 percent of the outstanding shares of Leidos common stock are expected to be held by pre-Merger holders of Splitco common stock and approximately 49.5 percent of the outstanding shares of Leidos common stock are expected to be held by pre-Merger Leidos stockholders on a fully diluted basis. After the Merger, Leidos common stock issued will continue to be listed on the New York Stock Exchange ( NYSE ) under Leidos' current symbol, LDOS.

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The board of directors of Leidos (the **Leidos Board** ) recommends that stockholders vote:

**FOR** the authorization of the issuance of shares of Leidos common stock in the Merger (the **Share Issuance** );

**FOR** the election of the nine directors;

**FOR** the approval, by an advisory vote, of the compensation of Leidos named executive officers;

**FOR** the approval, by an advisory vote, of Transaction-related compensation of Leidos named executive officers;

**FOR** the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 30, 2016; and

**If it is determined by the board of directors to be necessary or appropriate, FOR the approval of adjournments or postponements of the annual meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the annual meeting to approve the Share Issuance.**

Only those stockholders of record at the close of business on \_\_\_\_\_, 2016 are entitled to notice of the annual meeting and to vote at the annual meeting and any adjournments or postponements of the annual meeting.

*Your vote is very important.* Please vote by completing, signing and dating the enclosed proxy and voting instruction card for the annual meeting and mailing the proxy and voting instruction card to us, whether or not you plan to attend the annual meeting. If you sign, date and mail your proxy and voting instruction card without indicating how you want to vote, your proxy will be counted as a vote **FOR** each of proposals 1 through 6 presented at the annual meeting. In addition, you may vote by proxy by calling the toll-free telephone number or by using the Internet as described in the instructions included with the enclosed proxy and voting instruction card. If you do not return your card, vote by telephone or by using the Internet, or if you do not specifically instruct your bank, broker or other nominee how to vote any shares held for you in street name, your shares will not be voted at the annual meeting.

This document is a proxy statement of Leidos for its use in soliciting proxies for the annual meeting. This document answers questions about the Merger, the related transactions and the annual meeting and includes a summary description of the Merger and the related transactions. We urge you to review this entire document carefully. **In particular, you should consider the matters discussed under Risk Factors beginning on page 92.**

We thank you for your consideration and continued support.

Sincerely,

**Roger A. Krone**

*Chief Executive Officer and Chair of the Board*

This document is dated \_\_\_\_\_, 2016 and is first being mailed to Leidos stockholders on or about \_\_\_\_\_, 2016.



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**LEIDOS HOLDINGS, INC.**

11951 Freedom Drive

Reston, Virginia 20190

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

To Be Held \_\_\_\_\_, 2016 at \_\_\_\_\_, ET

To our Stockholders:

An annual meeting of stockholders of Leidos Holdings, Inc. will be held at \_\_\_\_\_ local time, on \_\_\_\_\_, 2016 at the company's offices at 11951 Freedom Drive, Reston, Virginia 20190. This proxy statement and the proxy and voting instruction card are first being sent or made available to our stockholders on or about \_\_\_\_\_, 2016. The annual meeting will be held for the following purposes:

1. To consider and vote on the proposal to issue shares of Leidos common stock to Lockheed Martin stockholders under the Merger Agreement;
2. To elect nine directors;
3. To approve, by an advisory vote, the compensation of Leidos named executive officers;
4. To approve, by an advisory vote, Transaction-related compensation of Leidos named executive officers;
5. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 30, 2016;
6. To vote upon the proposal to adjourn the annual meeting, if necessary or appropriate, to solicit additional proxies; and
7. To transact such other business as may properly come before the meeting or any adjournments, postponements or continuations of the meeting.

Please refer to the attached proxy statement for further information with respect to the business to be transacted at the Leidos annual meeting. Leidos will transact no other business at the meeting except such business as may properly be brought before the meeting or any adjournments or postponements thereof. Please refer to the proxy statement of which this notice is a part for further information on the business to be transacted at the annual meeting.

**YOUR VOTE IS IMPORTANT!**

**REVIEW YOUR PROXY STATEMENT AND VOTE IN ONE OF FOUR WAYS:**

**VIA THE INTERNET**

Go to [www.proxyvote.com](http://www.proxyvote.com) or scan the QR code on your proxy and voting instruction card with a smart phone.

**BY TELEPHONE**

Call 1-800-690-6903.

**BY MAIL**

Sign, date and return your proxy and voting instruction card in the enclosed envelope.

**IN PERSON**

Attend the annual meeting in Reston, Virginia.

Leidos board of directors (the Leidos Board ) has unanimously approved the Merger Agreement and the Merger and determined that the Merger Agreement and the transactions contemplated thereby, including the Merger and the issuance of shares of Leidos common stock to Lockheed Martin stockholders under the Merger Agreement, are advisable and in the best interests of Leidos and its stockholders. The Leidos Board unanimously recommends that Leidos stockholders vote FOR each of proposals 1 through 6 being submitted to a vote of stockholders at the annual meeting. **In considering the recommendation of the Leidos Board, you should be aware that certain 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. See the section entitled The Transactions Interests of Leidos Directors and Executive Officers in the Transactions of the accompanying proxy statement.**

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The Leidos Board has fixed the close of business on \_\_\_\_\_, 2016 as the record date (the Record Date) for determining Leidos stockholders entitled to receive notice of, and to vote at, the Leidos meeting or any adjournments or postponements thereof. Only holders of record of Leidos common stock at the close of business on the Record Date are entitled to receive notice of, and to vote at, the annual meeting. The presence, either in person or represented by proxy, of persons entitled to vote a majority of the voting power of Leidos common stock that is entitled to vote at the annual meeting is necessary to constitute a quorum for the transaction of business at the meeting. To ensure that your vote is recorded, please provide your voting instructions as soon as possible, even if you plan to attend the meeting in person. We encourage you to vote via the Internet or by telephone. You also have the option of voting by completing, signing, dating and returning the proxy and voting instruction card that accompanied the printed materials. Submitting your vote via the Internet or by telephone or proxy and voting instruction card will not affect your right to vote in person if you decide to attend the annual meeting.

The enclosed proxy statement provides a detailed description of the merger agreement and the Merger as well as a description of the issuance of shares of Leidos common stock to Lockheed Martin stockholders under the Merger Agreement. We urge you to read this proxy statement, including any documents incorporated by reference, and the Annexes carefully and in their entirety. If you have any questions concerning the merger agreement, the Merger or this proxy statement, would like additional copies of this document, or need help voting your shares of Leidos common stock, please contact our proxy solicitor at:

Morrow & Co., LLC

470 West Avenue

Stamford, Connecticut 06902

Stockholders, please call Toll Free (800) 278-2141

Banks and Brokerage Firms, please call (203) 658-9400

By Order of the Board of Directors  
Raymond L. Veldman

*Corporate Secretary*

, 2016

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**LEIDOS HOLDINGS, INC.**

**Proxy Statement**

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**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;

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;

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;

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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;

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**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;

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

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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;

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;

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;



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**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;

#### **REFERENCES TO ADDITIONAL INFORMATION**

This document incorporates important business and financial information about Leidos from documents filed with the Securities and Exchange Commission ( SEC ) that have not been included or delivered with this document. This information is available to Leidos stockholders without charge by accessing the SEC 's website maintained at [www.sec.gov](http://www.sec.gov) or upon written request to Leidos Holdings, Inc., 11951 Freedom Drive, Reston, Virginia 20190, Attention: Corporate Secretary. See **Where You Can Find More Information; Incorporation by Reference**.

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 on 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, Splitco or their respective subsidiaries or the Splitco Business and with respect to the terms and conditions of Lockheed Martin 's exchange offer has been provided by Lockheed Martin.

The information included in this document regarding Lockheed Martin 's exchange offer is being provided for informational purposes only and does not purport to be complete. For additional information on Lockheed Martin 's exchange offer and the terms and conditions of Lockheed Martin 's exchange offer, Leidos ' stockholders are urged to read Splitco 's registration statement on Form S-4 and Form S-1 (Reg. No. 333-210797), Leidos ' registration statement on Form S-4 (Reg. No. 333-210796), and all other documents Splitco or Leidos file with the SEC relating to the Merger. This document constitutes only a proxy statement for Leidos stockholders relating to the annual meeting and is not an offer to sell or a solicitation of an offer to purchase shares of Leidos common stock, Lockheed Martin common stock or Splitco common stock.

#### **QUESTIONS AND ANSWERS ABOUT THE TRANSACTION AND THE ANNUAL MEETING**

The following are some of the questions that Leidos 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.

##### **Why am I receiving these materials?**

Leidos has sent you these materials in connection with its solicitation of proxies for use at the 2016 annual meeting of stockholders to be held at \_\_\_\_\_ local time, on \_\_\_\_\_, 2016 at the company 's offices at 11951 Freedom Drive, Reston, Virginia 20190. These materials were first sent or made available to Leidos stockholders on \_\_\_\_\_, 2016.

Leidos is holding its annual meeting of its stockholders in order, among other things, to obtain stockholder approval of the Share Issuance in connection with the Merger pursuant to which Lockheed Martin 's IS&GS business will combine with Leidos ' business. Leidos cannot complete the Merger unless the Share Issuance is approved by the affirmative

vote of a majority of votes cast by Leidos stockholders on the proposal at the annual meeting.

This document includes important information about the Transaction and the annual meeting of Leidos stockholders. Leidos stockholders should read this information carefully and in its entirety. A copy of the Merger Agreement is attached as Annex A-1 to this document and a copy of the Separation Agreement is attached as Annex B-1 to this document. The enclosed voting materials allow Leidos stockholders to vote their shares without attending the Leidos annual meeting. *The vote of Leidos stockholders is very important and Leidos encourages its stockholders to vote their proxy as soon as possible. Please follow the instructions set forth on the enclosed proxy and voting instruction card (or on the voting instruction form provided by the record holder if shares of Leidos stock are held in the name of a bank, broker or other nominee).*

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**What proposals will be voted on at the annual meeting?**

Leidos stockholders will vote on the following proposals:

1. To consider and vote on the proposal to issue shares of Leidos common stock to Lockheed Martin stockholders under the Merger Agreement;
2. To elect nine directors;
3. To approve, by an advisory vote, the compensation of Leidos named executive officers;
4. To approve, by an advisory vote, Transaction-related compensation of Leidos named executive officers;
5. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 30, 2016;
6. To vote upon the proposal to adjourn the annual meeting, if necessary or appropriate, to solicit additional proxies; and
7. To transact such other business as may properly come before the meeting or any adjournments, postponements or continuations of the meeting.

**What votes are required to approve the Proposals?**

Pursuant to the NYSE rules, Proposal No. 1 must be approved by a majority of the votes cast by Leidos stockholders on the proposal at the annual meeting. An abstention from voting will be treated as a vote cast under NYSE rules with regard to the proposal to approve the Share Issuance and will have the same effect as a vote AGAINST the proposal to approve the Share Issuance. In accordance with applicable rules, banks, brokers and other nominees who hold shares of common stock in street name for their customers do not have discretionary authority to vote the shares with respect to the proposal to approve the Share Issuance. Accordingly, there will be no broker non-votes and shares held in street name (that is, shares held through a bank, broker or other nominee) will not be voted on the proposal to approve the Share Issuance unless the bank, broker or nominee has received voting instructions from its customer. If this proposal is not approved, the Merger cannot be completed.

Regarding Proposal No. 2, we have adopted majority voting procedures for the election of directors in uncontested elections. In an uncontested election, nominees must receive more for than against votes to be elected. Abstentions are not counted as votes cast. As provided in our bylaws, a contested election is one in which the number of nominees exceeds the number of directors to be elected. The election of directors at the 2016 annual meeting is an uncontested election. If an incumbent director receives more against than for votes, he or she is expected to tender his or her resignation in accordance with our Corporate Governance Guidelines. The Nominating and Corporate Governance Committee will consider the offer of resignation and recommend to the Board of Directors the action to be taken. The

Board will promptly disclose its decision as to whether to accept or reject the tendered resignation in a press release, Current Report on Form 8-K or some other public announcement.

The affirmative vote of the holders of a majority of the voting power of common stock, present or represented either in person or by proxy and entitled to vote at the annual meeting is required to approve Proposal No. 3. Broker non-votes are not entitled to vote on this proposal and will not be counted in evaluating the results of the vote. This advisory vote on the compensation of Leidos named executive officers is non-binding on the Board of Directors.

The affirmative vote of a majority of the shares present or represented either in person or by proxy and entitled to vote is required to approve proposal No. 4. Broker non-votes are not entitled to vote on this proposal and will not be counted in evaluating the results of the vote. This advisory vote on the Transaction-related compensation of Leidos named executive officers is non-binding on the Board of Directors.

The affirmative vote of the holders of a majority of the voting power of common stock, present or represented and entitled to vote at the annual meeting is required to approve Proposal No. 5.

The affirmative vote of the holders of a majority of the shares of our common stock present in person or represented by proxy and entitled to vote at our annual meeting is required to approve the adjournment of our annual meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of our proposal for the issuance of our common stock.

**Who is entitled to vote at the annual meeting?**

Only stockholders of record of our common stock as of the close of business on our record date of \_\_\_\_\_, 2016 are entitled to notice of, and to vote at, the annual meeting. As of \_\_\_\_\_, 2016, there were \_\_\_\_\_ shares of common stock outstanding.

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We have no other class of capital stock outstanding. A list of stockholders entitled to vote at the meeting will be available for inspection at 11951 Freedom Drive, Reston, Virginia for at least 10 days prior to the meeting and will also be available for inspection at the meeting.

### **How do I vote my shares?**

Shares of common stock represented by a properly executed and timely proxy will, unless it has previously been revoked, be voted in accordance with its instructions. In the absence of specific instructions, the shares represented by a properly executed and timely proxy will be voted in accordance with the Board's recommendations as follows:

FOR the proposal to issue shares of Leidos common stock to Lockheed Martin stockholders in the merger;

FOR all of the company's nominees to the Board;

FOR the approval, on a non-binding, advisory basis, of the compensation of our named executive officers;

FOR the approval, on a non-binding, advisory basis, of named executive officer Transaction-related compensation;

FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 30, 2016;

FOR the adjournment of the Leidos meeting, if necessary or appropriate, to solicit additional proxies. No other business is expected to come before the annual meeting; however, should any other matter properly come before the annual meeting, the proxy holders intend to vote such shares in accordance with their best judgment on such matter.

There are four different ways to vote your shares:

*By Internet:* Go to [www.proxyvote.com](http://www.proxyvote.com) or scan the QR code on your proxy and voting instruction card with a smart phone.

*By Telephone:* Call 1-800-690-6903.

*By Mail:* If you received your proxy materials in the mail, you may complete, sign and return the accompanying proxy and voting instruction card in the postage-paid envelope provided.

*In Person:* Attend the meeting at the company's office at 11951 Freedom Drive in Reston, Virginia, and vote in person if you are a stockholder of record or if you have obtained a valid proxy from the stockholder of record.

Submitting a proxy will not prevent you from attending the annual meeting and voting in person. Any proxy may be revoked at any time prior to exercise by delivering a written revocation or a new proxy bearing a later date to our mailing agent, Broadridge, as described below or by attending the annual meeting and voting in person. The mailing address of our mailing agent is Broadridge, 51 Mercedes Way, Edgewood, NY 11717. Attendance at the annual meeting will not, however, in and of itself, revoke a proxy

**If a Leidos stockholder is not going to attend the annual meeting, should that stockholder return its proxy and voting instruction card or otherwise vote its shares?**

Yes. Returning the proxy and voting instruction card or voting by calling the toll-free number shown on the proxy and voting instruction card or visiting the website shown on the proxy and voting instruction card before the required deadline ensures that the shares will be represented and voted at the annual meeting, even if a Leidos stockholder will be unable to or does not attend.

**What are the voting deadlines?**

For shares not held in the Leidos, Inc. Retirement Plan (the Leidos Retirement Plan ), the deadline for submitting a proxy using the Internet or the telephone is 11:59 p.m. Eastern time on \_\_\_\_\_, 2016. For shares held in the Leidos Retirement Plan, the deadline for submitting voting instructions using any of the allowed methods is 11:59 p.m. Eastern time on \_\_\_\_\_, 2016.

**Do I need an admission ticket to attend the annual meeting?**

Yes. If you attend the meeting, you will be asked to present an admission ticket or proof of ownership and valid photo identification. Your admission ticket is:

Attached to your proxy and voting instruction card if you received your proxy materials in the mail;

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Can be printed from the online voting site; or

A letter or a recent account statement showing your ownership of our common stock as of the record date, if you hold shares through a bank or a broker.

### **What constitutes a quorum?**

The presence, either in person or by proxy, of the holders of a majority of the total voting power of the shares of common stock outstanding as of \_\_\_\_\_, 2016 is necessary to constitute a quorum and to conduct business at the annual meeting. Abstentions and broker non-votes will be counted as present for purposes of determining the presence of a quorum.

### **What is a broker non-vote ?**

A broker non-vote occurs when a broker, bank or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that matter and has not received voting instructions from the beneficial owner. In tabulating the voting results for a particular proposal, broker non-votes are not considered entitled to vote on that proposal. Broker non-votes will not have an effect on the outcome of any matter being voted on at the meeting, assuming a quorum is present.

Unless you provide voting instructions to any broker holding shares on your behalf, your broker may not use discretionary authority to vote your shares on any of the matters to be considered at the annual meeting other than the ratification of our independent registered public accounting firm. Please vote your proxy or provide voting instructions to your broker so your vote can be counted.

### **How many votes am I entitled to?**

Each holder of common stock will be entitled to one vote per share, in person or by proxy, for each share of stock held in such stockholder's name as of \_\_\_\_\_, 2016, on any matter submitted to a vote of stockholders at the annual meeting unless a stockholder elects to cumulate votes for the election of directors as described below.

### **Is cumulative voting permitted for the election of directors?**

In the election of directors, you may cumulate your vote. This means that you may allocate among the director nominees, as you see fit, the total number of votes equal to the director positions to be filled multiplied by the number of shares you hold. You may not cumulate your votes against a nominee and cumulative voting applies only to the election of directors.

If you are a stockholder of record and choose to cumulate your votes, you will need to notify our Corporate Secretary in writing prior to the Annual Meeting or, if you vote in person at the annual meeting, notify the chair of the meeting prior to the commencement of voting at the annual meeting. You may not submit your proxy or voting instructions over the Internet or by telephone if you wish to distribute your votes unevenly among two or more nominees. If you hold shares beneficially through a broker, trustee or other nominee and wish to cumulate votes, you should contact your broker, trustee or nominee.

### **How are the shares held by the Leidos Retirement Plan voted?**



Each participant in the Leidos Retirement Plan has the right to instruct Vanguard Fiduciary Trust Company, as trustee of the Leidos Retirement Plan (the Trustee ), on a confidential basis, how to vote his or her proportionate interests in all shares of common stock held in the Leidos Retirement Plan. The Trustee will vote all shares held in the Leidos Retirement Plan for which no voting instructions are received in the same proportion as the shares for which voting instructions have been received.

The Trustee's duties with respect to voting the common stock in the Leidos Retirement Plan are governed by the fiduciary provisions of the Employee Retirement Income Security Act of 1974, as amended ( ERISA ). The fiduciary provisions of ERISA may require, in certain limited circumstances that the Trustee override the votes of participants with respect to the common stock held by the Trustee and to determine, in the Trustee's best judgment, how to vote the shares.

**How are the shares held by the Stock Plans voted?**

Under the terms of our Stock Compensation Plan, Management Stock Compensation Plan and Key Executive Stock Deferral Plan, Vanguard Fiduciary Trust Company, as trustee of these stock plans, has the power to vote the shares of common stock held in these stock plans. Vanguard will vote all such shares in the same proportion that our other stockholders collectively vote their shares of common stock. If you are a participant in these stock plans, you do not have the right to instruct Vanguard on how to vote your proportionate interests in the shares of common stock held in these stock plans.

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### **If a Leidos stockholder's shares are held in street name through its bank, broker or other nominee, will that bank, broker or other nominee vote those shares?**

If your shares are held by a bank, broker or other nominee on your behalf in street name, your bank, broker or other nominee will send you instructions as to how to provide voting instructions for your shares by proxy. Many banks and brokerage firms have a process for their customers to provide voting instructions by telephone or via the Internet, in addition to providing voting instructions by proxy and voting instruction card.

In accordance with the applicable rules, banks, brokers and other nominees who hold shares of common stock in street name for their customers do not have discretionary authority to vote the shares with respect to any of the matters to be considered at the annual meeting other than the ratification of our independent registered public accounting firm. Accordingly, there will be no broker non-votes and shares held in street name will not be voted on any of the proposals other than the proposal to ratify our independent registered public accounting firm unless the bank, broker or other nominee has received voting instructions from its customer.

### **Can I change my vote after mailing my proxy and voting instruction card or submitting voting instructions by Internet or telephone?**

Yes. If a holder of record of Leidos common stock has properly completed and submitted its proxy and voting instruction card or submitted voting instructions by Internet or telephone, the Leidos stockholder can change its vote in any of the following ways:

by sending a signed notice of revocation to the Corporate Secretary of Leidos that is received prior to the annual meeting stating that the Leidos stockholder revokes its proxy;

by properly completing a new proxy and voting instruction card bearing a later date and properly submitting it so that it is received prior to the annual meeting;

by logging onto the Internet website specified on the proxy and voting instruction card in the same manner a stockholder would to submit its proxy electronically or by calling the toll-free number specified on the proxy and voting instruction card prior to the annual meeting, in each case if the Leidos stockholder is eligible to do so and following the instructions on the proxy and voting instruction card; or

by attending the meeting and voting in person.

Simply attending the annual meeting will not revoke a proxy. In the event of multiple online or telephone votes by a stockholder, each vote will supersede the previous vote and the last vote cast will be deemed to be the final vote of the stockholder unless such vote is revoked in person at the annual meeting.

If a Leidos stockholder holds shares in street name through its bank, broker or other nominee, and has directed such person to vote its shares, it should instruct such person to change its vote, or if in the alternative a Leidos stockholder wishes to vote in person at the annual meeting, it must bring to the annual meeting a letter from the bank, broker or other nominee confirming its beneficial ownership of the shares and that the bank, broker or other nominee is not voting the shares at the annual meeting.

**What should Leidos stockholders do now?**

After carefully reading and considering the information contained in this document, Leidos stockholders should vote their shares as soon as possible so that their shares will be represented and voted at the annual meeting. Leidos stockholders should follow the voting instructions set forth on the enclosed proxy and voting instruction card.

**Who is soliciting these proxies?**

We are soliciting these proxies and the cost of the solicitation will be borne by us, including the charges and expenses of persons holding shares in their name as nominee incurred in connection with forwarding proxy materials to the beneficial owners of such shares. In addition to the use of the mail, proxies may be solicited by our officers, directors and employees in person, by telephone or by email.

Such individuals will not be additionally compensated for such solicitation but may be reimbursed for reasonable out-of-pocket expenses incurred in connection with such solicitation. We have also retained Morrow & Co., LLC, 470 West Avenue, Stamford, Connecticut 06902, to assist in soliciting proxies for a fee of \$10,000, plus expenses.

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### **What is householding and how does it affect me?**

We have adopted a procedure approved by the SEC, called householding. Under this procedure, we send only one proxy statement and one annual report to eligible stockholders who share a single address, unless we have received instructions to the contrary from any stockholder at that address. This practice is designed to reduce our printing and postage costs. Stockholders who do not participate in householding will continue to receive separate proxy and voting instruction cards. We do not use householding for any other stockholder mailings.

If you are a registered stockholder residing at an address with other registered stockholders and wish to receive a separate copy of the proxy statement or annual report, or if you do not wish to participate in householding and prefer to receive separate copies of these documents in the future, please contact our mailing agent, Broadridge, either by calling toll-free at 1-800-542-1061, or by writing to Broadridge, Household Department, 51 Mercedes Way, Edgewood, NY 11717. If you own shares through a bank, broker, or other nominee, you should contact the nominee concerning householding procedures. We will promptly deliver a separate copy of the proxy statement or annual report to you upon request.

If you are eligible for householding, but you and other stockholders of record with whom you share an address currently receive multiple copies of the proxy statement or annual report and you wish to receive a single copy of each of these documents for your household, please contact our mailing agent, Broadridge, at the telephone number or address indicated above.

### **Where can I find the voting results of the annual meeting?**

We intend to announce preliminary voting results at the annual meeting and publish final results in a Current Report on Form 8-K to be filed with the SEC within four business days of the annual meeting

## **Questions and Answers About the Transactions**

### **What is Leidos proposing?**

Leidos is proposing to combine the Splitco Business with Leidos business. The Merger will be effected through a series of transactions that are described in more detail below and elsewhere in this document.

### **What are the key steps of the Transactions?**

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.

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 discount 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 Lockheed Martin 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.

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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.

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

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 the Lockheed Martin exchange offer) or the Merger.

### **Why is the transaction structured as a Reverse Morris Trust transaction?**

The transaction structure was negotiated by the parties. Lockheed Martin believes the tax-efficient Reverse Morris Trust structure optimizes the value of the transaction to Lockheed Martin and its stockholders because 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 and 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). A Reverse Morris Trust transaction structure requires, among other things, that former Lockheed Martin stockholders own more than 50% of the Leidos common stock following consummation of the Transactions.

### **What will Leidos stockholders receive in connection with the Merger?**

Prior to the Merger, Leidos will declare the Leidos Special Dividend, the payment of which will be 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 consummation of the Merger, 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.

Leidos stockholders will not receive separate merger consideration as part of the Merger and no additional shares of Leidos common stock will be issued to Leidos stockholders pursuant to the Merger. Leidos stockholders will receive the commercial benefit of owning an equity interest in Splitco, which will include the Splitco Business as it exists following consummation of the Separation Agreement with Lockheed Martin and payment of the Splitco Special Cash Payment to Lockheed Martin. Leidos stockholders will thus hold an interest in a company with expanded opportunities in the government services industry, additional expertise in information technology operations, financial and HR enterprise resource planning (ERP) outsourcing, data center consolidation and facilities management, and enhanced EBITDA margins and revenue growth opportunities. See [Leidos Reasons for the Transactions](#).

As a result of the Merger, Leidos stockholders' ownership of Leidos common stock will also mean that they own an interest in a company with increased levels of indebtedness. In connection with the Merger, Leidos will incur new indebtedness of \$690,000,000 in the form of a term loan facility and a new revolving credit facility, which is expected to have \$750,000,000 of unused availability immediately following consummation of the transactions. In addition, Leidos will guarantee the indebtedness that Splitco will incur in connection with the Transactions, consisting of up to \$1,841,450,000 in the form of 3-year Term Loan A Facility in an aggregate principal amount of up to \$400,000,000, a 5-year Term Loan A Facility in an aggregate principal amount of up to \$310,000,000 and a 7-year Term Loan B Facility in an aggregate principal amount of up to approximately \$1,131,450,000. See [Debt Financing](#).

### **What are the principal adverse effects of the Transactions to Leidos stockholders?**

Following the consummation of the Transactions, Leidos stockholders will participate in a company that holds the Splitco Business, but their percentage interest in this company will be diluted. Immediately after consummation of the Merger, pre-Merger Leidos stockholders are expected to own no more than 49.5 percent of Leidos common stock on a fully diluted basis. Therefore, the voting power represented by the shares held by pre-Merger Leidos stockholders will be lower immediately following the Merger than immediately prior to the Merger. In addition, Lockheed Martin stockholders that participate in the exchange offer will be exchanging their shares of Lockheed Martin common stock for shares of Splitco common stock at a discount to the per-share value of Leidos common stock. The existence of a discount, along with the issuance of shares of Leidos common stock pursuant to the Merger, may negatively affect the market price of Leidos common stock. Further, Splitco will be (x) the primary obligor under the Splitco Credit Facility (as described in more detail in [Debt Financing](#)) upon the closing thereof immediately prior to the making of the Splitco Special Cash Payment, which Splitco Credit Facility is expected to be guaranteed by Leidos after the consummation of the Merger and (y) a guarantor of the indebtedness of the Leidos Borrower under the credit facilities to be provided pursuant to the Leidos Commitment Letter. This additional indebtedness 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.

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

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.





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### **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?**

The Lockheed Martin 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 at a discount 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.

### **How will the Transactions impact the future liquidity and capital resources of Leidos?**

Leidos will incur indebtedness of \$690,000,000 in connection with the Transactions in the form of a term loan facility and will also enter into a new revolving credit facility which is expected to have \$750,000,000 of unused availability immediately after consummation of the Transactions (the Leidos Debt Financing ).

Splitco will incur new indebtedness of up to \$1,841,450,000 in connection with the Transactions in the form of 3-year Term Loan A Facility in an aggregate principal amount of up to \$400,000,000, a 5-year Term Loan A Facility in an aggregate principal amount of up to \$310,000,000 and a 7-year Term Loan B Facility in an aggregate principal amount of up to approximately \$1,131,450,000 (the Splitco Debt Financing ; and together with the Leidos Debt Financing, the Debt Financings ).

The Debt Financings 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.

Upon the consummation of the Transactions, the Leidos Debt Financing is expected to be guaranteed by Splitco and the Splitco Debt Financing is expected to be guaranteed by Leidos and its subsidiaries.

### **How do the Transactions impact Leidos dividend policy?**

In connection with the Transactions, prior to the consummation of the Merger and subject to applicable law, Leidos will declare the Leidos Special Dividend, the payment of which will be conditioned on completion of the Transactions. The Leidos Special Dividend will be funded by a combination of new borrowings 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 Summary Historical and Pro Forma Financial Data Leidos Dividend Policy for a further discussion of Leidos current dividend policy.

### **What will Lockheed Martin receive in the Transactions?**

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.

### **What will Lockheed Martin stockholders receive in the Transactions?**

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 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. Lockheed Martin stockholders 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 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.

### **Are there any conditions to the consummation of the Transactions?**

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. 333-210797) and Leidos' registration statement on Form S-4 (Reg. No. 333-210796), 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;

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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](#).

**When will the Transactions be completed?**

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.

**Are there risks associated with the Transactions?**

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.

**What stockholder approvals are needed in connection with the Transactions?**

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 annual meeting.

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

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.

**Will there be any change to the Leidos Board or executive officers of Leidos after the consummation of the Transactions?**

Yes. In connection with the Transactions, the size of the Leidos Board will be increased to include three additional directors to be designated by Lockheed Martin, effective at the time of closing of the Merger. The Merger Agreement provides that at the next 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. The executive officers of Leidos immediately prior to consummation of the Merger are expected to be the executive officers of Leidos immediately following consummation of the Merger.

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### **What vote is required to approve the Share Issuance?**

Pursuant to the NYSE rules, the proposal to approve the Share Issuance must be approved by the affirmative vote of a majority of votes cast by Leidos stockholders on the proposal at the annual meeting. An abstention from voting will be treated as a vote cast under NYSE rules with regard to the proposal to approve the Share Issuance and will have the same effect as a vote AGAINST the proposal to approve the Share Issuance. In accordance with applicable rules, banks, brokers and other nominees who hold shares of common stock in street name for their customers do not have discretionary authority to vote the shares with respect to the proposal to approve the Share Issuance. Accordingly, there will be no broker non-votes and shares held in street name (that is, shares held through a bank, broker or other nominee) will not be voted on the proposal to approve the Share Issuance unless the bank, broker or nominee has received voting instructions from its customer. If this proposal is not approved, the Merger cannot be completed.

### **Do Lockheed Martin stockholders have to vote to approve the Transactions?**

No.

### **What if an Leidos stockholder does not vote on the Share Issuance proposal?**

The outcome depends on how the Leidos common stock is held and whether any vote is cast or not.

If a Leidos stockholder submits a proxy to Leidos but the proxy does not indicate how it should be voted on the proposal, the proxy will be counted as a vote FOR the proposal.

If a Leidos stockholder submits a proxy to Leidos and the proxy indicates that the stockholder abstains from voting as to a proposal, it will have the same effect as a vote AGAINST the proposal.

If a Leidos stockholder fails to submit a proxy to Leidos, that stockholder's shares will not count towards the required quorum of a majority of the votes entitled to be cast on the proposal.

