
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended May 5, 2023
or

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

For the transition period from _____ to _____

Commission File Number 001-35832

Science Applications International Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

46-1932921

(I.R.S. Employer Identification No.)

12010 Sunset Hills Road, Reston, Virginia

(Address of principal executive offices)

20190

(Zip Code)

(703) 676-4300

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$.0001 per share	SAIC	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares issued and outstanding of the registrant's common stock as of May 26, 2023 was as follows:

53,682,994 shares of common stock (\$.0001 par value per share)

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
FORM 10-Q
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PART I—FINANCIAL INFORMATION

Item 1. *Financial Statements*SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
CONDENSED AND CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended	
	May 5, 2023	April 29, 2022
	(in millions, except per share amounts)	
Revenues	\$ 2,028	\$ 1,996
Cost of revenues	1,793	1,770
Selling, general and administrative expenses	84	92
Acquisition and integration costs	—	9
Other operating income	(6)	—
Operating income	157	125
Interest expense	33	27
Other (income) expense, net	1	3
Income before income taxes	123	95
Provision for income taxes	(25)	(21)
Net income	98	74
Net income attributable to non-controlling interest	—	1
Net income attributable to common stockholders	\$ 98	\$ 73
Earnings per share:		
Basic	\$ 1.80	\$ 1.30
Diluted	\$ 1.79	\$ 1.29

See accompanying notes to condensed and consolidated financial statements.

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
CONDENSED AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended	
	May 5, 2023	April 29, 2022
	(in millions)	
Net income	\$ 98	\$ 74
Other comprehensive (loss) income, net of tax:		
Net unrealized (loss) gain on derivative instruments	(6)	37
Total other comprehensive (loss) income, net of tax	(6)	37
Comprehensive income	\$ 92	\$ 111
Comprehensive income attributable to non-controlling interest	—	1
Comprehensive income attributable to common stockholders	\$ 92	\$ 110

See accompanying notes to condensed and consolidated financial statements.

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
CONDENSED AND CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	May 5, 2023	February 3, 2023
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 422	\$ 109
Receivables, net	995	936
Inventory, prepaid expenses and other current assets	77	152
Assets held for sale	181	—
Total current assets	1,675	1,197
Goodwill	2,851	2,911
Intangible assets, net	980	1,009
Property, plant, and equipment (net of accumulated depreciation of \$189 million and \$194 million at May 5, 2023 and February 3, 2023, respectively)	91	92
Operating lease right of use assets	154	158
Other assets	206	176
Total assets	\$ 5,957	\$ 5,543
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 809	\$ 767
Accrued payroll and employee benefits	277	328
Deposit liability for assets held for sale (Note 4)	355	—
Long-term debt, current portion	46	31
Liabilities held for sale	66	—
Total current liabilities	1,553	1,126
Long-term debt, net of current portion	2,329	2,343
Operating lease liabilities	150	152
Other long-term liabilities	233	218
Commitments and contingencies (Note 11)		
Equity:		
Common stock, \$0.0001 par value, 1 billion shares authorized, 54 million shares issued and outstanding as of May 5, 2023 and February 3, 2023	—	—
Additional paid-in capital	563	637
Retained earnings	1,113	1,035
Accumulated other comprehensive income	16	22
Total common stockholders' equity	1,692	1,694
Non-controlling interest	—	10
Total stockholders' equity	1,692	1,704
Total liabilities and stockholders' equity	\$ 5,957	\$ 5,543

See accompanying notes to condensed and consolidated financial statements.

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
CONDENSED AND CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

	Shares of common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interest	Total
	(in millions)					
Balance at February 3, 2023	54	\$ 637	\$ 1,035	\$ 22	\$ 10	\$ 1,704
Net income	—	—	98	—	—	98
Issuances of stock	1	4	—	—	—	4
Other comprehensive loss, net of tax	—	—	—	(6)	—	(6)
Cash dividends of \$0.37 per share	—	—	(20)	—	—	(20)
Stock-based compensation	—	(7)	—	—	—	(7)
Repurchases of stock	(1)	(71)	—	—	—	(71)
Deconsolidation of non-controlling interest	—	—	—	—	(10)	(10)
Balance at May 5, 2023	54	\$ 563	\$ 1,113	\$ 16	\$ —	\$ 1,692
Balance at January 28, 2022	56	\$ 838	\$ 818	\$ (37)	\$ 10	\$ 1,629
Net income	—	—	73	—	1	74
Issuances of stock	1	5	—	—	—	5
Other comprehensive income, net of tax	—	—	—	37	—	37
Cash dividends of \$0.37 per share	—	—	(21)	—	—	(21)
Stock-based compensation	—	(4)	—	—	—	(4)
Repurchases of stock	(1)	(69)	—	—	—	(69)
Distributions to non-controlling interest	—	—	—	—	(1)	(1)
Balance at April 29, 2022	56	\$ 770	\$ 870	\$ —	\$ 10	\$ 1,650

See accompanying notes to condensed and consolidated financial statements.

