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

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# FORM 8-K

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**CURRENT REPORT**
**Pursuant to Section 13 OR 15(d)**
**of The Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): July 29, 2016**

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# LOCKHEED MARTIN CORPORATION
**(Exact name of registrant as specified in its charter)**

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| Maryland | 1-11437 | 52-1893632 |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| 6801 Rockledge Drive<br>Bethesda, Maryland | 20817 |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

**(301) 897-6000**
**(Registrant’s telephone number, including area code)**

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☒ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 8.01 Other Events.**

On July 11, 2016, Lockheed Martin Corporation ("Lockheed Martin") commenced an exchange offer related to the proposed transaction to separate its Information Systems & Global Solutions business segment (the "IS&GS business") and merge this business with Leidos Holdings, Inc. ("Leidos") in a Reverse Morris Trust transaction. In the proposed transaction, Lockheed Martin will transfer the IS&GS business to Abacus Innovations Corporation ("Abacus"), a wholly-owned subsidiary of Lockheed Martin created to facilitate the transaction, and will distribute the shares of common stock of Abacus to its participating stockholders in the exchange offer. Immediately following the distribution, Abacus will merge with a subsidiary of Leidos and become a wholly-owned subsidiary of Leidos. The exchange offer provides Lockheed Martin stockholders with the opportunity to exchange their shares of Lockheed Martin common stock for shares of Abacus common stock, which will convert into shares of Leidos common stock upon completion of the merger. In connection with the exchange offer, (i) Abacus filed a Registration Statement on Form S-4 and Form S-1 with the Securities and Exchange Commission ("SEC") that was declared effective on July 11, 2016 (Commission File No. 333-210797) (the "Abacus Registration Statement") and (ii) Leidos filed a Registration Statement on Form S-4 with the SEC that also was declared effective on July 11, 2016 (Commission File No. 333-210796) (the "Leidos Registration Statement" and, together with the Abacus Registration Statement, the "Registration Statements").

This Current Report on Form 8-K is being filed to provide (i) the unaudited interim combined financial statements of the IS&GS business as of June 26, 2016 and for the six months ended June 26, 2016 and June 28, 2015 and Management's Discussion and Analysis of Financial Condition and Results of Operations of the IS&GS business for the six months ended June 26, 2016 and June 28, 2015 and (ii) the unaudited balance sheet of Abacus as of June 26, 2016 (collectively, the "Second Quarter Financial Information"), which Second Quarter Financial Information will be incorporated by reference into the Abacus Registration Statement and the Leidos Registration Statement as provided in "Where You Can Find More Information; Incorporation By Reference" in the prospectus contained in the Registration Statements.

Separately, Leidos intends to file with the SEC in a Quarterly Report on Form 10-Q its consolidated financial statements for the three and six months ended July 1, 2016 and July 3, 2015 and intends to file with the SEC in a Current Report on Form 8-K (i) unaudited pro forma combined consolidated financial statements as of and for the six months ended July 1, 2016 and for the 11 months ended January 1, 2016, (ii) an unaudited supplemental combined consolidated statement of income for the 12 months ended January 1, 2016, and (iii) additional financial information, including non-GAAP financial information and backlog (collectively, the "Additional Financial Information"), which Additional Financial Information also will be incorporated by reference into the Abacus Registration Statement and the Leidos Registration Statement as provided in "Where You Can Find More Information; Incorporation By Reference" in the prospectus contained in the Registration Statements. Leidos' Current Report on Form 8-K also will include the Second Quarter Financial Information.

The unaudited interim combined financial statements of the IS&GS business as of June 26, 2016 and for the six months ended June 26, 2016 and June 28, 2015, Management's Discussion and Analysis of Financial Condition and Results of Operations of the IS&GS business for the six months ended June 26, 2016 and June 28, 2015, and the unaudited balance sheet of Abacus as of June 26, 2016 are included as Exhibits 99.1, 99.2 and 99.3, respectively, to this Current Report on Form 8-K and incorporated herein by reference.

**Item 9.01. Financial Statements and Exhibits.**

| Exhibit No. | Description |
|---|---|
| 15.1 | Acknowledgement of Ernst & Young LLP related to the Information Systems & Global Solutions Business |
| 15.2 | Acknowledgement of Ernst & Young LLP related to Abacus Innovations Corporation |
| 99.1 | Unaudited Interim Combined Financial Statements of the Information Systems & Global Solutions Business as of June 26, 2016 and for the Six Months Ended June 26, 2016 and June 28, 2015 |
| 99.2 | Management's Discussion and Analysis of Financial Condition and Results of Operations of the Information Systems & Global Solutions Business for the Six Months Ended June 26, 2016 and June 28, 2015 |
| 99.3 | Unaudited Balance Sheet of Abacus Innovations Corporation as of June 26, 2016 |

**Cautionary Statement Regarding Forward Looking Statements**

The forward looking statements contained in this document involve risks and uncertainties that may affect Lockheed Martin and Leidos' 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 either company will be realized. This document also contains statements about Lockheed Martin's agreement to separate a substantial portion of its government information technology infrastructure services business and its technical services business, which have been realigned in the IS&GS business segment, and combine this business with Leidos in a Reverse Morris Trust transaction (the "Transaction"). Many factors could cause actual results to differ materially from these forward-looking statements with respect to the Transaction, including risks relating to the completion of the Transaction 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 Lockheed Martin's or 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 Lockheed Martin's or 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 Lockheed Martin's and Leidos' 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 Leidos' transition report on Form 10-K for the 11-month period ended January 1, 2016 and quarterly reports on Form 10-Q which are available on the respective companies websites at http://www.leidos.com (Leidos) and http://www.lockheedmartin.com (Lockheed Martin) and at the SEC's website at http://www.sec.gov. Neither Lockheed Martin nor Leidos 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.

**Additional Information and Where to Find It**

In connection with the proposed transaction, Abacus Innovations Corporation, a wholly-owned subsidiary of Lockheed Martin created for the transaction ("Abacus"), has filed with the SEC a registration statement on Form S-4 and Form S-1 containing a prospectus and Leidos has filed with the SEC a proxy statement on Schedule 14A and a registration statement on Form S-4 containing a prospectus. Lockheed Martin has filed a Tender Offer Statement on Schedule TO which more fully describes the terms and conditions of the exchange offer. INVESTORS AND SECURITY HOLDERS ARE ADVISED TO READ THE REGISTRATION STATEMENTS/PROSPECTUSES AND PROXY STATEMENT AND ANY AMENDMENTS WHEN THEY BECOME AVAILABLE AS WELL AS ANY OTHER RELEVANT DOCUMENTS, BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT THE PARTIES AND THE PROPOSED TRANSACTION. Investors and security holders may obtain a free copy of the prospectuses and proxy statement and other documents filed with the SEC by Lockheed Martin, Abacus and Leidos at the SEC's website at http://www.sec.gov. Free copies of these documents and each of the companies' other filings with the SEC also may be obtained from the respective companies' websites at http://www.leidos.com (Leidos) and http://www.lockheedmartin.com (Lockheed Martin).