If a Leidos stockholder holds shares in street name through a bank, broker or other nominee, those shares will not be counted for purposes of determining the presence of a quorum unless the bank, broker or other nominee has been instructed to vote on at least one of the proposals presented in this proxy statement. In accordance with applicable rules, banks, brokers and other nominees who hold shares of common stock in street name for their customers do not have discretionary authority to vote the shares with respect to the proposals to approve the Share Issuance. Accordingly, there will be no broker non-votes and shares held in street name will not be voted on the proposal to approve the Share Issuance unless the bank, broker or other nominee has received voting instructions from its customer with respect to such proposal. As a result, if a Leidos stockholder holds shares in street name and fails to instruct its bank, broker or other nominee how to vote that stockholder's shares, such failure will not affect the vote on the Share Issuance unless the bank, broker or other nominee has been instructed to vote on at least one of the proposals presented in this proxy statement.

### **Have any Leidos stockholders already agreed to vote for the issuance of Leidos common stock in the Merger?**

No.

**Can Leidos stockholders dissent and require appraisal of their shares?**

No.

**Will the instruments that govern the rights of Leidos stockholders with respect to their shares of Leidos common stock after the consummation of the Transactions be different from those that govern the rights of current Leidos stockholders?**

The rights of Leidos stockholders with respect to their shares of Leidos common stock after the consummation of the Transactions will continue to be governed by federal and state laws and Leidos governing documents, including:

the corporate law of the State of Delaware;

the Amended and Restated Certificate of Incorporation of Leidos; and

the Amended and Restated Bylaws of Leidos.

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**Who can answer my questions?**

If you have any questions about the Transactions or the annual meeting, need assistance in voting your shares or need additional copies of this document or the enclosed proxy and voting instruction card, you should contact:

Morrow & Co., LLC

470 West Avenue

Stamford, Connecticut 06902

Stockholders, please call Toll Free (800) 278-2141

Banks and Brokerage Firms, please call (203) 658-9400

or

Leidos Holdings, Inc.

11951 Freedom Drive

Reston, Virginia 20190

Attention: Investor Relations

Telephone: (571) 526-6000

**Where can I find more information about Leidos and the Splitco Business?**

Leidos stockholders can find more information about Leidos and the IS&GS business in [Information on Leidos](#) and [Information on the IS&GS Business](#) and from the various sources described in [Where You Can Find More Information](#); Incorporation by Reference.

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**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 the Lockheed Martin exchange offer, Splitco will own, directly and through the Splitco Subsidiaries, the Splitco Business and will incur indebtedness in the Splitco Debt Financing. 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.

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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.

### *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 discount 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.

### *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.

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*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.

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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.

### **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, a copy of which is attached as Annex C-1 to this document. **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 provided for pursuant to the Merger Agreement 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, including, without limitation, the Distribution relating to the Splitco Business contemplated to be effected prior to consummation of the Merger or any conversion or exchange ratio determined in connection with such Distribution. 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.**

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### **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. 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 by Leidos stockholders on the proposal at the annual meeting.

### **Leidos Stockholders Meeting**

Under the terms of the Merger Agreement, Leidos has agreed to call, give notice of, convene and hold a 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 \_\_\_\_\_ 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.



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### **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.

**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 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 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 March 27, 2016, and for the three months ended March 27, 2016 and March 29, 2015, have been derived from the unaudited combined interim financial statements of the Splitco Business included elsewhere in this document. The following data of the Splitco Business 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 of the Splitco Business included elsewhere in this document. 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 combined 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.

The Splitco Business closes its books and records on the last Sunday of the calendar quarter, which was on March 27 for the first quarter of 2016 and March 29 for the first quarter of 2015, to align its financial closing with its business processes. The consolidated financial statements and tables of financial information included herein are labeled based on that convention. This practice only affects interim periods as the Splitco Business fiscal year ends on December 31.

<i>(in millions)</i>	<b>As of and for the Three Months Ended</b>		<b>As of and for the Years Ended December 31,</b>		
	<b>March 27, 2016</b>	<b>March 29, 2015</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Combined Statement of Earnings Data:</b>					
Revenues	\$ 1,341	\$ 1,393	\$ 5,626	\$ 5,702	\$ 6,158
Earnings before income taxes (a)	83	128	471	438	365
Net earnings (a)	53	84	309	292	246
Less: Net earnings attributable to non-controlling interest	2	1	5	5	6
Net earnings attributable to parent (a)	51	83	304	287	240
<b>Combined Balance Sheet Data:</b>					
Total assets (b)	\$ 4,111	*	\$ 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 \$19 million (\$12 million after tax) in the three months ended March 27, 2016; \$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.

(\* ) Balance sheet data as of March 29, 2015 is not included or incorporated by reference in this document.

**Summary Historical Consolidated Financial Data of Leidos**

The following summary historical consolidated financial data of Leidos as of April 1, 2016, and for the three-month periods ended April 1, 2016 and April 3, 2015, have been derived from Leidos' unaudited condensed consolidated financial statements, which are incorporated by reference herein from the Quarterly Report on Form 10-Q for the three-month period ended April 1, 2016. The 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' Quarterly Report on Form 10-Q for the three-month period ended April 1, 2016 and Leidos' Transition Report on Form 10-K for the 11-month period ended January 1, 2016, each of which is incorporated by reference in this document. See Where You Can Find More Information; Incorporation By Reference.

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As indicated in Leidos' Transition Report on Form 10-K for the 11-month period 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 nearest the end of January. For example, fiscal 2015 began on February 1, 2014 and ended on January 30, 2015.

(in millions, except per share data)	Three Months Ended		12 Months Ended		
	April 1, 2016	April 3, 2015 (a)	January 1, 2016 (b)*	January 30, 2015 (c)*	January 31, 2014 (d)*
<b>Consolidated Statement of Income Data:</b>					
Revenues	\$ 1,312	\$ 1,246	\$ 4,712	\$ 5,063	\$ 5,755
Operating income (loss)	89	38	320	(214)	163
Income (loss) from continuing operations	49	23	243	(330)	84
Income (loss) from discontinued operations, net of tax		18	(1)	7	80
Net income (loss)	\$ 49	\$ 41	\$ 242	\$ (323)	\$ 164
<b>Earnings (loss) per share:</b>					
<b>Basic:</b>					
Income (loss) from continuing operations	\$ 0.68	\$ 0.32	\$ 3.33	\$ (4.46)	\$ 0.98
Income (loss) from discontinued operations		0.24	(0.01)	0.10	0.96
	\$ 0.68	\$ 0.56	\$ 3.32	\$ (4.36)	\$ 1.94
<b>Diluted:</b>					
Income (loss) from continuing operations	0.66	0.31	3.28	(4.46)	0.98
Income (loss) from discontinued operations		0.24	(0.01)	0.10	0.96
	\$ 0.66	\$ 0.55	\$ 3.27	\$ (4.36)	\$ 1.94
Cash dividend per common share	\$ 0.32	\$ 0.32	\$ 1.28	\$ 1.28	\$ 5.60

(in millions)	April 1, 2016	January 1, 2016 (e)	January 30, 2015 (e)	January 31, 2014 (e)
<b>Consolidated Balance Sheet Data:</b>				
Total assets	\$ 3,391	\$ 3,370	\$ 3,273	\$ 4,152
Notes payable and long-term debt, including current portion	\$ 1,091	\$ 1,081	\$ 1,158	\$ 1,323

Other long-term liabilities and deferred income taxes	\$	195	\$	183	\$	168	\$	227
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- \* 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) During the three months ended April 1, 2016, Leidos adopted ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. As a result, consolidated balance sheet data reflects the reclassification of deferred financing costs related to Leidos' notes from *Other Assets* to *Notes Payable and Long-Term Debt, Net of Current Portion*, which totaled \$7 million, \$8 million, and \$10 million at January 1, 2016, January 30, 2015, and January 31, 2014, respectively.

**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 31, 2015 for purposes of the unaudited combined consolidated pro forma statement of income data and April 1, 2016 for purposes of the unaudited combined consolidated pro forma balance sheet data. The unaudited pro forma combined consolidated financial statements have been prepared using, and should be read in conjunction with (i) the unaudited condensed consolidated financial statements of Leidos as of and for the three-month period ended April 1, 2016, and 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 (ii) the unaudited combined financial statements of the Splitco Business as of and for the three months ended March 27, 2016, 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 and unaudited (as the case may be) combined financial statements of the Splitco Business and notes thereto included elsewhere in this document.

*Unaudited Pro Forma Combined Consolidated Statement of Income Data*

The following table presents the unaudited pro forma combined consolidated statement of income data for the three months ended April 1, 2016.

(in millions)	Historical Splitco Business for the Three Months Ended		Pro Forma Adjustments	Pro Forma Combined
	Leidos for the Three Months Ended April 1, 2016	March 27, 2016		
Revenues	\$ 1,312	\$ 1,341	\$ (16)	\$ 2,637
Income from continuing operations before income taxes	78	83	(52)	109
Income tax expense	(29)	(30)	16	(43)
Income from continuing operations	49	53	(36)	66
Less: Net income attributable to noncontrolling interest		2		2

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Income from continuing operations attributable to the company	\$	49	\$	51	\$	(36)	\$	64
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The following table presents the unaudited pro forma combined consolidated statement of income data for the 11 months ended January 1, 2016.

(in millions)	Historical		Less: Splitco Business		Pro Forma Adjustments	Pro Forma Combined
	Leidos for the 11 Months Ended January 1, 2016	Splitco Business for the Year Ended December 31, 2015	for the One Month Ended January 31, 2015			
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

*Unaudited Pro Forma Combined Consolidated Balance Sheet Data*

(in millions)	Historical		Pro Forma Adjustments	Pro Forma Combined
	Leidos as of April 1, 2016	Splitco Business as of March 27, 2016		
Total assets	\$ 3,391	\$ 4,111	\$ 1,674	\$ 9,176
Notes payable and long-term debt, including current portion	\$ 1,091	\$	\$ 2,474	\$ 3,565

**Table of Contents****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-month period 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.

## Unaudited Supplemental Combined Consolidated Statement of Income Data

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

**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 unaudited condensed consolidated financial statements and related notes thereto contained in Leidos Quarterly Report on Form 10-Q for the three-month period ended April 1, 2016 and 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, each of 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 three months ended April 1, 2016 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 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.

(shares in millions)	As of and for the Three Months Ended April 1, 2016		As of and for the 11 Months Ended January 1, 2016		For the 12 Months Ended January 1, 2016
	Leidos Historical	Pro Forma Combined	Leidos Historical	Pro Forma Combined	Supplemental Combined
<b>Earnings per share:</b>					
Income from continuing operations Basic	\$ 0.68	\$ 0.43	\$ 3.33	\$ 2.72	\$ 2.80
Income from continuing operations Diluted	\$ 0.66	\$ 0.42	\$ 3.28	\$ 2.70	\$ 2.78
Weighted average common shares outstanding - Basic	72	149	73	150	150
Weighted average common shares outstanding - Diluted	74	151	74	151	151
Book value per share of common stock	\$ 15.31	\$ 18.26	\$ 14.83	\$ NA <sup>(i)</sup>	NA <sup>(i)</sup>
Dividends declared per share of common stock	\$ 0.32	\$ 0.32	\$ 1.28	\$ 1.28	\$ 1.28

(i) NA = Not applicable, as no pro forma or supplemental balance sheet data as of January 1, 2016 is presented.

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**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 \$ \_\_\_\_\_.

**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 will declare the Leidos Special Dividend, the payment of which will be conditioned on completion of the Transactions. The Leidos Special Dividend will be funded by a combination of new borrowing and cash on hand.

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**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.

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 discount 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.

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*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.

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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.

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### ***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. 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. The result of the strategic review was that certain government work that was closely associated with other programs being performed by Lockheed Martin's Missiles and Fire Control, Mission Systems and Training and Space Systems business areas was retained by Lockheed Martin and transferred to those business areas. The determination of whether to divest or retain the businesses under strategic review was based on an assessment of the nature of the work performed and customers served by each operation, competitive pressures and other factors.

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. J.P. Morgan and Goldman Sachs discussed with Lockheed Martin several possible structures involving the Splitco Business, including a tax-free spin-off of the business, a sale for cash, a joint venture structure in which Lockheed Martin would retain an equity interest in the combined company and the possibility of effecting a transaction using a Reverse Morris Trust structure. In a Reverse Morris Trust transaction, Lockheed Martin would transfer the relevant businesses to a new subsidiary and then distribute the stock of the subsidiary to Lockheed Martin's stockholders, and immediately thereafter the subsidiary would merge with a subsidiary of the counterparty. In the merger, former Lockheed Martin shareholders would receive more than 50 percent of the shares of the combined entity. A Reverse Morris Trust transaction structure allows Lockheed Martin to divest assets in a tax-efficient manner since neither Lockheed Martin nor its stockholders generally will recognize gain or loss in connection with the transaction.

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. Mr. Krone and Mr. Tanner discussed possible transaction structures, including the possibility of a Reverse Morris Trust structure.

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.

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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. Leidos determined that a Reverse Morris Trust structure transaction would facilitate the acquisition of the Splitco Business by Leidos because a taxable disposition of the Splitco Business would have made the transaction less financially attractive to Lockheed Martin or would have required Leidos to pay additional consideration. In addition, given that the Splitco Business and Leidos businesses are of comparable sizes, Leidos quickly determined that the payment of all cash consideration was not feasible because of the amount of additional leverage that it would have been required to incur. Leidos determined that, as a practical matter, a Reverse Morris Trust transaction was the only transaction structure that permitted Leidos to issue Leidos common stock to Lockheed Martin stockholders without adverse tax consequences to Lockheed Martin and its stockholders. 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 Reverse Morris Trust transaction with Lockheed Martin.

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 as representatives of Citi, Leidos' financial advisor. 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.

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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.

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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.

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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.

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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;

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 (which includes adding capabilities, expanding access and increasing scale) and the results of Leidos due diligence review of the Splitco Business;

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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;

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the indemnities being provided by Splitco under the Separation Agreement, and by Splitco or Leidos under the Employee Matters Agreement, the Tax Matters Agreement and other ancillary agreements for breaches of representations, warranties and obligations;

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 92.

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.

### **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, a copy of which is attached as Annex C-1 to this document. **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 provided for pursuant to the Merger Agreement 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,**

**including, without limitation, the Distribution relating to the Splitco Business contemplated to be effected prior to consummation of the Merger or any conversion or exchange ratio determined in connection with such Distribution. 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 Leidos management 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 Leidos management 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 Leidos management to result from the Merger and the related transactions, Citi was advised by Leidos management, 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 Leidos management to result from, and other potential pro forma financial effects of, the Merger and related transactions and the other matters covered thereby.

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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.

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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 business, financial and operating characteristics and other factors that could affect the public trading or other values of the companies or business segments reviewed or views regarding the comparability of such companies or business segments. Accordingly, such analyses may not necessarily include all companies or business segments that could be deemed relevant.

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 Leidos management 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 Leidos management 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 Leidos management, 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, including other Reverse Morris Trust transactions, given, in Citi's view, the lack of sufficient comparability of other transactions with the Merger since the implied transaction multiples derived from such other transactions generally are less reflective of the relative values of the companies or businesses involved in such transactions, which was the focus of Citi's analyses in connection with the Merger.

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***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 federal information technology services industry that have a business and customer mix and revenue growth profile similar to those of the Splitco Business and Leidos, 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		CY 2017E		
<u>EBITDA</u>		<u>EBITDA</u>		
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% which were derived based on Citi's professional judgment and taking into account, among other factors, long-term growth expectations of Leidos management for the federal information technology services industry sector and trends in the overall economy generally. 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.

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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.

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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.

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**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. Leidos believes that no material change in its operations or performance, or the projections or assumptions provided to the Leidos Board and Citi in connection with the Merger, has occurred since the Leidos Board meeting held to approve the Merger, and Leidos does not anticipate any material changes in such operations, performance, projections or assumptions before the Leidos stockholder meeting.

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.

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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
	<i>(in millions)</i>				
<b>Leidos Adjusted Case</b>					
Revenue	\$ 4,715	\$ 4,760	\$ 4,801	\$ 4,898	\$ 4,995
Base EBITDA <sup>(1)</sup>	\$ 392	\$ 377	\$ 373	\$ 384	\$ 394
Adjusted EBITDA <sup>(2)</sup>	\$ 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.

**Table of Contents*****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
	<i>(in millions)</i>				
Revenue	\$ 5,054	\$ 5,151	\$ 5,340	\$ 5,686	\$ 5,913
EBITDA <sup>(1)</sup>	\$ 423	\$ 433	\$ 454	\$ 497	\$ 523

(1) 2016E includes a \$14 million adjustment for anticipated nonrecurring facility consolidation expenses.

**Leidos Stockholders Meeting**

Under the terms of the Merger Agreement, Leidos has agreed to call, give notice of, convene and hold a 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. Leidos has agreed to solicit proxies from its stockholders in favor of the approval of the Share Issuance and to take all other necessary actions to secure such approval. Leidos is required to call such a stockholders meeting for the purpose of voting upon the matters described above, regardless of whether any transaction involving Leidos that would impede or interfere with the Merger is commenced, announced or submitted to Leidos or Leidos stockholders or the Leidos Board has made a Change in Recommendation (as defined below under Board Recommendation ).

**Interests of Lockheed Martin s and Splitco s Directors and Executive Officers in the Transactions**

As of \_\_\_\_\_, 2016, Lockheed Martin s and Splitco s directors and executive officers owned less than \_\_\_\_\_ percent of the outstanding shares of Lockheed Martin s common stock and less than \_\_\_\_\_ percent of the outstanding shares of Leidos common stock. All of Splitco s outstanding common stock is owned directly by Lockheed Martin. None of Lockheed Martin s or Splitco s executive officers, other than Sondra L. Barbour (Executive Vice President, Information Systems & Global Solutions of Lockheed Martin and President and Chief Executive officer of Splitco), Martin T. Stanislav (Vice President and Chief Financial Officer of Splitco), Timothy J. Reardon (Vice President and Chief Operating Officer of Splitco) and Michael A. Mitrione (Vice President and Chief Accounting Officer of Splitco), will receive any severance or other compensation as a result of the Transactions. The directors and officers of Lockheed Martin and Splitco, other than Ms. Barbour and Messrs. Stanislav, Reardon and Mitrione, will receive no extra or special benefit that is not shared on a *pro rata* basis by all other Lockheed Martin stockholders in connection with the Transactions.

Ms. Barbour and Messrs. Stanislav, Reardon and Mitrione hold restricted stock units awarded before and after January 1, 2016, and performance share units and long-term incentive performance awards awarded prior to January 1, 2016. Ms. Barbour and Messrs. Stanislav, Reardon and Mitrione and other officers of Splitco will receive severance payments from Leidos that are consistent with the benefits payable under the Lockheed Martin Corporation Executive Severance Plan if the officer is terminated by Leidos without cause or if the officer terminates for good reason within

one year following the closing of the Transactions.



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Cause for this purpose means either a conviction for an act of fraud, embezzlement, theft or other act constituting a felony (other than traffic-related offenses or as a result of vicarious liability) or willful misconduct that is materially injurious to Leidos' financial position, operating results or reputation; provided, however that no act or failure to act shall be considered willful unless done, or omitted to be done, by the officer (i) in bad faith; (ii) for the purpose of receiving an actual improper personal benefit in the form of money, property or services; or (iii) in circumstances where the officer had reasonable cause to believe that the act, omission, or failure to act was unlawful. Good reason for this purpose means, without the officer's express written consent, the occurrence of any one or more of the following after a change in control: (i) a material and substantial reduction in the nature or status of the officer's authority or responsibilities; (ii) a material reduction in the annualized rate of the officer's base salary; (iii) a material reduction in the aggregate value of the officer's level of participation in any short or long term incentive cash compensation plan, employee benefit or retirement plan or compensation practices, arrangements, or policies; (iv) a material reduction in the officer's aggregate level of participation in equity-based incentive compensation plans; or (v) the officer's principal place of employment is relocated to a location that is greater than 50 miles from his or her principal place of employment on the date the change in control is consummated.

Lockheed Martin has entered into retention agreements with Mr. Stanislav, Mr. Reardon and Mr. Mitrione and certain additional Splitco Business Employees (the Transaction Retention Agreements) as an inducement to these Splitco Business Employees to continue to work for Lockheed Martin through the closing date of the Merger. Each Splitco Business Employee who has a Transaction Retention Agreement will be entitled to receive a retention payment (\$515,900 for Mr. Stanislav, \$448,300 for Mr. Reardon, and \$136,000 for Mr. Mitrione) within 90 days following the closing date of the Merger if the Splitco Business Employee is employed by Splitco or a Splitco Subsidiary immediately after the Merger, signs a release of claims and Lockheed Martin's Senior Vice President of Human Resources determines that the Splitco Business Employee has satisfied certain additional criteria required by the Transaction Retention Agreement.

As with all Lockheed Martin stockholders, if a director or officer of Lockheed Martin or Splitco owns shares of Lockheed Martin common stock, directly or indirectly, such person may participate in the exchange offer on the same terms as other Lockheed Martin stockholders.

**Interests of Leidos' Directors and Executive Officers in the Transactions**

In considering the recommendations of the Leidos Board that Leidos stockholders vote to approve the Share Issuance, it should be noted that certain Leidos executive officers, including Leidos' chief executive officer, chief financial officer and three other most highly compensated executive officers (collectively, the named executive officers), have financial interests in the Transactions that may be different from, or in addition to, the interests of Leidos stockholders generally, as more fully described below. 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.

***Executive Employment Agreement with Roger Krone***

Mr. Krone, Leidos' Chairman and Chief Executive Officer, is party to an executive employment agreement, which provides for the payment of severance in the event he is involuntarily terminated without cause or resigns for good reason. These benefits are increased if the termination occurs within 24 months following a change in control. The Transactions will constitute a change in control for purposes of Mr. Krone's agreement. Therefore, in the event of Mr. Krone's qualifying termination within the 24-months following the consummation of the Transactions (or in certain circumstances prior to the Transactions), he will be entitled to receive all accrued salary and a pro-rated bonus for the year of termination, plus the following amounts, subject to his execution of a release of claims and the expiration of

the revocation period: (a) a lump sum payment equal to two-and-one-half times Mr. Krone's then current annual base salary and bonus amount; (b) a lump sum payment in an amount equal to 30 times the monthly COBRA premiums for health, dental and vision coverage in effect for Mr. Krone and his dependents and the monthly company cost of providing life insurance and disability benefits to Mr. Krone; (c) up to 12 months of outplacement counseling; (d) full vesting of the unvested portion of the initial equity incentive award granted to Mr. Krone when he joined Leidos to the extent the award vests solely on the passage of time and an immediate payout and vesting at the target performance level for any unvested portion of such initial equity incentive award to the extent the award is based all or in part on the achievement of performance goals; and (e) forgiveness of any obligation to repay the sign-on bonus and sign-on equity grant he received upon commencement of his employment with Leidos. Mr. Krone is not entitled to receive a gross up payment to account for any excise tax that might be payable under the Code, and the amount of the payments may be reduced by Leidos to the extent necessary to avoid an excise tax.

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Under Mr. Krone’s executive employment agreement, “good reason” generally means (a) a material adverse change in Mr. Krone’s authority, duties or responsibilities (including reporting responsibilities), including the failure of Mr. Krone to continue to serve as Chief Executive Officer of a public company; (b) a material reduction in Mr. Krone’s base salary; (c) the imposition of a requirement that Mr. Krone be based (i) at any place outside a 50-mile radius from Mr. Krone’s principal place of employment immediately prior to the change in control or (ii) at any location other than Leidos’ corporate headquarters, except, in each case, for reasonably required business travel which is not materially greater in frequency or duration than prior to the change in control; or (d) any material breach by Leidos of any provision of his agreement, including the failure of Leidos to obtain an agreement from any successor to assume and agree to perform the agreement.

***Severance Protection Agreements***

Leidos has entered into severance protection agreements with each of its executive officers, including each of its named executive officers (other than Mr. Krone), which provide that if the executive officer is involuntarily terminated without cause or resigns for good reason within a 24-month period following a change in control, he or she will be entitled to receive similar benefits as described above with respect to Mr. Krone. Generally, he or she will be entitled to all accrued salary and a pro-rated bonus for the year of termination, plus a single lump sum payment equal to two-and-one-half times the executive officer’s then current salary and bonus amount. The executive officer will also receive such health and welfare benefits as are provided to other similarly situated executive officers who continue to be employed for the 30 months following termination and up to 12 months of outplacement counseling. In order to receive the lump sum payment and the 30 months of continued benefits, the executive officer is required to execute a written release of claims. The executive officer is not entitled to receive a “gross up” payment to account for any excise tax that might be payable under the Code, and the amount of the payments may be reduced by us to the extent necessary to avoid an excise tax.

The definition of “good reason” in the severance protection agreements is generally consistent with the definition of good reason contained in Mr. Krone’s employment agreement, but also includes any purported termination of the executive officer’s employment for cause by Leidos which does not comply with the terms of the agreement.

***No Change in Control under Equity Incentive Plans or Deferred Compensation Plans***

Under the terms of the Leidos Stock Plans and its deferred compensation plans, all unvested stock, options and deferred compensation awards held by all participants under those plans, including its named executive officers, are subject to accelerated vesting upon the occurrence of a change in control under certain circumstances. However, the Transactions will not constitute a change in control for purposes of these plans.

An estimate of amounts potentially payable to Leidos’ executive officers are set out in the following table, determined as if the consummation of the Merger occurred on April 15, 2016 and each of the listed executive officers incurred a qualifying termination on such date. The amounts indicated below are estimates of the amounts that would be payable to the executive officers and the estimates are based on multiple assumptions that may or may not actually occur, including assumptions described in this document. Some of the assumptions are based on information not currently available and, as a result, the actual amounts, if any, to be received by an executive officer may differ in material respects from the amounts set forth below.

Name of Executive Officer	Cash Severance Amount (\$)	Value of Continued Welfare Benefits (\$)	Value of Outplacement Counseling
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			(\$)
Roger A. Krone	6,123,973	111,421	15,000
James C. Reagan	2,830,031	92,993	15,000
Vincent A. Maffeo	2,692,186	140,084	15,000
Jonathan W. Scholl	2,456,053	103,259	15,000
Michael E. Leiter	2,483,322	88,028	15,000
Sarah K. Allen	1,648,178	58,291	15,000
S. Gulu Gambhir	1,736,034	87,821	15,000
Ranjit S. Chadha	1,012,219	67,246	15,000

In addition, Mr. Krone would be entitled to accelerated vesting of certain of his equity awards and the forgiveness of any obligation to repay his sign-on bonus and sign-on equity grant, which would have an estimated value of approximately \$2,580,798 for the equity acceleration (valued using a share price of \$45.58) and \$1,380,105 for the forgiveness of the repayment obligations (using the same share value for the sign-on equity grant).

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### **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. 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.

### **Regulatory Approvals**

Under HSR Act, and the rules promulgated under the HSR Act, the parties must file notification and report forms with the U.S. Federal Trade Commission and the Antitrust Division of the Department of Justice and observe specified waiting period requirements before consummating the Merger. Leidos and Lockheed Martin each filed the requisite notification and report forms with the Federal Trade Commission and the Antitrust Division on February 25, 2016, and the waiting period has expired.

**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.

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**THE MERGER AGREEMENT**

The following is a summary of the material provisions of the Merger Agreement. This summary is qualified in its entirety by the Merger Agreement, which is incorporated by reference in this document. Lockheed Martin stockholders and Leidos stockholders are urged to read the Merger Agreement in its entirety. This summary of the Merger Agreement has been included to provide Lockheed Martin stockholders and Leidos stockholders with information regarding its terms. The rights and obligations of the parties are governed by the express terms of the Merger Agreement and not by this summary or any other information included in this document. It is not intended to provide any other factual information about Leidos, Merger Sub, Lockheed Martin or Splitco. Information about Leidos, Merger Sub, Lockheed Martin and Splitco can be found elsewhere in this document and in the documents incorporated by reference into this document. See also *Where You Can Find More Information; Incorporation by Reference*.

**The Merger**

Under the Merger Agreement and in accordance with the DGCL, at the effective time of the Merger, Merger Sub will merge with and into Splitco. As a result of the Merger, the separate corporate existence of Merger Sub will cease and Splitco will continue as the surviving corporation and as a wholly-owned subsidiary of Leidos and will succeed to and assume all the rights, powers and privileges and be subject to all of the obligations of Merger Sub in accordance with the DGCL. The certificate of incorporation and bylaws of Splitco in effect immediately prior to the Merger will be the certificate of incorporation and bylaws of the surviving corporation following the consummation of the Merger.

Under the terms of the Merger Agreement, the officers of Splitco immediately before the Merger will be the initial officers of the surviving corporation after the Merger and the directors of Merger Sub immediately before the Merger will be the initial directors of the surviving corporation after the Merger, in each case until their respective successors are duly elected and qualified or until such director's or officer's earlier death, resignation or removal.

**Closing; Effective Time**

As promptly as practicable, but in no event later than the later of (1) the third business day after the satisfaction or waiver (where permissible under applicable law) of the conditions precedent to the Merger (other than those to be satisfied at closing), and (2) the earlier of the (A) date during a marketing period for the indebtedness to be incurred in connection with the Transactions specified by Leidos on no less than two business days' notice to Lockheed Martin and (B) the first business day following the final day of the Marketing Period (unless another date, time or place is agreed to in writing by Lockheed Martin and Leidos), Lockheed Martin and Leidos will cause to be filed a certificate of merger with the Secretary of State of the State of Delaware to effect the Merger. The Merger will become effective at the time of filing of the certificate of merger or at such later time as Lockheed Martin, Leidos, Splitco and Merger Sub may agree and provide in the certificate of merger. In addition, immediately prior to the Merger, Lockheed Martin must make the Distribution in accordance with the provisions of the Merger Agreement and Separation Agreement.

**Merger Consideration**

The Merger Agreement provides that, at the effective time of the Merger, each issued and outstanding share of Splitco common stock will be automatically converted, subject to adjustment, into the right to receive one fully paid and non-assessable share of Leidos common stock. Leidos expects to issue 76,958,918 shares of its common stock in the Merger. The calculation of the merger consideration as set forth in the Merger Agreement is expected to result in Splitco's stockholders immediately prior to the Merger collectively holding approximately 50.5 percent of the outstanding shares of Leidos common stock immediately following the Merger on a fully diluted basis.





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Pursuant to a true-up provision in the Merger Agreement, in the event that counsel to Lockheed Martin cannot deliver the Lockheed Martin Tax Opinions because, immediately after the Merger, the percentage of outstanding shares of Leidos common stock to be received by Splitco stockholders with respect to Splitco common stock that was not acquired directly or indirectly pursuant to a plan (or series of related transactions) which includes the Distribution (within the meaning of Section 355(e) of the Code) would be less than 50.1 percent of all the outstanding stock of Leidos (determined without regard to any adjustment pursuant to the true-up provision), then the aggregate number of shares of Leidos common stock into which the shares of Splitco common stock will be converted in the Merger will be increased (and the number of outstanding shares of Splitco common stock will be increased by a corresponding amount) such that the number of shares of Leidos common stock to be received by Splitco stockholders with respect to such Splitco common stock that was not acquired directly or indirectly pursuant to a plan (or series of related transactions) which includes the Distribution (within the meaning of Section 355(e) of the Code) will equal 50.1 percent of all the stock of Leidos. If any increase is required as a result of actions taken by Lockheed Martin or its affiliates pursuant to the plan (or series of related transactions) that includes the Distribution (within the meaning of Section 355(e) of the Code) or the failure of Lockheed Martin or its affiliates to take commercially reasonable action to prevent such an increase that otherwise would have been preventable, then the aggregate principal amount of the Splitco Special Cash Payment that Splitco distributes to Lockheed Martin pursuant to the Separation Agreement will be reduced as described in the Merger Agreement (it being understood that neither the decision to effect the Distribution by means of an exchange offer or one-step spin-off, nor a breach by Leidos of certain capitalization representations in the Tax Matters Agreement shall be deemed an action or failure to take action by Lockheed Martin or its affiliates for this purpose). As a result of the true-up provision in such circumstances, it is possible that Leidos could be required to issue more than 76,958,918 shares of its common stock in the Merger.