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
CONDENSED AND CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended	
	May 5, 2023	April 29, 2022
	(in millions)	
Cash flows from operating activities:		
Net income	\$ 98	\$ 74
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36	41
Amortization of off-market customer contracts	(2)	(2)
Amortization of debt issuance costs	1	2
Deferred income taxes	(6)	2
Stock-based compensation expense	12	11
Gain on divestiture	(7)	—
Increase (decrease) resulting from changes in operating assets and liabilities, net of the effect of divestitures:		
Receivables	(127)	(89)
Inventory, prepaid expenses and other current assets	4	11
Other assets	4	3
Accounts payable and accrued liabilities	113	39
Accrued payroll and employee benefits	(43)	31
Operating lease assets and liabilities, net	(3)	(4)
Other long-term liabilities	2	(1)
Net cash provided by operating activities	82	118
Cash flows from investing activities:		
Expenditures for property, plant, and equipment	(6)	(5)
Purchases of marketable securities	(3)	(2)
Sales of marketable securities	1	1
Proceeds from assets held for sale	355	—
Cash divested upon deconsolidation of joint venture	(8)	—
Other	(3)	—
Net cash provided by (used in) investing activities	336	(6)
Cash flows from financing activities:		
Dividend payments to stockholders	(21)	(22)
Principal payments on borrowings	(160)	(59)
Issuances of stock	4	4
Stock repurchased and retired or withheld for taxes on equity awards	(88)	(84)
Proceeds from borrowings	160	—
Distributions to non-controlling interest	—	(1)
Net cash used in financing activities	(105)	(162)
Net increase (decrease) in cash, cash equivalents and restricted cash	313	(50)
Cash, cash equivalents and restricted cash at beginning of period	118	115
Cash, cash equivalents and restricted cash at end of period	\$ 431	\$ 65

See accompanying notes to condensed and consolidated financial statements.

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1—Business Overview and Summary of Significant Accounting Policies:

Overview

Science Applications International Corporation (collectively, with its consolidated subsidiaries, and herein referred to as "SAIC," the "Company," "we," "us," or "our") is a leading provider of technical, engineering and enterprise information technology (IT) services primarily to the U.S. government. The Company provides these services for large, complex projects with a targeted emphasis on higher-end, differentiated technology services and solutions that accelerate and transform secure and resilient digital environments through system development, modernization, integration, and sustainment to drive enterprise and mission outcomes.

The Company is organized as a matrix comprised of two customer facing operating sectors supported by an enterprise solutions and operations organization. The Company's operating sectors are aggregated into one reportable segment for financial reporting purposes. Each of the Company's two customer facing operating sectors is focused on providing both (1) growth and technology accelerating solutions and (2) core service offerings to one or more agencies of the U.S. federal government. Growth and technology accelerating solutions include the delivery of secure cloud modernization, outcome based enterprise IT as-a-service, and the integration, production and modernization of defense systems. Core service offerings include systems engineering, the operation and maintenance of existing IT systems and networks, and logistics and supply chain solutions.

Principles of Consolidation and Basis of Presentation

The accompanying financial information was prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission for interim reporting purposes. References to "financial statements" refer to the condensed and consolidated financial statements of the Company, which include the statements of income and comprehensive income, balance sheets, statements of equity and statements of cash flows. These financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP). All intercompany transactions and account balances within the Company have been eliminated. The financial statements are unaudited, but in the opinion of management include all adjustments necessary for a fair presentation thereof. The results reported in these financial statements are not necessarily indicative of results that may be expected for the entire year and should be read in conjunction with the information contained in the Company's Annual Report on Form 10-K for the year ended February 3, 2023.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Significant estimates inherent in the preparation of the financial statements may include, but are not limited to estimated profitability of long-term contracts, income taxes, fair value measurements, fair value of goodwill and other intangible assets, pension and defined benefit plan obligations, and contingencies. Estimates have been prepared by management on the basis of the most current and best available information at the time of estimation and actual results could differ from those estimates.

Reporting Periods

The Company utilizes a 52/53 week fiscal year ending on the Friday closest to January 31, with fiscal quarters typically consisting of 13 weeks. Fiscal 2024 began on February 4, 2023 and ends on February 2, 2024, while fiscal 2023 began on January 29, 2022 and ended on February 3, 2023.

Operating Cycle

The Company's operating cycle may be greater than one year and is measured by the average time intervening between the inception and the completion of contracts.

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Derivative Instruments Designated as Cash Flow Hedges

Derivative instruments are recorded on the condensed and consolidated balance sheets at fair value. Unrealized gains and losses on derivatives designated as cash flow hedges are reported in other comprehensive income (loss) and reclassified to earnings in a manner that matches the timing of the earnings impact of the hedged transactions.

The Company's fixed interest rate swaps are considered over-the-counter derivatives, and fair value is calculated using a standard pricing model for interest rate swaps with contractual terms for maturities, amortization and interest rates. Level 2, or market observable inputs (such as yield and credit curves), are used within the standard pricing models in order to determine fair value. The fair value is an estimate of the amount that the Company would pay or receive as of a measurement date if the agreements were transferred to a third party. See Note 8 for further discussion on the Company's derivative instruments designated as cash flow hedges.