This communication is not a solicitation of a proxy from any investor or security holder. However, Leidos, Lockheed Martin, and certain of their respective directors, executive officers and other members of management and employees, may be deemed to be participants in the solicitation of proxies from stockholders of Leidos in respect of the proposed transaction under the rules of the SEC. Information regarding Leidos' directors and executive officers is available in Leidos' transition report on Form 10-K filed with the SEC on February 26, 2016 and in its proxy statement for its annual meeting of stockholders filed on July 7, 2016. Information regarding Lockheed Martin's directors and executive officers is available in Lockheed Martin's 2015 annual report on Form 10-K filed with the SEC on February 24, 2016, and in its definitive proxy statement for its annual meeting of stockholders filed on March 11, 2016. These documents can be obtained free of charge from the sources indicated above. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the registration statements, prospectuses and proxy statement and other relevant materials to be filed with the SEC when they become available.

This communication shall not constitute an offer to sell or the solicitation of an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

| | |
|---|---|
| | Lockheed Martin Corporation |
| Date: July 29, 2016 | by: /s/ Stephen M. Piper |
| | Stephen M. Piper |
| | Vice President and Associate General Counsel |

## EXHIBIT INDEX

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| 99.2 | Management's Discussion and Analysis of Financial Condition and Results of Operations of the Information Systems & Global Solutions Business for the Six Months Ended June 26, 2016 and June 28, 2015 |
| 99.3 | Unaudited Balance Sheet of Abacus Innovations Corporation as of June 26, 2016 |

**Exhibit 15.1**

**Acknowledgment of Ernst & Young LLP,**
**Independent Registered Public Accounting Firm**

Board of Directors
Lockheed Martin Corporation

We are aware of the incorporation by reference of our report dated July 29, 2016, relating to the unaudited combined interim financial statements of the Information Systems & Global Solutions business of Lockheed Martin Corporation as of June 26, 2016 and for the six months ended June 26, 2016 and June 28, 2015 that is included in Lockheed Martin Corporation's Current Report on Form 8-K filed on July 29, 2016, in (i) the following Registration Statements of Lockheed Martin Corporation:

- 33-58073, 33-58077, 33-58079, and 33-58097 on Form S-8, each dated March 15, 1995;
- 33-63155 on Form S-8, dated October 3, 1995;
- 33-58083 on Form S-8 (Post-Effective Amendment No. 1), dated January 22, 1997;
- 333-20117 and 333-20139 on Form S-8, each dated January 22, 1997;
- 333-27309 on Form S-8, dated May 16, 1997;
- 333-37069 on Form S-8, dated October 2, 1997;
- 333-40997 on Form S-8, dated November 25, 1997;
- 333-58069 on Form S-8, dated June 30, 1998;
- 333-69295 on Form S-8, dated December 18, 1998;
- 333-92197 on Form S-8, dated December 6, 1999;
- 333-92363 on Form S-8, dated December 8, 1999;
- 333-78279 on Form S-8 (Post-Effective Amendments No. 2 and 3), each dated August 3, 2000;
- 333-56926 on Form S-8, dated March 12, 2001;
- 333-84154 on Form S-8, dated March 12, 2002;
- 333-105118 on Form S-8, dated May 9, 2003;
- 333-113769, 333-113770, 333-113771, 333-113772, and 333-113773 on Form S-8, each dated March 19, 2004;
- 333-115357 on Form S-8, dated May 10, 2004;
- 333-127084 on Form S-8, dated August 1, 2005;
- 333-146963 on Form S-8, dated October 26, 2007;
- 333-155687 on Form S-8, dated November 25, 2008;
- 333-162716 on Form S-8, dated October 28, 2009;
- 333-155684 on Form S-8 (Post-Effective Amendment No. 1), dated August 23, 2011;
- 333-176440 on Form S-8, dated August 23, 2011;
- 333-188118 on Form S-8, dated April 25, 2013;
- 333-195466 on Form S-8, dated April 24, 2014 and July 23, 2014 (Post-Effective Amendment No.1);
- 333-197577 on Form S-3, dated July 23, 2014;
- 333-199570 on Form S-3, dated October 23, 2014; and

(ii) the Registration Statement on Form S-4 and Form S-1 (333-210797) of Abacus Innovations Corporation, effective July 11, 2016.

/s/ Ernst & Young LLP

McLean, Virginia
July 29, 2016

**Exhibit 15.2**

**Acknowledgment of Ernst & Young LLP,**
**Independent Registered Public Accounting Firm**

Board of Directors
Abacus Innovations Corporation

We are aware of the incorporation by reference of our report dated July 29, 2016, relating to the unaudited balance sheet of Abacus Innovations Corporation as of June 26, 2016 that is included in Lockheed Martin Corporation's Current Report on Form 8-K filed on July 29, 2016, in (i) the following Registration Statements of Lockheed Martin Corporation:

- 33-58073, 33-58077, 33-58079, and 33-58097 on Form S-8, each dated March 15, 1995;
- 33-63155 on Form S-8, dated October 3, 1995;
- 33-58083 on Form S-8 (Post-Effective Amendment No. 1), dated January 22, 1997;
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- 333-199570 on Form S-3, dated October 23, 2014; and

(ii) the Registration Statement on Form S-4 and Form S-1 (333-210797) of Abacus Innovations Corporation, effective July 11, 2016.

/s/ Ernst & Young LLP

McLean, Virginia
July 29, 2016

**Exhibit 99.1**

**UNAUDITED INTERIM COMBINED FINANCIAL STATEMENTS**
**OF THE INFORMATION SYSTEMS & GLOBAL SOLUTIONS BUSINESS**

**As of June 26, 2016**
**and for the Six Months Ended June 26, 2016 and June 28, 2015**

**Table of Contents**

**Review Report of Independent Registered Public Accounting Firm**

Board of Directors
Lockheed Martin Corporation

We have reviewed the Combined Balance Sheet of the Information Systems & Global Solutions business of Lockheed Martin Corporation (the Company) as of June 26, 2016, and the related Combined Statements of Earnings, Comprehensive Income, Cash Flows and Equity for the six months ended June 26, 2016 and June 28, 2015. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the combined financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Combined Balance Sheet of the Information Systems & Global Solutions business of Lockheed Martin Corporation as of December 31, 2015, and the related Combined Statements of Earnings, Comprehensive Income, Cash Flows and Equity for the year then ended (not presented herein), and we expressed an unqualified audit opinion on those combined financial statements in our report dated April 15, 2016. In our opinion, the accompanying Combined Balance Sheet as of December 31, 2015, is fairly stated, in all material respects, in relation to the Combined Balance Sheet from which it has been derived.

/s/ Ernst & Young LLP

McLean, Virginia
July 29, 2016

**The Information Systems & Global Solutions Business**
**Combined Statements of Earnings**
**(unaudited; in millions)**

| | Six Months Ended | |
|---|---|---|
| | **June 26, 2016** | **June 28, 2015** |
| **Revenues** | **$ 2,683** | $ 2,809 |
| **Cost of revenues** | | |
| Cost of revenues | **(2,430)** | (2,586) |
| Severance charges | **(19)** | — |
| Total cost of revenues | **(2,449)** | (2,586) |
| Gross profit | **234** | 223 |
| Other income, net | **13** | 15 |
| Earnings before income taxes | **247** | 238 |
| Income tax expense | **(87)** | (83) |
| **Net earnings** | **160** | 155 |
| Less: net earnings attributable to non-controlling interest | **3** | 2 |
| **Net earnings attributable to parent** | **$ 157** | $ 153 |

The accompanying notes are an integral part of these unaudited combined financial statements.