No fractional shares of Leidos common stock will be issued pursuant to the Merger. All fractional shares of Leidos common stock that a holder of shares of Splitco common stock would otherwise be entitled to receive as a result of the Merger will be aggregated by Leidos transfer agent, and Leidos transfer agent will cause the whole shares obtained by such aggregation to be sold in the open market or otherwise at then-prevailing market prices no later than five business days after the effective time of the Merger. Leidos transfer agent will pay the net proceeds of the sale, 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 holders of Splitco common stock that would otherwise be entitled to receive such fractional shares of Leidos common stock in the Merger.

The merger consideration and cash in lieu of fractional shares (if any) paid in connection with the Merger will be reduced by any applicable withholding taxes as described below under **Withholding Rights**.

**Leidos Special Dividend**

Prior to the Merger, Leidos, subject to applicable law, will declare the Leidos Special Dividend, which will be an amount equal to \$1,029,210,261 in the aggregate, as of a record date prior to the date of the closing of the Merger; provided that, in the event the Distribution is in the form of an exchange offer, (i) Leidos will advise Lockheed Martin at least seven days prior to the anticipated commencement of the exchange offer of the anticipated record date and ex-dividend date on the NYSE for the Leidos common stock in respect of the Leidos Special Dividend and (ii) the ex-dividend date in the regular way market on the NYSE for the Leidos common stock in respect of the Leidos Special Dividend shall not be during the averaging period used to determine the final exchange ratio in the exchange offer).

**Distribution of Per Share Merger Consideration**

Prior to the effective time of the Merger, Leidos will deposit in a reserve account with its transfer agent book-entry shares of Leidos common stock for the benefit of the Lockheed Martin stockholders who received shares of Splitco common stock in the Distribution and for distribution in the Merger upon conversion of the Splitco common stock.

At the effective time of the Merger, all issued and outstanding shares of Splitco common stock will be converted into the right to receive shares of Leidos common stock as described above under Merger Consideration. As promptly as practicable thereafter, Leidos will cause its transfer agent to distribute the shares of Leidos common stock to each person who received Splitco common stock in the Distribution. Each person entitled to receive Splitco common stock in the Distribution will be entitled to receive in respect of such shares of Splitco common stock a book-entry authorization representing the number of whole shares of Leidos common stock that such holder has the right to receive pursuant to the Merger (and cash in lieu of fractional shares of Leidos common stock as described above under Merger Consideration, together with any dividends or distributions and other amounts as described below under Distributions With Respect to Shares of Leidos common stock after the Effective Time of the Merger ).

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### **Treatment of Lockheed Martin Equity Awards**

The parties are required to take all actions reasonably necessary, to be effective as of the consummation of the Merger, to give effect to the equity treatment set forth in the Merger Agreement. Stock options held by Splitco Business Employees immediately prior to the consummation of the Merger will remain outstanding as an option to acquire Lockheed Martin common stock and will continue to be governed by the terms and conditions as set forth in the applicable Lockheed Martin equity incentive plan and the relevant award agreement. All such stock options currently outstanding are fully vested and exercisable.

Performance share units held by Splitco Business Employees immediately prior to the consummation of the Merger will remain outstanding as a Lockheed Martin performance share unit, will be eligible to vest on a pro rata basis in accordance with the terms and conditions of the Lockheed Martin stock plan and the relevant award agreement and will be entitled, subject to the satisfaction of the performance criteria in the relevant award agreement, to convert to shares of Lockheed Martin common stock following the end of the applicable performance period based on such terms and conditions. Payout of these awards is not dependent on future services by Splitco Business Employees for Splitco or Leidos following the Merger or on the performance of Leidos and the awards will not be converted into Leidos performance share units following the Merger.

Restricted stock units granted prior to January 1, 2016 that are held by a Splitco Business Employee who becomes a Leidos employee as a direct result of the Merger will fully vest and will be converted into shares of Lockheed Martin common stock in accordance with their terms and conditions as set forth in the applicable Lockheed Martin equity incentive plan and the relevant award agreement. Restricted stock units granted on or after January 1, 2016 to a Splitco Business Employee will be converted into Leidos restricted stock units subject to the same terms and conditions that governed such restricted stock units immediately prior to the consummation of the Merger if the individual is employed by Splitco or a Splitco Subsidiary immediately after the Merger, except that the number of Leidos restricted stock units into which such Lockheed Martin restricted stock units will be converted will be equal to the number of Lockheed Martin restricted stock units times (i) the closing per-share price of Lockheed Martin common stock, trading regular way with due bills, on the last full trading session prior to the effective time of the Merger, as listed on the NYSE, divided by (ii) the opening per-share price of Leidos common stock on the first full trading session following the effective time of the Merger, as listed on the NYSE.

### **Distributions With Respect to Shares of Leidos Common Stock after the Effective Time of the Merger**

No dividend or other distributions declared after the effective time of the Merger with respect to Leidos common stock will be paid with respect to any shares of Leidos common stock that are not able to be distributed promptly after the effective time of the Merger, whether due to a legal impediment to such distribution or otherwise. Subject to the effect of abandoned property, escheat or other applicable laws, following the distribution of any such previously undistributed shares of Leidos common stock, the following amounts will be paid to the record holder of such shares of Leidos common stock, without interest:

at the time of the distribution of such previously undistributed shares, the amount of cash payable in lieu of fractional shares of Leidos common stock to which such holder is entitled pursuant to the Merger Agreement and the amount of dividends or other distributions with a record date after the effective time of the Merger theretofore paid with respect to such whole shares of Leidos common stock; and

at the appropriate payment date, the amount of dividends or other distributions with a record date after the effective time of the Merger but prior to the distribution of such whole shares of Leidos common stock and a payment date subsequent to the distribution of such whole shares of Leidos common stock. Leidos will deposit all such amounts in a reserve account with its transfer agent.

**Termination of the Exchange Fund; No Liability**

Any portion of the amounts deposited in the reserve account with Leidos' transfer agent under the Merger Agreement that remains undistributed to the former stockholders of Splitco on the one-year anniversary of the effective time of the Merger, subject to any abandoned property, escheat or similar law, will be delivered to Leidos upon demand, and any former stockholders of Splitco who have not received shares of Leidos common stock as described above may thereafter look only to Leidos for the merger consideration to which they are entitled, any cash in lieu of fractional shares of Leidos common stock to which they may be entitled or any dividends or other distributions with respect to the Leidos common stock to which they may be entitled (subject to any applicable abandoned property, escheat or similar law).

Pursuant to the Merger Agreement, none of Leidos, Lockheed Martin, Splitco, Merger Sub, the surviving corporation or Leidos' exchange agent will be liable to any person for any portion of the book-entry shares of Leidos common stock deposited by Leidos with its exchange agent for the benefit of the Lockheed Martin stockholders who received shares of Splitco common stock in the Distribution (or dividends or distributions with respect to Leidos common stock) or any cash delivered to a public official in accordance with any applicable abandoned property, escheat or similar law.

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### **Withholding Rights**

Each of Splitco, Leidos' exchange agent, and Leidos are entitled to deduct and withhold from any amounts otherwise payable pursuant to the Merger Agreement such amount as it is required to deduct and withhold with respect to the making of such payment under applicable law. To the extent that amounts are so withheld, such withheld amounts shall be treated for purposes of the Merger Agreement as having been paid to the persons otherwise entitled thereto in respect of which such deduction and withholding was made.

### **Stock Transfer Books; No Appraisal Rights**

From and after the effective time of the Merger, the stock transfer books of Splitco will be closed and there will be no further registration of transfers of Splitco common stock thereafter on the books or records of Splitco. In addition, pursuant to Section 262 of the DGCL, no appraisal rights will be available to Splitco stockholders in connection with the Merger.

### **Post-Closing Leidos Board of Directors and Officers**

The Merger Agreement provides that the Leidos Board will take all actions necessary to cause the number of directors comprising the Leidos Board to be increased to no more than 13 directors, and to cause three individuals designated by Lockheed Martin to be appointed to the Leidos Board as of the effective time of the Merger to serve until the next annual meeting of the Leidos stockholders. The Merger Agreement provides that at the next annual meeting of the Leidos stockholders, the Leidos Board will take all actions necessary to include each of the Lockheed Martin designees as nominees for the Leidos Board recommended by the Leidos Board for election by Leidos stockholders, subject to the fiduciary duties of the Leidos Board, the requirements of the NYSE and all other applicable laws. The Leidos Board also must take all action necessary to ensure that at least one of Lockheed Martin's designees is appointed to serve on each committee of the Leidos Board, subject to the requirements of the SEC, NYSE and other applicable laws.

In addition, until the effective time of the Merger, Leidos must consult from time to time with and consider the views of Lockheed Martin regarding the roles and responsibilities of the members of the management of the Splitco Business in Leidos management and Splitco after the closing of the Merger, provided that the ultimate decision as to the roles and responsibilities of the members of the management of the Splitco Business after closing of the Merger will be the responsibility of Leidos.

### **Stockholders Meeting**

Under the terms of the Merger Agreement, Leidos is required to establish a record date and take all other lawful action to call, give notice of, convene and hold a meeting of its stockholders for the purpose of voting upon the Share Issuance as promptly as practicable following the date on which the SEC clears Leidos' proxy statement relating to such stockholders meeting and, if required by the SEC as a condition to the mailing of the proxy statement, the registration statement of Leidos registering the shares of Leidos common stock required for the Share Issuance has been declared effective. Leidos has agreed to solicit proxies from its stockholders in favor of the approval of the Share Issuance and to take all other actions necessary or advisable to secure such approval. Leidos is required to call this stockholders meeting for the purpose of voting upon the matters described above regardless of the commencement, disclosure, announcement or submission to Leidos or its stockholders of any Competing Leidos Transaction (as defined below under "No Solicitation") or any Change in Recommendation (as defined below under "Board Recommendation").

## **Representations and Warranties**

In the Merger Agreement, each of Leidos and Merger Sub has made representations and warranties to Lockheed Martin and Splitco, and each of Lockheed Martin and Splitco has made representations and warranties to Leidos and Merger Sub. These representations and warranties relate to, among other things:

each party's and its affiliates' due incorporation, valid existence, good standing and authority to carry on its business;

authority to enter into and perform obligations under the Merger Agreement (and other Transaction Documents);

capital structure;

absence of conflicts with or violations of governance documents, other obligations or laws;

board and stockholder approvals obtained or required in connection with the Transactions;

governmental consents and approvals;

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financial statements and the financings contemplated by the Splitco Commitment Letter or the Leidos Commitment Letter, as applicable;

absence of certain changes or events;

absence of investigations or litigation;

accuracy of information supplied for use in this document and certain other disclosure documents to be filed with the SEC in connection with the Transactions;

compliance with applicable laws;

intellectual property matters;

interests in real property;

employee benefit and labor matters;

tax matters;

material contracts;

environmental matters;

payment of fees to brokers or finders in connection with the Transactions;

government contracts; and

international trade laws and regulations.

Leidos and Merger Sub have also made representations and warranties to Lockheed Martin and Splitco relating to the opinion of Leidos' financial advisor, the required vote of Leidos stockholders on the transactions contemplated by the Merger Agreement (including the Share Issuance), the operations and purpose of formation of Merger Sub and the absence of any stockholder rights plan, poison pill, anti-takeover plan or other similar device.

Lockheed Martin has also made representations and warranties to Leidos and Merger Sub relating to the absence of undisclosed liabilities and sufficiency of assets to be contributed to Splitco.

Many of the representations and warranties contained in the Merger Agreement are subject to a material adverse effect standard, knowledge qualifications, or both, and, except in certain circumstances specified in the Merger Agreement, none of the representations and warranties will survive the effective time of the Merger other than representations and warranties with respect to the sufficiency of assets to be contributed to Splitco (such representations and warranties to survive until the one year anniversary of the effective time of the Merger). The Merger Agreement does not contain any post-closing indemnification obligations with respect to these matters, but certain remedies for breach of the representations and warranties that survive until the one year anniversary of the effective time of the Merger are set forth in the Intellectual Property Matters Agreement and the Transition Services Agreement (Parent to Splitco). See Other Agreements Intellectual Property Matters Agreement and Other Agreements Transition Services Agreements for additional information.

Under the Merger Agreement, a material adverse effect means, with respect to Splitco or Leidos, as applicable, any event, circumstance, change or effect that, individually or in the aggregate, is or would reasonably be expected to be materially adverse to the business, results of operations or financial condition of the Splitco Business, taken as a whole, or Leidos and its subsidiaries, taken as a whole, as the case may be. However, none of the following, either alone or in combination, will be deemed either to constitute, or be taken into account in determining whether there is, a material adverse effect (except, in the case of the first, second, third, fifth, sixth, seventh and eighth bullet points below, to the extent that such event, circumstance, change or effect has a disproportionate effect on the Splitco Business or Leidos, as applicable, as compared with other participants in the industries in which the Splitco Business or Leidos operates):

events, circumstances, changes or effects that generally affect the industries or segments in which the Splitco Business or Leidos, as applicable, operates, including legal and regulatory changes;

general business, economic or political conditions (or changes therein);

events, circumstances, changes or effects affecting the financial, credit or securities markets in the United States or in any other country or region in the world, including changes in interest rates or foreign exchange rates;



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other than for purposes of certain specified representations and warranties, events, circumstances, changes or effects arising out of, or attributable to, the announcement of the execution of, or the consummation of the transactions contemplated by, any Transaction Document, the identity of Leidos (in the case of a material adverse effect on the Splitco Business) or Lockheed Martin (in the case of a material adverse effect on Leidos and its subsidiaries), including with respect to employees, customers, distributors, suppliers, financing sources, landlords, licensors, licensees or sub-licensees;

events, circumstances, changes or effects arising out of, or attributable to, strikes, slowdowns, lockouts or work stoppages (pending or threatened);

events, circumstances, changes or effects arising out of, or attributable to, acts of armed hostility, sabotage, terrorism or war (whether or not declared), including any escalation or worsening thereof;

events, circumstances, changes or effects arising out of, or attributable to, earthquakes, hurricanes, tsunamis, tornadoes, floods or other natural disasters, weather-related conditions, explosions or fires, or any force majeure events in any country or region in the world;

events, circumstances, changes or effects arising out of, or attributable to, changes (or proposed changes) or modifications in GAAP, other applicable accounting standards or applicable law or the interpretation or enforcement thereof;

events, circumstances, developments, changes or effects arising out of, or attributable to, the failure by the Splitco Business or Leidos, as applicable, to meet any internal or other estimates, expectations, forecasts, plans, projections or budgets for any period (except that the underlying cause of, or factors contributing to, such failure may be taken into account); or

events, circumstances, developments, changes or effects arising out of, or attributable to, any change in the stock price or trading volume of the stock of Lockheed Martin or Leidos, as applicable (except that the underlying cause of, or factors contributing to, such change may be taken into account).

**Conduct of Business Pending the Merger**

Each of the parties has undertaken to perform customary covenants in the Merger Agreement that place restrictions on it and its subsidiaries until the earlier of the closing date of the Merger and the date on which the Merger Agreement is terminated in accordance with its terms as described below under Termination. In general, each of Lockheed Martin and Leidos has agreed that, prior to the effective time of the Merger, except as contemplated by the Internal Reorganization and the Distribution (solely with respect to Lockheed Martin), for the Transactions, for actions required by applicable law or as consented to by the other party (which consent may not be unreasonably withheld, delayed or conditioned), subject to certain agreed exceptions, it will use reasonable best efforts to (i) conduct the Splitco Business or the business of Leidos and its subsidiaries, as the case may be, in the ordinary course in all material respects; and (ii) preserve intact in all material respects the business organization of such business.

In addition, Lockheed Martin has agreed that, prior to the effective time of the Merger, except as contemplated by the Internal Reorganization, the Distribution and the other Transactions as further described in the section of this document entitled The Transactions, for actions required by applicable law, or as consented to by Leidos (which consent may not be unreasonably withheld, delayed or conditioned), Lockheed Martin will not, and will cause its subsidiaries not to, take any of the following actions to the extent relating to the Splitco Business, and Lockheed Martin will cause the Splitco Subsidiaries not to take any of the following actions:

issue, sell, pledge or dispose of, grant or permit an encumbrance to exist on, any shares of capital stock or other ownership interests of Splitco, the Splitco Subsidiaries or the joint ventures associated with the Splitco Business or any options, warrants, convertible securities or other rights of any kind to acquire any shares of such capital stock or ownership interest (including any phantom interest);

sell, pledge or dispose of, grant or permit an encumbrance to exist on, any material assets of the Splitco Business, except in the ordinary course of business and consistent with past practice, for dispositions of obsolete or worn-out assets, or for certain permitted encumbrances;

amend or restate the articles or certificate of incorporation or bylaws (or similar organizational documents) of any Splitco Subsidiary, other than to change its name;

adjust, reclassify, combine, split, subdivide or redeem, or purchase or otherwise acquire, directly or indirectly, any capital stock of any Splitco Subsidiary;

acquire or dispose of (including by merger, consolidation or acquisition of stock or assets or any other business combination) any corporation, partnership, other business organization or any division thereof, except for bidding joint ventures formed for a specific procurement in the ordinary course of business;

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make any loans or advances or capital contribution to, or investment in, any person other than a Splitco Subsidiary, except for bidding joint ventures formed for a specific procurement in the ordinary course of business;

subject to certain exceptions, (1) grant any increase in the base salaries, target bonus opportunity, or other benefits payable by Lockheed Martin or its affiliates to any Splitco Business Employees, (2) adopt, terminate, accelerate the timing of payments or vesting under, or otherwise materially amend or supplement, any Lockheed Martin employee benefit plan as it relates to any Splitco Business Employees, (3) adopt, amend or terminate any Lockheed Martin union contract, or (4) enter into or amend any employment, consulting, change in control, retention, severance or termination agreement with any Splitco Business Employee, in each case, other than (A) as required by law, (B) as required by any Lockheed Martin employee benefit plan or any collective bargaining agreement or agreement with works councils or similar employee representative bodies, (C) grants of equity or equity-based awards pursuant to Lockheed Martin equity compensation plans in the ordinary course of business up to an aggregate grant date fair market value of \$25,000,000, (D) in the ordinary course of business consistent with the past practices of Lockheed Martin or its affiliates (including in the context of new hires or promotions based on job performance or workplace requirements), or (E) to the extent undertaken to implement a program that affects all similarly situated employees of Lockheed Martin and/or its affiliates and does not disproportionately increase the compensation and benefits of the Splitco Business Employees compared to such other similarly situated employees;

waive or remove any material restriction under any Lockheed Martin employee benefit plan;

change any accounting method, practice or policy used by Lockheed Martin as it relates to the Splitco Business, other than changes required by GAAP, applicable law or a governmental authority;

terminate, discontinue, close or dispose of any business operation that is part of the Splitco Business, or lay-off any Splitco Business Employees (other than layoffs of less than 50 employees at any individual location in any six month period in the ordinary course of business consistent with past practice), except as contemplated or required by the Employee Matters Agreement;

transfer internally or change the responsibilities of any individual, including any employee of Lockheed Martin or its affiliates, in a manner that would affect whether such individual is or is not classified as a Splitco Business Employee (except as contemplated or required by the Employee Matters Agreement);

other than in the ordinary course of business and consistent with past practice or as required by applicable law, (1) make a change (or file any such change) in any method of tax accounting or any annual tax accounting period, (2) make, change or rescind any tax election, (3) settle or compromise any tax liability or consent to any tax claim or tax assessment, (4) file any amended tax return or claim for refund, (5) enter into any closing agreement relating to taxes (other than as contemplated by the Tax Matters Agreement), or (6) waive or extend the statute of limitations in respect of taxes, in each case, to the extent that doing so would reasonably be expected to result in a material incremental cost to Splitco, Leidos or any of the Splitco

Subsidiaries;

pay, discharge or satisfy any claim, liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction, in the ordinary course of business and consistent with past practice, of liabilities reflected or reserved against in the financial statements of the Splitco Business or subsequently incurred in the ordinary course of business and consistent with past practice, unless such payment, discharge or satisfaction does not impose any payment obligations on Splitco or any Splitco Subsidiary following the Cut-Off Time and otherwise would not restrict the operation of the Splitco Business following the effective time of the Merger;

incur, guarantee, assume or become responsible for any indebtedness for borrowed money other than (1) indebtedness solely between or among Lockheed Martin-affiliated entities that will be repaid prior to the Distribution, (2) the new debt to be incurred by Splitco in connection with the Transactions and the issuance of the shares of Splitco Common Stock, (3) indebtedness solely between or among any of the Splitco Subsidiaries and (4) letters of credit or similar arrangements entered into in the ordinary course of business consistent with past practice;

commence or settle any claim, action or proceeding before a governmental authority, other than in the ordinary course of business and consistent with past practice;

other than in the ordinary course of business and consistent with past practice, materially amend (other than an extension), cancel or terminate any material contract, material intellectual property license or material government contract of, or government bid submitted by, the Splitco Business;

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abandon, disclaim, sell, assign or grant any security interest in, to or under any material intellectual property of the Splitco Business, including failing to make filings or recordings and failing to pay required fees and taxes, except in the ordinary course of business and consistent with past practice;

grant to any third party any exclusive license, or enter into any covenant not to sue, or disclose to any person any material trade secret or confidential data with respect to any (1) material Splitco Business licensed intellectual property or (2) material transferred intellectual property, in each case, except in the ordinary course of business and consistent with past practice;

fail to maintain (with insurance companies substantially as financially responsible as their existing insurers) insurance in at least such amounts and against at least such risks and losses as are consistent in all material respects with the past practice of the Splitco Business, except to the extent such actions affect similarly situated business of Lockheed Martin and its subsidiaries and do not disproportionately affect the Splitco Business;

adopt a plan or agreement of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other material reorganization; or

enter into any agreement to do any of the foregoing.

In addition, from the date of the Merger Agreement until the Distribution, Lockheed Martin will, and will cause each of Splitco and the Splitco Subsidiaries to, (i) prepare and timely file all tax returns that it is required to file, (ii) timely pay all taxes due and payable on such tax returns, and (iii) promptly notify Leidos of any notice of any claim, action or proceeding before a governmental authority, or any audit, in respect of any tax matters (or any significant developments with respect to ongoing claims, actions, proceedings or audits).

Furthermore, Leidos has agreed that, prior to the effective time of the Merger, except as contemplated or required by the Merger Agreement or the other Transaction Documents or applicable law, or as consented to by Lockheed Martin (which consent may not be unreasonably withheld, delayed or conditioned), subject to certain agreed exceptions, Leidos will not, and will cause its subsidiaries not to, take any of the following actions:

issue, sell, pledge or dispose of, grant or permit an encumbrance to exist on, any shares of capital stock or other ownership interests of Leidos or any of its subsidiaries or any options, warrants, convertible securities or other rights of any kind to acquire any shares of such capital stock or ownership interests, other than, as applicable, (1) a transaction by a wholly-owned subsidiary of Leidos which remains a wholly-owned subsidiary of Leidos after consummation of such transaction, (2) upon the exercise or settlement of, or as otherwise required by, any stock awards granted pursuant to the Leidos Stock Plans outstanding on the date of the Merger Agreement and in accordance with their terms in effect on the date of the Merger Agreement or thereafter granted in the ordinary course of business, or (3) pursuant to the Share Issuance;

sell, pledge or dispose of, grant or permit an encumbrance to exist on or authorize the sale, pledge or disposition of any material assets of the businesses of Leidos and its subsidiaries, except in the ordinary

course of business and consistent with past practice, for dispositions of obsolete or worn-out assets or for certain permitted encumbrances, including encumbrances to secure certain indebtedness permitted to be incurred under the Merger Agreement;

amend or restate the articles or certificate of incorporation or bylaws (or similar organizational documents) of Leidos or any of its material subsidiaries (other than immaterial amendments to any such subsidiary s organizational documents);

declare, set aside, make or pay any dividend or other distribution, payable in cash, stock or property, with respect to any of its capital stock, except for (1) the declaration and payment by Leidos of regular quarterly cash dividends of no more than \$0.32 per share of Leidos common stock, (2) dividends or distributions by any wholly-owned subsidiary of Leidos, and (3) the Leidos Special Dividend;

acquire or dispose of (including by merger, consolidation or acquisition of stock or assets or any other business combination) any corporation, partnership, other business organization or any division thereof other than acquisitions or dispositions not exceeding \$25,000,000 in the aggregate, except for bidding joint ventures formed for a specific procurement in the ordinary course of business;

make any loans or advances or capital contribution to, or investment in, any person other than Leidos or any of its subsidiaries, except for bidding joint ventures formed for a specific procurement in the ordinary course of business;

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(1) grant any increase in the base salaries, target bonus opportunity, or other benefits payable by Leidos or its subsidiaries to any of its employees, (2) adopt, terminate, accelerate the timing of payments or vesting under, or otherwise materially amend or supplement, any Leidos employee benefit plan or (3) enter into or amend any employment, consulting, change in control, retention, severance or termination agreement with any Leidos employee, in each case, other than (A) as required by applicable law, (B) as required by any Leidos employee benefit plan or Leidos collective bargaining agreement or agreement with works councils or similar employee representative bodies, (C) grants of equity or equity-based awards pursuant to Leidos equity compensation plans in the ordinary course of business up to an aggregate grant date fair market value of \$45,000,000, (D) in the ordinary course of business consistent with the past practices of Leidos or its subsidiaries (including in the context of new hires or promotions based on job performance or workplace requirements), or (E) to the extent undertaken in connection with the implementation of a program that affects all similarly situated employees of Leidos and/or its subsidiaries;

change any accounting method, practice or policy used by Leidos as it relates to the businesses of Leidos and its subsidiaries, other than changes required by GAAP, applicable law or a governmental authority;

other than in the ordinary course of business and consistent with past practice or as required by applicable law, (1) make a change (or file any such change) in any method of tax accounting or any annual tax accounting period, (2) make, change or rescind any tax election, (3) settle or compromise any tax liability or consent to any claim or assessment relating to taxes, (4) file any amended tax return or claim for refund, (5) enter into any closing agreement relating to taxes, or (6) waive or extend the statute of limitations in respect of taxes, in each case, to the extent that doing so would reasonably be expected to result in a material incremental cost to Splitco or Leidos or any of its subsidiaries;

incur, guarantee, assume or otherwise become responsible for any indebtedness for borrowed money other than (1) indebtedness incurred under Leidos' current credit facilities (other than to finance an acquisition of a material business), (2) indebtedness solely between or among Leidos and its subsidiaries, (3) refinancings, replacements, extensions and renewals of existing indebtedness entered into in the ordinary course of business consistent with past practice, (4) indebtedness incurred in connection with the Transactions, (5) indebtedness incurred to finance the Leidos Special Dividend and (6) letters of credit or similar arrangements entered into in the ordinary course of business consistent with past practice;

commence or settle any claim, action or proceeding before a governmental authority, other than in the ordinary course of business and consistent with past practice;

other than in the ordinary course of business and consistent with past practice, materially amend (other than an extension), cancel or terminate any material contract, material intellectual property license or material government contract of Leidos and its subsidiaries, or any material government submitted by Leidos and its subsidiaries for which an award has not been issued;

abandon, disclaim, sell, assign or grant any security interest in any material intellectual property of Leidos and its subsidiaries, including failing to make filings or recordings and failing to pay required fees and taxes,

except in the ordinary course of business and consistent with past practice;

grant to any third-party any exclusive license, or enter into any covenant not to sue, with respect to any material intellectual property of Leidos and its subsidiaries, except in the ordinary course of business and consistent with past practice;

fail to maintain (with insurance companies substantially as financially responsible as their existing insurers) insurance in at least such amounts and against at least such risks and losses as are consistent in all material respects with the past practice of the business of Leidos and its subsidiaries; or

enter into any agreement to do any of the foregoing.

In addition, from the date of the Merger Agreement until the effective time of the Merger, Leidos will, and will cause each of its subsidiaries to, (i) prepare and timely file all tax returns that it is required to file, (ii) timely pay all taxes due and payable on such tax returns, and (iii) promptly notify Lockheed Martin of any notice of any claim, action or proceeding before a governmental authority, or any audit, in respect of any tax matters (or any significant developments with respect to ongoing claims, actions, proceedings or audits).

#### **Tax Matters**

The Merger Agreement contains certain additional representations, warranties and covenants relating to the preservation of the tax-free status of the Splitco Transfer, the Distribution and the Merger. Additional representations, warranties and covenants relating to the tax-free status of the Transactions are contained in the Tax Matters Agreement. Indemnification for taxes generally is governed by the terms, provisions and procedures described in the Tax Matters Agreement. See [Other Agreements Tax Matters Agreement](#).



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### **SEC Filings**

Lockheed Martin, Splitco, Leidos and Merger Sub have agreed to prepare and file with the SEC appropriate documents, including (1) a proxy statement of Leidos on Schedule 14A relating to the Leidos stockholder approval required for the Share Issuance, (2) a registration statement on Form S-4 to register under the Securities Act the shares of Leidos common stock to be issued by Leidos to stockholders of Splitco in connection with the Merger, and (3) a registration statement on Form 10 or Form S-1 (if the Distribution is effected in whole as a *pro rata* dividend), on Form S-4 (if the Distribution is effected in whole as an exchange offer) or on a combined Form S-4/S-1 (if the Distribution is effected otherwise), to register under the Exchange Act or the Securities Act the shares of Splitco common stock to be distributed in the Distribution, and each of Lockheed Martin, Splitco, Leidos and Merger Sub have agreed to use reasonable best efforts to have the registration statements described above declared effective under the Securities Act as promptly as practicable after such filings.

Leidos is required under the Merger Agreement to use reasonable best efforts to mail its proxy statement to its stockholders as promptly as practicable after the SEC clears that proxy statement and, if required by the SEC as a condition to mailing the proxy statement, the registration statement of Leidos has been declared effective.

If the Distribution is effected in whole or in part as an exchange offer, Lockheed Martin is required under the Merger Agreement to prepare and file with the SEC, when and as required, a Schedule TO and any other filings pursuant to Rule 13e-4 under the Exchange Act.

### **Regulatory Matters**

The Merger Agreement provides that each party to the Merger Agreement will use reasonable commercial efforts to:

promptly obtain all authorizations, consents, orders and approvals of all governmental authorities that are or become necessary for its execution and delivery of, and the performance of its obligations under, the Merger Agreement and other Transaction Documents;

cooperate fully with the other parties in obtaining all such authorizations, consents, orders and approvals;  
and

provide any information requested by governmental authorities in connection with the Transactions.

Each party to the Merger Agreement has also agreed to promptly make its respective filings and notifications under the HSR Act and under any other antitrust or competition laws under which filing is required or under which the parties mutually determine that filing is advisable with respect to the Transactions and to supply as promptly as practicable to the appropriate governmental authorities any additional information that may be requested pursuant to the HSR Act or such other laws. Each also agreed to, and to cause its respective affiliates to, make as promptly as practicable its respective filings and notifications, if any, under other applicable law regarding government contracts, government bids, trade regulation, security clearances or other relevant matters and to supply as promptly as practicable to the appropriate governmental authorities any additional information and documentary material that may be requested pursuant to such laws. Leidos is required to pay all filing or notice fees in connection with the filings and notifications described in this paragraph.