Marketable Securities

Investments in marketable securities consist of equity securities, which are recorded at fair value using observable inputs such as quoted prices in active markets (Level 1). As of May 5, 2023 and February 3, 2023, the fair value of the Company's investments totaled \$29 million and \$28 million, respectively, and are included in other assets on the condensed and consolidated balance sheets. The Company's investments are primarily held in a custodial account, which includes investments to fund its deferred compensation plan liabilities.

Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash to amounts reported on the condensed and consolidated balance sheets for the periods presented:

	May 5, 2023		February 3, 2023
	(in millions)		
Cash and cash equivalents	\$ 422	\$	109
Restricted cash included in inventory, prepaid expenses and other current assets	5		5
Restricted cash included in other assets	4		4
Cash, cash equivalents and restricted cash	\$ 431	\$	118

Acquisition and Integration Costs

Acquisition-related costs that are not part of the purchase price consideration are generally expensed as incurred, except for certain costs that are deferred in connection with the issuance of debt. These costs typically include transaction-related costs, such as finder's fees, legal, accounting, and other professional costs. Integration-related costs represent costs directly related to combining the Company and its acquired businesses. Integration-related costs typically include strategic consulting services, facility consolidations, employee-related costs, such as retention and severance, costs to integrate information technology infrastructure, enterprise planning systems, processes, and other non-recurring integration-related costs. Acquisition and integration costs are presented together as acquisition and integration costs on the condensed and consolidated statements of income.

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The amounts recognized in acquisition and integration costs on the condensed and consolidated statements of income are as follows:

	Three Months Ended
	April 29, 2022
	(in millions)
Acquisition ⁽¹⁾	\$ (1)
Integration	10
Total acquisition and integration costs	\$ 9

(1) Acquisition expenses for the three months ended April 29, 2022 relate to the acquisition of Koverse.

Restructuring

During the three months ended May 5, 2023, the Company incurred \$1 million of restructuring costs associated with the optimization and consolidation of certain facilities. These costs are presented within selling, general and administrative expenses on the condensed and consolidated statements of income.

Investments in Equity Securities

The Company invests in certain companies that advance or develop new technologies applicable to its business. The Company also occasionally forms joint ventures as a part of its investment strategy for the purpose of bidding and executing on specific projects. Each investment is evaluated for consolidation under the variable interest entities (VIEs) model and/or the voting interest model. The results of these investments are not material to the unaudited condensed and consolidated financial statements for the periods presented.

The Company applies the equity method of accounting to its unconsolidated investments when it has the ability to exercise significant influence over the entity and recognizes its proportionate share of the entities' net income or loss within other operating income on the condensed and consolidated statements of income. Equity investments in entities over which the Company does not have the ability to exercise significant influence and whose securities do not have a readily determinable fair value are carried at cost or cost net of other-than-temporary impairments.

Accounting Standards Updates

In September 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2022-04, *Liabilities—Supplier Finance Programs (Subtopic 405-50)*, which requires annual and interim disclosures for entities that use supplier finance programs in connection with the purchase of goods and services. The new standard does not affect the recognition, measurement or financial statement presentation of supplier finance program obligations. These amendments are effective for fiscal years beginning after December 15, 2022, except for the requirement to provide rollforward information, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. The Company adopted the requirements of ASU 2022-04 effective the first day of fiscal 2024.

The Company maintains a supplier finance program through a financial institution in which participating suppliers, at their sole discretion, may enroll with the financial institution to finance at a discounted price one or more payment obligations of the Company prior to their scheduled due dates. As of May 5, 2023, payment obligations outstanding under the Company's supplier finance program were not material.

Note 2—Earnings Per Share, Share Repurchases and Dividends:

Earnings Per Share (EPS)

Basic EPS is computed by dividing net income attributable to common stockholders by the basic weighted-average number of shares outstanding. Diluted EPS is computed similarly to basic EPS, except the weighted-average number of shares outstanding is increased to include the dilutive effect of outstanding stock options and other stock-based awards.

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following table provides a reconciliation of the weighted-average number of shares outstanding used to compute basic and diluted EPS for the periods presented:

	Three Months Ended	
	May 5, 2023	April 29, 2022
	(in millions)	
Basic weighted-average number of shares outstanding	54.3	56.1
Dilutive common share equivalents - stock options and other stock-based awards	0.5	0.5
Diluted weighted-average number of shares outstanding	54.8	56.6

Antidilutive stock awards excluded from the weighted-average number of shares outstanding used to compute diluted EPS for the three months ended May 5, 2023 and April 29, 2022 were immaterial.

Share Repurchases

The Company may repurchase shares in accordance with established repurchase plans. The Company retires its common stock upon repurchase with the excess over par value allocated to additional paid-in capital. The Company has not made any material purchases of common stock other than in connection with established share repurchase plans. In June 2022, the number of shares of the Company's common stock that may be repurchased under its existing repurchase plan was increased by 8.0 million shares, bringing the total authorized shares to be repurchased under the plan to approximately 24.4 million shares. As of May 5, 2023, the Company has repurchased approximately 17.7 million shares of common stock under the program.

Dividends

The Company declared and paid a quarterly dividend of \$0.37 per share of its common stock during the three months ended May 5, 2023.