**The Information Systems & Global Solutions Business**
**Combined Statements of Comprehensive Income**
**(unaudited; in millions)**

| | Six Months Ended | |
|---|---|---|
| | **June 26, 2016** | **June 28, 2015** |
| Net earnings | **$ 160** | $ 155 |
| Other comprehensive loss | | |
| Foreign currency translation adjustments | **(12)** | (3) |
| Total comprehensive income | **148** | 152 |
| Less: comprehensive income attributable to non-controlling interest | **3** | 2 |
| Comprehensive income attributable to parent | **$ 145** | $ 150 |

The accompanying notes are an integral part of these unaudited combined financial statements.

**The Information Systems & Global Solutions Business**
**Combined Balance Sheets**
**(in millions)**

| | June 26, 2016 | December 31, 2015 |
|---|---|---|
| **Assets** | (unaudited) | |
| Current assets | | |
| Cash | **$ 35** | $ 39 |
| Receivables, net | **841** | 840 |
| Inventories, net | **123** | 168 |
| Other current assets | **18** | 20 |
| Total current assets | **1,017** | 1,067 |
| Fixed assets, net | **91** | 97 |
| Goodwill | **2,810** | 2,823 |
| Intangible assets, net | **109** | 128 |
| Deferred income taxes | **17** | 10 |
| Other noncurrent assets | **53** | 55 |
| Total assets | **$ 4,097** | $ 4,180 |
| | | |
| **Liabilities and equity** | | |
| Current liabilities | | |
| Accounts payable | **$ 234** | $ 236 |
| Customer advances and amounts in excess of costs incurred | **255** | 297 |
| Salaries, benefits and payroll taxes | **218** | 214 |
| Other current liabilities | **262** | 254 |
| Total current liabilities | **969** | 1,001 |
| Deferred income taxes | **151** | 150 |
| Other noncurrent liabilities | **89** | 88 |
| Total liabilities | **1,209** | 1,239 |
| Equity | | |
| Net parent investment | **2,926** | 2,970 |
| Accumulated other comprehensive loss | **(48)** | (36) |
| Total parent investment | **2,878** | 2,934 |
| Non-controlling interest | **10** | 7 |
| Total equity | **2,888** | 2,941 |
| Total liabilities and equity | **$ 4,097** | $ 4,180 |

The accompanying notes are an integral part of these unaudited combined financial statements.

**The Information Systems & Global Solutions Business**
**Combined Statements of Cash Flows**
**(unaudited; in millions)**

| | Six Months Ended | |
|---|---|---|
| | **June 26, 2016** | **June 28, 2015** |
| **Operating activities** | | |
| Net earnings | **$ 160** | $ 155 |
| Adjustments to reconcile net earnings to net cash provided by operating activities | | |
| Depreciation and amortization | **28** | 38 |
| Stock-based compensation | **5** | 6 |
| Severance charges | **19** | — |
| Deferred income taxes | **(6)** | (3) |
| Changes in assets and liabilities | | |
| Receivables, net | **(1)** | 64 |
| Inventories, net | **45** | 14 |
| Accounts payable | **(2)** | 23 |
| Customer advances and amounts in excess of costs incurred | **(42)** | 31 |
| Salaries, benefits and payroll taxes | **(15)** | (30) |
| Other, net | **28** | (28) |
| Net cash provided by operating activities | **219** | 270 |
| **Investing activities** | | |
| Capital expenditures | **(7)** | (5) |
| Net cash used for investing activities | **(7)** | (5) |
| **Financing activities** | | |
| Net transfers to parent | **(205)** | (257) |
| Other, net | **(12)** | (22) |
| Net cash used for financing activities | **(217)** | (279) |
| Effect of foreign exchange rate changes on cash | **1** | (3) |
| Net change in cash | **(4)** | (17) |
| Cash at beginning of period | **39** | 61 |
| Cash at end of period | **$ 35** | $ 44 |

The accompanying notes are an integral part of these unaudited combined financial statements.

**The Information Systems & Global Solutions Business**
**Combined Statements of Equity**
**(unaudited; in millions)**

| | Net Parent Investment | Accumulated Other Comprehensive Loss | Non-Controlling Interest | Total Equity |
|---|---|---|---|---|
| Balances as of December 31, 2014 | $ 3,016 | $ (17) | $ 6 | $ 3,005 |
| Net earnings | 153 | — | 2 | 155 |
| Other comprehensive loss | — | (3) | — | (3) |
| Distribution to non-controlling interest | — | — | (4) | (4) |
| Net transfers to parent | (250) | — | — | (250) |
| Balances as of June 28, 2015 | $ 2,919 | $ (20) | $ 4 | $ 2,903 |
| | | | | |
| Balances as of December 31, 2015 | $ 2,970 | $ (36) | $ 7 | $ 2,941 |
| Net earnings | **157** | **—** | **3** | **160** |
| Other comprehensive loss | **—** | **(12)** | **—** | **(12)** |
| Net transfers to parent | **(201)** | **—** | **—** | **(201)** |
| Balances as of June 26, 2016 | **$ 2,926** | **$ (48)** | **$ 10** | **$ 2,888** |

The accompanying notes are an integral part of these unaudited combined financial statements.

## Note 1 – Business Overview and Basis of Presentation

The accompanying unaudited interim combined financial statements and notes present the combined results of operations, financial condition, and cash flows of the Information Systems & Global Solutions business ("IS&GS") of Lockheed Martin Corporation ("Lockheed Martin"). IS&GS is a leading provider of information technology ("IT"), management and engineering services to civil, defense and intelligence agencies of the U.S. Government. IS&GS also provides services to agencies of allied foreign governments, state and local governments and commercial customers. IS&GS supports its customers by providing data analytics, systems engineering, large-scale agile software development, network-enabled situational awareness solutions, communications and command and control capability and global systems integration, to help customers gather, analyze and securely distribute intelligence data to address complex and pressing challenges, such as combating global terrorism, cybersecurity, air traffic management, energy demand management and transforming the healthcare system. IS&GS is also responsible for various classified systems and services in support of vital national security systems. Major U.S. Government customers include civil agencies such as the Department of Homeland Security, the Department of Health and Human Services and the Department of the Treasury; the Department of Defense ("DoD") and all branches of the U.S. military; and the U.S. intelligence community. IS&GS' international customers are primarily located in the United Kingdom, the Middle East and Australia. In the commercial sector, IS&GS serves clients primarily in the financial services, healthcare and energy industries.

On January 26, 2016, Lockheed Martin entered into definitive agreements to separate and combine IS&GS with Leidos Holdings, Inc. ("Leidos") in a Reverse Morris Trust transaction. The transaction will be structured such that initially IS&GS will be contributed to a newly formed wholly owned subsidiary, Abacus Innovations Corporation ("Abacus"), and the common stock of Abacus will be distributed to Lockheed Martin stockholders either through a pro rata dividend in a spin-off transaction, an exchange offer pursuant to which Lockheed Martin shareholders will elect whether to exchange shares of Lockheed Martin common stock for shares of Abacus common stock in a split-off transaction, or a combination split-off and spin-off transaction. Following the distribution, Abacus will merge with a subsidiary of Leidos and each share of Abacus common stock held by Lockheed Martin stockholders will automatically convert into one share of Leidos common stock upon completing the merger. Immediately after the completion of the transactions, approximately 50.5% of the outstanding shares of Leidos common stock (approximately 77 million shares) are expected to be held by pre-merger Abacus (former Lockheed Martin) stockholders on a fully-diluted basis. Pre-merger Leidos stockholders are expected to hold approximately 49.5% of the outstanding shares of Leidos common stock on a fully diluted basis. Lockheed Martin will not receive or hold any shares of Leidos common stock. As part of the transaction, Lockheed Martin will also receive a one-time special cash payment of $1.8 billion.