In addition, Leidos has agreed to take all steps reasonably necessary to avoid or eliminate impediments under the HSR Act or any other antitrust, competition or trade regulation law that may be asserted by any governmental authority or any other person so as to enable the parties to the Merger Agreement to consummate the Transactions as promptly as practicable, and in any event prior to the Termination Date (as defined below under Termination ), including proposing, negotiating, committing to and effecting, by consent decree, hold separate orders or otherwise, the sale, divestiture or disposition of its assets, properties or businesses or the assets, properties or businesses of the Splitco Business, and the entrance into other arrangements as necessary or advisable in order to avoid the entry of, and the commencement of litigation seeking the entry of, or to effect the dissolution of, any injunction, temporary restraining order or other order in any suit or proceeding, which would otherwise reasonably be expected to have the effect of materially delaying or preventing the consummation of the Transactions; provided that the effectiveness of any such sale, divestiture or disposition or entry into such other arrangement may be made contingent on the consummation of the Merger; provided, further, however, that nothing contained in the Merger Agreement shall be construed to require Leidos or Merger Sub to (x) institute any legal proceedings against any governmental authority or (y) undertake any efforts or to take any action if the taking of such efforts or action is or would reasonably be expected to result, individually or in the aggregate, in a material and adverse effect on the assets, liabilities, business, results of operations or condition (financial or otherwise) of (A) Splitco and the Splitco Subsidiaries, taken as a whole, or of (B) Leidos and its subsidiaries, taken as a whole (each such action constituting a Burdensome Condition, as defined in the Merger Agreement); and neither Lockheed Martin, nor Splitco, nor any of their subsidiaries shall take any action that has the effect of, or agree with any governmental authority to, any Burdensome Condition without the prior written consent of Leidos.

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In addition, the Merger Agreement provides that Leidos shall, and shall cause its affiliates to, use its reasonable best efforts to defend through litigation on the merits any proceeding by any person to avoid entry of, or to have vacated or terminated, any decree, order or judgment (whether temporary, preliminary or permanent) that would prevent the consummation of the Merger prior to the termination date of the Merger Agreement. To assist Leidos in complying with its obligations with respect to regulatory approvals, the Merger Agreement provides that Lockheed Martin shall, and shall cause its affiliates to, enter into agreements or arrangements on terms and conditions reasonably acceptable to Leidos to be entered into by any of them prior to the closing date of the Merger Agreement with respect to matters in connection with the receipt of regulatory approvals pursuant to the terms of the Merger Agreement; provided, however, that (i) neither Lockheed Martin nor any of its affiliates are required to agree to any sale, divestiture, disposition or other arrangement with respect to any businesses or assets other than the Splitco Business, (ii) the effectiveness of any sale, divestiture or disposition or entry into such other arrangements shall be contingent on the consummation of the Merger and (iii) Leidos shall indemnify Lockheed Martin and its affiliates for their reasonable and documented out of pocket costs and expenses in providing such assistance.

Each party to the Merger Agreement has agreed that it will not, and will cause its affiliates not to, enter into any transaction or agreement to effect any transaction that could be reasonably expected to make it more difficult, or increase the time required, to (1) obtain the expiration or termination of the waiting period under the HSR Act or any other antitrust, competition or trade regulation law applicable to the Transactions, (2) avoid the entry of, the commencement of litigation seeking the entry of, or effect the dissolution of, any injunction, temporary restraining order or other order that could reasonably be expected to materially delay or prevent the consummation of the Transactions, or (3) obtain all authorizations, consents, orders and approvals of governmental authorities necessary or mutually determined as advisable for the consummation of the Transactions.

## **No Solicitation**

The Merger Agreement contains detailed provisions restricting Leidos' ability to seek certain alternative transactions and restricting Lockheed Martin's ability to seek alternative transactions with respect to the Splitco Business. Under these provisions, Leidos and Lockheed Martin have each agreed that it will not, and it will cause its affiliates and its affiliates' respective directors, officers, employees, attorneys, accountants, advisors or agents (each, a representative) not to:

solicit, initiate, or knowingly encourage (including by way of furnishing non-public information), or take any other action to knowingly facilitate, any inquiries or the making of any proposal or offer (including any proposal or offer to Leidos stockholders or Lockheed Martin stockholders, as the case may be) with respect to any Competing Leidos Transaction or any Competing Splitco Transaction;

enter into, maintain, continue or otherwise engage or participate in any discussions or negotiations with any person or entity in furtherance of such inquiries or to obtain a proposal or offer with respect to a Competing Leidos Transaction or a Competing Splitco Transaction, as the case may be;

agree to, approve, endorse, recommend or consummate any Competing Leidos Transaction or Competing Splitco Transaction, as applicable;

enter into any agreement relating to a Competing Leidos Transaction or Competing Splitco Transaction, as applicable; or

in the case of Leidos, resolve, propose or agree, or authorize or permit any representative, to do any of the foregoing.

The Merger Agreement provides that the term **Competing Leidos Transaction** means any transaction or series of related transactions (other than the Merger) that constitutes, or is reasonably likely to lead to:

any merger, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or other similar transaction involving Leidos or any of its subsidiaries, the assets of which represent over 20 percent of the total revenue, operating income, EBITDA or fair market value of the assets of Leidos and its subsidiaries, taken as a whole;

any sale, lease, license, exchange, transfer or other disposition of, or joint venture involving, assets or businesses that represent over 20 percent of the total revenue, operating income, EBITDA or fair market value of the assets of Leidos and its subsidiaries, taken as a whole;

any sale, exchange, transfer or other disposition of more than 20 percent of any class of equity securities, or securities convertible into or exchangeable for equity securities, of Leidos;

any tender offer or exchange offer that, if consummated, would result in any person or entity becoming the beneficial owner of more than 20 percent of any class of equity securities of Leidos;

any other transaction the consummation of which would reasonably be likely to impede, interfere with, prevent or materially delay the Merger; or

any combination of the foregoing.

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The Merger Agreement provides that the term "Competing Splitco Transaction" means any transaction or series of related transactions (other than the Merger, the Internal Reorganization and the Distribution, or as contemplated by the Merger Agreement and the other Transaction Documents executed concurrently with the Merger Agreement, and other than asset sales and transfers in the ordinary course of business) that constitutes, or is reasonably likely to lead to:

a merger, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution, acquisition, sale, transfer or other disposition or similar transaction involving the Splitco Business; or

any other transaction the consummation of which would be likely to impede, interfere with, prevent or materially delay the Merger.

Each of Leidos and Lockheed Martin also agreed to immediately cease or cause to be terminated all existing discussions or negotiations with any person (other than the other party and its affiliates) conducted prior to the execution of the Merger Agreement by such party or any of its representatives with respect to a Competing Leidos Transaction or a Competing Splitco Transaction, as applicable. Leidos and Lockheed Martin have each agreed not to release any third party from, or waive any provision of, any confidentiality or, subject to fiduciary duties under applicable law, standstill agreement to which it or one of its affiliates is a party in connection with a Competing Leidos Transaction or a Competing Splitco Transaction, as applicable. Leidos and Lockheed Martin have each also agreed to, to cause their respective subsidiaries and to instruct their respective representatives to, request that each person (other than the other party and its affiliates) that has executed a confidentiality agreement with Leidos in connection with that person's consideration of a Competing Leidos Transaction or a Competing Splitco Transaction return or destroy all information required to be returned or destroyed under the terms of the applicable confidentiality agreement and, if requested by the other party, to enforce that person's obligation to do so.

Under the Merger Agreement, Leidos must promptly (and in any event within 24 hours) notify Lockheed Martin, orally and in writing, after the receipt of any proposal, inquiry, offer or request with respect to a Competing Leidos Transaction, including any request for discussions or negotiations and any request for information relating to Leidos or any of its affiliates or for access to the business, properties, assets, books or records of Leidos or any of its affiliates. The notice must include the identity of the person making the proposal, inquiry, offer or request and a description of the proposal, inquiry, offer or request, including any terms and conditions of the proposed Competing Leidos Transaction, and Leidos must also promptly (and in any event within 24 hours) provide to Lockheed Martin copies of any written materials received by Leidos in connection with any of the foregoing. Leidos has agreed that it will keep Lockheed Martin reasonably informed of the status and material details of any proposal, inquiry, offer or request and any information requested of or provided by Leidos, and that it will provide Lockheed Martin with at least 48 hours prior notice of any meeting of the Leidos Board at which the Leidos Board is reasonably expected to consider such a proposal, inquiry, offer or request. Leidos has also agreed that it will substantially simultaneously provide to Lockheed Martin any nonpublic information concerning Leidos that may be made available to any other person in response to such a proposal, inquiry, offer or request unless such information has previously been provided or made available by Leidos to Lockheed Martin.

Under the Merger Agreement, Lockheed Martin has also agreed to promptly (and in any event within 24 hours) notify Leidos, orally and in writing, after the receipt of any proposal, inquiry, offer or request with respect to a Competing Splitco Transaction, including any request for discussions or negotiations and any request for information relating to Lockheed Martin or any of its affiliates with respect to the Splitco Business, or for access to the business, properties, assets, books or records of Lockheed Martin or any of its affiliates with respect to the Splitco Business.

Despite the covenants described in foregoing paragraphs in this section, at any time prior to the receipt of the approval of Leidos stockholders for the Share Issuance, Leidos may furnish information to, and enter into discussions and negotiations with, a person who has made an unsolicited, written, bona fide proposal or offer with respect to a Competing Leidos Transaction that did not result from a breach of the Merger Agreement by Leidos if, prior to furnishing such information and entering into such discussions, the Leidos Board has:

determined, in its good faith judgment (after consulting with a financial advisor of nationally recognized reputation and outside legal counsel) that the proposal or offer constitutes, or is reasonably likely to lead to, a Superior Proposal (which is described in the following paragraph), and has determined, in its good faith judgment (after consulting with outside legal counsel) that the failure to furnish such information to, or enter into such discussions with, the person who made such proposal or offer would be inconsistent with the fiduciary duties of the Leidos Board to Leidos and its stockholders under applicable law;

provided written notice to Lockheed Martin of its intent to furnish information or enter into discussions with the person at least three business days prior to first taking any such action with respect to any given person; and

obtained from the person a confidentiality agreement on terms no less favorable to Leidos than those contained in Leidos' confidentiality agreement with Lockheed Martin and, immediately upon its execution, delivered to Lockheed Martin a copy of the confidentiality agreement.

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The Merger Agreement provides that the term **Superior Proposal** means an unsolicited written bona fide offer or proposal made by a third party with respect to a Competing Leidos Transaction (provided that such Competing Leidos Transaction must involve more than 50 percent of the total revenue, operating income, EBITDA or fair market value of the assets of Leidos and its subsidiaries, taken as a whole), on terms and conditions that the Leidos Board determines, in its good faith judgment, after consulting with a financial advisor of internationally recognized reputation and external legal counsel, and taking into account all legal, financial and regulatory and other aspects of the proposal (including availability of financing, and any changes to the terms of the Merger Agreement proposed by Lockheed Martin in response to such offer or proposal, or otherwise) to be (1) more favorable from a financial point of view to the stockholders of Leidos than the Merger, and (2) reasonably expected to be consummated.

## **Board Recommendation**

Leidos has agreed in the Merger Agreement that neither the Leidos Board nor any committee thereof will:

withdraw, qualify, modify, amend or fail to make, or publicly propose to withdraw, qualify, modify or amend, the Leidos Board's recommendation that Leidos stockholders vote in favor of the Share Issuance (the **Leidos Recommendation**);

make any public statement or take any action inconsistent with the **Leidos Recommendation**; or

approve or adopt, or recommend the approval or adoption of, or publicly propose to approve or adopt, a **Competing Leidos Transaction**.

Any of the actions described in the foregoing bullet points constitutes a **Change in Recommendation**.

In addition, notwithstanding the restrictions, if at any time prior to obtaining Leidos stockholder approval of the Share Issuance and in response to an offer or proposal for a Competing Leidos Transaction that did not result from a breach of the Merger Agreement, the Leidos Board determines in its good faith judgment (after consulting with outside legal counsel) that (1) the offer or proposal is a Superior Proposal, and (2) failure to make a **Change in Recommendation** with respect to the Superior Proposal would be inconsistent with its fiduciary duties to Leidos and the Leidos stockholders under applicable law, then the Leidos Board may make a **Change in Recommendation**, but only if:

Leidos provides written notice to Lockheed Martin advising Lockheed Martin that the Leidos Board has received a Superior Proposal promptly after the Leidos Board determines it has received a Superior Proposal, stating that the Leidos Board intends to make a **Change in Recommendation** and describing the terms and conditions of the Superior Proposal;

Lockheed Martin does not, within five business days of receipt of the notice of a Superior Proposal described above, make an offer to revise the terms of the Merger Agreement in a manner that the Leidos Board determines, in its good faith judgment, after consulting with a financial advisor of nationally recognized reputation and outside legal counsel, to be at least as favorable to Leidos stockholders as the Superior Proposal;

during the five business day period following delivery of the notice described above, Leidos negotiates in good faith with Lockheed Martin (to the extent Lockheed Martin desires to negotiate) regarding any offer or proposal made by Lockheed Martin to revise the terms of the Merger Agreement; and

if there is any amendment to the terms of the Superior Proposal during the five business day period following delivery of the notice described above, Leidos provides a new written notice of the terms of such amended Superior Proposal giving Lockheed Martin an additional three business day period to make an offer or proposal to revise the terms of the Merger Agreement in a manner that the Leidos Board determines to be at least as favorable to Leidos stockholders as the Superior Proposal.

The Merger Agreement provides that Leidos is not prohibited from disclosing the receipt of a proposal or offer for a Competing Leidos Transaction if compelled to do so under applicable law or Rule 14d-9 or Rule 14e-2(a) promulgated under the Exchange Act and is not prohibited from making a Change in Recommendation under certain circumstances if there is a material development or change in circumstances that was not known or reasonably foreseeable to the Leidos Board on the date the Merger Agreement was executed or arose after the execution of the Merger Agreement but becomes known to the Leidos Board prior to the meeting of the Leidos stockholders to vote on the proposal to approve the Share Issuance (such development or change, an Intervening Event ); provided that none of the following will comprise an Intervening Event: (1) any action taken by a party in compliance with the covenants in the Merger Agreement, (2) any action taken or omitted with the consent of Leidos, (3) any action taken or omitted by Leidos (or as a consequence thereof), or (4) the receipt, existence or terms of a Competing Leidos Transaction.



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### **Financing**

Pursuant to the Separation Agreement and the Splitco Commitment Letter entered into prior to the execution of the Separation Agreement, on or prior to the date of the Distribution, Splitco will incur new indebtedness in an aggregate principal amount of not less than the \$1,841,450,000 in the form of borrowings under a credit facility, and will use a portion of the proceeds of this indebtedness to pay the Splitco Special Cash Payment to Lockheed Martin. The Separation Agreement also provides that, prior to the Distribution, Splitco shall issue to Lockheed Martin a number of shares of Splitco Common Stock such that, subject to adjustment, the number of shares of Splitco common stock immediately prior to the Distribution equals 76,958,918.

Simultaneously with the execution of the Merger Agreement, Leidos entered into the Leidos Commitment Letter, under which the Leidos Commitment Parties committed to provide to Leidos up to \$1,440,000,000 in aggregate principal amount of senior secured term loans and revolving loans, in each case subject the terms and conditions of the Leidos Commitment Letter. See Debt Financing.

The Merger Agreement provides that Leidos will use reasonable best efforts to take all actions necessary to consummate the debt financing contemplated by the Leidos Commitment Letter as promptly as practicable after the date of the Merger Agreement on terms and conditions no less favorable in the aggregate than the terms and conditions of the Leidos Commitment Letter. Furthermore, Leidos is required to, and to cause its affiliates to:

use reasonable best efforts to comply with and maintain the Leidos Commitment Letter and negotiate and execute definitive agreements on the terms and conditions contained in the Leidos Commitment Letter;

satisfy the conditions in the Leidos Commitment Letter and the definitive agreements for the debt financing that are within Leidos control;

fully enforce its rights under the Leidos Commitment Letter and the definitive agreements for the debt financing; and

use reasonable best efforts to draw upon and consummate the debt financing contemplated by the Leidos Commitment Letter at or prior to the Distribution.

The Merger Agreement provides that if any portion of the financing contemplated by the Leidos Commitment Letter or the related definitive agreements becomes unavailable on the terms and conditions contemplated in the Leidos Commitment Letter or such definitive agreements, Leidos will use reasonable best efforts to obtain alternative financing that is sufficient to finance the payments to be made to Lockheed Martin under the Separation Agreement on terms that do not expand the conditions to the funding from those in the Leidos Commitment Letter. Leidos will be subject to the same obligations described in the preceding paragraph with respect to any such alternative financing arrangements.

Leidos has agreed to keep Lockheed Martin informed of the status of its efforts to arrange the debt financing. Except in limited circumstances, Leidos may not, without Lockheed Martin's consent, amend, modify, replace, waive or change any provision in the Leidos Commitment Letter or any definitive agreement relating to the debt financing in a manner that expands on the conditions precedent or contingencies to the funding on the closing date of the debt

financing or that could otherwise prevent, impair or materially delay the consummation of the Transactions or adversely impact the ability of Leidos to enforce its rights against the other parties to the Leidos Commitment Letter. Prior to the closing of the Merger, Lockheed Martin has agreed to cooperate, at the expense of Leidos, with Leidos for the arrangement of the debt financing.

### **Certain Other Covenants and Agreements**

The Merger Agreement contains certain other covenants and agreements, including covenants (with certain exceptions specified in the Merger Agreement) relating to:

each party's obligation to use reasonable best efforts to afford the other party and its authorized representatives access to each of the Splitco Business or Leidos' offices, properties and books and records and to furnish copies of related information, as well as restrictions on a party contacting any of the employees, customers, distributors or suppliers of the other party without the authorization of the other party;

preservation of the indemnification provisions in the bylaws of Splitco with respect to directors, officers, employees or agents of Splitco;

each party's obligation to cooperate and use reasonable best efforts to obtain the release of Lockheed Martin and its subsidiaries from certain contracts, instruments or other financial support arrangements to the extent relating to the Splitco Business and for which Lockheed Martin or its subsidiary is a guarantor or person required to provide financial support, including by substituting Leidos or one of its subsidiaries for the Lockheed Martin entity that is a party to the contract, instrument or financial support arrangement;

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an acknowledgement that, as an inducement to enter into the Merger Agreement and to consummate the Transactions, Lockheed Martin and Leidos will take, and cause Splitco and the Splitco Subsidiaries to take, all actions necessary or appropriate to comply with the obligations under the Separation Agreement prior to the effective time of the Merger or from and after the closing of the Merger, as applicable;

an acknowledgement that Leidos, Lockheed Martin, Splitco and Merger Sub exercise complete control and supervision over their respective operations prior to the consummation of the Merger;

the listing of the shares of Leidos common stock issued in the Merger on the NYSE;

steps required to cause any disposition of Splitco common stock or acquisitions of Leidos common stock resulting from the Transactions by each officer or director who is subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to Leidos or Splitco to be exempt under Rule 16b-3 promulgated under the Exchange Act;

confidentiality obligations of Lockheed Martin and Leidos;

each party's obligation to take appropriate actions, and to assist and cooperate with the other parties, to do all things necessary, proper or advisable under applicable law to execute and deliver the Transaction Documents and any other documents as may be required to carry out the provisions of the Merger Agreement and to consummate the Transactions, as well as Lockheed Martin's obligations to keep Leidos informed as to the status of the Internal Reorganization; and

preparation and delivery of the audited combined and consolidated financial statements of the Splitco Business and cooperation of the parties with respect to the preparation of pro forma financial statements required for the filing of the registration statements.

**Conditions to the Merger**

The obligations of Leidos, Lockheed Martin, Merger Sub and Splitco to consummate the Merger are subject to the satisfaction or, if permitted under applicable law, written waiver of the following conditions:

the consummation of the Internal Reorganization in all material respects in accordance with the Separation Agreement and the Distribution;

the effectiveness of the registration statement of Leidos and the registration statement of Splitco 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 approval for listing on the NYSE of the shares of Leidos common stock to be issued in the Merger;

the approval by Leidos stockholders of the Share Issuance;

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

the absence of any law or orders of governmental authorities in the United States or certain other jurisdictions that enjoins or makes illegal the consummation of the Internal Reorganization, the Distribution or the Merger.

The conditions listed above are referred to as the Joint Conditions to the Merger. As announced by Leidos on March 29, 2016, the applicable waiting period under the HSR Act has expired.

Leidos and Merger Subs obligations to effect the Merger are subject to the satisfaction or, if permitted by applicable law, written waiver of the following additional conditions:

the truth and correctness in all material respects of Lockheed Martin's representations and warranties with respect to corporate existence and power, corporate authorization, capital structure, ownership of equity interests in the Splitco Subsidiaries and joint ventures associated with the Splitco Business, absence of certain conflicts, required board and stockholder approvals and broker fees as of the closing date of the Merger;

the truth and correctness of Lockheed Martin's other representations and warranties as of the closing date of the Merger, except where a failure to be true and correct would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on Splitco;

the compliance in all material respects by Lockheed Martin and Splitco of all covenants and agreements required to be complied with by them on or prior to the effective time of the Merger under the Merger Agreement, the Separation Agreement and each other Transaction Document executed contemporaneously with the Merger Agreement;

the receipt by Leidos of a certificate, dated as of the closing date of the Merger, of an authorized representative of Lockheed Martin certifying the satisfaction by, as applicable, Lockheed Martin and Splitco of the conditions described in the preceding three bullet points;

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the receipt by Leidos of an opinion from a nationally recognized valuation firm that Leidos and its subsidiaries on a consolidated basis shall not be insolvent or otherwise unable to pay their respective obligations after giving effect to the Leidos Special Dividend and the Merger; and

the receipt by Leidos of the Leidos Tax Opinion and a copy of the opinion of Davis Polk & Wardwell LLP, tax counsel to Lockheed Martin, 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.

We refer to the first four conditions listed above as the Additional Conditions to the Merger for Leidos Benefit.

Lockheed Martin's and Splitco's obligations to effect the Merger are subject to the satisfaction or, if permitted by applicable law, waiver of the following additional conditions:

the truth and correctness in all material respects of Leidos and Merger Sub's representations and warranties with respect to corporate existence and power, corporate authorization, capitalization, absence of certain conflicts and broker fees as of the closing date of the Merger;

the truth and correctness of Leidos and Merger Sub's other representations and warranties as of the closing date of the Merger, except where a failure to be true and correct would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on Leidos;

the compliance in all material respects by Leidos and Merger Sub of all covenants and agreements required to be complied with by them on or prior to the effective time of the Merger under the Merger Agreement, the Separation Agreement and each other Transaction Document executed contemporaneously with the Merger Agreement;

the receipt by Lockheed Martin of a certificate, dated as of the closing date of the Merger, of an authorized representative of Leidos certifying the satisfaction by Leidos and Merger Sub of the conditions described in the preceding three bullet points;

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

the receipt by Lockheed Martin and Splitco of opinions from a nationally recognized valuation firm that Lockheed Martin and Splitco shall not be insolvent, unable to pay their respective obligations or otherwise unable to make a distribution under the MGCL or DGCL, as the case may be, after giving effect to the Splitco Special Cash Payment, the Distribution and the Merger;

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

Splitco shall have incurred the Splitco Debt and shall have received the proceeds of the Splitco Debt. We refer to the first four conditions listed above as the Additional Conditions to the Merger for Lockheed Martin's Benefit.

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. 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 approvals of the Share Issuance if required to do so by law or the rules of the NYSE. If Leidos waives a material condition to the consummation of the Transactions, Leidos will notify stockholders of the waiver by issuing a press release or other public announcement a minimum of five business days prior to the special meeting of Leidos stockholders. See Risk Factors Risks Related to the Transactions Leidos may waive one or more of the conditions to the consummation of the Transactions without re-soliciting stockholder approval.

### **Termination**

The Merger Agreement may be terminated and the Transactions may be abandoned at any time prior to the consummation of the Merger by the written consent of Lockheed Martin, Leidos, Splitco and Merger Sub. Also, subject to specified qualifications and exceptions, either Lockheed Martin or Leidos may terminate the Merger Agreement and abandon the Transactions at any time prior to the consummation of the Merger:

if the Merger has not been consummated by 11:59 p.m. New York City time on January 25, 2017 (such date and time, the Termination Date );

if any governmental authority in the United States or certain other jurisdictions has issued a final and non-appealable order that permanently enjoins the consummation of the Merger; or

if Leidos stockholders fail to approve the Share Issuance at the meeting of Leidos stockholders (including any adjournment, continuation or postponement thereof).

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In addition, subject to specified qualifications and exceptions, Lockheed Martin may terminate the Merger Agreement and abandon the Transactions if:

Leidos has breached any covenant or agreement in the Merger Agreement (including an obligation to consummate the Merger) that would, if occurring or continuing on the closing date of the Merger, cause the Joint Conditions to the Merger or Additional Conditions to the Merger for Lockheed Martin's Benefit not to be satisfied, and the breach is not cured, or cannot be cured, upon the earlier of (i) 30 days following Lockheed Martin's written notice to Leidos of such breach and Lockheed Martin's intent to terminate the Merger Agreement, (ii) with respect to a breach of an obligation to consummate the Merger, five business days following Lockheed Martin's written notice to Leidos of such breach and Lockheed Martin's intent to terminate the Merger Agreement, or (iii) the Termination Date (a termination pursuant to this provision, a Termination for Leidos' Material Breach);

a Change in Recommendation has occurred;

Leidos has failed to include the Leidos Recommendation in the Leidos proxy statement; or

Leidos has failed to comply with its obligations under the Merger Agreement relating to the meeting of Leidos stockholders or the non-solicitation of alternative transactions, except for de minimis non-compliances with these obligations that are promptly cured by Leidos.

In addition, subject to specified qualifications and exceptions, Leidos may terminate the Merger Agreement if:

Lockheed Martin or Splitco has breached any covenant or agreement in the Merger Agreement or the Separation Agreement (including an obligation to consummate the Merger) that would, if occurring or continuing on the closing date of the Merger, cause the Joint Conditions to the Merger or Additional Conditions to the Merger for Leidos' Benefit not to be satisfied, and the breach is not cured, or cannot be cured, upon the earlier of (i) 30 days following Leidos' written notice to Lockheed Martin and Splitco of such breach and Leidos' intent to terminate the Merger Agreement, (ii) with respect to a breach of an obligation to consummate the Merger, five business days following Leidos' written notice to Lockheed Martin and Splitco of such breach and Leidos' intent to terminate the Merger Agreement, or (iii) the Termination Date.

If the Merger Agreement is validly terminated, the Merger Agreement will terminate without any liability on the part of any party or their respective representatives except as described below in the section of this document entitled

Termination Fee and Expenses Payable in Certain Circumstances; provided that nothing in the Merger Agreement will relieve any party from liability for fraud committed prior to such termination or for any willful breach prior to such termination of any of its representations, warranties, covenants or agreements set forth in the Transaction Documents; provided, further, that provisions of the Merger Agreement relating to confidentiality, the effect of termination of the Merger Agreement, fees and expenses and all of the general provisions of the Merger Agreement will survive any termination and remain in full force and effect.

**Termination Fee and Expenses Payable in Certain Circumstances**

The Merger Agreement provides that, upon termination of the Merger Agreement under specified circumstances, a termination fee of \$150,000,000 is payable by Leidos to Lockheed Martin. The circumstances under which this termination fee is payable include:

if Lockheed Martin terminates the Merger Agreement due to (1) a Change in Recommendation, (2) Leidos failure to include the Leidos Recommendation in the Leidos proxy statement, or (3) Leidos failure to comply with its obligations under the Merger Agreement relating to the meeting of Leidos stockholders and the non-solicitation of alternative transactions; or

if (1) Leidos or Lockheed Martin terminates the Merger Agreement because the Merger has not been consummated by the Termination Date or there is a Termination for Leidos Material Breach, (2) prior to the termination of the Merger Agreement, a Competing Leidos Transaction is publicly announced or becomes publicly known, and (3) on or prior to the date that is 15 months after the date of termination, Leidos enters into a Competing Leidos Transaction or consummates a Competing Leidos Transaction (whether or not the applicable Competing Leidos Transaction is the same as the original Competing Leidos Transaction publicly announced or publicly known); provided that solely for purpose of this provision, references to 20 percent in the definition of Competing Leidos Transaction will be deemed to refer to 50 percent.

If the Merger Agreement is terminated because Leidos stockholders fail to approve the Share Issuance at the meeting of Leidos stockholders, Leidos will be required to reimburse Lockheed Martin in cash for all out-of-pocket fees and expenses actually incurred or accrued by Lockheed Martin and its affiliates in connection with the Transactions, up to a maximum of \$37,500,000 in the aggregate.



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Except as described in this section and subject to certain exceptions, the Merger Agreement provides that all out-of-pocket expenses incurred in connection with the Merger Agreement and the Transactions are to be paid by the party incurring the expenses, except that Lockheed Martin and Leidos shall each pay one-half of all out-of-pocket expenses relating to printing, filing and mailing the Leidos and Splitco registration statements and the Leidos proxy statement and all SEC and other regulatory filing fees incurred in connection with the registration statements and the proxy statement.

If Leidos fails to pay the \$150,000,000 termination fee described above when due, the amount of such payment will be increased to include the costs of all expenses incurred or accrued by Lockheed Martin and Splitco (including fees and expenses of counsel) in connection with the collection under and enforcement of the terms of the Merger Agreement, together with interest on the unpaid termination fee. Payment of the fees and expenses described in this section will not be in lieu of any damages incurred in the event of breach of the Merger Agreement.

In the event of a termination of the Merger Agreement, in addition to the payment of any termination fee, reimbursement of any out-of-pocket expenses and any other payments contemplated by the Merger Agreement, Leidos will pay to Lockheed Martin an amount of cash equal to the aggregate fees and expenses payable in connection with the financing contemplated by the Splitco Commitment Letter, including interest expenses for period up to and including the closing date of the Merger and any amounts required to reimburse the Splitco Commitment Parties (including costs of counsel to the Splitco Commitment Parties).

## **Specific Performance**

In the Merger Agreement, the parties acknowledge that money damages would be both incalculable and an insufficient remedy for any breach of the Merger Agreement by a party, and that any such breach would cause the other parties irreparable harm. Accordingly, the parties have agreed that, in the event of any breach or threatened breach of the provisions of the Merger Agreement, the other parties are entitled to enforce any provision of the Merger Agreement to equitable relief without the requirement of posting a bond or other security, including in the form of injunctions and orders for specific performance, in addition to all other remedies available to a party at law or in equity.

## **Amendments; Waivers**

No provision of the Merger Agreement may be amended or waived except by an instrument in writing signed by, in the case of an amendment, all of the parties to the Merger Agreement, or, in the case of a waiver, by the party or parties against whom the waiver is to be effective. For any amendments or waivers to the sections of the Merger Agreement relating to liability following payment of a termination fee, amendments and waivers, successors and assigns, governing law, dispute resolution, waiver of jury trial, third-party beneficiaries, certain non-parties to the Merger Agreement and non-recourse that, in each case, adversely affect any of Leidos or Splitco's financing sources, the prior written consent of the affected financing sources will be required before such amendment or waiver is effective.

## **THE SEPARATION AGREEMENT**

The following is a summary of the material provisions of the Separation Agreement. This summary is qualified in its entirety by the Separation Agreement, which is incorporated by reference in this document. Lockheed Martin stockholders and Leidos stockholders are urged to read the Separation Agreement in its entirety. This description of the Separation Agreement has been included to provide Lockheed Martin stockholders and Leidos stockholders with information regarding its terms. The rights and obligations of the parties are governed by the express terms and

conditions of the Separation Agreement and not by this summary or any other information included in this document. It is not intended to provide any other factual information about Leidos, Merger Sub, Lockheed Martin or Splitco. Information about Leidos, Merger Sub, Lockheed Martin and Splitco can be found elsewhere in this document and in the documents incorporated by reference into this document. See also [Where You Can Find More Information; Incorporation by Reference](#).

Descriptions regarding the assets and liabilities conveyed to Splitco and retained by Lockheed Martin contained in the Separation Agreement are qualified by certain information that has been exchanged between Lockheed Martin and Splitco that is not reflected in the Separation Agreement. Accordingly, Lockheed Martin stockholders and Leidos stockholders should not rely on the general descriptions of assets and liabilities in the Separation Agreement, as they may have been modified in important ways by the information exchanged between Lockheed Martin and Leidos.

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### **Overview**

The Separation Agreement provides for the Separation of the Splitco Business from Lockheed Martin. Among other things, the Separation Agreement specifies those assets of Lockheed Martin related to the Splitco Business that are to be transferred to, and those liabilities of Lockheed Martin related to the Splitco Business that are to be assumed by, Splitco and the Splitco Subsidiaries, and sets forth when and how these transfers and assumptions will occur. The Separation Agreement also includes procedures by which Lockheed Martin and Splitco will become separate and independent companies. The matters addressed by the Separation Agreement include, but are not limited to, the matters described below.