Note 3—Revenues:

Changes in Estimates on Contracts

Changes in estimates of revenues, cost of revenues or profits related to performance obligations satisfied over time are recognized in operating income in the period in which such changes are made for the inception-to-date effect of the changes. Changes in these estimates can occur routinely over the performance period for a variety of reasons, which include: changes in scope; changes in cost estimates due to unanticipated cost growth or reassessments of risks impacting costs; changes in the estimated transaction price, such as variable amounts for incentive or award fees; and performance being better or worse than previously estimated.

A significant portion of the Company's contracts recognize revenue on performance obligations using a cost input measure (cost-to-cost), which requires estimates of total costs at completion. In cases when total expected costs exceed total estimated revenues for a performance obligation, the Company recognizes the total estimated loss in the quarter identified. Total estimated losses are inclusive of any unexercised options that are probable of award, only if they increase the amount of the loss.

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Aggregate net changes in estimates on contracts accounted for using the cost-to-cost method of accounting were recognized in operating income as follows:

	Three Months Ended	
	May 5, 2023	April 29, 2022
	(in millions, except per share amounts)	
Net favorable adjustments	\$ 5	\$ 5
Net favorable adjustments, after tax	4	4
Diluted EPS impact	\$ 0.07	\$ 0.07

Revenues were \$5 million and \$4 million higher for the three months ended May 5, 2023 and April 29, 2022, respectively, due to net revenue recognized from performance obligations satisfied in prior periods.

Disaggregation of Revenues

The Company's revenues are generated primarily from long-term contracts with the U.S. government including subcontracts with other contractors engaged in work for the U.S. government. The Company disaggregates revenues by customer, contract type and prime versus subcontractor to the federal government.

Disaggregated revenues by customer were as follows:

	Three Months Ended	
	May 5, 2023	April 29, 2022
	(in millions)	
Department of Defense	\$ 1,071	\$ 946
Other federal government agencies	920	1,013
Commercial, state and local	37	37
Total	\$ 2,028	\$ 1,996

Disaggregated revenues by contract type were as follows:

	Three Months Ended	
	May 5, 2023	April 29, 2022
	(in millions)	
Cost reimbursement	\$ 1,112	\$ 1,095
Time and materials (T&M)	367	386
Firm-fixed price (FFP)	549	515
Total	\$ 2,028	\$ 1,996

Disaggregated revenues by prime versus subcontractor were as follows:

	Three Months Ended	
	May 5, 2023	April 29, 2022
	(in millions)	
Prime contractor to federal government	\$ 1,855	\$ 1,822
Subcontractor to federal government	136	137
Other	37	37
Total	\$ 2,028	\$ 1,996

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Contract Balances

Contract balances for the periods presented were as follows:

	Balance Sheet line item	May 5, 2023	February 3, 2023
		(in millions)	
Billed and billable receivables, net ⁽¹⁾	Receivables, net	\$ 588	\$ 572
Contract assets - unbillable receivables	Receivables, net	407	364
Contract assets - contract retentions	Other assets	14	15
Contract liabilities - current	Accounts payable and accrued liabilities	47	48
Contract liabilities - non-current	Other long-term liabilities	\$ 3	\$ 4

(1) Net of allowance of \$4 million as of May 5, 2023 and February 3, 2023.

During the three months ended May 5, 2023 and April 29, 2022, the Company recognized revenues of \$21 million and \$27 million, respectively, relating to amounts that were included in the opening balance of contract liabilities as of February 3, 2023 and January 28, 2022, respectively.

Remaining Performance Obligations

As of May 5, 2023, the Company had approximately \$5 billion of remaining performance obligations. Remaining performance obligations exclude any variable consideration that is allocated entirely to unsatisfied performance obligations on the Company's supply chain contracts. The Company expects to recognize revenue on approximately 85% of the remaining performance obligations over the next 12 months and approximately 95% over the next 24 months, with the remaining recognized thereafter.

Lessor Revenue

The Company leases IT equipment and hardware to its customers. All of the Company's lessor arrangements are operating leases. Operating lease income is recognized on a straight-line basis over the term of the lease and is reported as revenue on the condensed and consolidated statements of income. During the three months ended April 29, 2022, the Company recognized revenue of \$23 million from the exercise of purchase options under certain lessor arrangements. Operating lease income was immaterial for the three months ended May 5, 2023 and April 29, 2022.

Note 4—Divestitures:**FSA Amendment**

On February 4, 2023, the Company sold 0.1% of its 50.1% majority ownership interest in Forfeiture Support Associates J.V. (FSA) to its sole joint venture partner for a nominal amount. As a result of the sale and amendment to the joint venture operating agreement of FSA, the Company no longer controls the joint venture and will account for its retained interest as an equity method investment as of the date of the transaction.

The Company remeasured its retained investment in FSA to a fair value of \$14 million which is included within other assets on the condensed and consolidated balance sheets. The remeasurement resulted in a gain of \$7 million which is included within other operating income on the condensed and consolidated statements of income. The Company estimated the fair value of its retained investment in FSA based on Level 3 inputs of the fair value hierarchy. The Company used the income approach which involves the use of estimates and assumptions, including revenue growth rates, projected operating margins, discount rates and terminal growth rates.