On July 11, 2016 Lockheed Martin commenced an exchange offer in which Lockheed Martin stockholders have the opportunity, but are not required, to exchange shares of Lockheed Martin common stock for shares of Abacus common stock, which will automatically convert into shares of Leidos common stock upon completion of the merger. Only those stockholders that elect to participate in the exchange offer will receive shares of Leidos common stock in the merger transaction, provided that, if the exchange offer is not fully subscribed, Lockheed Martin will distribute the remaining shares pro rata in respect of all shares not tendered, and the shares distributed will also be converted into Leidos common stock in the merger. Lockheed Martin retains the right to distribute the shares of Abacus common stock by means of a spin-off or split-off transaction until the exchange offer is completed. Both the exchange and merger are expected to qualify as tax-free transactions to Lockheed Martin and its stockholders, except to the extent that cash is paid to Lockheed Martin stockholders in lieu of fractional shares.

The transactions remain subject to customary closing conditions, including approval by Leidos' stockholders of the issuance of the Leidos shares in the merger, regulatory approvals, the absence of a material adverse change with respect to each of IS&GS and Leidos, and the receipt of solvency opinions and opinions of tax counsel. The antitrust and competition reviews in the U.S. and the U.K., which were each conditions to closing, have been completed. The transaction is expected to close in the third quarter of 2016.

Throughout the periods included in these unaudited combined financial statements, IS&GS operated as part of Lockheed Martin and consisted of several legal entities, acquired businesses, as well as businesses with no separate legal status. Separate financial statements have not historically been prepared for IS&GS. The unaudited combined financial statements have been derived from Lockheed Martin's historical accounting records as if IS&GS' operations had been conducted independently from Lockheed Martin and were prepared on a stand-alone basis in accordance with U.S. generally accepted accounting principles ("GAAP") for interim periods and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). In the opinion of IS&GS management, these unaudited combined financial statements reflect all adjustments that are of a normal recurring nature necessary for fair presentation of IS&GS' results of operations, financial condition and cash flows for the interim periods presented. Certain information and note disclosures normally included in financial statements prepared annually in accordance with GAAP have been condensed or omitted pursuant to such SEC rules. These unaudited combined financial statements were prepared using the accounting policies disclosed in and should be read in conjunction with the audited combined financial statements included in the Registration Statement on Form S-4 and Form S-1 of Abacus Innovations Corporation filed with the Securities and Exchange Commission and declared effective on July 11, 2016.

The unaudited combined financial statements include all revenues and costs directly attributable to IS&GS and an allocation of expenses related to certain Lockheed Martin corporate functions (Note 2). These expenses have been allocated to IS&GS based on direct usage or benefit where identifiable, with the remainder allocated pro rata based on an applicable measure of revenues, cost of revenues, headcount, fixed assets, number of transactions or other relevant measures. IS&GS considers these allocations to be a reasonable reflection of the utilization of services or the benefit received. However, the allocations may not be indicative of the actual expense that would have been incurred had IS&GS operated as an independent, stand-alone entity, nor are they indicative of IS&GS' future expenses.

The unaudited combined financial statements include assets and liabilities specifically attributable to IS&GS and certain assets and liabilities that are held by Lockheed Martin that are specifically identifiable or otherwise attributable to IS&GS. Lockheed Martin's cash has not been assigned to IS&GS for any of the periods presented because those cash balances are not directly attributable to IS&GS. Lockheed Martin uses a centralized approach for managing cash and financing operations with its segments and subsidiaries. Accordingly, a substantial portion of IS&GS' cash accounts are regularly "swept" by Lockheed Martin at its discretion. Transfers of cash between IS&GS and Lockheed Martin are included within Net transfers to parent on the unaudited Combined Statements of Cash Flows and the Combined Statements of Equity. Lockheed Martin's long-term debt and related interest expense have not been attributed to IS&GS for any of the periods presented because Lockheed Martin's borrowings are neither directly attributable to IS&GS nor is IS&GS the legal obligor or a guarantor of such borrowings.

The unaudited combined financial statements and notes include subsidiaries, ventures and partnerships over which IS&GS has a controlling financial interest. IS&GS uses the equity method to account for investments in business entities that it does not control if it is otherwise able to exert significant influence over the entities' operating and financial policies. IS&GS has consolidated the financial results for Mission Support Alliance, LLC ("MSA"), a venture with Jacobs Engineering Group, Inc. and Centerra Group, LLC. MSA manages the operations at the Department of Energy's Hanford, Washington site and provides services including emergency response and training, environmental integration and land management, fleet and road maintenance, water and electric and utilities, cybersecurity and information management.

All intercompany transactions and balances within IS&GS have been eliminated. Transactions between IS&GS and Lockheed Martin have been included in these unaudited combined financial statements and substantially all have been effectively settled for cash at the time the transaction is recorded through Lockheed Martin's centralized cash management system. Transactions between IS&GS and other businesses of Lockheed Martin are considered related party transactions (Note 2).

Management has concluded that IS&GS operates in one segment based upon the information used by the chief operating decision maker in evaluating the performance of IS&GS' business and allocating resources and capital. IS&GS manages its business as a single profit center in order to promote collaboration and provide comprehensive functional service offerings across its entire customer base.

The historical results of operations, financial condition and cash flows of IS&GS presented in these unaudited combined financial statements may not be indicative of what they would have been had IS&GS actually been an independent stand-alone entity, nor are they necessarily indicative of IS&GS' future results of operations, financial condition and cash flows. Also, the results of operations for the interim periods presented are not necessarily indicative of results to be expected for the full years.

IS&GS closed its books and records on the last Sunday of the calendar quarter, which was on June 26 for the first six months of 2016 and June 28 for the first six months of 2015, to align its financial closing with its business processes. The unaudited combined financial statements and tables of financial information included herein are labeled based on that convention. This practice only affects interim periods as IS&GS' fiscal year ends on December 31.

The preparation of these unaudited combined financial statements in conformity with GAAP requires IS&GS to make estimates and assumptions that affect the amounts reported in the unaudited combined financial statements and accompanying notes. IS&GS bases these estimates on historical experience and on various other assumptions that IS&GS believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. IS&GS' actual results may differ materially from these estimates. Significant estimates inherent in the preparation of these unaudited combined financial statements include but are not limited to accounting for revenue and cost recognition, allocation of expenses related to certain Lockheed Martin corporate functions, income taxes including deferred taxes, legal accruals and other contingencies.