In consideration for the contribution of certain specified assets relating to the Splitco Business to Splitco and the Splitco Subsidiaries, Splitco will:

issue and deliver to Lockheed Martin additional shares of Splitco common stock that, together with the 100 shares of Splitco common stock currently owned by Lockheed Martin, will constitute all of the outstanding stock of Splitco;

pay to Lockheed Martin the Splitco Special Cash Payment; and

assume certain specified liabilities relating to the Splitco Business.

### **Separation of the IS&GS Business**

#### ***Internal Reorganization***

At or prior to the date of the Distribution, to the extent not completed prior to the date of the Separation Agreement, Lockheed Martin and Splitco will take steps (including transfers of stock or other equity interests, formation of new entities and/or declaration of dividends) to effect the Internal Reorganization, pursuant to which, among other things, all of the Splitco Subsidiaries will become direct or indirect subsidiaries of Splitco.

#### ***Conveyance of Assets; Assumption and Discharge of Liabilities***

Generally, subject to the terms and conditions contained in the Separation Agreement and only to the extent not inconsistent with the tax-free status of the Distribution:

at or prior to the date of the Distribution, Lockheed Martin will transfer to Splitco or a Splitco Subsidiary all the Transferred Assets (as defined below), and Splitco or a Splitco Subsidiary will assume all liabilities arising out of or relating to the Transferred Assets or the operation, affairs or conduct of the Splitco Business, whether arising before, at or after the execution of the Separation Agreement;

Lockheed Martin will retain all assets and liabilities that are not transferred to, or assumed by, Splitco or a Splitco Subsidiary in the Separation; and

following the date of the Distribution, if the parties receive funds upon payment of accounts receivable or other amounts attributable to assets or liabilities transferred to the other party, then the parties will transfer such misallocated assets or liabilities, or related funds, to the appropriate party.

The assets to be transferred or assigned to Splitco or the Splitco Subsidiaries (the **Transferred Assets** ) include, among other things, the following assets of Lockheed Martin:

certain owned and leased real property used in the Splitco Business;

all shares of capital stock and other equity interests in the Splitco Subsidiaries, including equity interests in the Joint Venture Entities;

all tangible property, including machinery, equipment, furniture, office equipment, communications equipment, vehicles, storage tanks, spare and replacement parts, fuel and other property, that is used exclusively in connection with the Splitco Business;

all contracts that relate exclusively to the Splitco Business and certain shared contracts and rights thereunder, including those contracts subject to the terms of the Shared Contracts Agreements (as more fully described in the section of this document entitled **Other Agreements Additional Agreements** );

all bids, proposals and quotations, including bids made in respect of government contracts, submitted prior to the date of the Distribution on behalf of the Splitco Business;

all accounts receivable and notes receivable relating exclusively to the operation of the Splitco Business;

all prepaid expenses relating exclusively to the operation of the Splitco Business, including lease and rental payments;

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all rights, claims, credits, causes of action or rights of set-off against other persons or entities (other than Lockheed Martin) relating exclusively to the Splitco Business or the Transferred Assets, including unliquidated rights under manufacturers and vendors warranties;

certain intellectual property and industrial property rights and rights in confidential information, including patents, trademarks, copyrights and applications therefor and all other intellectual property that is related to the Splitco Business and identified in the Intellectual Property Matters Agreement, subject to the terms, conditions and limitations of the Intellectual Property Matters Agreement as more fully described in the section of this document entitled Other Agreements Additional Agreements ;

all transferable franchise, licenses, permits or other authorizations issued by a governmental authority and owned, or granted, held or used exclusively in connection with the Splitco Business;

all data of any third party (other than Lockheed Martin, Splitco or a Splitco Subsidiary) that has been provided, disclosed or otherwise made available exclusively to, or is maintained or used exclusively by, the Splitco Business, together with any books, records, files and papers containing such data;

all data of Lockheed Martin used exclusively in the Splitco Business, together with any books, records, files and papers containing such data;

all corporate or limited liability company minute books and related stock records of Splitco and the Splitco Subsidiaries, all information and records related exclusively to Splitco and the Splitco Subsidiaries used to demonstrate compliance with applicable law and any other compliance records exclusively related to the Splitco Business and all separate financial and property tax records of Splitco or the Splitco Subsidiaries that do not form part of the general ledger of Lockheed Martin;

all insurance proceeds (except those relating to Excluded Assets or Excluded Liabilities (as defined below)), net of any retrospective premiums, deductibles, retention or similar amounts, arising out of or related to damage, destruction or loss of any Transferred Assets (or that would have been Transferred Assets but for the occurrence of an event giving rise to the insurance proceeds) to the extent of any damage or destruction that remains unrepaired or to the extent any property or asset remains unreplaced on the date of the Distribution;

assets relating to certain employee plans and other benefit arrangements expressly provided in the Employee Matters Agreement (as more fully described in the section of this document entitled Other Agreements Employee Matters Agreement ) to be transferred to Splitco or to a trust associated with an employee plan or benefit arrangement sponsored by Splitco; and

all software programs, document and other related materials used or held for use exclusively in connection with the Splitco Business, including software licenses, software embedded in any hardware or equipment

that is a Transferred Asset and operating system software and commercial off-the-shelf software installed on any computer, workstation, personal digital assistant, cell phone or other communications device that is a Transferred Asset, to the extent transferable under the terms of any license.

The Separation Agreement provides that the assets to be transferred or assigned to Splitco or the Splitco Subsidiaries will not in any event include, among other things, any of the following assets (the Excluded Assets ):

all cash and cash equivalents of Lockheed Martin including those used as collateral for financial support arrangements of Lockheed Martin, other than the actual cash of the Splitco Business calculated in accordance with the cash adjustment as more fully described below under Cash and Working Capital Adjustment and deposits with utilities, insurance companies and other persons;

all accounts receivable of the Splitco Business for which Lockheed Martin is the obligor;

all original books and records that Lockheed Martin is required to retain pursuant to applicable law or that contain information relating to any business or activity of Lockheed Martin not forming a part of the Splitco Business or any employee of Lockheed Martin that is not a Splitco Business Employee;

all original employment-related books and records relating to Splitco Business Employees and all books and records relating to employee plans and benefit arrangements under which benefits are provided to the Splitco Business Employees and Former Splitco Business Employee;

all tax records relating to the Splitco Business that form part of the general ledger of Lockheed Martin, any work papers of Lockheed Martin's auditors and any other tax records (including accounting records) of Lockheed Martin;

all assets of Lockheed Martin not held or owned by or used exclusively in connection with the Splitco Business, certain contracts, rights and other properties and assets that the parties have agreed will be excluded assets and all assets otherwise relating to or arising out of any business or operations other than the Splitco Business;

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all owned and leased real property other than the real property used in the Splitco Business;

all rights and claims of Lockheed Martin under any of the Transaction Documents or related agreements or instruments;

all notes receivable or similar claims or rights of the Splitco Business from Lockheed Martin relating to or arising out of the financing of the Splitco Business or the transfer of cash to or from the Splitco Business;

all capital stock or any other securities owned by Lockheed Martin (other than capital stock or equity interests in the Splitco Subsidiaries);

all intellectual property owned, licensed or used by Lockheed Martin other than the intellectual property to be transferred to Splitco and the Splitco Subsidiaries pursuant to the Intellectual Property Matters Agreement;

all assets relating to employee plans and benefits arrangements of Lockheed Martin, except to the extent the Employee Matters Agreement provides for the transfer of such assets to a Splitco Subsidiary or to a trust associated with an employee plan or benefit arrangement sponsored by a Splitco Subsidiary or such assets are held directly by any Splitco Subsidiary or by a trust associated with an employee plan or benefit arrangement sponsored by a Splitco Subsidiary and are exclusively applicable to Splitco Business Employees;

unless otherwise provided in the Supply Agreements, all intra-Lockheed Martin work transfer agreements and all quotations, bids or proposals submitted by Lockheed Martin, Splitco or the Splitco Subsidiaries in response to requests for intra-Lockheed Martin quotations and all rights and benefits in respect of other interdivision, intradivision intra-Lockheed Martin agreements or arrangements in respect of the Splitco Business;

all data of Lockheed Martin, other than any data used exclusively in the Splitco Business;

all assets that are expressly contemplated by the Transaction Documents to be retained by Lockheed Martin; and

all assets related to liabilities that will not be assumed by Splitco or the Splitco Subsidiaries in connection with the Transactions.

The Separation Agreement provides that the liabilities that are to be assumed by Splitco or the Splitco Subsidiaries (the Assumed Liabilities ) include, among other things, the following liabilities of Lockheed Martin:

all trade and other accounts payable and notes payable of the Splitco Business and all liabilities that are reflected in the balance sheet of the Splitco Business as of December 31, 2015, the final statement of the cash and net working capital of the Splitco Business to be delivered under the Separation Agreement or the notes to the combined financials statements of the Splitco Business;

certain specified liabilities that the parties have agreed will be assumed by Splitco or the Splitco Subsidiaries;

all liabilities arising under or related to bids, quotations and proposals of the Splitco Business and the contracts that constitute Transferred Assets (whether or not such contracts are inactive contracts and whether arising prior to, on or after the date of the Distribution and whether or not novated to Splitco or the Splitco Subsidiaries), including all settlement liabilities and liabilities arising from or relating to performance or non-performance of such contracts;

all liabilities in respect of the Splitco Business Employees, Former Splitco Business Employees and all dependents and beneficiaries of such individuals, including liabilities in respect of worker's compensation for incidents occurring prior to, on or after the date of the Distribution, liabilities in respect of any obligation of Lockheed Martin to indemnify, defend, or advance or reimburse expenses of any such employees or former employees in connection with the Splitco Business, and liabilities under or relating to the Worker Adjustment and Retraining Notification Act or any similar state or local law to the extent relating to or arising out of any actions taken prior to, on or after the date of the Distribution, except in each case to the extent otherwise provided in the Employee Matters Agreement;

all liabilities with respect to any Splitco Business Employees, Former Splitco Business Employees and all dependents and beneficiaries of such individuals under employee plans and benefit arrangements and liabilities in respect of independent contractor agreements or arrangements in connection with the Splitco Business, except in each case to the extent otherwise provided in the Employee Matters Agreement to be retained by Lockheed Martin;

all liabilities relating to errors or omissions or allegations thereof or claims of design or other defects with respect to any product sold or service provided by the Splitco Business prior to, on or after the date of the Distribution;

all liabilities relating to warranty or similar obligations or services with respect to any product sold or service provided by the Splitco Business prior to, on or after the date of the Distribution;

all liabilities relating to the owned and leased real property included in the Transferred Assets and the other real property and facilities to be leased, subleased or licensed to Splitco or the Splitco Subsidiaries arising prior to, on and after the Distribution as more fully described below in Other Agreements Additional Agreements Building and Office Space Lease, Subleases and License Agreements ;



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all liabilities under any stock purchase agreement or similar agreement relating to the acquisition of a Splitco Subsidiary prior to the date of the Distribution;

all liabilities relating to workers' compensation or the Occupational Safety and Health Act of 1970, as amended, and any regulations, decisions or orders promulgated thereunder, and any state or local law pertaining to worker, employee or occupational safety or health, whether arising prior to, on or after the date of the Distribution;

all liabilities arising under the new indebtedness to be incurred by Splitco prior to or on the date of the Distribution, all other indebtedness for borrowed money incurred by Splitco or the Splitco Subsidiaries after the Cut-Off Time and the Splitco Special Cash Payment;

all liabilities relating to or arising out of the ownership by Splitco, the Splitco Subsidiaries or any of their successors of the Transferred Assets, or the ownership, lease, use or occupancy by Splitco, or the Splitco Subsidiaries of real property or facilities, including the ownership of the owned and leased real property included in the Transferred Assets, the other real property and facilities to be leased, subleased or licensed to Splitco or the Splitco Subsidiaries on and after the Distribution (as more fully described below in Other Agreements ) or relating to or arising out of conditions at or affecting such real property or facilities or the operations of the Splitco Business that arise under or relate to environmental laws, whether arising prior to, on or after the date of the Distribution;

all liabilities arising directly or indirectly from legal, administrative or other claims or proceedings relating to the Splitco Business or any Transferred Assets, including in respect of any alleged tort, breach of contract, violation or noncompliance with applicable law or any franchise, permit, license or similar authorization, whether arising prior to, on or after the date of the Distribution; and

except as otherwise expressly provided in any Transaction Document, all other liabilities relating to or arising out of the Transferred Assets or the operation, affairs, or conduct of the Splitco Business whether arising before, at, or after the date of the Separation Agreement.

The Separation Agreement provides that the liabilities that are to be assumed by Splitco or the Splitco Subsidiaries will not in any event include, among other things, any of the following assets (the Excluded Liabilities ):

all liabilities in respect of trade and other accounts payable and notes payable of the Splitco Business for which Lockheed Martin is the obligee;

except for obligations in respect of the Splitco Special Cash Payment, all liabilities, whether now in existence or arising after the date of the Separation Agreement, in respect of notes payable (including intercompany promissory notes) or similar obligations (whether or not billed or accrued and however documented) to Lockheed Martin relating to or arising out of the financing of the Splitco Business or the transfer of cash to or from the Splitco Business;

except to the extent provided in the Supply Agreements, all liabilities in respect of any intra-Lockheed Martin work transfer agreements and any quotations, bids or proposals submitted by Lockheed Martin, Splitco or the Splitco Subsidiaries in response to requests for intra-Lockheed Martin quotations, intra-Lockheed Martin work transfer agreements or other interdivision, intradivision intra-Lockheed Martin agreements or arrangements in respect of the Splitco Business;

all liabilities, whether in existence or arising after the date of the Separation Agreement, relating to fees, commissions or expenses owed to any broker, finder, investment banker, accountant, attorney or other intermediary or advisor employed by Lockheed Martin, Splitco or the Splitco Subsidiaries in connection with the Transactions (other than any financing fees or expenses payable by Splitco or a Splitco Subsidiary in connection with the financial support arrangements relating to the Transactions;

all liabilities of Lockheed Martin in respect of indebtedness for borrowed money (excluding other liabilities arising under the new indebtedness to be incurred by Splitco prior to or on the date of the Distribution, all other indebtedness for borrowed money validly incurred by Splitco or the Splitco Subsidiaries after the Cut-Off Time and the Splitco Special Cash Payment, which will be assumed by Splitco or a Splitco Subsidiary unless otherwise included in the previous paragraph);

all liabilities under those contracts the parties have agreed will be Excluded Assets;

all liabilities expressly retained or assumed by Lockheed Martin pursuant to the Tax Matters Agreement or the Employee Matters Agreement, and certain liabilities that the parties have agreed will be retained by Lockheed Martin relating to (i) payment obligations in respect of specified indemnity holdback and other obligations continuing under certain transaction agreements relating to the acquisition of a Splitco Subsidiary prior to the date of the Distribution, (ii) liabilities of Lockheed Martin in respect of certain pending litigation and administrative proceedings and (iii) environmental remediation liabilities in respect of real property owned by Lockheed Martin in King of Prussia, Pennsylvania, a portion of which will be leased to Splitco or a Splitco Subsidiary as of the date of the Distribution; and

all liabilities arising from the satisfaction or settlement of intercompany accounts in accordance with the Separation Agreement.

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### ***Consents and Delayed Transfers***

The Separation Agreement provides that Lockheed Martin and Splitco will use their respective reasonable best efforts to obtain any third-party consents required in connection with the transfer of any contract constituting a Transferred Asset to Splitco or a Splitco Subsidiary or the transfer of any contract constituting an Excluded Asset from Splitco or a Splitco Subsidiary to Lockheed Martin.

Where the transfer of an asset requires the consent of a third party and such consent has not been obtained prior to the Distribution, then, to the extent permitted under such contract and applicable law, Lockheed Martin and Splitco will be required to cooperate to enter into mutually agreeable arrangements under which Splitco, the Splitco Subsidiaries or Lockheed Martin, as the case may be, will obtain the claims, rights and benefits associated with, and will assume the economic burden and other obligations with respect to, the relevant contract until the applicable contract is transferred to, or the applicable liability is assumed by, Splitco, a Splitco Subsidiary or Lockheed Martin, as applicable, and Splitco, the Splitco Subsidiaries or Lockheed Martin, as applicable, would enforce, at the other party's cost and reasonable request, any and all claims, rights and benefits against any third party arising under and contract, for the benefit of the other party. These obligations are subject to the limitation that no party will be required to pay any fee under any arrangements pursuant to the preceding sentence or in connection with obtaining any third-party consent, nor will any party have any obligation to seek such consents with respect to licenses for commercial off-the-shelf software.

In addition, subject to the terms of the Merger Agreement and the Separation Agreement, the Separation Agreement requires that Lockheed Martin and Splitco use reasonable best efforts to take all actions necessary to consummate the Transactions as promptly as practicable, including using reasonable best efforts to obtain all approvals of governmental authorities necessary to complete the Distribution and the other Transactions as further described in the section of this document entitled *The Transactions*. In connection with the foregoing, Splitco is required to provide any assurances as to financial capability, resources and creditworthiness requested by a governmental authority. Lockheed Martin and Splitco are also required to prepare and submit appropriate notifications and disclosures in connection with Transactions to the Defense Contract Management Agency, the Defense Security Service of the U.S. Government and any other governmental authorities pursuant to national or industrial security regulations and existing and prospective customers under government contracts or bids.

### ***Certain Additional Agreements***

The Separation Agreement requires that on the date of the Distribution, Lockheed Martin or its subsidiaries and Splitco or the Splitco Subsidiaries execute and deliver all necessary transfer documents relating to the Transferred Assets to be transferred or assigned to Splitco or the Splitco Subsidiaries (or the Excluded Assets to be transferred to, or retained by, Lockheed Martin) and the Assumed Liabilities to be assumed by Splitco or the Splitco Subsidiaries (or Excluded Liabilities to be transferred to, or retained by, Lockheed Martin), including the Assignment and Assumption Agreements.

In addition, on the date of the Distribution, Lockheed Martin or its subsidiaries and Splitco or the Splitco Subsidiaries are required to execute and deliver certain intellectual property matters agreements, real property agreements, transition services agreements, supply agreements, a subcontract pending the U.S. government's agreement to novate one or more government contracts to Splitco and agreements relating to performance of certain shared contracts, as more fully described in the section of this document entitled *Other Agreements* *Additional Agreements*.

### ***Intercompany Agreements***

All contracts between Splitco or any of the Splitco Subsidiaries, on the one hand, and Lockheed Martin or any of its subsidiaries (other than Splitco and the Splitco Subsidiaries), on the other hand, will be terminated as of the date of the Distribution, except for certain agreements like the Separation Agreement, the Merger Agreement, the Additional Agreements and contracts to which any non-wholly-owned subsidiary of Lockheed Martin or Splitco, as the case may be, is a party. In addition, all outstanding intercompany accounts between Lockheed Martin or any of its subsidiaries (other than Splitco and the Splitco Subsidiaries), on the one hand, and Splitco or any of the Splitco Subsidiaries, on the other hand, will be settled or satisfied no later than the date of the Distribution.

***Cash and Working Capital Adjustment***

The Separation Agreement provides for a cash adjustment to the extent that the actual cash of Splitco and the Splitco Subsidiaries as of the Cut-Off Time is greater than zero. The Separation Agreement also provides for a working capital adjustment to the extent that the actual net working capital of Splitco and the Splitco Subsidiaries as of the Cut-Off Time is greater or less than a target amount of net working capital for Splitco and the Splitco Subsidiaries as of such date.

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The Separation Agreement provides for a post-closing adjustment to cash and net working capital. If the actual net working capital amount as determined in accordance with the procedures set forth in the Separation Agreement exceeds \$22,000,000, then Splitco will pay to Lockheed Martin the excess, plus an amount equal to the actual cash of the Splitco Business as of the Cut-Off Time within five business days of the final determination of the actual amounts of net working capital and cash. If the actual net working capital amount is less than \$12,000,000, then Lockheed Martin will pay to Splitco the deficit, minus an amount equal to the actual cash of the Splitco Business as of the Cut-Off Time within five business days of the final determination of the actual amounts of net working capital and cash. Finally, if the actual net working capital amount is greater than or equal to \$12,000,000, but less than or equal to \$22,000,000, then Splitco will pay to Lockheed Martin an amount equal to the actual cash of the Splitco Business as of the Cut-Off Time and no other amount.

### ***Certain Resignations***

Lockheed Martin is required to cause each director or employee of Lockheed Martin who will not be employed by Splitco or a Splitco Subsidiary after the Distribution to resign, effective no later than the date of the Distribution, from all boards of directors or similar governing bodies of Splitco or any Splitco Subsidiary and from all positions as officers of Splitco or any Splitco Subsidiary.

### **Issuance of Splitco Common Stock, Incurrence of Debt and Splitco Special Cash Payment**

As consideration for the Splitco Transfer, Splitco will:

issue and deliver to Lockheed Martin additional shares of Splitco common stock which, along with the 100 shares of Splitco common stock then owned by Lockheed Martin, will constitute all of the outstanding stock of Splitco and will equal the number of shares of Leidos common stock to be issued to Splitco stockholders in the Merger; and

pay to Lockheed Martin the Splitco Special Cash Payment.

On or before the date of the Distribution, Splitco will enter into a definitive agreement or agreements providing for indebtedness in an aggregate principal amount equal to \$1,841,450,000 in the form of borrowings under credit facilities, as more fully described in the section of this document entitled *Debt Financing*. Prior to the date of the Distribution, Splitco will incur and receive the proceeds of such indebtedness.

### **Distribution**

In the Distribution, Lockheed Martin will distribute all of the outstanding shares of Splitco common stock to the Lockheed Martin stockholders. The Separation Agreement provides that the Distribution may be effected, at Lockheed Martin's option, by way of a spin-off or a split-off pursuant to the Exchange Offer. Lockheed Martin intends to effect the Distribution as a split-off pursuant to the Exchange Offer.

### **Conditions to the Distribution**

The obligation of Lockheed Martin to complete the Distribution is subject to the satisfaction or waiver by Lockheed Martin (subject to the limitation that any waiver shall also be subject to the prior written consent of Leidos) of the following conditions:

execution and delivery of each Transaction Document to the extent not already executed by each party thereto; and

each of the conditions to the obligations of the parties to the Merger Agreement to consummate the Merger and complete the other transactions contemplated by the Merger Agreement shall have been satisfied or waived by the party entitled to the benefit thereof (other than those conditions that by their nature are to be satisfied contemporaneously with or immediately following the Distribution), in each case as described in the section of this document entitled "The Merger Agreement - Conditions to the Merger."

**Disclaimer**

Except as expressly provided otherwise in any Transaction Document, Splitco will take the assets and liabilities of the Splitco Business that are allocated to it on an "as is, where is" basis, with no representation or warranty of any kind. The foregoing has no impact on the representations and warranties made by Lockheed Martin in the Merger Agreement, the Tax Matters Agreement, the Employee Matters Agreement or any of the Additional Agreements. See "The Merger Agreement - Representations and Warranties" for a description of the representations and warranties related to the Splitco Business that are contained in the Merger Agreement.

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**Indemnification; Limitation on Liability**

The Separation Agreement provides that, after the Distribution, the sole and exclusive remedy with respect to any breach of the Separation Agreement will be a claim for damages (whether in contract, in tort or otherwise, and whether in law, in equity or both). Subject to certain limitations described below, each of Splitco and Lockheed Martin agreed to indemnify the other party, its affiliates and their respective representatives against, and hold harmless from, all assessments, losses, damages, costs, expenses, liabilities, judgments, awards, fines, sanctions, penalties, charges and amounts paid in settlement (subject to the limitations in the Separation Agreement, Damages ) arising out of, resulting from or related to the following:

any breach or failure to perform by Splitco, any Splitco Subsidiary or Lockheed Martin, as the case may be, of any covenants, agreements or obligations of such party under the Separation Agreement;

any liability assumed by Splitco and the Splitco Subsidiaries, except to the extent subject to indemnification by Lockheed Martin under the Separation Agreement, or any liability retained by Lockheed Martin, as the case may be;

any matters for which indemnification is provided by Lockheed Martin, Splitco or the Splitco Subsidiaries, as the case may be, under any Transaction Document; and

any liabilities assumed by Splitco and the Splitco Subsidiaries, or Lockheed Martin, as applicable, in respect of contracts for which the transfer to Splitco or the Splitco Subsidiaries, on the one hand, or to Lockheed Martin, on the other hand, is delayed pending receipt of a required consent from a third party.

Under the Separation Agreement, Lockheed Martin will indemnify Splitco, its affiliates and their respective representatives for any Damages incurred by them in connection with any liability assumed by Splitco or a Splitco Subsidiary under the Separation Agreement, but only to the extent such Damages arise out of or result from any circumstance, condition or event existing or occurring prior to the date of the Distribution and was not otherwise agreed to by the parties. Notwithstanding the foregoing, Lockheed Martin also has agreed to indemnify Splitco for a portion of certain Damages relating to a pending dispute arising out of the Splitco Business.

Under the Separation Agreement, Splitco also will indemnify Lockheed Martin, its affiliates and their respective representatives for any financial support arrangements relating to, arising out of or supporting the Splitco Business.

The Separation Agreement provides for certain limitations in connection with indemnification sought by the parties for Damages, including the following:

each party must, and must cause its Subsidiaries to, take all reasonable steps to mitigate its Damages after becoming aware of any event that could reasonably be expected to give rise to any such Damages, and indemnification will not be available to the extent a party fails to take reasonable steps to mitigate such Damages.

no Lockheed Martin or Splitco indemnified party will be entitled to payment or indemnification more than once with respect to the same matter;

no party will be entitled to set off, or have any right to set off, with respect to any Damages against any payments to be made by any such party under the Transaction Documents; and

Lockheed Martin has no obligation to indemnify Splitco, its affiliates and their respective representatives with regard to any liabilities assumed by Splitco and the Splitco Subsidiaries: (i) unless Splitco provides written notice of any such claim on or before the first anniversary of the date of the Distribution, (ii) to the extent of any amounts reserved or accrued on the balance sheet of the Splitco Business as of December 31, 2015 or taken into account in determining the actual net working capital of the Splitco Business as of the Cut-Off Time, (iii) until the aggregate amount of all Damages exceeds \$100,000,000 (at which point, the indemnified parties will be entitled to indemnification only for Damages in excess of that amount) and (iv) for Damages that exceed \$400,000,000 in the aggregate.

The Separation Agreement provides that Lockheed Martin and Splitco (and any Splitco Subsidiary), as applicable, will use reasonable best efforts to obtain reimbursement of all Damages that are subject to indemnification as a reimbursable cost under government contracts to the extent such Damages are reimbursable in accordance with applicable law. To the extent that Lockheed Martin and Splitco (and any Splitco Subsidiary), as applicable, is reimbursed for any cost under a government contract in respect of a matter subject to indemnification pursuant to the Separation Agreement, such party shall remit such reimbursement to the other party promptly upon receipt of such reimbursement.



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### **Further Assurances and Certain Additional Covenants**

The Separation Agreement addresses additional obligations of Lockheed Martin and Splitco relating to, among other things, record retention, access to information, confidentiality, the privileged nature of information, separation planning and real estate matters, and includes covenants relating to non-solicitation of employees, insurance and financial support arrangements, and casualty and condemnation matters. Certain of these obligations and covenants are described below.

#### ***Further Assurances***

Subject to the terms and conditions of the Separation Agreement, before and after the Distribution, each of Lockheed Martin and Splitco has agreed to use reasonable best efforts to take all actions and to do all things necessary, proper, advisable or desirable under applicable law to consummate or implement the Transactions.

#### ***Novation and Other Matters Related to Government Contracts***

After the date of the Distribution, Splitco or a Splitco Subsidiary will submit a request that the U.S. Government recognize Splitco or a Splitco Subsidiary as the successor in interest to all of the government contracts constituting Transferred Assets that are being assigned to Splitco or the Splitco Subsidiaries. Thereafter, the parties are required to enter into novation agreements in accordance with the federal acquisition regulations. In addition to the foregoing, Splitco and Lockheed Martin are required to use reasonable best efforts to obtain all consents, approvals and waivers required to process, enter into and complete the novation agreements with respect to such government contracts. On the date of the Distribution, the parties will enter into Subcontract Pending Novation to assume and perform the obligations under the government contracts constituting Transferred Assets until such time as the novation agreements are executed for such contracts with the U.S. Government. See *Other Agreements Additional Agreements Subcontract Pending Novation* for a more detailed description of this agreement. Notwithstanding the foregoing, the parties acknowledged that it may be impracticable to seek novation of inactive government contracts and, as a result, will not seek novation of inactive government contracts unless required to do so by a governmental authority even though assets and liabilities in respect of inactive government contracts constituting Transferred Assets or Assumed Liabilities will be allocated to Splitco and the Splitco Subsidiaries, and inactive government contracts constituting Excluded Assets or Excluded Liabilities will be allocated to Lockheed Martin in connection with the Transactions.

Splitco and Lockheed Martin have further agreed to use reasonable best efforts to obtain any consent or novation to the extent that consent, or a novation comparable to the novations described in the immediately preceding paragraph, is required from, any government authority that is not part of the U.S. Government. Splitco and Lockheed Martin agreed to cooperate in the filing, prosecution and intervention in bid protests arising from or in connection with any bids, proposals or quotations made in respect of U.S. government contracts. Lockheed Martin is also required to file claims, participate in litigation or take such bid protest action on behalf of Splitco if Splitco, in Lockheed Martin's reasonable discretion after consultation with outside counsel, has satisfied its obligation under applicable law prior to the filing, prosecution and intervention in such disputes.

After the Distribution, in the event any member of a party's group remains a party to any contract with any governmental authority, which contract is to be novated to a member of the other party's group after the Distribution, such contract party is required to take all reasonable measures necessary to maintain any security clearances required to be maintained pursuant to or in connection with such agreement until such contract is novated to the applicable member of the novation party's group.

After the Distribution, each of Lockheed Martin and Splitco will allow any government authority to offset any settlement liability related to government contracts assigned to such party against payments otherwise owed by such governmental authority or will promptly reimburse Lockheed Martin or Splitco, for such party's *pro rata* portion of such settlement liabilities. Each party will also indemnify and compensate the other party for any future liabilities associated with audit adjustments of allocations related to or associated with the Transferred Assets and Assumed Liabilities.

Furthermore, Lockheed Martin and Splitco agreed to take certain actions with respect to government contracts for which the period of performance has elapsed, but which remain pending close-out. The parties allocated responsibilities associated with the close-out process, including the party responsible for the on-program close-out function and central close-out function with respect to each government contract and the responsibilities of each party with respect to claims made by any governmental authority during the contract close-out process.

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### ***Non-Solicitation of Employees***

Pursuant to the Separation Agreement, for a period of 18 months after the date of the Distribution, each of Splitco and Lockheed Martin has agreed that, without the prior written approval of Lockheed Martin or Splitco (as applicable), it will not, directly or indirectly, solicit any non-administrative employee of the other party to terminate his or her employment relationship with such party. The restrictions in the preceding sentence do not apply to any employee hired as a result of the use of an independent employment agency (so long as the agency was not directed to solicit a particular individual or a class of individuals that could only be satisfied by employees of, (i) in the case of solicitation by Splitco, Lockheed Martin or any of its Subsidiaries, or (ii) in the case of solicitation by Lockheed Martin, the Splitco Business) or general solicitations or advertisements (such as an advertisement in newspapers, on, as applicable, Splitco or Lockheed Martin websites or internet job sites, or on radio or television), in each case to the extent not specifically directed to employees of Splitco or Lockheed Martin, as the case may be.

### ***Insurance; Financial Support Arrangements***

From and after the effective time of the Merger, Lockheed Martin will have no obligation to maintain any form of insurance coverage in respect of the Transferred Assets, the Splitco Business or the Splitco Business Employees, except that Lockheed Martin will maintain, for at least six years after the Merger, tail coverage provided by the directors and officers liability and fiduciary liability insurance under which Splitco and the Splitco Subsidiaries are covered immediately prior to the effective time of the Merger.