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Sale of Logistics and Supply Chain Management Business

On March 23, 2023, the Company executed a definitive agreement to sell its logistics and supply chain management business (Supply Chain Business) to ASRC Federal Holding Company, LLC (ASRC Federal), a subsidiary of Arctic Slope Regional Corporation, for \$350 million of pre-tax cash proceeds, subject to certain adjustments for working capital. The sale enables the Company to focus its resources on long-term strategic growth areas. The Company has presented the associated assets and liabilities of the Supply Chain Business as held for sale. The major classes of assets and liabilities classified as held for sale as of May 5, 2023 were as follows:

		May 5, 2023
		(in millions)
Assets held for sale:		
Receivables, net	\$	46
Inventory, prepaid expenses and other current assets		73
Goodwill		60
Operating lease right of use assets		2
Total assets held for sale	\$	181
Liabilities held for sale:		
Accounts payable and accrued liabilities	\$	63
Accrued payroll and employee benefits		2
Operating lease liabilities		1
Total liabilities held for sale	\$	66

The disposition does not represent a strategic shift in operations that will have a material effect on the Company's operations and financial results, and accordingly has not been presented as discontinued operations.

During the first quarter of fiscal 2024, the Company received a refundable cash deposit of \$355 million which represents the expected proceeds due upon closing of the transaction with ASRC Federal including preliminary adjustments for working capital. The Company recognized the cash as a deposit liability for assets held for sale on the condensed and consolidated balance sheets.

Note 5—Goodwill and Intangible Assets:

Goodwill

Goodwill had a carrying value of \$2,851 million and \$2,911 million as of May 5, 2023 and February 3, 2023, respectively. Goodwill decreased \$60 million compared to February 3, 2023 due to the reclassification of goodwill associated with the Supply Chain Business to assets held for sale (see Note 4). There were no impairments of goodwill during the periods presented.

Intangible Assets

Intangible assets, all of which were finite-lived, consisted of the following:

	May 5, 2023			February 3, 2023		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
(in millions)						
Customer relationships	\$ 1,462	\$ (489)	\$ 973	\$ 1,467	\$ (466)	\$ 1,001
Developed technology	10	(3)	7	10	(2)	8
Trade name	1	(1)	—	1	(1)	—
Total intangible assets	\$ 1,473	\$ (493)	\$ 980	\$ 1,478	\$ (469)	\$ 1,009

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Amortization expense related to intangible assets was \$29 million and \$33 million for the three months ended May 5, 2023 and April 29, 2022, respectively. There were no intangible asset impairment losses during the periods presented.

As of May 5, 2023, the estimated future annual amortization expense related to intangible assets is as follows:

Fiscal Year	(in millions)
Remainder of 2024	\$ 86
2025	115
2026	115
2027	115
2028	98
Thereafter	451
Total	\$ 980

Actual amortization expense in future periods could differ from these estimates as a result of future acquisitions, divestitures, impairments, and other factors.

Note 6—Income Taxes:

The Company's effective income tax rate was 20.0% and 22.0% for the three months ended May 5, 2023 and April 29, 2022, respectively. The Company's effective tax rate was lower for the three months ended May 5, 2023 compared to the prior year period, primarily due to an increased deduction for foreign-derived intangible income and higher tax benefits from stock-based compensation.

Beginning in fiscal 2023, the Tax Cuts and Jobs Act of 2017 (TCJA) eliminated the option for taxpayers to deduct certain research and development expenditures in the year incurred and instead requires taxpayers to capitalize and amortize such research expenditures over five years.

The Company's liabilities for uncertain tax positions were \$176 million and \$156 million as of May 5, 2023 and February 3, 2023, respectively. The increase during the three months ended May 5, 2023 is primarily related to research tax credits and capitalized research and development costs pursuant to the TCJA, with a corresponding \$15 million increase to deferred tax assets.

As of May 5, 2023 and February 3, 2023, the net deferred tax asset balance was \$37 million and \$14 million, respectively, and is presented in other assets on the condensed and consolidated balance sheets.

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Note 7—Debt Obligations:

The Company's long-term debt as of the dates presented was as follows:

	May 5, 2023				February 3, 2023			
	Stated interest rate	Effective interest rate	Principal	Unamortized debt issuance costs	Net	Principal	Unamortized debt issuance costs	Net
(dollars in millions)								
Term Loan A Facility due June 2027	6.33 %	6.45 %	\$ 1,230	\$ (5)	\$ 1,225	\$ 1,230	\$ (5)	\$ 1,225
Term Loan B Facility due October 2025	6.96 %	7.17 %	488	(2)	486	488	(3)	485
Term Loan B2 Facility due March 2027	6.96 %	7.41 %	272	(4)	268	272	(4)	268
Senior Notes due April 2028	4.88 %	5.11 %	400	(4)	396	400	(4)	396
Total long-term debt			\$ 2,390	\$ (15)	\$ 2,375	\$ 2,390	\$ (16)	\$ 2,374
Less current portion			46	—	46	31	—	31
Total long-term debt, net of current portion			\$ 2,344	\$ (15)	\$ 2,329	\$ 2,359	\$ (16)	\$ 2,343

As of May 5, 2023, the Company has a \$3.0 billion secured credit facility (the Credit Facility) consisting of a Term Loan A Facility due June 2027, a Term Loan B Facility due October 2025, a Term Loan B2 Facility due March 2027 (together, the Term Loan Facilities), and a \$1.0 billion Revolving Credit Facility due June 2027 (the Revolving Credit Facility). During the three months ended May 5, 2023, the Company borrowed and repaid \$160 million under the Revolving Credit Facility. There was no balance outstanding on the Revolving Credit Facility as of May 5, 2023. As of May 5, 2023, the Company was in compliance with the covenants under its Credit Facility.