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

The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule and costs in the initial estimated total costs to complete the contract. Profit booking rates may increase during the performance of the contract if IS&GS successfully retires risks surrounding the technical, schedule and cost aspects of the contract that decreases the estimated total costs to complete the contract. Conversely, profit booking rates may decrease if the estimated total costs to complete the contract increase. Profit booking rates also may be impacted favorably or unfavorably by other items. Favorable items may include the positive resolution of contractual matters and cost recoveries on disputed charges. Unfavorable items may include the adverse resolution of contractual matters and reserves for disputes. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate. Therefore, comparability of IS&GS revenues, profit and margins may be impacted by changes in profit booking rates on IS&GS’ contracts accounted for using the percentage-of-completion method. IS&GS’ combined net adjustments not related to volume, including net profit booking rate adjustments, increased gross profit by $110 million and $85 million for the six months ended June 26, 2016 and June 28, 2015, respectively. These adjustments increased net earnings by $72 million and $55 million for the six months ended June 26, 2016 and June 28, 2015, respectively.

## Note 2 – Corporate Allocations, Related Party Transactions and Net Parent Investment

### Corporate Allocations

The unaudited combined financial statements reflect allocations of certain expenses from Lockheed Martin including, but not limited to, costs related to corporate functions such as senior management, legal, human resources, finance, accounting, treasury, tax, IT, benefits, communications and ethics and compliance, and other corporate expenses such as corporate employee benefits, incentives and stock-based compensation, shared services processing and depreciation for corporate fixed assets. Management of IS&GS considers these allocations to be a reasonable reflection of the utilization of services by, or the benefits provided to, it. The allocation methods used include a pro rata basis of revenues, cost of revenues, headcount, fixed assets, number of transactions or other measures. Allocations for management costs and corporate support services provided to IS&GS totaled $105 million and $141 million for the six months ended June 26, 2016 and June 28, 2015, respectively.

The financial information in these unaudited combined financial statements does not necessarily include all the expenses that would have been incurred by IS&GS had it been a separate, stand-alone entity. Actual costs that may have been incurred if IS&GS had been a stand-alone company would depend on a number of factors, including the chosen organization structure and functions outsourced or performed by employees.

### Related Party Transactions

Revenues in the unaudited Combined Statements of Earnings include sales to affiliates of Lockheed Martin of $17 million and $24 million for the six months ended June 26, 2016 and June 28, 2015, respectively. Costs of revenues in the unaudited Combined Statements of Earnings includes expenses for work performed for IS&GS by Lockheed Martin or its affiliates of $19 million and $31 million for the six months ended June 26, 2016 and June 28, 2015, respectively. There were no significant receivables or payables due from or due to Lockheed Martin or its affiliates as of June 26, 2016 and December 31, 2015.

**Net Parent Investment**

Net transfers to parent are included within Net parent investment on the unaudited Combined Statements of Equity. The components of the net transfers to parent consisted of the following (in millions):

| | Six Months Ended June 26, 2016 | Six Months Ended June 28, 2015 |
|---|---|---|
| Cash transactions | | |
| Cash pooling and general financing activities | **$ (580)** | $ (661) |
| IS&GS expenses incurred by parent | **178** | 183 |
| Corporate allocations | **105** | 141 |
| Current income taxes payable | **92** | 80 |
| Total cash transactions, net | **(205)** | (257) |
| Non-cash transactions | | |
| Other transfers with parent | **4** | 7 |
| Total net transfers to parent | **$ (201)** | $ (250) |

Cash pooling and general financing activities include cash transferred from IS&GS to Lockheed Martin under cash pooling arrangements. IS&GS expenses incurred by parent include IS&GS employee fringe and pension expense. Corporate allocations include the items described above in the section titled “Corporate Allocations.” Current income taxes payable are deemed to have been settled with Lockheed Martin in each period.

**Note 3 – Severance Charges**

In the first quarter of 2016, IS&GS recorded severance charges of $19 million as a result of a review intended to reduce the costs of its services and solutions offerings. The charges consisted of severance costs associated with the planned elimination of certain positions through involuntary actions. Upon separation, terminated employees will receive lump-sum severance payments primarily based on years of service. As of June 26, 2016, IS&GS had paid approximately $4 million in severance payments associated with this action, with the remainder expected to be paid by the end of 2016.

In the third quarter of 2015, IS&GS recorded severance charges of $20 million as a result of a review intended to reduce the costs of its services and solutions offerings. The charges consisted of severance costs associated with the planned elimination of certain positions through either voluntary or involuntary actions. Upon separation, terminated employees received lump-sum severance payments primarily based on years of service. As of June 26, 2016, all of the severance had been paid, including approximately $6 million paid in the first six months of 2016.

**Note 4 – Postretirement Plans**

Certain IS&GS salaried employees participate in various defined benefit pension and other postemployment benefit (“OPEB”) plans administered and sponsored by Lockheed Martin. The OPEB plans provide certain health care and life insurance benefits to retired employees. The unaudited combined financial statements reflect periodic pension and post-retirement costs as if they were multi-employer plans. The net periodic pension and OPEB costs includes interest costs, recognized net actuarial losses and service costs that are determined based on actuarial valuations of individual participant data and projected returns on plan assets. Costs associated with the pension and OPEB plans were allocated to the unaudited combined financial statements based on IS&GS employees’ proportionate share of costs for the respective Lockheed Martin plans in which they participate. These costs are considered to have been settled with Lockheed Martin at the time of the allocation of these expenses. Pension and OPEB expense for IS&GS employees participating in plans sponsored by Lockheed Martin and various other multi-employer plans, excluding the Hanford Site Pension Plan (the “HSPP”) discussed below, was $40 million and $45 million for the six months ended June 26, 2016 and June 28, 2015, respectively.

In addition to the pension and OPEB plans administered and sponsored by Lockheed Martin, MSA is one of several sponsors to the HSPP, a multiemployer defined benefit pension plan that covers eligible employees of certain prime contractors and subcontractors of the Department of Energy, including employees of MSA. For the six months ended June 26, 2016 and June 28, 2015, expenses of $14 million and $13 million, respectively, were included in the unaudited combined financial statements for IS&GS’ share of HSPP contributions.

### Note 5 – Income Taxes

Quarterly income tax expense is measured using an estimated annual effective income tax rate, adjusted for discrete items within the period. IS&GS' effective income tax rate was 35.2% and 34.9% for the six months ended June 26, 2016 and June 28, 2015, respectively. The rates for the six months ended June 26, 2016 and June 28, 2015 varied from the federal statutory rate of 35% due to the favorable impact of the U.S. manufacturing deduction and net earnings attributable to non-controlling interest. These favorable impacts on the rate for the six months ended June 26, 2016 were more than offset by the unfavorable impact of adjustments for foreign activities. As of June 26, 2016 and December 31, 2015, liabilities associated with unrecognized tax benefits were not material.

State income taxes are included in Cost of revenues on the unaudited Combined Statements of Earnings because under U.S. Government contracting regulations such amounts are allowable costs in establishing prices for contracts with the U.S. Government. Accordingly, a substantial portion of state income taxes is also included in Revenues. IS&GS' total net state income tax expense was $16 million in each of the six months ended June 26, 2016 and June 28, 2015.