On and after the date of the Distribution, Splitco is required to reimburse Lockheed Martin for any self-insurance, retention, deductible or retrospective premium or similar expenses allocated to the Splitco Business by Lockheed Martin resulting from or arising out of any and all current or former insurance policies maintained by Lockheed Martin to the extent any such liabilities relate to the Splitco Business, any Assumed Liabilities or any other activities of Splitco or the Splitco Subsidiaries. In connection with any claims asserted against Splitco or the Splitco Subsidiaries after the date of the Distribution arising out of occurrence before the date of the Distribution, Splitco and the Splitco Subsidiaries may access coverage under occurrence-based insurance policies of Lockheed Martin in place prior to the date of the Distribution and under which Splitco or any Splitco Subsidiary was insured to the extent such coverage exists, and Lockheed Martin will cooperate in pursuing any such claims.

In addition, within 60 days after the date of the Distribution, Splitco must in good faith seek to have Lockheed Martin released, effective as of the date of Distribution, from all obligations under any financial support arrangements, including letters of credit, performance guarantees, surety bonds and similar arrangements, entered into by Lockheed Martin on behalf of the Splitco Business prior to the Distribution. If, after the Distribution, any amounts are drawn on any financial support arrangements pursuant to which Lockheed Martin is obligated to make any reimbursement or Lockheed Martin pays any amounts under such financial support arrangements, Splitco is required to promptly reimburse Lockheed Martin for such amounts.

### ***Lockbox Accounts***

On and after the date of the Distribution, Lockheed Martin will take such actions as may be reasonable under the circumstances to transfer to Splitco from time to time any payments in respect of accounts receivable constituting Transferred Assets in any lockbox or similar bank account of Lockheed Martin and its Subsidiaries (other than the Splitco Subsidiaries). On and after the date of the Distribution, Splitco shall take such actions as may be reasonable under the circumstances to transfer to Lockheed Martin from time to time any payments in respect of accounts receivable constituting Excluded Assets received by Splitco and the Splitco Subsidiaries in any lockbox or similar bank account of Splitco.

**Casualty and Condemnation**

If there is any physical damage to, destruction of, or theft or similar loss of any Transferred Assets between the date of execution of the Separation Agreement and the date of the Distribution or any taking by eminent domain or similar action by a governmental authority of an asset that would otherwise be considered a Transferred Asset, then Lockheed Martin must use commercially reasonable efforts consistent with past practice to (i) repair or replace any such assets and (ii) replace the asset that has been condemned or taken as necessary consistent with prudent operation of the Splitco Business. If the Distribution occurs prior to the repair or replacement of such assets, then Lockheed Martin shall promptly pay to Splitco or the Splitco Subsidiaries any casualty insurance proceeds or other funds Lockheed Martin receives with respect to the damage, destruction, loss or taking of such Transferred Assets.

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### **Real Property and Related Matters**

As of the date of the Distribution, Lockheed Martin will transfer to Splitco by quitclaim deed certain owned real property in Gaithersburg, Maryland. Lockheed and Splitco also must cooperate with each other and use reasonable best efforts to take all actions and to do all things necessary or desirable to assign the leases included in the Transferred Assets to be assigned to Splitco or a designated Splitco Subsidiary.

With respect to other real property and facilities associated with the Splitco Business, Lockheed and Splitco must cooperate with each other and use reasonable best efforts to take all actions and to do all things necessary or desirable for Lockheed Martin to, immediately prior to the date of the Distribution, (a) lease to Splitco or a designated Splitco Subsidiary certain buildings and other space at Lockheed Martin facilities in Manassas, Virginia; Rockville, Maryland; and King of Prussia, Pennsylvania that will continue to be owned by Lockheed Martin or one of its subsidiaries after the date of the Distribution, (b) sublease to Splitco space within the existing leased facility of Lockheed Martin at Stennis Space Center in Mississippi that will continue to be leased by Lockheed Martin or one of its subsidiaries after the date of the Distribution and (c) license, on a short-term basis, space at facilities utilized by other businesses of Lockheed Martin located in Owego, New York; Mt. Laurel, New Jersey; and two properties in Herndon, Virginia that will continue to be owned or leased by Lockheed Martin or one of its subsidiaries after the Distribution. Lockheed Martin and Splitco will also cooperate with each other and use reasonable best efforts to take all actions and to do all things necessary or desirable for Splitco to (a) sublease to Lockheed Martin space within the leased facility in Kingston, Australia for which the applicable lease will be transferred to Splitco in connection with Transactions and (b) license to Lockheed Martin space at the facilities located in Farnborough, United Kingdom and Eagan, Minnesota for which the applicable lease or sublease will be transferred to Splitco in connection with the Transactions. The agreements with respect to the real property and facilities to be leased, subleased or licensed to Splitco, the Splitco Subsidiaries and Lockheed Martin on and after the date of the Distribution are more fully described below in Other Agreements Additional Agreements Building and Office Space Lease, Subleases and License Agreements.

### **Termination**

Without any further action, the Separation Agreement will terminate simultaneously upon a valid termination of the Merger Agreement prior to the closing of the Merger. If the Separation Agreement is so terminated, neither Lockheed Martin nor Splitco will be liable to the other party or any other person under the Separation Agreement, except as provided in the Merger Agreement. In addition, pursuant to the terms of the Merger Agreement, neither Lockheed Martin nor Splitco may otherwise terminate the Separation Agreement prior to the closing of the Merger without the prior written consent of Leidos.

### **Assignment; Amendment and Waiver**

Prior to the closing of the Merger, the Separation Agreement may not be assigned, amended or modified, and rights under the Separation Agreement may not be waived, by Lockheed Martin or Splitco without the prior written consent of Leidos.

## **DEBT FINANCING**

### **Overview**

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 (each commitment letter, as amended, restated, modified or

otherwise supplemented through the date hereof, the Leidos Commitment Letter and the Splitco Commitment Letter respectively and, collectively, the Commitment Letters ) pursuant to which the Commitment Parties agreed to provide debt financing in connection with the Transactions. The following is a description of the principal terms of such indebtedness, as set out in the Commitment Letters as in effect on the date hereof.

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In connection with the Transactions, Splitco and Leidos expect to engage in the following financing activities:

the entry by the Leidos Borrower into a new senior secured credit facility 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 (the Leidos Term Loan A Facility ) and a revolving credit facility in an aggregate principal amount of up to \$750,000,000 (the Leidos Revolving Credit Facility and, together with the Leidos Term Loan A Facility, the Leidos Facilities ), the proceeds of which will be used, together with cash on hand of the Leidos Borrower, to, among other things, (i) pay a special dividend to Leidos stockholders in an amount not to exceed \$1,029,210,261, (ii) repay in full all outstanding indebtedness for borrowed money of the Splitco Business, if any (other than the debt incurred by Splitco under the Splitco Facilities), (iii) repay in full all indebtedness, and terminate all commitments, under Leidos Amended and Restated Four Year Credit Agreement, dated as of March 11, 2011, among Leidos, as borrower, the Leidos Borrower, as guarantor, Citibank, N.A., as administrative agent and the lenders, other agents and other parties party thereto from time to time (as amended by Amendment No. 1, dated as of April 19, 2013, Amendment No. 2, dated as of October 17, 2014, Amendment No. 3 dated as of January 26, 2016, Amendment No. 4, dated as of February 12, 2016, and as further amended, amended and restated, supplemented or otherwise modified through the date hereof) and (iv) pay certain fees, costs and expenses in connection with the consummation of the Transactions, as specified in the Leidos Commitment Letter and definitive documentation in connection therewith.

the entry by Splitco into a new senior secured credit facility 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 (the Splitco Three-Year Term Loan A Facility ), a five-year term loan A facility in an aggregate principal amount of up to \$310,000,000 (the Splitco Five-Year Term Loan A Facility ), and a term loan B facility in an aggregate principal amount of up to \$1,131,450,000 (the Splitco Term Loan B Facility and, together with the Splitco Three-Year Term Loan A Facility and the Splitco Five-Year Term Loan A Facility, the Splitco Facilities ; the Splitco Facilities together with the Leidos Facilities, the Facilities ), in order to (i) make the Special Cash Payment and (ii) pay certain fees, costs and expenses in connection with the consummation of the Transactions, as specified in the Splitco Commitment Letter and definitive documentation in connection therewith.

As a result of these financing activities, Leidos leverage will increase after the consummation of the Transactions. For a discussion of Leidos liquidity and capital resources after the consummation of the Transactions, see Information on Leidos Leidos Liquidity and Capital Resources After the Consummation of the Transactions.

**Leidos Term Loan A Facility**

Pursuant to the Leidos Commitment Letter, subject to certain conditions, the Commitment Parties agreed to provide to the Leidos Borrower the Leidos Term Loan A Facility consisting of senior secured term loans in an aggregate principal amount of up to \$690,000,000 to be used by the Leidos Borrower to consummate the Transactions. See Debt Financing Overview.

The full amount of the Leidos Term Loan A Facility must be drawn in a single drawing on the closing date of the Transactions, and amounts borrowed under the Leidos Term Loan A Facility may not be reborrowed. The Leidos Commitment Letter provides that the terms of the Leidos Term Loan A Facility will be finalized in a credit agreement (the Leidos Credit Agreement ) and related documentation to be mutually agreed between Leidos, the Leidos Borrower

and the agents and lenders thereunder.

The Leidos Term Loan A Facility will mature five years after the date of the consummation of the Transactions; provided that if any of Leidos' 4.450 percent notes due 2020 have not been refinanced in a Qualifying Refinancing (to be defined in the Leidos Credit Agreement) prior to the date that is 91 days before the maturity date of such notes (the Early Maturity Date), then the Leidos Term Loan A Facility will mature on the Early Maturity Date.

Leidos will pay interest on the unpaid principal amount of each loan under the Leidos Term Loan A Facility at a rate *per annum* equal to (a) the sum of the Base Rate plus an applicable margin for Base Rate loans or (b) LIBOR plus an applicable margin for LIBOR loans. The applicable margin for the loans under the Leidos Term Loan A Facility will be 1.25% for Base Rate loans and 2.25% for LIBOR loans on the closing date of the Leidos Term Loan A Facility, and will be subject to two step-downs to, in the case of (x) Base Rate loans, 1.00% and 0.75% and (y) LIBOR loans, 2.00% and 1.75%, in each case based upon achievement and maintenance of Senior Secured Leverage Ratios of 2.75:1.00 and 2.25:1.00, respectively.

### ***Prepayments***

The Leidos Commitment Letter provides that voluntary prepayments of loans under the Leidos Term Loan A Facility may be made at any time, on three business days' notice in the case of a prepayment of LIBOR term loans, or one business day's notice in the case of a prepayment of Base Rate term loans, without premium or penalty, in minimum principal amounts to be agreed in the case of the Leidos Credit Agreement; provided that voluntary prepayments of LIBOR term loans made on a date other than the last day of an interest period applicable thereto shall be subject to customary breakage costs. Such prepayments will be applied to scheduled installments of principal payments under the Leidos Term Loan A Facility as directed by the Leidos Borrower.



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In addition, loans under the Leidos Term Loan A Facility shall be prepaid with (i) 50 percent of Leidos consolidated excess cash flow, with reductions to 25 percent and 0 percent based upon achievement and maintenance of senior secured leverage ratios to be mutually agreed and (ii) 100 percent of the net cash proceeds of all asset sales and other dispositions of property, subject to customary reinvestment rights, and all issuances, offerings or placements of debt, in each case, by Leidos, the Leidos Borrower, Splitco and their respective restricted subsidiaries, subject to certain customary exceptions. Such prepayments shall be allocated *pro rata* among the outstanding term loans under the Splitco Facilities and the Leidos Term Loan A Facility.

***Covenants***

Leidos, Leidos Borrower and their respective subsidiaries will be subject to customary affirmative and negative covenants in connection with the Leidos Term Loan A Facility, including limitations on:

liens;

mergers, consolidations, liquidations and dissolutions;

changes in business;

investments, loans, advances, guarantees and acquisitions;

asset sales;

sale-and leaseback transactions;

speculative hedging arrangements;

dividends or other distributions on capital stock, redemptions and repurchases of capital stock and prepayments, redemptions and repurchases of junior debt;

transactions with affiliates;

restrictions on liens and other restrictive agreements;

debt and preferred stock;

amendments of the operative documents related to the Splitco Facilities, junior debt agreements and organizational documents; and

changes in fiscal year.

### ***Financial Covenants***

Leidos will be required to maintain, as at the end of each fiscal quarter after the closing date of the Debt Financings, (i) in the case of any fiscal quarter ending on or prior to the fiscal quarter ending 18 months after such closing date, a ratio of senior secured indebtedness to EBITDA (a Senior Secured Leverage Ratio ) equal to or less than 4.75 to 1.00, (ii) in the case of any fiscal quarter ending after the fiscal quarter ending 18 months after such closing date and on or prior to the fiscal quarter ending 30 months after such closing date, a Senior Secured Leverage Ratio equal to or less than 4.25 to 1.00 and (iii) in the case of any fiscal quarter ending after the fiscal quarter ending 30 months after such closing date, a Senior Leverage Ratio equal to or less than 3.75 to 1.00.

### ***Guarantee and Security***

Obligations under the Leidos Term Loan A Facility will be unconditionally guaranteed, on a joint and several basis, by Leidos and by each direct or indirect, wholly-owned domestic subsidiary of Leidos, subject to customary exceptions, from time to time (other than the Leidos Borrower), including, following the Merger, Splitco and its direct and indirect, wholly-owned domestic subsidiaries, subject to customary exceptions (collectively, the Leidos Guarantors and, together with the Splitco Guarantors (as defined below), the Guarantors ).

Obligations under the Leidos Term Loan A Facility will be secured on a first-priority basis (and *pari passu* with the Leidos Revolving Credit Facility and the Splitco Facilities) by substantially all of the assets of the Leidos Borrower and each Guarantor.

### ***Events of Default***

Events of default under the Leidos Term Loan A Facility will include the following (with customary qualifications and exceptions):

nonpayment of principal, interest, fees or other amounts;

inaccuracy of representations and warranties;

violation of covenants;

cross default and cross acceleration;

voluntary and involuntary bankruptcy or insolvency proceedings;

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inability to pay debts as they become due;

material judgments;

ERISA events;

actual or asserted invalidity of security documents or guarantees; and

change in control.

An immediate event of default will occur upon (i) a failure to consummate the Merger immediately following the initial funding of the Leidos Facilities or (ii) a failure by the subsidiaries of Leidos required to become Guarantors as of the Closing Date under the Facilities (the Initial Guarantors) to guarantee the Facilities or to grant a security interest in substantially all their respective assets to secure the Facilities, in each case, immediately following the Merger.

### **Leidos Revolving Credit Facility**

Pursuant to the Leidos Commitment Letter, subject to certain conditions, the Commitment Parties agreed to provide to the Leidos Borrower the Leidos Revolving Credit Facility, a senior secured revolving credit facility in an aggregate principal amount of up to \$750,000,000 to be used by the Leidos Borrower primarily for working capital and general corporate purposes. See Debt Financing Overview.

The Leidos Commitment Letter provides that up to \$50,000,000 of loans under the Leidos Revolving Credit Facility may be incurred on the closing date of the Transactions to finance the Transactions and that additional loans under the Leidos Revolving Credit Facility may be incurred on the closing date of the Transactions for working capital and general corporate purposes; provided that the aggregate amount of loans under the Leidos Revolving Credit Facility incurred on the closing date of the Transactions may not exceed \$200,000,000. Amounts repaid under the Leidos Revolving Credit Facility may be reborrowed at any time prior to the maturity of the Leidos Revolving Credit Facility, subject to conditions and limitations specified in the Leidos Credit Agreement and related documentation.

The Leidos Commitment Letter provides that obligations under Leidos Revolving Credit Facility will mature five years after the closing date of the Transactions; provided that, if any of Leidos 4.450 percent notes due 2020 have not been refinanced in a Qualifying Refinancing (to be defined in the Leidos Credit Agreement) prior to the Early Maturity Date, then the Leidos Revolving Credit Facility will mature on the Early Maturity Date.

Leidos will pay interest on the unpaid principal amount of each loan under the Leidos Revolving Credit Facility at a rate *per annum* equal to (a) the sum of the Base Rate plus an applicable margin for Base Rate loans of (b) LIBOR plus an applicable margin for LIBOR loans. The applicable margin for the loans under the Leidos Revolving Credit Facility will be 1.25% for Base Rate loans and 2.25% for LIBOR loans on the closing date of the Leidos Revolving Credit Facility, and will be subject to two step-downs to, in the case of (x) Base Rate loans, 1.00% and 0.75% and (y) LIBOR loans, 2.00% and 1.75%, in each case based upon achievement and maintenance of Senior Secured Leverage Ratios of 2.75:1.00 and 2.25:1.00, respectively.

### ***Commitment Reductions***

The Leidos Credit Agreement will provide, subject to certain conditions, that commitments under the Leidos Revolving Credit Facility may be permanently reduced at any time.

***Covenants***

Under the Leidos Revolving Credit Facility, Leidos, Leidos Borrower and their respective subsidiaries will be subject to the same customary affirmative and negative covenants applicable to the Leidos Term Loan A Facility. See Leidos Term Loan A Facility Covenants.

***Financial Covenants***

Under the Leidos Revolving Credit Facility, Leidos, Leidos Borrower and their respective subsidiaries will be subject to the same financial covenants applicable to the Leidos Term Loan A Facility. See Leidos Term Loan A Facility Financial Covenants.

***Guarantee and Security***

Obligations under the Leidos Revolving Credit Facility will be guaranteed, on a joint and several basis, and secured, on a first-priority basis (and pari passu with the Leidos Term Loan A Facility and the Splitco Facilities), on the same terms and by the same parties as those which guarantee and secure obligations under the Leidos Term Loan A Facility. See Leidos Term Loan A Facility Guarantee and Security.

***Events of Default***

The same events of default will apply to the Leidos Revolving Credit Facility as will apply to the Leidos Term Loan A Facility. See Leidos Term Loan A Facility Events of Default.

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**Table of Contents****Splitco Facilities**

Pursuant to the Splitco Commitment Letter, subject to certain conditions, the Commitment Parties agreed to provide the Splitco Three-Year Term Loan A Facility, consisting of senior secured term loans in an aggregate principal amount of up to \$400,000,000, the Splitco Five-Year Term Loan A Facility, consisting of senior secured term loans in an aggregate principal amount of up to \$310,000,000, and the Splitco Term Loan B Facility, consisting of senior secured term loans in an aggregate principal amount of up to \$1,131,450,000, the aggregate amount of which is to be used by Splitco to make the Special Cash Payment and to pay certain fees, costs and expenses in connection with the Transactions. See Debt Financing Overview.

The full amount of each Splitco Facility must be drawn in a single drawing on or prior to the closing date of the Transactions. Amounts borrowed under any Splitco Facility and repaid may not be reborrowed. The Splitco Commitment Letter provides that the terms of the Splitco Facilities will be finalized in a credit agreement (the Splitco Credit Agreement ) and related documentation to be mutually agreed between Splitco and the agents and lenders thereunder.

The Splitco Three-Year Term Loan A Facility will mature three years after the date of the consummation of the Transactions and the Splitco Five-Year Term Loan A Facility will mature five years after the date of the consummation of the Transactions; provided that in each case if any of Leidos 4.450 percent notes due 2020 have not been refinanced in a Qualifying Refinancing (to be defined in the Splitco Credit Agreement) prior to the Early Maturity Date, then such Splitco Term Loan A Facility will mature on the Early Maturity Date. The Splitco Term Loan B Facility has a seven-year maturity period beginning on the closing date of the Transactions.

Splitco will pay interest on the unpaid principal amount of each loan at a rate per annum equal to (a) the sum of the Base Rate plus an applicable margin for Base Rate loans or (b) LIBOR plus an applicable margin for LIBOR loans. The applicable margin for term loan A loans will be 1.25% for Base Rate loans and 2.25% for LIBOR loans on the closing date of the Leidos Debt Financing, and will be subject to two step-downs to, in the case of (x) Base Rate loans, 1.00% and 0.75% and (y) LIBOR loans, 2.00% and 1.75%, in each case based upon achievement and maintenance of Senior Secured Leverage Ratios of 2.75:1.00 and 2.25:1.00, respectively. The applicable margins for the Splitco Term Loan B Facility have not been finalized as of the date of this filing

***Prepayments***

The Splitco Commitment Letter provides that voluntary prepayments of loans under the Splitco Facilities may be made at any time, on three business days notice in the case of a prepayment of LIBOR term loans, or one business day s notice in the case of a prepayment of Base Rate term loans, without premium or penalty in minimum principal amounts; provided that voluntary prepayments of LIBOR term loans made on a date other than the last day of an interest period applicable thereto shall be subject to customary breakage costs. Each voluntary prepayment of loans under the Splitco Facilities may be applied to any scheduled principal payments under the Splitco Facilities as directed by Splitco.

Loans under the Splitco Facilities shall be prepaid with (i) 50 percent of Leidos consolidated excess cash flow, with reductions to 25 percent and 0 percent based upon achievement and maintenance of a senior secured leverage ratio to be mutually agreed, subject to certain exceptions, and (ii) 100 percent of the net cash proceeds of all asset sales and other dispositions of property, subject to customary reinvestment rights, and all issuances, offerings or placements of debt, in each case, by Leidos, the Leidos Borrower, Splitco and their respective restricted subsidiaries, with certain exceptions. Such prepayments shall be allocated *pro rata* among the outstanding term loans under the Splitco Facilities and the Leidos Term Loan A Facility.

*Covenants*

Leidos, Splitco and their respective subsidiaries will be subject to customary affirmative and negative covenants under the Splitco Facilities, including limitations on:

liens;

mergers, consolidations, liquidations and dissolutions;

changes in business;

investments, loans, advances, guarantees and acquisitions;

asset sales;

sale-and leaseback transactions;

speculative hedging arrangements;

dividends or other distributions on capital stock, redemptions and repurchases of capital stock and prepayments, redemptions and repurchases of junior debt;

transactions with affiliates;

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restrictions on liens and other restrictive agreements;

debt and preferred stock; and

amendments of the operative documents related to the Leidos Facilities, junior debt agreements and organizational documents.

***Financial Covenants***

Solely with respect to the term loan A facilities, Splitco will be required to maintain, as at the end of each fiscal quarter after the closing date of the Debt Financings, (i) in the case of any fiscal quarter ending on or prior to the fiscal quarter ending 18 months after such closing date, a Senior Secured Leverage Ratio equal to or less than 4.75 to 1.00, (ii) in the case of any fiscal quarter ending after the fiscal quarter ending 18 months after such closing date and on or prior to the fiscal quarter ending 30 months after such closing date, a Senior Secured Leverage Ratio equal to or less than 4.25 to 1.00 and (iii) in the case of any fiscal quarter ending after the fiscal quarter ending 30 months after such closing date, a Senior Secured Leverage Ratio equal to or less than 3.75 to 1.00.

***Guarantee and Security***

Obligations under the Splitco Facilities will be unconditionally guaranteed, on a joint and several basis, by each direct and indirect, wholly-owned domestic subsidiary of Splitco from time to time, subject to customary exceptions and (ii) after the consummation of the Merger, by each Leidos Guarantor (collectively, the Splitco Guarantors ).

Obligations under the Splitco Facilities will be secured on a first-priority basis (and *pari passu* to the Leidos Facilities) by substantially all of the assets of Splitco and each Guarantor.

***Events of Default***

Events of default for the Splitco Facilities will include the following (with customary qualifications and exceptions):

nonpayment of principal, interest, fees or other amounts;

inaccuracy of representations and warranties;

violation of covenants;

cross default and cross acceleration;

voluntary and involuntary bankruptcy or insolvency proceedings;

inability to pay debts as they become due;

material judgments;

ERISA events;

actual or asserted invalidity of security documents or guarantees; and

change in control.

An immediate event of default under the Splitco Facilities will occur upon (i) a failure to consummate the Merger immediately following the initial funding of the Splitco Facilities or (ii) a failure by the Initial Guarantors to guarantee the obligations under the Facilities or to grant a security interest in substantially all their respective assets to secure the obligations under the Facilities, in each case, immediately following the Merger.

### **Intercreditor Agreement**

The lien priority, relative rights and other creditors' rights issues in respect of the Leidos Facilities and the Splitco Facilities in a customary pari passu intercreditor agreement reasonably satisfactory to the administrative agent under each of the Leidos Facilities and the Splitco Facilities, the Leidos Borrower and Splitco.

## **OTHER AGREEMENTS**

Leidos, Lockheed Martin, Splitco and Merger Sub or their respective subsidiaries, in each case as applicable, have entered into or, before the consummation of the Transactions, will enter into, certain other agreements relating to the Transactions and various interim and ongoing relationships between Lockheed Martin, Splitco and Leidos. The material terms of these agreements are summarized below.

### **Employee Matters Agreement**

In connection with the Transactions, Lockheed Martin, Splitco and Leidos have entered into an Employee Matters Agreement with respect to the transfer of employees engaged in the Splitco Business and related matters, including terms of employment, benefit plan transition and coverage and other compensation and labor matters. This summary is qualified by reference to the complete text of the Employee Matters Agreement, which is incorporated by reference herein and is filed as an exhibit to the registration statement of which this document is a part.



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### ***Transfer of Employees and Retention of Certain Independent Contractors***

Effective immediately prior to the date of the Distribution, Lockheed Martin will transfer the employment of any Splitco Business Employee who is not then employed by Splitco or any Splitco Subsidiary to Splitco or a Splitco Subsidiary. Splitco and the Splitco Subsidiaries will assume the liabilities and obligations of Lockheed Martin under any applicable plan, policy, contract or arrangement to employ, reemploy, reinstate or reactivate each Splitco Business Employee who is an inactive employee immediately prior to the date of the Distribution.

At the date of the Distribution, Splitco and the Splitco Subsidiaries will assume the liabilities and obligations of Lockheed Martin with respect to continuing to retain certain individuals who are retained as an independent contractor by Lockheed Martin on the date of the Distribution in connection with the Splitco Business, in accordance with the terms and conditions in effect for such individual's retention by Lockheed Martin immediately before the date of the Distribution.

### ***Terms and Conditions of Employment***

From and after the date of the Distribution, Splitco and the Splitco Subsidiaries will assume the liabilities and obligations of Lockheed Martin under any employment agreements or similar agreements, including temporary staffing arrangements, consulting agreements and personal services agreements, or applicable law relating to the terms and conditions of employment of each Splitco Business Employee and Former Splitco Business Employee. Splitco and the Splitco Subsidiaries will also assume the liabilities and obligations of Lockheed Martin arising out of or pertaining to the termination of employment of, employing of or the failure or refusal to employ, reinstate, reactivate or reemploy any Splitco Business Employee or Former Splitco Business Employee (including severance benefits), whether such liabilities or obligations are based on events occurring prior to, on or after the date of the Distribution.

For the period beginning on the date of the Distribution and ending on December 31st of the year in which the date of the Distribution occurs (the Transition Period), Splitco and the Splitco Subsidiaries will continue to provide each Splitco Business Employee with (i) the same base salary or wage rate and short- and long-term incentive opportunities that were provided to the Splitco Business Employee immediately prior to the date of the Distribution and (ii) participation in employee benefit plans and programs that are substantially comparable in the aggregate to those benefits provided under the employee benefit plans and programs of Lockheed Martin, Splitco and the Splitco Subsidiaries (excluding defined benefit pension plans and post-retirement medical plans) as in effect for the Splitco Business Employee immediately prior to the date of the Distribution. For the six month period beginning on the date of the Distribution, Splitco and the Splitco Subsidiaries will maintain in effect the severance and layoff plans applicable to the Splitco Business Employees immediately before the date of the Distribution. For the period beginning on the date of the Distribution and ending on the first anniversary of the date of the Distribution, in the case of any Splitco Business Employee who was granted a restricted stock unit award from Lockheed Martin on January 28, 2016, Splitco and the Splitco Subsidiaries will treat any involuntary termination other than for cause (as defined under the Lockheed Martin Corporation Executive Severance Plan) or termination by the employee for good reason (as defined under the employee's restricted stock unit award agreement dated January 28, 2016) as an executive layoff event under the Lockheed Martin Corporation Executive Severance Plan. After the end of the Transition Period, Splitco Business Employees will be eligible to participate in employee benefits plans, programs and policies and all other compensation and employment related plans, policies and arrangements that are substantially similar to the corresponding plans, programs and other arrangements maintained by Leidos for the benefit of similarly situated employees.

### ***Benefit Plan Liabilities***

Except as provided below, Lockheed Martin will retain all liabilities and obligations under any Employee Plan and Benefit Arrangement that is not, after the date of the Distribution, sponsored or maintained by Splitco or any Splitco Subsidiary. In any event, Lockheed Martin will retain all assets and liabilities in respect of each Employee Plan that is a defined benefit pension plan or post-retirement medical plan.

Splitco and the Splitco Subsidiaries will assume all of the liabilities and obligations of Lockheed Martin arising under any group life, accident, medical, dental or disability plan or similar arrangement (including severance benefit plans) maintained by an entity other than Splitco or any Splitco Subsidiary, with respect to each Splitco Business Employee and Former Splitco Business Employee to the extent that such liabilities and obligations relate to claims which have not been incurred on or prior to the date of the Distribution. Splitco and the Splitco Subsidiaries will also assume all liabilities and obligations of Lockheed Martin, with respect to each Splitco Business Employee and Former Splitco Business Employee, arising under any workers' compensation laws relating to accidents or occupational diseases that occurred on, before or after the date of the Distribution. Splitco and the Splitco Subsidiaries will assume all liabilities and obligations, whenever incurred, under any employee benefit or compensation plan, program, policy or arrangement that is sponsored or maintained by Splitco or any Splitco Subsidiary.

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**Table of Contents*****Incentive Compensation***

Lockheed Martin will retain any obligations to make payments to any Splitco Business Employee in respect of a cash-based long-term incentive performance award granted by Lockheed Martin under the 2011 IPAP, the Lockheed Martin Long-Term Incentive Cash Plan ( LTIC ) and the Lockheed Martin Key Employee Engagement Plan ( KEEP ) prior to 2016. At the date of the Distribution, Splitco and the Splitco Subsidiaries will assume the liabilities and obligations of Lockheed Martin under all cash-based long-term incentive performance awards granted by Lockheed Martin to Splitco Business Employees in 2016 under the LTIC and the KEEP. Unless Lockheed Martin has paid the Splitco Business Employees their annual incentive bonus under the applicable incentive arrangement for the year in which the date of the Distribution occurs, Splitco agrees to maintain the annual cash incentive and sales incentive compensation arrangements that cover the Splitco Business Employees as in effect immediately prior to the date of the Distribution at least until the end of the calendar year in which the date of the Distribution occurs, and Splitco will pay to each such Splitco Business Employee an incentive bonus under the applicable incentive arrangement for such calendar year in the amount determined by Lockheed Martin in accordance with the terms of such arrangement and past practice.

Lockheed Martin has entered into retention agreements with certain Splitco Business Employees (the Transaction Retention Agreements ) as an inducement to these Splitco Business Employees to continue to work for Lockheed Martin through the Closing Date (as defined in the Merger Agreement). Lockheed Martin will retain all liabilities and obligations to these Splitco Business Employees under such Transaction Retention Agreements and any responsibility for associated withholding taxes.

***Savings Plans***

As soon as practicable after the date of the Distribution, Splitco or Leidos will establish one or more than one individual account plan for the benefit of the Splitco Business Employees or otherwise make immediate participation in one or more existing Splitco or Leidos plans available to the Splitco Business Employees (each a Successor Savings Plan ). During the period commencing on the date of the Distribution and ending on the date on which the payroll services to be provided by Lockheed Martin to Splitco under the Transition Services Agreement terminate (the Benefits Services Termination Date ), the terms of each such Successor Savings Plan that pertain to Splitco Business Employees who participated in a Lockheed Martin Savings Plan prior to the date of the Distribution will provide for elective deferrals by participants, matching contributions or profit-sharing contributions by Splitco at rates which are the same as the rates in effect under each Lockheed Martin Savings Plan immediately before the date of the Distribution with respect to the Splitco Business Employees who participated in each such plan. Lockheed Martin will cause the account balance of each Splitco Business Employee under each Lockheed Martin Savings Plan to be fully vested as of the date of the Distribution.