As of May 5, 2023 and February 3, 2023, the carrying value of the Company's outstanding debt obligations approximated its fair value. The fair value of long-term debt is calculated using Level 2 inputs, based on interest rates available for debt with terms and maturities similar to the Company's Term Loan Facilities and Senior Notes.

Note 8—Derivative Instruments Designated as Cash Flow Hedges:

The Company's derivative instruments designated as cash flow hedges consist of:

	Notional Amount at May 5, 2023	Pay Fixed Rate	Receive Variable Rate	Settlement and Termination	Fair Value of Asset ⁽¹⁾ at	
					May 5, 2023	February 3, 2023
(in millions)					(in millions)	
Interest rate swaps #1	\$ 685	2.96 %	Term SOFR	Monthly through October 31, 2025	\$ 11	\$ 16
Interest rate swaps #2	463	2.36 %	Term SOFR	Monthly through October 31, 2023	6	9
Total	\$ 1,148				\$ 17	\$ 25

(1) The fair value of the fixed interest rate swap asset is included in other assets on the condensed and consolidated balance sheets.

The Company is party to fixed interest rate swap instruments that are designated and accounted for as cash flow hedges to manage risks associated with interest rate fluctuations on a portion of the Company's floating rate debt. The counterparties to all swap agreements are financial institutions.

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See Note 9 for the unrealized change in fair values on cash flow hedges recognized in other comprehensive income (loss) and the amounts reclassified from accumulated other comprehensive income (loss) into earnings for the current and comparative periods presented. The Company estimates that it will reclassify \$18 million of unrealized gains from accumulated other comprehensive income into earnings in the twelve months following May 5, 2023.

Note 9—Changes in Accumulated Other Comprehensive Income (Loss) by Component:

The following table presents the changes in accumulated other comprehensive income (loss) attributable to the Company's fixed interest rate swap cash flow hedges that are discussed in Note 8 and the Company's defined benefit plans.

	Unrealized Gains (Losses) on Fixed Interest Rate Swap Cash Flow Hedges ⁽¹⁾		Defined Benefit Obligation Adjustment		Total
	(in millions)				
Three months ended May 5, 2023					
Balance at February 3, 2023	\$	18	\$	4	\$ 22
Other comprehensive loss before reclassifications		(2)		—	(2)
Amounts reclassified from accumulated other comprehensive income		(6)		—	(6)
Income tax impact		2		—	2
Net other comprehensive loss		(6)		—	(6)
Balance at May 5, 2023	\$	12	\$	4	\$ 16
Three months ended April 29, 2022					
Balance at January 28, 2022	\$	(38)	\$	1	\$ (37)
Other comprehensive income before reclassifications		42		—	42
Amounts reclassified from accumulated other comprehensive loss		8		—	8
Income tax impact		(13)		—	(13)
Net other comprehensive income		37		—	37
Balance at April 29, 2022	\$	(1)	\$	1	\$ —

(1) The amount reclassified from accumulated other comprehensive income (loss) is included in interest expense.

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Note 10—Sales of Receivables:

The Company has a Master Accounts Receivable Purchase Agreement (MARPA Facility) with MUFG Bank, Ltd. (the Purchaser) for the sale of up to a maximum amount of \$300 million of certain designated eligible receivables with the U.S. government.

During the three months ended May 5, 2023 and April 29, 2022, the Company incurred purchase discount fees of \$3 million and \$1 million, respectively, which are presented in other (income) expense, net on the condensed and consolidated statements of income and are reflected as cash flows from operating activities on the condensed and consolidated statements of cash flows.

MARPA Facility activity consisted of the following:

	Three Months Ended	
	May 5, 2023	April 29, 2022
	(in millions)	
Beginning balance	\$ 250	\$ 200
Sale of receivables	866	934
Cash collections	(866)	(934)
Outstanding balance sold to Purchaser ⁽¹⁾	250	200
Cash collected, not remitted to Purchaser ⁽²⁾	(40)	(22)
Remaining sold receivables	\$ 210	\$ 178

(1) There was no net impact to cash flows from operating activities from sold receivables for the three months ended May 5, 2023 and April 29, 2022.

(2) Primarily represents the cash collected on behalf of but not yet remitted to the Purchaser as of May 5, 2023 and April 29, 2022. This balance is included in accounts payable and accrued liabilities on the condensed and consolidated balance sheets.