### Note 6 – Inventories, net

Inventories, net consisted of the following (in millions):

| | June 26, 2016 | December 31, 2015 |
|---|---|---|
| Work-in-process, primarily related to long-term contracts and programs in progress | **$ 89** | $ 144 |
| Other inventories | **34** | 27 |
| Less: customer advances and progress payments | **—** | (3) |
| Total inventories, net | **$ 123** | $ 168 |

### Note 7 – Goodwill and Intangible Assets, net

Changes in the carrying amount of goodwill were as follows (in millions):

| | Total |
|---|---|
| Balance as of December 31, 2015 | $2,823 |
| Foreign currency translation adjustments | (13) |
| Balance as of June 26, 2016 | **$2,810** |

Intangible assets, net consisted of the following (in millions):

| | As of June 26, 2016 | | | As of December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Net Amount | Gross Amount | Accumulated Amortization | Net Amount |
| Finite lived: | | | | | | |
| Customer relationships | **$ 176** | **$ (102)** | **$ 74** | $ 176 | $ (90) | $ 86 |
| Developed technology | **37** | **(25)** | **12** | 37 | (22) | 15 |
| Other | **20** | **(15)** | **5** | 20 | (11) | 9 |
| Total Finite lived: | **233** | **(142)** | **91** | 233 | (123) | 110 |
| Indefinite lived: | | | | | | |
| Tradename and trademark | **18** | **—** | **18** | 18 | — | 18 |
| Total intangibles assets | **$ 251** | **$ (142)** | **$ 109** | $ 251 | $ (123) | $ 128 |

## Note 8– Legal Proceedings and Contingencies

### Legal Proceedings

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

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

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

Although IS&GS cannot predict the outcome of legal or other proceedings with certainty, GAAP requires IS&GS to record a liability if a loss is probable and the amount of the loss is reasonably estimable, and requires IS&GS to disclose an estimate of the reasonably possible loss or range of loss or make a statement that such an estimate cannot be made for contingencies where there is at least a reasonable possibility that a loss may have been incurred where the amount of that loss would be material to IS&GS. As of June 26, 2016, the aggregate amount of all liabilities in respect of legal and other proceedings (including the matters described above) recorded by IS&GS in its unaudited combined financial statements was approximately $63 million, and the range of reasonably possible additional losses was estimated by IS&GS to be from $0 to $200 million. IS&GS believes, after consultation with counsel and after taking into account its current litigation reserves that the currently pending legal and other proceedings should not have a material adverse effect on IS&GS' financial condition or results of operations. In view of the inherent difficulty of predicting the outcome of legal proceedings, IS&GS cannot state with confidence what will be the eventual outcomes of the currently pending matters, the timing of their ultimate resolution or the eventual losses, fines, penalties or impact related to those matters. In light of the uncertainties involved in such proceedings, it is possible that accruals may need to be adjusted in the future and the outcome of a particular matter in a particular period could be material to IS&GS in that period.

### Letters of Credit, Surety Bonds and Third-Party Guarantees

In connection with the business of IS&GS, Lockheed Martin has standby letters of credit, surety bonds and third-party guarantees with financial institutions and other third parties primarily relating to advances received from customers and the guarantee of future performance on certain contracts. Letters of credit and surety bonds generally are available for draw down in the event IS&GS does not perform. In some cases, Lockheed Martin may guarantee the contractual performance of third parties such as ventures in which we participate or venture partners. IS&GS had total outstanding letters of credit, surety bonds and third-party guarantees aggregating to $437 million and $436 million as of June 26, 2016 and December 31, 2015, respectively. We do not consider guarantees of subsidiaries and other consolidated entities to be third-party guarantees and they are not included in these amounts.

As of June 26, 2016 and December 31, 2015, third-party guarantees totaled $127 million, all of which related to the guarantee of contractual performance of a venture to which IS&GS is currently a party. This amount represents the estimate of the maximum amount IS&GS would expect to incur upon the contractual non-performance of the venture partners.

### Note 9 – Composition of Certain Financial Statement Captions

The following table presents financial information underlying the Combined Balance Sheets caption Other current liabilities (in millions):

| | June 26, 2016 | December 31, 2015 |
|---|---|---|
| Customer contract accruals | **$ 154** | $ 124 |
| Other current liabilities | **108** | 130 |
| Total other current liabilities | **$ 262** | $ 254 |

### Note 10 – Recent Accounting Pronouncements

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

In September 2015, the FASB issued a new standard that simplifies the accounting for adjustments made to preliminary amounts recognized in a business combination by eliminating the requirement to retrospectively account for those adjustments. Instead, adjustments will be recognized in the period in which the adjustments are determined, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. IS&GS adopted the standard on January 1, 2016 and will prospectively apply the standard to business combination adjustments identified after the date of adoption. The new standard had no impact on IS&GS' results of operations, financial condition or cash flows for the six months ended June 26, 2016.

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

## Note 11– Subsequent Events

IS&GS has evaluated subsequent events through July 29, 2016, the date the unaudited combined financial statements were issued. No material subsequent events have occurred that should be recorded or disclosed in these unaudited combined financial statements except for commencement of the exchange offer in connection with the transaction with Leidos, as described in Note 1.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE INFORMATION SYSTEMS & GLOBAL SOLUTIONS BUSINESS FOR THE SIX MONTHS ENDED JUNE 26, 2016 AND JUNE 28, 2015

## Business Overview

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

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

## Separation from Lockheed Martin and Combination with Leidos

On January 26, 2016, Lockheed Martin entered into definitive agreements to separate and combine IS&GS with Leidos Holdings, Inc. ("Leidos") in a Reverse Morris Trust transaction. The transaction will be structured such that initially IS&GS will be contributed to a newly formed wholly owned subsidiary, Abacus Innovations Corporation ("Abacus"), and the common stock of Abacus will be distributed to Lockheed Martin stockholders either through a pro rata dividend in a spin-off transaction, an exchange offer pursuant to which Lockheed Martin shareholders will elect whether to exchange shares of Lockheed Martin common stock for shares of Abacus common stock in a split-off transaction, or a combination split-off and spin-off transaction. Following the distribution, Abacus will merge with a subsidiary of Leidos and each share of Abacus common stock held by Lockheed Martin stockholders will automatically convert into one share of Leidos common stock upon completing the merger. Immediately after the completion of the transactions, approximately 50.5% of the outstanding shares of Leidos common stock (approximately 77 million shares) are expected to be held by pre-merger Abacus (former Lockheed Martin) stockholders on a fully-diluted basis. Pre-merger Leidos stockholders are expected to hold approximately 49.5% of the outstanding shares of Leidos common stock on a fully diluted basis. Lockheed Martin will not receive or hold any shares of Leidos common stock. As part of the transaction, Lockheed Martin will also receive a one-time special cash payment of $1.8 billion.

On July 11, 2016 Lockheed Martin commenced an exchange offer in which Lockheed Martin stockholders have the opportunity, but are not required, to exchange shares of Lockheed Martin common stock for shares of Abacus common stock, which will automatically convert into shares of Leidos common stock upon completion of the merger. Only those stockholders that elect to participate in the exchange offer will receive shares of Leidos common stock in the merger transaction, provided that, if the exchange offer is not fully subscribed, Lockheed Martin will distribute the remaining shares pro rata in respect of all shares not tendered, and the shares distributed will also be converted into Leidos common stock in the merger. Lockheed Martin retains the right to distribute the shares of Abacus common stock by means of a spin-off or split-off transaction until the exchange offer is completed. Both the exchange and merger are expected to qualify as tax-free transactions to Lockheed Martin and its stockholders, except to the extent that cash is paid to Lockheed Martin stockholders in lieu of fractional shares.