***Nonqualified Plans***

Splitco will establish as of the date of the Distribution three nonqualified plans or, at Splitco's option, three separate nonqualified plan structures in one, or more than one, nonqualified plan (each such plan or structure, a Splitco NQ Plan ). Each Splitco NQ Plan will be the same in all material respects as the related Lockheed Martin nonqualified plan specified in the Employee Matters Agreement (each, a Lockheed Martin NQ Plan ) as in effect immediately before the date of the Distribution. Each Splitco NQ Plan will be established for the benefit of each Splitco Business Employee who participates in the corresponding Lockheed Martin NQ Plan immediately before the date of the Distribution and each other person who, immediately before the date of the Distribution, is a beneficiary of a Splitco Business Employee and has an account balance under such Lockheed Martin NQ Plan. Each Splitco NQ Plan will provide at least through the Benefits Services Termination Date for a formula for contributions that is the same as the formula for

contributions in the corresponding Lockheed Martin NQ Plan as of the date of the Distribution.

***Mirror Benefit Plans***

As soon as practicable after the date of the Distribution, Splitco will establish a mirror benefit plan for each Employee Plan and Benefit Arrangement specified in the Employee Matters Agreement (the Splitco Mirror Plans ). Each Splitco Mirror Plan will be established for the benefit of each Splitco Business Employee who participates in the corresponding Employee Plan or Benefit Arrangement, as applicable, immediately before the date of the Distribution and each other person who, immediately before the date of the Distribution, is a beneficiary of a Splitco Business Employee and has an accrued benefit or account balance under such Employee Plan or Benefit Arrangement. Prior to the Benefits Services Termination Date, each Splitco Mirror Plan will be the same in all material respects as the corresponding Employee Plan or Benefit Arrangement, as applicable, as in effect immediately before the date of the Distribution, provided that the parties shall cooperate in good faith to make reasonable changes on a mutually agreeable schedule, subject to reimbursement by Leidos of any direct or indirect costs of making the change. Splitco will maintain such Splitco Mirror Plans through the Benefits Services Termination Date or such earlier date that Splitco Business Employees are transitioned onto plans, programs, policies and other arrangements maintained by Leidos.

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### ***Termination and Plant Closing Notices; WARN Act***

Splitco will provide any notices to the Splitco Business Employees that may be required under any applicable law, including the federal Worker Adjustment and Retraining Notification Act of 1988, as amended (the WARN Act ) or any similar state or local law, with respect to events that occur from and after the date of the Distribution. Splitco will not take any action after the date of the Distribution that would cause any termination of employment of any employees by Lockheed Martin on or before the date of the Distribution to constitute a plant closing or mass layoff under the WARN Act or any similar state or local law, or to create any liability to Lockheed Martin for any employment terminations under applicable law.

### ***U.S. Labor Matters***

Effective as of and from the date of the Distribution, Splitco will offer to adopt and assume the collective bargaining agreement between Lockheed Martin Information Systems and Global Solutions AFSS and the International Association of Machinists and Aerospace Workers, AFL-CIO and its affected District and Local Lodges (the U.S. Union Contract ), which covers certain Splitco Business Employees located in the United States (the U.S. Union Employees ), and will recognize the union that is a party to the U.S. Union Contract with respect to the Splitco Business Employees. Provided that Splitco adopts and assumes the U.S. Union Contract, Splitco will employ, effective as of and from the date of the Distribution, the U.S. Union Employees on the terms and conditions of the U.S. Union Contract. Except to the extent otherwise required by applicable law or otherwise permitted by the U.S. Union Contract, Splitco will not, and will cause any successor to the Splitco Business not to, reduce the hourly wage rates or annual incentive compensation opportunities or benefits of any U.S. Union Employee during the Transition Period.

To the extent Splitco does not comply with its obligations related to the U.S. Union Contract and, as a result, any Lockheed Martin indemnified party incurs any severance, termination or similar cost in respect of any U.S. Union Employee in connection with the Transactions on or following the date of the Distribution, Splitco will indemnify such party for such amounts.

On or before the date of the Distribution, Lockheed Martin will transfer and assign the U.S. Union Contract to Splitco, keep Splitco reasonably informed of the status of any negotiations and modifications with respect to the U.S. Union Contract and refrain from actions that would result in a breach of the U.S. Union Contract.

### ***Non-U.S. Employees***

The Employee Matters Agreement generally provides that Splitco Business Employees who are resident outside of the U.S. or otherwise are subject to non-U.S. law, and their related benefits and obligations, will be treated in the same manner as the Splitco Business Employees who are resident in the United States, subject to applicable law. The Employee Matters Agreement also contains certain provisions relating to the transfer of, the terms of employment of, and the benefits plans of Splitco Business Employees who are assigned to the Splitco Business in the United Kingdom (the UK Splitco Business Employees ) or who are employed in Israel by a wholly-owned subsidiary of Lockheed Martin (the Israeli Employees ), including, but not limited to, the provisions summarized below.

With respect to UK Splitco Business Employees, Lockheed Martin, Splitco and Leidos acknowledged and agreed that, pursuant to the Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended (the Transfer Regulations ), the contracts of employment between Lockheed Martin and the UK Splitco Business Employees (except in so far as those contracts relate to any occupational pension scheme, as that term is used in Regulation 10 of the Transfer Regulations) will have effect after the date of the Distribution as if originally made between Splitco and such

Splitco Business Employees. To the extent required to comply with Lockheed Martin's obligations under certain governmental contracts, certain UK Splitco Business Employees who were previously UK public sector employees, participated in public sector defined benefit pension plans and who transferred to Lockheed Martin under the governmental contracts pursuant to the Transfer Regulations will generally be permitted by Splitco to accrue benefits under a broadly comparable pension scheme to the public sector plan in which they previously participated. With respect to the Israeli Employees, the employment of such employees will be transferred to Splitco or a Splitco Subsidiary effective as of the date of the Distribution, subject to obtaining written consent from the employees prior to the date of the Distribution as set forth in the Employee Matters Agreement. As of the date of the Distribution, Splitco will continue to provide the Israeli Employees with the same salary and all other employment benefits and rights that were provided to them by the applicable affiliate of Lockheed Martin in Israel immediately prior to the date of the Distribution according to applicable law and any employment agreement. Subject to applicable law, Lockheed Martin's Israeli affiliate will transfer the Israeli Employees' pension arrangements to Splitco after obtaining approval from the Israel tax authority prior to the date of the Distribution, which approval it shall secure before the date of the Distribution.

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### **Tax Matters Agreement**

In connection with the Transactions, Lockheed Martin, Splitco, and Leidos have entered into a Tax Matters Agreement that governs the parties' respective rights, responsibilities, and obligations with respect to taxes, including taxes arising in the ordinary course of business, and taxes, if any, incurred as a result of any failure of the Distribution, the Merger or certain related transactions to qualify as tax-free for U.S. federal income tax purposes. The Tax Matters Agreement also sets forth the respective obligations of the parties with respect to the filing of tax returns, the administration of tax contests and assistance and cooperation on tax matters. This summary is qualified by reference to the complete text of the form of the Tax Matters Agreement, which is incorporated by reference and is filed as an exhibit to the registration statement of which this document is a part.

In general, the Tax Matters Agreement governs the rights and obligations of Lockheed Martin, on the one hand, and Splitco and Leidos, on the other hand, after the Distribution with respect to taxes for both pre-Distribution and post-Distribution periods. Under the Tax Matters Agreement, Lockheed Martin generally is responsible for pre-Distribution taxes (including taxes attributable to Splitco), and Splitco generally is responsible for post-Distribution taxes attributable to Splitco. Subject to certain exceptions, Splitco is responsible for taxes that are recoverable (or, in certain cases, recovered) by Splitco or the Splitco Subsidiaries from a governmental authority pursuant to the terms of Splitco's government contracts. Furthermore, each party is responsible for any taxes imposed on Lockheed Martin that arise from the failure of the Distribution, the Merger and certain related transactions to qualify as tax-free transactions to the extent that such failure to qualify is attributable to certain actions (described below) taken by such party.

The Tax Matters Agreement further provides that Leidos and its subsidiaries will indemnify Lockheed Martin for (i) all taxes for which Splitco is responsible as described above, (ii) all taxes incurred by reason of certain actions or events, or by reason of any breach by Splitco, Leidos, or any of their respective subsidiaries of any of their respective representations, warranties or covenants under the Tax Matters Agreement that, in each case, affect the tax-free status of the Distribution, the Merger and certain related transactions and (iii) any costs and expenses related to the foregoing (including reasonable attorneys' fees and expenses). Lockheed Martin will indemnify Leidos and its subsidiaries for (i) all taxes for which Lockheed Martin is responsible as described above, (ii) all taxes incurred by reason of certain actions or events, or by reason of any breach by Lockheed Martin of any of their respective representations, warranties or covenants under the Tax Matters Agreement that, in each case, affect the tax-free status of the Distribution, the Merger and certain related transactions and (iii) any costs and expenses related to the foregoing (including reasonable attorneys' fees and expenses).

In addition, the Tax Matters Agreement generally will prohibit Lockheed Martin, Splitco, Leidos and their respective subsidiaries 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, Leidos or any of their respective subsidiaries intends to take an action that is otherwise prohibited as described above, Splitco or Leidos is required to notify Lockheed Martin of its proposal and obtain an IRS ruling with Lockheed Martin or an unqualified tax opinion acceptable to Lockheed Martin to the effect that such action will not affect the tax-free status of the Distribution, the Merger and certain related transactions. However, if Splitco, Leidos or any of their respective subsidiaries takes any of the actions above and such actions result in tax-related losses to Lockheed Martin, Leidos and its subsidiaries generally are required to indemnify Lockheed Martin for such losses, without regard to whether Lockheed Martin has given prior consent to such action and without regard to whether Splitco or Leidos obtains an IRS ruling or an unqualified tax opinion.

The Tax Matters Agreement is binding on and will inure to the benefit of any successor to any of the parties of the Tax Matters Agreement to the same extent as if such successor had been an original party to the Tax Matters Agreement. Further, as of the effective time of the Merger, Leidos will be subject to the obligations and restrictions imposed on Splitco.



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### **Additional Agreements**

In addition to the agreements described above, in connection with the Separation Agreement, Lockheed Martin and certain of its subsidiaries, on the one hand, and Splitco and certain of the Splitco Subsidiaries, on the other hand, will enter into the agreements described below on the date of the Distribution.

#### ***Intellectual Property Matters Agreement***

Lockheed Martin and a subsidiary that will be transferred to Splitco will enter into an Intellectual Property Matters Agreement ( IPMA ) in respect of certain intellectual property (including patents, trade secrets, copyrights and know-how) used by the Splitco Business. Pursuant to the IPMA, Lockheed Martin will transfer to the Splitco Subsidiary certain specified intellectual property used in the Splitco Business ( Transferred Intellectual Property ), including the right to use such intellectual property, which the Splitco Subsidiary will hold subject to (i) any rights of the U.S. Government in any such intellectual property, (ii) any licensees of such Transferred Intellectual Property granted prior to the execution of the IPMA and (iii) any rights of third parties in intellectual property embedded or included in the Transferred Intellectual Property. The Splitco Subsidiary will also grant back to Lockheed Martin an irrevocable, worldwide, perpetual, fully paid up, royalty-free, generally nontransferable and nonexclusive license to a specified subset of the Transferred Intellectual Property to use for any purpose relating to Lockheed Martin's retained businesses and operations.

In addition, Lockheed Martin will grant to the Splitco Subsidiary an irrevocable, worldwide, perpetual, fully paid up, royalty-free, generally nontransferable and nonexclusive license in and to certain additional specified intellectual property used by the Splitco Business and other retained businesses of Lockheed Martin ( Licensed Intellectual Property ) to use the same for any purposes in connection with the businesses and operations of Splitco and the Splitco Subsidiaries, subject to any rights of third parties in intellectual property embedded or included in the Licensed Intellectual Property. The Splitco Subsidiary may not grant sublicenses of its rights to the Licensed Intellectual Property under the IPMA without the prior written consent of Lockheed Martin (other than sublicenses to (a) wholly-owned subsidiaries of Splitco and any future wholly-owned subsidiaries of Splitco and (b) providers of goods and services or other third parties for the benefit of the Splitco Business), provided that such consent shall not be unreasonably withheld or delayed with respect to proposed sublicenses to Affiliates of Splitco. Any permitted sublicense must be consistent with the terms of the IPMA, and the Splitco Subsidiary will remain solely liable for any such sublicensee's compliance with the agreement. In the case of sublicenses to wholly-owned subsidiaries of Splitco, such sublicenses must provide for automatic termination when any such entity ceases to be an affiliate or wholly-owned subsidiary of Splitco. In addition, the IPMA contains restrictions with respect to the fields of use in which certain identified items of the Licensed Intellectual Property may be used and grants exclusive license rights in certain identified items of the Licensed Intellectual Property, for the design, development, manufacture, sale and distribution of devices, systems, products and services for certain commercial customers.

The IPMA prohibits either party from assigning or otherwise transferring, in whole or in part, any of its rights or obligations under the IPMA without consent from the non-assigning party, other than in connection with the sale of transfer of all or substantially all of the assigning party's stock, assets or business to which the IPMA relates.

Furthermore, pursuant to the IPMA, certain specified intellectual property will be deemed jointly owned by Lockheed Martin and the Splitco Subsidiary (the Jointly Owned Intellectual Property ), with each party owning an equal and undivided interest in such intellectual property. Each party will be entitled to freely use the Jointly Owned Intellectual Property outside the scope of the IPMA without accounting between them, and any improvement, updates or modifications to the Jointly Owned Intellectual Property made after the date of the Distribution will be owned by the party making such improvement, update or modification.

The IPMA also governs the parties' rights with respect to enforcement and defense of third party claims relating to intellectual property. The IPMA also provides that, if any breach of the sufficiency of assets representation made by Lockheed Martin in the Merger Agreement can be remedied by a license of additional, or additional rights to use, intellectual property, then Lockheed Martin must provide or expand the license to Splitco and the Splitco Subsidiaries to include such rights to the extent required to cure such breach, on the same terms and conditions as comparable licenses under the IPMA, retroactive to the date of the Distribution; provided that Splitco have provided a written notice of such alleged breach or requested such license on or prior to the first anniversary of the date of the Distribution. See also The Merger Agreement Representations and Warranties for a more detailed description of the representations and warranties related to the Splitco Business that are contained in the Merger Agreement. Additionally, Splitco and the Splitco Subsidiaries will be afforded a reasonable opportunity, with respect to continued use of any intellectual property used in the Splitco Business prior to the Distribution Date that is not included in the Licensed Intellectual Property or Transferred Intellectual Property (and which Lockheed Martin has not identified that it will retain and exclude from those categories), to negotiate with Lockheed Martin a license to enable Splitco and the Splitco Subsidiaries, as applicable, to make use of such intellectual property consistent with its use in the Splitco Business prior to the Distribution Date or to phase-out and cease use of such intellectual property in a commercially reasonable manner.

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### ***Shared Contracts Agreements***

Lockheed Martin and Splitco will enter into Shared Contracts Agreements in respect of certain indefinite-delivery, indefinite-quantity government contracts that relate to the Splitco Business and the other businesses conducted by Lockheed Martin and its subsidiaries (the Shared Contracts ). Pursuant to the first of these agreements, the Splitco Business will perform work under task orders, delivery orders, work orders and similar arrangements pursuant to Shared Contracts that Lockheed Martin will retain following the Distribution and under bids submitted by the Splitco Business under those Shared Contracts. Pursuant to the second agreement, Lockheed Martin will perform work under task orders, delivery orders, work orders and similar arrangements pursuant to Shared Contracts that will transfer to Splitco in connection with the Transactions and under bids submitted by the retained businesses of Lockheed Martin under those Shared Contracts. Each Shared Contracts Agreement will continue in effect with respect to each Shared Contract until the earlier of (a) the expiration or termination of such Shared Contract or (b) the award to Splitco or a Splitco Subsidiary, on the one hand, or Lockheed Martin, on the other hand, of a substitute contract vehicle to the applicable Shared Contract.

These agreements also outline the obligations of the parties with respect to the filing, prosecution and intervention in all bid protest actions on behalf of the other party and the submission of bids, quotations or proposals in connection with ongoing and future procurements, and describe the business areas of Lockheed Martin, Splitco and the Splitco Subsidiaries in which each party will have ongoing rights to submit future proposals under the Shared Contracts.

### ***Subcontract Pending Novation***

Lockheed Martin and Splitco will enter into a Subcontract Pending Novation pursuant to which Splitco will act as a subcontractor to Lockheed Martin for performance of all obligations of Lockheed Martin under certain of the U.S. government contracts included in the Transferred Assets pending the U.S. Government's agreement to novate such U.S. government contracts. The term of the agreement will continue until the earlier of the novation or assignment of the government contracts subject to the agreement, or the satisfaction of all obligations of Lockheed Martin under the government contracts subject to the agreement. Among other things, the agreement also provides that Lockheed Martin and Splitco will use reasonable best efforts to (a) provide all notices and obtain all consents and approvals needed from the U.S. Government in connection with performance under the agreement and, if not received, to cooperate to set up alternative arrangements, and (b) cause the applicable government contracts to be novated in accordance with the terms of the Separation Agreement and federal acquisition regulations.

### ***Supply Agreements***

Lockheed Martin and Splitco will enter into Supply Agreements pursuant to which Lockheed Martin and certain of its subsidiaries will supply certain Splitco Subsidiaries, and certain Splitco Subsidiaries will supply Lockheed Martin and certain of its subsidiaries, as the case may be, with services pursuant to certain intercompany work orders, bids and/or informal intercompany commercial arrangements existing between businesses and subsidiaries to be retained by Lockheed Martin following the Distribution, on the one hand, and the Splitco Business, on the other hand. Pursuant to the Supply Agreements, these intercompany work orders and commercial arrangements will be reduced to writing and shall be performed on the basis of the standard terms and conditions agreed upon by Lockheed Martin and Leidos. These agreements will continue in effect until the expiration or termination of the last intercompany work order, bid or other commercial arrangement that is subject to each Supply Agreement and the price of services provided under the Supply Agreement will be consistent with the costs and fees for such services prior to the Distribution, or the price or cost estimates previously provided for such services by the applicable business unit of Lockheed Martin, Splitco or a Splitco Subsidiary, as the case may be.

***Transition Services Agreements***

Lockheed Martin and Splitco will enter into two Transition Services Agreements (each, a "TSA") on the date of the Distribution. Pursuant to the Parent-to-Splitco TSA ("LM TSA"), Lockheed Martin will provide Splitco and the Splitco Subsidiaries with certain services, including information technology, supply chain, financial, human resources and other specified services. These services are generally planned to extend for an initial term of six to 12 months and will be provided initially at a base monthly fee, with escalating increases up to the base amount plus 12 percent for services extended beyond the initial term up to maximum period of 24 months from the date of the Distribution. The LM TSA also includes the allocation of certain costs associated with provision of such transition services, which the parties have agreed to share or allocate to given party based on the subject matter to which such set-up costs relate. In addition, the LM TSA provides that if any breach of the representation regarding sufficiency of assets made by Lockheed Martin in the Merger Agreement can be remedied by the provision of an additional service, Lockheed Martin must provide such services to Splitco and the Splitco Subsidiaries to the extent required to remedy such breach, and the parties must cooperate and act in good faith to negotiate the specific terms and conditions on which the additional transition services will be provided. See also "The Merger Agreement Representations and Warranties" for a more detailed description of the representations and warranties related to the Splitco Business that are contained in the Merger Agreement.

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Under the Splitco-to-Parent TSA, Splitco and the Splitco Subsidiaries will provide Lockheed Martin with certain services to be agreed upon by the parties, including financial and accounting services. These services are planned to extend for a period of 12 months and will be provided initially at cost with scheduled, escalating increases to the extent Lockheed Martin requires any transition services for a period longer than 12 months.

### ***Building and Office Space Leases***

Lockheed Martin or certain of its subsidiaries and Splitco will enter into certain lease agreements in respect of certain buildings and office space at properties owned by other businesses of Lockheed Martin in Manassas, Virginia, Rockville, Maryland and two properties in King of Prussia, Pennsylvania. Pursuant to three of these agreements, Lockheed Martin will grant to Splitco a leasehold interest in certain buildings or portions thereof at these sites, as the sites will continue to be owned by Lockheed Martin after the consummation of the Transactions. Pursuant to a fourth agreement, the property located at 230 Mall Boulevard in King of Prussia, Pennsylvania will be retained by Lockheed Martin in connection with the Internal Reorganization. After the Distribution, the subsidiary of Lockheed Martin that owns the King of Prussia property will grant a leasehold interest in certain buildings and space at the site. These agreements will provide for a one or three year term and monthly rent to be paid by the lessee, and also will provide for certain access rights that will allow each party to access the common areas at the leased sites.

### ***Subleases***

Lockheed Martin or certain of its subsidiaries and Splitco will enter into certain sublease agreements in respect of certain office space at properties currently leased by Lockheed Martin at Stennis Space Center in Mississippi and in Kingston, Australia. Pursuant to the sublease for office space at the facility located at Stennis Space Center, Lockheed Martin will grant to Splitco a sublease of space within certain buildings or portions thereof, as the buildings will continue to be leased by a subsidiary of Lockheed Martin after the consummation of the Transactions. Pursuant to the other sublease, Splitco will sublease to Lockheed Martin office space within certain buildings at the Kingston, Australia site, as the lease associated with this property will be owned by Splitco after the consummation of the Transactions, but Lockheed Martin will continue to use such buildings. These subleases will provide for a term that extends through the expiration of the primary lease at each property and monthly rent to be paid by the sublessee that consistent with the rent payable under the primary leases, and will also provide for certain access rights that will allow each party to access the common areas at the subleased sites.

### ***License Agreements***

Lockheed Martin or certain of its subsidiaries and Splitco will enter into license agreements in respect of certain office spaces and other facilities owned, leased or subleased by Lockheed Martin in Owego, New York, Farnborough, United Kingdom, Eagan, Minnesota, Mt. Laurel, New Jersey, and two properties in Herndon, Virginia. Pursuant to four of these agreements, Lockheed Martin will grant to Splitco a short-term license to use space within certain buildings at the Owego, New York, Mt. Laurel, New Jersey sites and two properties in Herndon, Virginia, as the buildings will continue to be owned or leased by Lockheed Martin or one of its subsidiaries after the consummation of the Transactions. These license agreements will provide for a term that expires in the second quarter of 2017 and monthly rent to be paid by the licensee that may escalate at the end of 2016 pursuant to the terms of the underlying lease for such properties. Pursuant to the other two license agreements, Splitco will license to Lockheed Martin office space within certain buildings at the Farnborough, United Kingdom and Eagan, Minnesota sites, as the leases or subleases associated with these properties will be owned by Splitco after the consummation of the Transactions, but Lockheed Martin will continue to use portions of such buildings. The license agreement for the Farnborough, United Kingdom will provide for a term that extends until 2023, while the license agreement for the Eagan, Minnesota site will be month-to-month pending negotiations with the applicable landlord. Each license agreement will also provide

certain access rights that will allow each party to access the common areas of these shared sites.

***Leaseback Agreement***

Pursuant to a leaseback agreement, Splitco will grant to Lockheed Martin a leasehold interest in certain buildings and space at the Gaithersburg site, as the facility will be owned by Splitco after the consummation of the Transactions, but Lockheed Martin will continue to use such buildings until the operations of other Lockheed Martin's businesses at such facility can be transferred to controlled facilities of Lockheed Martin. This agreement will provide for a one-year term and a monthly rent to be paid by Lockheed Martin, and will otherwise be on terms consistent with the lease agreement pursuant to which Splitco will lease from Lockheed Martin certain buildings and office space at the facility owned by Lockheed Martin in Rockville, Maryland.

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**DESCRIPTION OF LEIDOS CAPITAL STOCK**

The rights of holders of Leidos stock are governed by Delaware law, the Leidos Charter and the Leidos Bylaws. For information on how to obtain a copy of the Leidos Charter and the Leidos Bylaws, see [Where You Can Find More Information; Incorporation by Reference](#)

The following description of Leidos capital stock does not purport to be complete and is subject to, and qualified in its entirety by reference to, the complete text of the Leidos Charter and the Leidos Bylaws.

**General**

As of the date of this document, Leidos authorized capital stock consists of 510,000,000 shares of capital stock, consisting of up to 500,000,000 shares of common stock, \$0.0001 par value per share, and up to 10,000,000 shares of preferred stock, \$0.0001 par value per share, issuable in one or more series. As of April 1, 2016, there were 72,401,335 shares of Leidos common stock issued and outstanding, and no shares of Leidos preferred stock were issued and outstanding.

Leidos has adopted and maintains the Leidos 2006 Equity Incentive Plan pursuant to which Leidos is authorized to issue stock, stock options and other types of equity-based compensation to employees, directors and consultants. As of April 1, 2016, awards and other rights or options to acquire shares of Leidos common stock were outstanding under these plans that represented rights or options to acquire approximately 5,379,032 shares of Leidos common stock and Leidos had reserved approximately 3,891,778 additional shares of Leidos common stock for future issuances under the Leidos Stock Plans.

**Common Stock**

Leidos stockholders are entitled to dividends as declared by the Leidos Board from time to time after payment of, or provision for, full dividends on any shares of preferred stock then outstanding. Leidos stockholders are entitled to one vote per share on all matters submitted for action by the stockholders and the Leidos Charter permits cumulative voting for the election of directors. Leidos stockholders have no preemptive or subscription rights and have no liability for further calls or assessments. In the event of the liquidation, dissolution or winding up of Leidos, Leidos stockholders will be entitled to receive, *pro rata*, all of Leidos remaining assets available for distribution, after satisfaction of the prior preferential rights of any preferred stock then outstanding and the satisfaction of all of Leidos debts and liabilities.

**Preferred Stock**

Under the Leidos Charter, the Leidos Board is authorized, without further stockholder action, to provide for the issuance from time to time of up to 10,000,000 shares of Leidos preferred stock in one or more series and to establish the voting powers, designations, preferences and rights and other terms of the preferred stock, as may be set forth in a certificate of designation to the Leidos Charter providing for the issuance of the preferred stock as adopted by the Leidos Board or a duly authorized committee thereof.

**Certain Anti-Takeover Effects of Provisions of Delaware Law, the Leidos Charter and the Leidos Bylaws**

As a Delaware corporation that has a class of voting stock listed on a national securities exchange, Leidos is subject to the provisions of Section 203 of the DGCL. In general, Section 203 prohibits a public Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the time at which

such person became an interested stockholder unless: (i) prior to such time, the Board approved either the business combination or transaction in which the stockholder became an interested stockholder; or (ii) upon becoming an interested stockholder, the stockholder owned at least 85 percent of the corporation's outstanding voting stock other than shares held by directors who are also officers and certain employee benefit plans; or (iii) the business combination is approved by both the Board and by holders of at least 66 and two-thirds percent of the corporation's outstanding voting stock (at a meeting and not by written consent), excluding shares owned by the interested stockholder. For these purposes, a business combination includes mergers, asset sales and other similar transactions with an interested stockholder, and interested stockholder means a stockholder that, together with its affiliates and associates, owns (or, under certain circumstances, has owned within the prior three years) more than 15 percent of the outstanding voting stock. Although Section 203 permits a corporation to elect not to be governed by its provisions, Leidos has not made this election.

The Leidos Charter provides that the directors elected may be removed with or without cause by the holders of two-thirds of the total voting power of all outstanding shares then entitled to vote at an election of directors. However, the DGCL provides that the affirmative vote of the holders of record of a majority of the outstanding shares entitled to vote shall be enough to remove any director or the entire board. Under the Leidos Bylaws, unless and until filled by the stockholders, any vacancy or newly created directorships on the Leidos Board may be filled by vote of a majority of the directors then in office, although less than a quorum.



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The Leidos Charter and the Leidos Bylaws provide that any action required or permitted to be taken by Leidos stockholders at an annual meeting or special meeting of stockholders may only be taken if it is properly brought before such meeting. The Leidos Charter and the Leidos Bylaws also provide that special meetings of Leidos stockholders may be called for any purpose at any time by the Leidos Board, a majority of the members of the Leidos Board or by a committee of the Leidos Board with power designated to call such meetings. In addition, the Leidos Bylaws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of Leidos stockholders, including proposed nominations of candidates for election to the Leidos Board. Leidos stockholders at an annual meeting may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of the Leidos Board or by a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has delivered timely written notice in proper form to the Secretary of Leidos of the stockholder's intention to bring such business before the meeting. These provisions could have the effect of delaying stockholder actions that are favored by the holders of a majority of Leidos outstanding voting securities until the next stockholder meeting.

The DGCL provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless a corporation's certificate of incorporation or bylaws, as the case may be, requires a greater percentage. Portions of the Leidos Charter may be amended only by the affirmative vote of the holders of not less than two-thirds of the votes which all the Leidos stockholders would be entitled to vote. The Leidos Bylaws may be amended or repealed by a majority vote of the Leidos Board or by the affirmative vote of not less than two-thirds of the votes which all Leidos stockholders would be entitled to cast in any annual election of directors.

## **Listing**

Leidos common stock trades on the NYSE under the trading symbol LDOS.

## **Transfer Agent**

The transfer agent and registrar for Leidos common stock is Computershare Trust Company, N.A.

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**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, and its Quarterly Report on Form 10-Q for the quarter ended April 1, 2016, which are 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.

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*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 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

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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.

***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.

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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 the 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.

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***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.

***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.

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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.

***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;

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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.

***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 \$5.0 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.

***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

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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.

**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.

### **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Lockheed Martin, Splitco and Leidos, or their respective subsidiaries, in each case as applicable, have entered into or, before the consummation of the Transactions, will enter into, ancillary agreements relating to the Transactions and various interim and on-going relationships between Lockheed Martin, Splitco and Leidos. See Other Agreements.

#### **The Transaction Interests of Leidos' Directors and Executive Officers in the Transaction**

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 an actual or apparent conflict of interest in favor of the proposal to issue shares of Leidos common stock to Lockheed Martin stockholders in the Merger and the adjournment of the Leidos meeting, if necessary or appropriate, to solicit additional proxies. 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 and the adjournment of the Leidos meeting, if necessary or appropriate, to solicit additional proxies. In considering the recommendations of the Leidos Board that Leidos stockholders vote to approve the Share Issuance and the adjournment of the Leidos meeting, if necessary or appropriate, to solicit additional proxies, you should be aware of these interests.

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Please note for purposes of your review that the disclosure in this section differs from that set forth in the section of this Proxy Statement entitled "Potential Payments upon Termination or a Change in Control" on page 188 hereof. The disclosure in that section is based on an SEC rule which requires us to estimate various termination or change in control payments and benefits and requires us to assume that the applicable event occurred on the last day of our last fiscal year. Conversely, the disclosure in this section describes compensation and benefits which may be provided specifically with respect to the Transactions. Accordingly, there are different assumptions that are used in these two sections, which in turn yield differing estimates of the payments and benefits an executive officer could receive.

### **Interests of Leidos Directors in the Transaction**

The directors of Leidos immediately prior to the Merger are expected to continue to be directors of Leidos immediately after the Merger (although the size of the Leidos Board will be increased to include three additional directors to be designated by Lockheed Martin, effective at the time of closing of the Merger).

### **Interests of Leidos Executive Officers in the Transaction**

The executive officers of Leidos immediately prior to the Merger are 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 upon such a termination which is not in connection with the consummation of the Merger. These enhanced severance benefits are described in further detail below.