Note 11—Legal Proceedings and Other Commitments and Contingencies:**Legal Proceedings**

The Company is involved in various claims and lawsuits arising in the normal conduct of its business, none of which the Company's management believes, based on current information, is expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

In April 2022, the Company received a Federal Grand Jury Subpoena in connection with a criminal investigation being conducted by the U.S. Department of Justice, Antitrust Division (DOJ). As required by the subpoena, the Company has provided the DOJ with a broad range of documents related to the investigation, and the Company's collection and production process remains ongoing. The Company is fully cooperating with the investigation. At this time, it is not possible to determine whether the Company will incur, or to reasonably estimate the amount of, any fines, penalties or further liabilities in connection with the investigation pursuant to which the subpoena was issued.

AAV Termination for Convenience

On August 27, 2018, the Company received a stop-work order from the United States Marine Corps on the Assault Amphibious Vehicle (AAV) contract and on October 3, 2018 the program was terminated for convenience by the customer. The Company is continuing to negotiate with the Marine Corps to recover costs associated with the termination.

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Government Investigations, Audits and Reviews

The Company is routinely subject to investigations and reviews relating to compliance with various laws and regulations with respect, in particular, to its role as a contractor to federal, state and local government customers and in connection with performing services in countries outside of the United States. U.S. government agencies, including the Defense Contract Audit Agency (DCAA), the Defense Contract Management Agency and others, routinely audit and review a contractor's performance on government contracts, indirect rates and pricing practices, and compliance with applicable contracting and procurement laws, regulations and standards. They also review the adequacy of the contractor's compliance with government standards for its business systems. Adverse findings in these investigations, audits, or reviews can lead to criminal, civil or administrative proceedings, and the Company could face disallowance of previously billed costs, penalties, fines, compensatory damages and suspension or debarment from doing business with governmental agencies. Due to the Company's reliance on government contracts, adverse findings could also have a material impact on the Company's business, including its financial position, results of operations and cash flows.

The indirect cost audits by the DCAA of the Company's business remain open for certain prior years and the current year. Although the Company has recorded contract revenues based on an estimate of costs that the Company believes will be approved on final audit, the Company does not know the outcome of any ongoing or future audits. If future completed audit adjustments exceed the Company's reserves for potential adjustments, the Company's profitability could be materially adversely affected.

As of May 5, 2023, the Company believes it has adequately reserved for estimated net amounts to be refunded to customers for potential adjustments for indirect cost audits and compliance with U.S. government Cost Accounting Standards.

Letters of Credit and Surety Bonds

The Company has outstanding obligations relating to letters of credit of \$9 million as of May 5, 2023, principally related to guarantees on insurance policies. The Company also has outstanding obligations relating to surety bonds of \$19 million, principally related to performance and payment bonds on the Company's contracts.

Note 12—Subsequent Events:

Sale of Logistics and Supply Chain Management Business

On May 6, 2023, the Company closed the sale of its Supply Chain Business to ASRC Federal for \$355 million in cash, subject to certain post-closing adjustments for working capital. The Company expects to record a gain during the second quarter of fiscal 2024 upon the completion of the divestiture.

Quarterly Dividend Declared

On June 1, 2023, the Company's Board of Directors declared a quarterly dividend of \$0.37 per share of the Company's common stock payable on July 28, 2023 to stockholders of record on July 14, 2023.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations and quantitative and qualitative disclosures about market risk should be read in conjunction with our unaudited condensed and consolidated financial statements and the related notes. It contains forward-looking statements (which may be identified by words such as those described in "Risk Factors—Forward-Looking Statement Risks" in Part I of the most recently filed Annual Report on Form 10-K), including statements regarding our intent, belief, or current expectations with respect to, among other things, trends affecting our financial condition or results of operations (including our financial targets discussed below under "Management of Operating Performance and Reporting" and "Liquidity and Capital Resources"); backlog; our industry; government budgets and spending; market opportunities; the impact of competition; and the impact of acquisitions and divestitures. Such statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. Risks, uncertainties and assumptions that could cause or contribute to these differences include those discussed below, in "Risk Factors" in Part II of this report and in Part I of the most recently filed Annual Report on Form 10-K. Due to such risks, uncertainties and assumptions, you are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to update these factors or to publicly announce the results of any changes to our forward-looking statements due to future results or developments.

We use the terms "SAIC," the "Company," "we," "us" and "our" to refer to Science Applications International Corporation and its consolidated subsidiaries.

The Company utilizes a 52/53 week fiscal year, ending on the Friday closest to January 31, with fiscal quarters typically consisting of 13 weeks. Fiscal 2024 began on February 4, 2023 and ends on February 2, 2024, while fiscal 2023 began on January 29, 2022 and ended on February 3, 2023.

Business Overview

We are a leading technology integrator providing full life cycle services and solutions in the technical, engineering and enterprise information technology (IT) markets. We developed our brand by addressing our customers' mission critical needs and solving their most complex problems for over 50 years. As one of the largest pure-play technology service providers to the U.S. government, we serve markets of significant scale and opportunity. Our primary customers are the departments and agencies of the U.S. government. We serve our customers through approximately 1,900 active contracts and task orders and employ approximately 24,000 individuals who are led by an experienced executive team of proven industry leaders. Our long history of serving the U.S. government has afforded us the ability to develop strong and longstanding relationships with some of the largest customers in the markets we serve. Substantially all of our revenues and tangible long-lived assets are generated and located in the United States.