The transactions remain subject to customary closing conditions, including approval by Leidos' stockholders of the issuance of the Leidos shares in the merger, regulatory approvals, the absence of a material adverse change with respect to each of IS&GS and Leidos, and the receipt of solvency opinions and opinions of tax counsel. The antitrust and competition reviews in the U.S. and the U.K., which were each conditions to closing, have been completed. The transaction is expected to close in the third quarter of 2016.

**Results of Operations**

Throughout the periods included in these combined financial statements, IS&GS operated as part of Lockheed Martin and consisted of several legal entities, acquired businesses, as well as businesses with no separate legal status. Separate financial statements have not historically been prepared for IS&GS. The combined financial results of IS&GS have been derived from Lockheed Martin's historical accounting records as if IS&GS' operations had been conducted independently from Lockheed Martin and were prepared on a stand-alone basis in accordance with U.S. generally accepted accounting principles ("GAAP") and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. The historical results of operations, financial condition and cash flows of IS&GS discussed in this document may not be indicative of what they would have been had IS&GS actually been an independent stand-alone entity, nor are they indicative of IS&GS' future results of operations, financial condition and cash flows.

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

IS&GS closes its books and records on the last Sunday of the calendar quarter, which was on June 26 for the first six months of 2016 and June 28 for the first six months 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 IS&GS' fiscal year ends on December 31.

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

| | Six Months Ended | |
|---|---|---|
| | **June 26, 2016** | **June 28, 2015** |
| **Revenues** | **$ 2,683** | $ 2,809 |
| **Cost of revenues** | | |
| Cost of revenues | **(2,430)** | (2,586) |
| Severance charges | **(19)** | — |
| Total cost of revenues | **(2,449)** | (2,586) |
| Gross profit | **234** | 223 |
| Other income, net | **13** | 15 |
| Earnings before income taxes | **247** | 238 |
| Income tax expense | **(87)** | (83) |
| **Net earnings** | **160** | 155 |
| Less: net earnings attributable to non-controlling interest | **3** | 2 |
| **Net earnings attributable to parent** | **$ 157** | $ 153 |

IS&GS' revenues and earnings are primarily derived from contracts for services and solutions provided to the U.S. Government. IS&GS accounts for these contracts using the percentage-of-completion method of accounting, which requires judgment relative to assessing risks, estimating contract revenues and costs (including estimating award and incentive fees and penalties related to performance) and making assumptions for schedule and technical issues. Many of IS&GS' contracts span multiple years and include complex technical requirements. At the outset of a contract, IS&GS identifies and monitors risks to the achievement of the technical, schedule and cost aspects of the contract and assesses the effects of those risks on its estimates of total costs to complete the contract.

The estimates consider the technical requirements (e.g., a newly-developed solution versus a mature solution), the schedule and associated tasks (e.g., the number and type of milestone events) and costs (e.g., material, labor, subcontractor and overhead).

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

Changes in revenues and gross profit generally are expressed in terms of volume. Changes in volume refer to increases or decreases in sales or gross profit resulting from varying levels of services or solutions. Volume changes in gross profit are typically based on the current profit booking rate for a particular contract. In addition, comparability of revenues, gross profit and margins may be impacted favorably or unfavorably by changes in profit booking rates described in the preceding paragraph. Increases in the profit booking rates, typically referred to as risk retirements, usually relate to revisions in the estimated total costs that reflect improved conditions on a particular contract. Conversely, conditions on a particular contract may deteriorate resulting in an increase in the estimated total costs to complete and a reduction in the profit booking rate. IS&GS' combined net adjustments not related to volume, including net profit booking rate adjustments, increased gross profit by $110 million and $85 million for the first six months of 2016 and 2015, respectively. These adjustments increased net earnings by $72 million and $55 million for the first six months of 2016 and 2015, respectively. The increase in combined net adjustments in the first six months of 2016 compared to the same period in 2015 is primarily attributable to higher profit adjustments of approximately $30 million resulting from contract close-out activities and completion of various programs, including a human resources outsourcing program with the Department of Homeland Security (the "HR Access program"), and, to a lesser extent, improved program performance; and approximately $20 million due to reserves recorded in the first six months of 2015 that were not repeated in the first six months of 2016 on various programs. These increases were partially offset by a negative profit adjustment resulting from development issues on a program to consolidate, modernize and operate data centers for the Australian Department of Defence Chief Information Officer Group (the "CIOG program"), caused by unanticipated challenges in application remediation and data center migration activities. A first quarter 2016 technical baseline review was conducted with the customer, which resulted in cost and schedule changes to the program. Accordingly, IS&GS recognized a change in estimate on this program resulting in the recognition of a $40 million negative profit adjustment in the first six months of 2016.

Cost of revenues consists of materials, labor, subcontracting costs, an allocation of indirect costs (overhead and general and administrative costs) and an allocation of certain expenses from Lockheed Martin including, but not limited to, costs related to corporate functions such as senior management, legal, human resources, finance, accounting, treasury, tax, IT, benefits, communications and ethics and compliance, and other corporate expenses such as corporate employee benefits, incentives and stock-based compensation, shared services processing and depreciation for corporate fixed assets. Management of IS&GS considers these allocations to be a reasonable reflection of the utilization of services by, or the benefits provided to, it. Allocations for management costs and corporate support services provided to IS&GS totaled $105 million and $141 million for the first six months of 2016 and 2015, respectively. The nature and amount of costs are monitored at the contract level in forming the basis for estimating total costs to complete each contract.

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

***Revenues***

Revenues in the first six months of 2016 decreased $126 million, or 4 percent, compared to the same period in 2015. The decrease was primarily attributable to lower revenues of approximately $115 million as a result of the completion of certain programs to provide IT solutions such as hardware, integrated software systems and cybersecurity to U.S. defense and intelligence agencies (primarily the U.S. Army Corps of Engineers ("ACE") IT program) and increased competition coupled with the fragmentation of existing large contracts into multiple smaller contracts that are awarded primarily on the basis of price when re-competed; and approximately $10 million due to lower volume, primarily as a result of schedule delays caused by the development issues on the CIOG program mentioned above.

***Cost of Revenues***

Cost of revenues in the first six months of 2016 decreased $156 million, or 6 percent, compared to the same period in 2015. The decrease was primarily attributable to lower cost of revenues of approximately $195 million driven by the reasons stated above for lower revenues on IT programs with U.S. defense and intelligence agencies (ACE IT) and improved program performance; risk retirements resulting from contract close-out activities; reserves recorded in the first six months of 2015 that were not repeated in the first six months of 2016; and decreases in various corporate expenses allocated from Lockheed Martin. These decreases were partially offset by approximately $40 million due to the negative profit adjustment for the development issues on the CIOG program mentioned above.

***Severance Charges***

During the first six months of 2016, IS&GS recorded severance charges of $19 million as a result of a review intended to reduce the costs of its services and solutions offerings. The charges consisted of severance costs associated with the planned elimination of certain positions through involuntary actions. Upon separation, terminated employees will receive lump-sum severance payments primarily based on years of service. As of June 26, 2016, IS&GS had paid approximately $4 million in severance payments associated with this action, with the remainder expected to be paid by the end of 2016.

***Other Income, Net***

Other income, net was $13 million in the first six months of 2016 and $15 million in the first six months of 2015 and is primarily comprised of IS&GS' share of net earnings related to its equity method investees, which include Kwajalein Range Services, LLC and Consolidated Nuclear Services, LLC.