### **Executive Employment Agreement with Roger Krone**

Mr. Krone, our Chairman and Chief Executive Officer, is party to an executive employment agreement, which provides for the payment of severance in the event he is involuntarily terminated without cause or resigns for good reason. These benefits are increased if the termination occurs in connection with a change in control of Leidos. The Merger will constitute a change in control for purposes of Mr. Krone's agreement. Therefore, in the event of Mr. Krone's termination without cause or resignation for good reason during the 24 month period following a change in control (or in some circumstances, prior to a change in control), he will be entitled to receive all accrued salary and a pro rata bonus for the year of termination, plus the following amounts, subject to his execution of a release of claims and the expiration of the revocation period: (a) a lump sum payment equal to two-and-one-half times his salary and target bonus amount; (b) a lump sum payment in an amount equal to 12 times the monthly COBRA premiums for health, dental and vision coverage in effect for Mr. Krone and his dependents and 30 times the monthly company cost of providing life insurance and disability benefits to Mr. Krone; (c) up to 12 months of outplacement counseling; (d) full vesting of the unvested portion of the initial equity incentive award granted to Mr. Krone when he joined Leidos (with vesting at the target performance level for any unvested portion of such initial equity incentive award which upon the achievement of performance goals); and (e) forgiveness of any obligation to repay the sign-on bonus and sign-on equity grant he received upon commencement of his employment with Leidos. Upon such a termination, Mr. Krone would also not be required to repay to Leidos any pro-rata portion of the sign-on cash bonus and share award he received upon commencing employment. Mr. Krone is not entitled to receive a "gross up" payment to account for any excise tax that might be payable under the Internal Revenue Code, and the amount of the foregoing payments may be reduced by Leidos to the extent necessary to avoid an excise tax. The amount of severance payments and benefits to which Mr. Krone might become entitled under his employment agreement upon a termination in connection with the Transaction is estimated below in the section entitled "The Transaction Interests of Leidos Directors and Executive Officers in the Transaction Estimate of Potential Transaction-Related Compensation."

Under Mr. Krone's employment agreement, "good reason" generally means (a) a material adverse change in Mr. Krone's authority, duties or responsibilities (including reporting responsibilities), including the failure of Mr. Krone to continue to serve as Chief Executive Officer of a public company; (b) a material reduction in Mr. Krone's base salary; (c) the imposition of a requirement that Mr. Krone be based (i) at any place outside a 50-mile radius from Mr. Krone's principal place of employment immediately prior to the change in control or (ii) at any location other than Leidos corporate headquarters, except, in each case, for reasonably required business travel which is not materially greater in frequency or duration than prior to the change in control; or (d) any material breach by Leidos of any provision of his agreement, including the failure of Leidos to obtain an agreement from any successor to assume and agree to perform the agreement.

**Table of Contents****Severance Protection Agreements**

Leidos has entered into severance protection agreements with each of its executive officers, including each of the executive officers named in the summary compensation table on page 184 hereof (the named executive officers) other than Mr. Krone, which provide that if the executive officer is involuntarily terminated without cause or resigns for good reason within a 24-month period following a change in control (or in certain circumstances, preceding a change in control), he or she will be entitled to receive all accrued salary and a pro rata bonus for the year of termination, plus the following amounts: (a) a single lump sum severance payment equal to two-and-one-half times the sum of the executive officer's then current salary (or if greater, the salary in effect within 180 days preceding termination) and target annual bonus amount for the year of termination; (b) continued participation at company expense for 30 months in the health and welfare benefits provided to similarly situated active executive officers; and (c) up to 12 months of outplacement counseling. The Transactions will result in a change in control for purposes of these agreements. These executive officers are not entitled to receive a gross up payment to account for any excise tax that might be payable under the Code, and the amount of the payments may be reduced by Leidos to the extent necessary to avoid an excise tax.

The definition of good reason in the severance protection agreements is generally consistent with the definition of good reason contained in Mr. Krone's employment agreement, but also includes any purported termination of the executive officer's employment for cause by Leidos which does not comply with the terms of the agreement.

The amounts potentially payable to the executive officers are set out in the following table, determined as if the consummation of the Merger occurred on April 15, 2016 and each of the listed executive officers incurred a qualifying termination on such date. The amounts indicated below are estimates of the amounts that would be payable to these executive officers and the estimates are based on multiple assumptions that may or may not actually occur, including assumptions described in this document. Some of the assumptions are based on information not currently available and, as a result, the actual amounts, if any, to be received by an executive officer may differ in material respects from the amounts set forth below. A more detailed estimate of the amount of severance to which named executive officers might become entitled under the severance protection agreements in connection with the Transaction is quantified in the table in the section entitled The Transaction Interests of Leidos Directors and Executive Officers in the Transaction Named Executive Officer Transaction-Related Compensation Golden Parachute Compensation because SEC rules require such compensation for named executive officers to be set forth in its own table.

**Estimate of Potential Transaction-Related Compensation**

Name of Executive Officer	Cash Severance Amount (\$)	Value of Outplacement	
		Value of Continued Welfare Benefits (\$)	Counseling (\$)
Roger A. Krone	6,123,973	111,421	15,000
James C. Reagan	2,830,031	92,993	15,000
Vincent A. Maffeo	2,692,186	140,084	15,000
Jonathan W. Scholl	2,456,053	103,259	15,000
Michael E. Leiter	2,483,322	88,028	15,000
Sarah K. Allen	1,648,178	58,291	15,000
S. Gulu Gambhir	1,736,034	87,821	15,000
Ranjit S. Chadha	1,012,219	67,246	15,000

In addition, Mr. Krone would be entitled to accelerated vesting of certain of his equity awards and the forgiveness of any obligation to repay his sign-on bonus and sign-on equity grant, which would have an estimated value of approximately \$2,580,798 for the equity acceleration (valued using a share price of \$45.58) and \$1,380,105 for the forgiveness of the repayment obligations (using the same share value for the sign-on equity grant).

The estimates above are determined as if the consummation of the Merger occurred on April 15, 2016 and each of the listed executive officers incurred a qualifying termination on such date. Similar estimates for the named executive officers are set forth below.

#### **No Change in Control Under Leidos Stock Plans**

Under the terms of the Leidos stock compensation plans and its deferred compensation plans, all unvested stock, options and deferred compensation awards held by all participants under those plans, including the Leidos executive officers, are subject to accelerated vesting upon the occurrence of a change in control of Leidos under certain circumstances. However, the Transactions will not constitute a change in control for purposes of these plans.

**Table of Contents****Named Executive Officer Transaction-Related Compensation**

As required by Item 402(t) of the SEC's Regulation S-K, the table below along with its footnotes shows an estimate of the compensation that could become payable to the Leidos named executive officers and that is based on or otherwise relates to the Transactions. Please see the section entitled "The Transaction Interests of Leidos Directors and Executive Officers in the Transaction" beginning on page 99 above for further information about the compensation disclosed in the table below.

The table assumes that the consummation of the Merger occurred on April 15, 2016 that and each Leidos named executive officer incurred a qualifying termination of employment on such date. None of the amounts estimated in the table are paid solely on account of a change in control; all would require a qualifying termination of employment (i.e., by Leidos without cause or by the executive for good reason) generally within 24 months following a change in control. The amounts indicated below are estimates of the amounts that would be payable to the executive officers under such circumstances and the estimates are based on multiple assumptions that may or may not actually occur, including assumptions described in this document. Some of the assumptions are based on information not currently available (including without limitation assumptions about the effect of applicable excise taxes) and, as a result, the actual amounts, if any, to be received by a Leidos named executive officer may differ in material respects from the amounts set forth below.

**Golden Parachute Compensation<sup>(1)</sup>**

Named Executive Officer	Cash <sup>(2)</sup> (\$)	Equity <sup>(3)</sup> (\$)	Pension/ Non-Qualified Deferred Compensation/ Perquisites/ Benefits/ Reimbursements/ Tax				Other <sup>(5)</sup> (\$)	Total (\$)
			Compensation (\$)	(\$)	(\$)	(\$)		
Roger A. Krone	6,123,973	2,580,798	N/A	111,421	N/A	1,395,105	10,211,297	
James C. Reagan	2,830,031	N/A	N/A	92,993	N/A	15,000	2,938,024	
Vincent A. Maffeo	2,692,186	N/A	N/A	140,084	N/A	15,000	2,847,270	
Jonathan W. Scholl	2,456,053	N/A	N/A	103,259	N/A	15,000	2,574,312	
Michael E. Leiter	2,483,322	N/A	N/A	88,028	N/A	15,000	2,586,350	

(1) All payments and benefits in this table require both a change in control and a qualifying termination in connection with such change in control.

(2) These amounts represent the sum of each executive's severance and estimated pro-rata bonus payable as a result of termination. For all named executive officers severance is paid in a single lump sum. Pro-rated bonus amounts reflect an estimate of the bonus to which the named executive officer would be entitled to. Under the terms of his employment agreement, Mr. Krone is entitled to a pro-rated bonus based on actual performance, while other named executive officers are entitled to a pro-rated bonus based on target results.

Named Executive Officer	Cash Bonus			Total Cash (\$)
	Salary Component (\$)	Compensation Component (\$)	Pro-rata Bonus (\$)	
Roger A. Krone	2,500,000	3,250,000	373,973	6,123,973

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James C. Reagan	1,412,500	1,271,250	146,281	2,830,031
Vincent A. Maffeo	1,437,500	1,125,210	129,476	2,692,186
Jonathan W. Scholl	1,337,500	1,003,125	115,428	2,456,053
Michael E. Leiter	1,312,500	1,050,000	120,822	2,483,322

- (3) Only applicable to equity awards granted to Mr. Krone upon the commencement of his employment with us. Per SEC rules, the amounts set forth in this column are based upon a share value equal to the average closing market price of Leidos common stock on the first five business days following the first public announcement of the Transaction (\$45.58). All executives would also be entitled to continued vesting of their April 2015 performance share grants on the basis of actual goal achievement following the end of the performance period if involuntarily terminated based on special provisions found in the award agreement.
- (4) For all executives, the amounts include the estimated value to the named executive officer of life insurance, disability, medical, dental, vision and hospitalization benefits to be received for 30 months following termination. Mr. Krone would be entitled to a lump sum payment in lieu of continued coverage for 30 months, as provided in his employment agreement. Costs for medical, dental and vision are assumed to increase by 10% on each January 1st for all executives other than Mr. Krone.

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<b>Named Executive Officer</b>	<b>Health &amp; Welfare (\$)</b>	<b>Life, LTD and AD&amp;D (\$)</b>	<b>Total (\$)</b>
Roger A. Krone	49,890	61,531	111,421
James C. Reagan	37,462	55,531	92,993
Vincent A. Maffeo	55,378	84,706	140,084
Jonathan W. Scholl	55,378	47,881	103,259
Michael E. Leiter	55,147	32,881	88,028

(5) Represents the value of outplacement services (estimated to be \$15,000 per executive) and, for Mr. Krone only, the pro-rata amounts of his initial sign-on bonus and initial equity grant which would not have to be repaid upon such a termination of employment (estimated to be \$1,380,105).

**INFORMATION ABOUT THE LEIDOS ANNUAL MEETING**

*This proxy statement is being provided to Leidos stockholders as part of a solicitation of proxies by the Leidos Board for use at the Leidos annual meeting to be held at the time and place specified below, and at any properly convened meeting following an adjournment or postponement thereof. This proxy statement provides Leidos stockholders with the information they need to know to be able to vote or instruct their vote to be cast at the Leidos annual meeting.*

*General; Date; Time and Place; Purposes of the Meeting*

The Leidos annual meeting is scheduled to be held at the company's office at 11951 Freedom Drive, Reston, Virginia, on \_\_\_\_\_, at \_\_\_\_\_, local time. At the Leidos annual meeting, Leidos stockholders will be asked to consider and vote on:

the proposal to approve the issuance of shares of Leidos common stock to Lockheed Martin stockholders in connection with the Merger;

the election of nine directors;

the approval, on a non-binding, advisory basis, of the compensation of our named executive officers;

the approval, by an advisory vote, of Transaction-related compensation of Leidos' named executive officers;

the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 30, 2016; and



the proposal to adjourn the Leidos annual meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve the foregoing proposal.

A copy of the Merger Agreement is attached to this proxy statement as Annex A-1. All Leidos stockholders are urged to read the Merger Agreement carefully and in its entirety.

When this proxy statement refers to the annual meeting, it is also referring to any adjourned or postponed session of the annual meeting, if it is determined by the board of directors to be necessary or appropriate.

*Record Date; Quorum; Voting Information; Required Votes*

The Leidos Board has fixed the close of business on \_\_\_\_\_, 2016 as the record date for determining Leidos stockholders entitled to receive notice of, and to vote at, the Leidos meeting or any adjournments or postponements thereof. Only holders of record of Leidos common stock at the close of business on the Record Date are entitled to receive notice of, and to vote at, the Leidos meeting.

The presence, either in person or by proxy, of the holders of a majority of the total voting power of the shares of common stock outstanding as of \_\_\_\_\_, 2016 is necessary to constitute a quorum and to conduct business at the annual meeting. Abstentions and broker non-votes will be counted as present for purposes of determining the presence of a quorum. A broker non-vote occurs when a broker, bank or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that matter and has not received voting instructions from the beneficial owner. In tabulating the voting results for a particular proposal, broker non-votes are not considered entitled to vote on that proposal. Broker non-votes will not have an effect on the outcome of any matter being voted on at the meeting, assuming a quorum is present. Unless you provide voting instructions to any broker holding shares on your behalf, your broker may not use discretionary authority to vote your shares on any of the matters to be considered at the annual meeting other than the ratification of our independent registered public accounting firm. Please vote your proxy or provide voting instructions to your broker so your vote can be counted. To ensure that your vote is recorded, please provide your voting instructions as soon as possible, even if you plan to attend the meeting in person.

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We encourage you to vote via the Internet or by telephone. You also have the option of voting by completing, signing, dating and returning the proxy and voting instruction card that accompanied the printed materials. Submitting your vote via the Internet or by telephone or by proxy and voting instruction card will not affect your right to vote in person if you decide to attend the annual meeting.

The following votes are required for each of the proposals:

Proposal No. 1, the proposal to authorize the issuance of shares of Leidos common stock in the Merger, must be approved by the affirmative vote of a majority of votes cast by Leidos stockholders on the proposal at the annual meeting. An abstention from voting will be treated as a vote cast under NYSE rules with regard to the proposal to approve the Share Issuance and will have the same effect as a vote AGAINST the proposal to approve the Share Issuance. In accordance with applicable rules, banks, brokers and other nominees who hold shares of common stock in street name for their customers do not have discretionary authority to vote the shares with respect to the proposal to approve the Share Issuance. Accordingly, there will be no broker non-votes and shares held in street name (that is, shares held through a bank, broker or other nominee) will not be voted on the proposal to approve the Share Issuance unless the bank, broker or nominee has received voting instructions from its customer. If this proposal is not approved, the Merger cannot be completed.

Proposal No. 2, the proposal to elect nine directors, we have adopted majority voting procedures for the election of directors in uncontested elections. In an uncontested election, nominees must receive more for than against votes to be elected. Abstentions are not counted as votes cast. As provided in our bylaws, a contested election is one in which the number of nominees exceeds the number of directors to be elected. The election of directors at the 2016 annual meeting is an uncontested election. If an incumbent director receives more against than for votes, he or she is expected to tender his or her resignation in accordance with our Corporate Governance Guidelines. The Nominating and Corporate Governance Committee will consider the offer of resignation and recommend to the Board of Directors the action to be taken. The Board will promptly disclose its decision as to whether to accept or reject the tendered resignation in a press release, Current Report on Form 8-K or some other public announcement.

Proposal No. 3, the proposal to approve, by an advisory vote, the compensation of Leidos named executive officers, the affirmative vote of a majority of the shares present or represented either in person or by proxy and entitled to vote is required. Broker non-votes are not entitled to vote on this proposal and will not be counted in evaluating the results of the vote. This advisory vote on the compensation of Leidos named executive officers is non-binding on the Board of Directors.

Proposal No. 4, the proposal to approve, by non-binding advisory vote, the compensation of our named executive officers that is based on or otherwise relates to the Transactions, will be approved if a majority of the votes cast, in person or by proxy, at the annual meeting vote FOR such proposal.

Proposal No. 5, the proposal to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 30, 2016, the affirmative vote of the holders of a majority of the voting power of common stock, present or represented and entitled to vote at the

annual meeting is required to approve Proposal No. 5. Abstentions have the effect of a vote against the proposal, and broker non-votes have no effect on the outcome of the proposal. Shares of common stock represented by properly executed, timely received and unrevoked proxies will be voted in accordance with the instructions indicated thereon.

The affirmative vote of the holders of a majority of the shares of our common stock present in person or represented by proxy and entitled to vote at our annual meeting is required to approve Proposal No. 6, the adjournment of our annual meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of our proposal for the issuance of our common stock.

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A list of the names of Leidos stockholders of record will be available for ten days before the meeting for any purpose germane to the meeting, between the hours of 10:00 a.m. and 3:00 p.m., local time, at Leidos headquarters, 11951 Freedom Drive, Reston, Virginia 20190. The Leidos stockholder list will also be available at the Leidos meeting for examination by any stockholder present at such meeting.

### *Recommendation of Board of Directors*

After careful consideration, the board of directors of Leidos authorized and approved the form, terms and provisions of the Merger Agreement, and determined that the terms and conditions of the Merger Agreement, the Merger, including the issuance of Leidos common stock, the Transactions and the other Transaction Documents are advisable, fair to and in the best interests of Leidos and its stockholders.

### **The Leidos Board recommends that stockholders vote:**

**FOR the authorization of the issuance of shares of Leidos common stock in the Merger (the Share Issuance );**

**FOR the election of the nine directors;**

**FOR the approval, by an advisory vote, of the compensation of Leidos named executive officers;**

**FOR the approval, by an advisory vote, of Transaction-related compensation of Leidos named executive officers;**

**FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 30, 2016; and**

**If it is determined by the board of directors to be necessary or appropriate, FOR the approval of adjournments or postponements of the annual meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the annual meeting to approve the Share Issuance.**

### *How to Vote; Revocation of Proxies*

Shares of common stock represented by a properly executed and timely proxy will, unless it has previously been revoked, be voted in accordance with its instructions. In the absence of specific instructions, the shares represented by a properly executed and timely proxy will be voted in accordance with the Board's recommendations as follows:

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FOR the authorization of the issuance of shares of Leidos common stock in the Merger (the Share Issuance );

FOR the election of the nine directors;

FOR the approval, by an advisory vote, of the compensation of Leidos named executive officers;

FOR the approval, by an advisory vote, of Transaction-related compensation of Leidos named executive officers;

FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 30, 2016; and

If it is determined by the board of directors to be necessary or appropriate, FOR the approval of adjournments or postponements of the annual meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the annual meeting to approve the Share Issuance.

No other business is expected to come before the annual meeting; however, should any other matter properly come before the annual meeting, the proxy holders intend to vote such shares in accordance with their best judgment on such matter.

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There are four different ways to vote your shares:

By Internet: Go to [www.proxyvote.com](http://www.proxyvote.com) or scan the QR code on your proxy and voting instruction card with a smart phone.

By Telephone: Call 1-800-690-6903.

By Mail: If you received your proxy materials in the mail, you may complete, sign and return the accompanying proxy and voting instruction card in the postage-paid envelope provided.

In Person: Attend the meeting at the company's office at 11951 Freedom Drive in Reston, Virginia, and vote in person if you are a stockholder of record or if you have obtained a valid proxy from the stockholder of record.

Submitting a proxy will not prevent you from attending the annual meeting and voting in person. Any proxy may be revoked at any time prior to exercise by delivering a written revocation or a new proxy bearing a later date to our mailing agent, Broadridge, as described below or by attending the annual meeting and voting in person. The mailing address of our mailing agent is Broadridge, 51 Mercedes Way, Edgewood, NY 11717. Attendance at the annual meeting will not, however, in and of itself, revoke a proxy.

For shares not held in the Leidos, Inc. Retirement Plan (the "Leidos Retirement Plan"), the deadline for submitting a proxy using the Internet or the telephone is 11:59 p.m. Eastern time on \_\_\_\_\_, 2016. For shares held in the Leidos Retirement Plan, the deadline for submitting voting instructions using any of the allowed methods is 11:59 p.m. Eastern time on \_\_\_\_\_, 2016.

### *Solicitation of Proxies*

Leidos will bear the entire cost of soliciting proxies from its stockholders. In addition to solicitation of proxies by mail, proxies may be solicited in person, by telephone or other electronic communications, such as emails or postings on Leidos' website by Leidos' directors, officers and employees, who will not receive additional compensation for these services. Leidos has retained Morrow & Co., LLC to assist in the solicitation of proxies for a fee of \$10,000 plus expenses. Banks, brokers and other nominees will be requested to forward soliciting material to beneficial owners of stock held of record by them, and Leidos will reimburse those persons for their reasonable expenses in doing so.

### *Adjournments and Postponements*

Although it is not currently expected, if it is determined by the board of directors to be necessary or appropriate, the annual meeting may be adjourned or postponed for the purpose of soliciting additional proxies if there are not sufficient votes at the time of the annual meeting to approve the issuance of shares of Leidos common stock in the Merger. Any adjournment or postponement may be made from time to time by the affirmative vote of the holders of stock having a majority of the votes that could be cast by the holders of all stock entitled to vote on the proposal that are present in person or by proxy at the annual meeting, without further notice other than by an announcement made at the annual meeting, unless such adjournment is for more than 30 days or if after such adjournment a new record date is fixed for the adjourned meeting. Any adjournment or postponement of the annual meeting for the purpose of

soliciting additional proxies will allow Leidos stockholders who have already sent in their proxies to revoke them at any time prior to their use at the annual meeting as adjourned or postponed.

The adjournment or postponement proposal relates only to an adjournment or postponement of the annual meeting occurring for purposes of soliciting additional proxies for the approval of the issuance of shares of Leidos common stock in the Merger. Leidos board of directors retains full authority to adjourn or postpone the annual meeting for any other purpose, including the absence of a quorum, or to postpone the annual meeting before it is convened, without the consent of any stockholders.

*Attending the Meeting*

All Leidos stockholders, including stockholders of record and stockholders who hold their shares through banks, brokers or other nominees, are invited to attend the annual meeting. You may vote in person if you are a stockholder of record or if you have obtained a valid proxy from the stockholder of record. If you attend the meeting, you will be asked to present an admission ticket or proof of ownership and valid photo identification. Your admission ticket is:

Attached to your proxy and voting instruction card if you received your proxy materials in the mail;

Can be printed from the online voting site; or

A letter or a recent account statement showing your ownership of our common stock as of the record date, if you hold shares through a bank or a broker.

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*Householding*

We have adopted a procedure approved by the SEC, called householding. Under this procedure, we send only one proxy statement and one annual report to eligible stockholders who share a single address, unless we have received instructions to the contrary from any stockholder at that address. This practice is designed to reduce our printing and postage costs. Stockholders who do not participate in householding will continue to receive separate proxy and voting instruction cards. We do not use householding for any other stockholder mailings.

If you are a registered stockholder residing at an address with other registered stockholders and wish to receive a separate copy of the proxy statement or annual report, or if you do not wish to participate in householding and prefer to receive separate copies of these documents in the future, please contact our mailing agent, Broadridge, either by calling toll-free at 1-800-542-1061, or by writing to Broadridge, Householding Department, 51 Mercedes Way, Edgewood, NY 11717. If you own shares through a bank, broker, or other nominee, you should contact the nominee concerning householding procedures. We will promptly deliver a separate copy of the proxy statement or annual report to you upon request.

If you are eligible for householding, but you and other stockholders of record with whom you share an address currently receive multiple copies of the proxy statement or annual report and you wish to receive a single copy of each of these documents for your household, please contact our mailing agent, Broadridge, at the telephone number or address indicated above.

*Questions and Additional Information*

If Leidos stockholders have more questions about the Transactions or how to submit their proxy, or if they need additional copies of this proxy statement or the enclosed proxy card or voting instructions, please contact:

Morrow & Co., LLC

470 West Avenue

Stamford, Connecticut 06902

Stockholders, please call Toll Free (800) 278-2141

Banks and Brokerage Firms, please call (203) 658-9400

or

Leidos Holdings, Inc.

11951 Freedom Drive

Reston, Virginia 20190

Attention: Investor Relations

Telephone: (571) 526-6000



The vote of Leidos stockholders is important. Please sign, date, and return the proxy card or submit the proxy and/or voting instructions via the Internet or by telephone promptly.

### **INFORMATION ON LOCKHEED MARTIN S EXCHANGE OFFER**

In the Transactions, Lockheed Martin will offer to holders of Lockheed Martin common stock the right to exchange all or a portion of their Lockheed Martin common stock for shares of Splitco common stock at a discount to the per-share value of Leidos common stock. See The Transactions. Splitco has filed a registration statement on Form S-4 and Form S-1 to register shares of its common stock which will be distributed to Lockheed Martin shareholders pursuant to a spin-off or a split-off in connection with the Merger. The shares of Splitco common stock will be immediately converted into shares of Leidos common stock in the Merger. Leidos has filed a registration statement on Form S-4 to register the shares of its common stock which will be issued in the Merger. The terms and conditions of the exchange offer are described in Splitco s registration statement and Leidos registration statement. Leidos and Leidos stockholders are not a party to the exchange offer and are not being asked to separately vote on the exchange offer or to otherwise participate in the exchange offer.

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Upon the consummation of the exchange offer, Lockheed Martin will deliver to the exchange agent a global certificate representing all of the Splitco common stock being distributed in the exchange offer, with irrevocable instructions to hold the shares of Splitco common stock in trust for the holders of Lockheed Martin common stock validly tendered and not withdrawn in the exchange offer and, in the case of a pro rata distribution, holders of Lockheed Martin common stock whose shares of Lockheed Martin common stock remain outstanding after the consummation of the exchange offer. Leidos will deposit with the exchange agent for the benefit of persons who received shares of Splitco common stock in the 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 holders of Splitco common stock.

Leidos expects to issue approximately 77 million 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, the total value of the shares to be issued by Leidos and the cash and debt instruments expected to be received by Lockheed Martin in the Transactions, including the Splitco Securities (which, if issued, together with the new indebtedness to be incurred by Splitco on the date of the Distribution, will be obligations of Splitco and, following the consummation of the Merger, are expected to be guaranteed by Leidos) 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 determination.

Lockheed Martin's exchange offer is subject to various conditions listed in Splitco's registration statement and Leidos registration statement.

The information included in this section regarding Lockheed Martin's exchange offer is being provided to Leidos stockholders for informational purposes only and does not purport to be complete. For additional information on Lockheed Martin's exchange offer and the terms and conditions of Lockheed Martin's exchange offer, Leidos stockholders are urged to read Splitco's registration statement on Form S-4 and Form S-1, or Leidos' registration statement on Form S-4, and all other documents Splitco or Leidos have filed or will file with the SEC. This document constitutes only a proxy statement for Leidos shareholders relating to the approval of the Share Issuance and is not an offer to sell or an offer to purchase shares of Leidos common stock.

## **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](#).

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### **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 April 1, 2016, Leidos had current assets of \$1,803 million, total assets of \$3,391 million, current liabilities of \$1,005 million, net working capital of \$798 million, and long-term debt, net of current portion of \$1,089 million. Following the consummation of the Transactions, Leidos' total assets and liabilities will increase significantly.

As of April 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 current assets of \$2,319 million, total assets of \$9,176 million, current liabilities of \$1,916 million, net working capital of \$403 million, and long-term debt, net of current portion, of \$3,482 million. Leidos' cash from operations was \$399 million for the 11

months ended January 1, 2016, as compared to cash used in operations of \$18 million for the three months ended April 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 potentially may 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 (of which \$6 million has been incurred through April 1, 2016) and (c) \$150 million to \$175 million of transition and integration-related costs (of which \$3 million has been incurred through April 1, 2016), 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.

The following table summarizes, as of January 1, 2016, Leidos pro forma contractual obligations to make future payments pursuant to certain contracts or arrangements (including the proposed new indebtedness to be incurred by Leidos and Splitco in connection with the Transactions, as described in more detail under Debt Financing ) and provides an estimate of the fiscal years in which these obligations are expected to be satisfied:

	Payments Due by Fiscal Year						2021 and Thereafter
	Total	2016	2017	2018	2019	2020	
Contractual obligations <sup>(1)</sup> :							(in millions)
Existing Leidos long-term debt (including current portion) <sup>(2)</sup>	\$ 1,974	\$ 60	\$ 60	\$ 59	\$ 60	\$ 59	\$ 1,676
Proposed new long-term debt of Leidos and Splitco (including current portion) <sup>(3)(4)</sup>	3,010	169	166	553	179	776	1,167
Operating lease obligations	349	84	69	58	45	31	62

Capital lease obligations	6	2	2	1	1	-	-
Other long-term liabilities <sup>(5)</sup>	41	6	6	6	6	6	11
<b>Total contractual obligations</b>	<b>\$ 5,380</b>	<b>\$ 321</b>	<b>\$ 303</b>	<b>\$ 677</b>	<b>\$ 291</b>	<b>\$ 872</b>	<b>\$ 2,916</b>

- (1) Purchase orders for services or products to be delivered pursuant to U.S. Government contracts for which Leidos is entitled to full recourse under normal contract termination clauses have been excluded.
- (2) Includes total interest payments on Leidos' current outstanding debt. Interest payments represent the entire balance for fiscal years 2016-2020 and \$589,000,000 of Leidos' obligations in fiscal year 2021 and thereafter. The total interest payments on Leidos' outstanding debt are calculated based on the stated fixed rates of the senior unsecured notes and do not reflect the variable interest rate component due to the interest rate swap agreements.
- (3) Includes total interest payments on the proposed new debt to be incurred by Leidos and Splitco in connection with the Transactions, as if the new debt was incurred on January 1, 2016. Interest payments represent \$88,000,000, \$85,000,000, \$82,000,000, \$68,000,000, and \$65,000,000 of Leidos' obligations for fiscal years 2016-2020, respectively, and \$91,000,000 for fiscal year 2021 and thereafter.
- (4) Leidos management does not expect to draw on the Leidos Revolving Credit Facility in connection with the consummation of the Merger and, as a result, the entire available balance of \$750,000,000 is not included in the table above.
- (5) Other long-term liabilities were allocated by fiscal year as follows: liabilities under deferred compensation arrangements are based upon the average annual payments in prior years upon termination of employment by participants and other liabilities are based on the fiscal year that the liabilities are expected to be realized. The table above does not include income tax liabilities for uncertain tax positions of \$5,000,000 and \$4,000,000 of additional tax liabilities, as management is not able to reasonably estimate the timing of payments in individual years due to uncertainties in the timing of audit outcomes and when settlements will become due. There is no obligation included for Leidos' foreign defined benefit pension plan, as the plan was overfunded by \$2,000,000 as of January 1, 2016. For a discussion of potential changes in these pension obligations, see Note 15 of the combined notes to consolidated financial statements contained in Leidos' Transition Report on Form 10-K for the 11-months ended January 1, 2016, which is incorporated by reference in this document.

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, which is expected to have \$750 million of unused availability immediately following the consummation of the Transactions. 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, and the costs of future acquisitions. 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 and Quarterly Report on Form 10-Q for the three-month period ended April 1, 2016, which are filed with the SEC and incorporated by reference in this document. See "Where You Can Find More Information; Incorporation by Reference."

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**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.

**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, Mr. 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.

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**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. 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 K. 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.

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**James C. Reagan**, 57, has served as the Executive Vice President, Chief Financial Officer since July 2015. 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.

**Ranjit S. Chadha**, 46, has served as Senior Vice President and Corporate Controller since April 2016. Mr. Chadha joined our company in November 2015 as Assistant Corporate Controller. Prior to joining us, Mr. Chadha held various positions of increasing responsibility over five years with Computer Sciences Corporation, most recently as Assistant Controller. Prior to that, he served as a Senior Manager, National Office, with PricewaterhouseCoopers. Mr. Chadha is a certified public accountant, chartered accountant and received his Bachelor of Science from St. Stephens College, Delhi University, India.

**S. Gulu Gambhir**, 47, has served as 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 and Head of Integration since March 2016 and previously served as 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.

## **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.

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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 cybersecurity 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 cybersecurity 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.

**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.

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**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 or more option periods in which the customer can extend the contract period of performance.

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**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 perfor