***Earnings Before Income Taxes***

Pretax earnings in the first six months of 2016 increased $9 million, or 4 percent, compared to the same period in 2015. Pretax earnings as a percentage of revenues was 9.2% in the six months of 2016, compared to 8.5% in the first six months of 2015. The increases were attributable to cost of revenues declining at a higher rate than revenues as a result of approximately $35 million due to decreases in various corporate expenses allocated from Lockheed Martin; $30 million from contract close-out activities and the completion of various programs and, to a lesser extent, improved program performance; and $20 million due to reserves recorded in the first six months of 2015 that were not repeated in the first six months of 2016. These increases were partially offset by approximately $40 million as a result of the development issues on the CIOG program mentioned above; approximately $19 million as a result of severance charges recognized in the first six months of 2016 that did not occur in the same period in 2015; and due to lower revenues.

***Income Tax Expense***

IS&GS' effective income tax rate was 35.2% in the first six months of 2016, compared to 34.9% in the same period in 2015. The rates for both periods benefited from the favorable impact of tax deductions for U.S. manufacturing activities and net earnings attributable to non-controlling interest. These favorable impacts on the rate in the first six months of 2016 were more than offset by the unfavorable impact of adjustments for foreign activities.

**Liquidity and Cash Flows**

As part of Lockheed Martin, IS&GS is dependent upon Lockheed Martin for all of its working capital and financing requirements as Lockheed Martin uses centralized cash management and financing programs. Financial transactions relating to the IS&GS business are accounted for through the net parent investment account of the IS&GS business. The cash reflected on the combined financial statements represents cash on hand at certain foreign and domestic entities that do not participate in Lockheed Martin's centralized cash management program. During the first six months of 2016 and 2015, IS&GS generated sufficient cash from operating activities to fund its ongoing operations.

Lockheed Martin has been advised by Leidos that, following the consummation of the Transaction, Leidos expects to deploy its sources of liquidity and its capital resources to continue to provide the support to the IS&GS business that previously was provided by Lockheed Martin. Leidos also has advised Lockheed Martin that the funding of ongoing operations and potential business acquisitions subsequent to the Transaction was taken into account by Leidos when the cost savings and synergies expected to result from the Transaction were estimated. There can be no assurances that Leidos will provide this funding.

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

At June 26, 2016, IS&GS held cash of $35 million, of which approximately $20 million was held outside of the U.S. by international subsidiaries. Although those balances are generally available to fund ordinary business operations without legal or other restrictions, a significant portion is not immediately available to fund U.S. operations unless repatriated. If this cash had been repatriated at June 26, 2016, the amount of additional U.S. federal income tax that would have been due after considering foreign tax credits would not be significant. In connection with the Transaction, Splitco expects to incur indebtedness of $1.84 billion.

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

| | Six Months Ended | |
|---|---|---|
| | **June 26, 2016** | **June 28, 2015** |
| Cash at beginning of period | **$ 39** | $ 61 |
| Operating activities | | |
| Net earnings | **160** | 155 |
| Non-cash adjustments | **46** | 41 |
| Changes in working capital | **—** | 132 |
| Other, net | **13** | (58) |
| Net cash provided by operating activities | **219** | 270 |
| Net cash used for investing activities | **(7)** | (5) |
| Net cash used for financing activities | **(217)** | (279) |
| Effect of foreign exchange rate changes on cash | **1** | (3) |
| Net change in cash | **(4)** | (17) |
| Cash at end of period | **$ 35** | $ 44 |

***Operating Activities***

Net cash provided by operating activities decreased $51 million in the first six months of 2016 as compared to the same period in 2015. The decrease was primarily attributable to a $132 million decline in cash flows generated from changes in working capital (defined as receivables and inventories less accounts payable and customer advances and amounts in excess of costs incurred). The net decrease in cash flows generated from working capital changes was due to the timing of billing cycles affecting customer advances and progress payments for various programs (primarily technical services programs and the Defense Information Systems Agency's Global Information Grid Services Management Operations program) and the timing of customer payments on accounts receivable for certain programs (primarily Department of Energy contracts and the CIOG contract). These decreases were partially offset by a $71 million increase in net cash flows for various prepaid and other assets and liabilities.

***Investing Activities***

IS&GS made capital expenditures of $7 million in the first six months of 2016 and $5 million in the same period in 2015. The majority of IS&GS' capital expenditures were for equipment and facilities infrastructure that generally are incurred to support new and existing programs. IS&GS also incurs capital expenditures for information technology to support programs and general enterprise information technology infrastructure, inclusive of costs for the development or purchase of internal-use-software.

***Financing Activities***

Net cash used for financing activities was $217 million in the first six months of 2016, a decrease of $62 million from cash used for financing activities of $279 million in the same period in 2015. The decrease was primarily due to a decrease in net transfers from IS&GS to Lockheed Martin of $52 million under Lockheed Martin's centralized cash management and financing programs.

**Exhibit 99.3**

# UNAUDITED BALANCE SHEET
# OF ABACUS INNOVATIONS CORPORATION

**As of June 26, 2016**

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**Review Report of Independent Registered Public Accounting Firm**

Board of Directors
Abacus Innovations Corporation

We have reviewed the accompanying Balance Sheet of Abacus Innovations Corporation (the Company) as of June 26, 2016. This Balance Sheet is the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the Balance Sheet referred to above for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Balance Sheet of Abacus Innovations Corporation as of January 25, 2016 (not presented herein), and we expressed an unqualified audit opinion on that balance sheet in our report dated April 15, 2016.

/s/ Ernst & Young LLP

McLean, Virginia
July 29, 2016

**Abacus Innovations Corporation**
**Balance Sheet**
**(unaudited, in whole dollars)**

| | June 26, 2016 |
|---|---|
| Assets | |
| Cash | $ 100 |
| Total assets | $ 100 |
| Liabilities and equity | |
| Common stock (authorized 80,000,000 shares of $.001 par value each; 100 shares issued) | $ — |
| Additional paid-in capital | 100 |
| Total liabilities and equity | $ 100 |

The accompanying notes are an integral part of this unaudited financial statement.

**Abacus Innovations Corporation**
**Notes to Financial Statement (unaudited)**

## Note 1 – Business Overview

Abacus Innovations Corporation ("Abacus") is a newly-formed Delaware corporation and wholly-owned subsidiary of Lockheed Martin Corporation ("Lockheed Martin"). Lockheed Martin caused Abacus to be formed on January 19, 2016, in order to facilitate separation of its Information Systems & Global Solutions business. Abacus issued 100 shares of common stock to Lockheed Martin for $100 on January 25, 2016. Abacus has engaged in no business operations to date and has no assets or liabilities, other than those incident to its formation.

The accompanying balance sheet includes the accounts of Abacus and was prepared in accordance with U.S. generally accepted accounting principles.

Abacus closes its books and records on the last Sunday of the calendar quarter, which was on June 26 for the first six months of 2016, to align its financial closing with Lockheed Martin's financial closing period. The unaudited balance sheet included herein is labeled based on that convention. This practice only affects interim periods as Abacus' fiscal year ends on December 31.

Abacus had no operations from January 19, 2016 through June 26, 2016, thus no statement of earnings is included with this financial statement.

## Note 2 – Subsequent Events

Abacus has evaluated subsequent events through July 29, 2016. No material subsequent events have occurred that should be recorded or disclosed in this unaudited financial statement.