Economic Opportunities, Challenges, and Risks

During the three months ended May 5, 2023, we generated 98% of our revenues from contracts with the U.S. government, including subcontracts on which we perform. Our business performance is affected by the overall level of U.S. government spending and the alignment of our offerings and capabilities with the budget priorities of the U.S. government. Appropriations measures passed in December 2022 provided full funding for the federal government through the end of government fiscal year (GFY) 2023. In January 2023, the Federal debt ceiling was reached and the U.S. Department of the Treasury was operating under "extraordinary measures." In June 2023, the President signed the Fiscal Responsibility Act of 2023 which suspends the Federal debt ceiling until January 1, 2025, postponing the threat of a federal government default.

Adverse changes in fiscal and economic conditions could materially impact our business. Some changes that could have an adverse impact on our business include adverse regulations, the implementation of future spending reductions (including sequestration), delayed passage of appropriations bills resulting in temporary or full-year continuing resolutions, extreme inflationary increases adversely impacting fixed price contracts, and potential government shutdowns.

Spending packages, including the infrastructure bill, Inflation Reduction Act, and CHIPS and Science Act, as well as future potential spending packages, may provide additional opportunity in areas of SAIC focus such as digital modernization, cyber, microelectronics support, and climate resiliency.

The U.S. government has increasingly relied on contracts that are subject to a competitive bidding process (including indefinite delivery, indefinite quantity (IDIQ), U.S. General Services Administration (GSA) schedules, and other multi-award contracts), which has resulted in greater competition and increased pricing pressure. Additionally, the U.S. government has put renewed emphasis on increasing the number of small business prime set-aside contracts that further reduce the addressable market in some areas.

Despite the budget and competitive pressures affecting the industry, we believe we are well-positioned to protect and expand existing customer relationships and benefit from opportunities that we have not previously pursued. Our scale, size, and prime contractor leadership position are expected to help differentiate us from our competitors, especially on large contract opportunities. We believe our long-term, trusted customer relationships and deep technical expertise provide us with the sophistication to handle highly complex, mission-critical contracts. Our value proposition is found in the proven ability to serve as a trusted adviser to our customers. In doing so, we leverage our expertise and scale to help them execute their mission.

We succeed as a business based on the solutions we deliver, our past performance, and our ability to compete on price. Our solutions are inspired through innovation based on adoption of best practices and technology integration of the best capabilities available. Our past performance was achieved by employees dedicated to supporting our customers' most challenging missions. Our current cost structure and ongoing efforts to reduce costs by strategic sourcing and developing repeatable offerings sold "as a service" and as managed services in a more commercial business model are expected to allow us to compete effectively on price in an evolving environment. We believe that our ability to be competitive in the future will continue to be driven by our reputation for successful program execution, competitive cost structure, development of new pricing and business models, and efficiencies in assigning the right people, at the right time, in support of our contracts.

Management of Operating Performance and Reporting

Our business and program management process is directed by professionals focused on serving our customers by providing high quality services in achieving program requirements. These professionals carefully monitor contract margin performance by constantly evaluating contract risks and opportunities. Throughout each contract's life cycle, program managers review performance and update contract performance estimates to reflect their understanding of the best information available.

We evaluate our results of operations by considering the drivers causing changes in revenues, operating income and operating cash flows. Given that revenues fluctuate on our contract portfolio over time due to contract awards and completions, changes in customer requirements, and increases or decreases in ordering volume of materials, we evaluate significant trends and fluctuations resulting from these factors. Whether performed by our employees or by our subcontractors, we primarily provide services and, as a result, our cost of revenues are predominantly variable. We also analyze our cost mix (labor, subcontractor and materials) in order to understand operating margin because programs with a higher proportion of SAIC labor are generally more profitable. Changes in cost of revenues as a percentage of revenues other than from revenue volume or cost mix are normally driven by fluctuations in shared or corporate costs, or cumulative revenue adjustments due to changes in estimates.

Changes in operating cash flows are described with regard to changes in cash generated through the providing of services, significant drivers of fluctuations in assets or liabilities and the impacts of changes in timing of cash receipts or disbursements.

Results of Operations

The primary financial performance measures we use to manage our business and monitor results of operations are revenues, operating income, and cash flows from operating activities. The following table summarizes our results of operations:

	Three Months Ended		
	May 5, 2023	Percent change	April 29, 2022
	(dollars in millions)		
Revenues	\$ 2,028	2 %	\$ 1,996
Cost of revenues	1,793	1 %	1,770
<i>As a percentage of revenues</i>	88.4 %		88.7 %
Selling, general and administrative expenses	84	(9 %)	92
Acquisition and integration costs	—	(100 %)	9
Other operating income	(6)	100 %	—
Operating income	157	26 %	125
<i>As a percentage of revenues</i>	7.7 %		6.3 %
Net income attributable to common stockholders	\$ 98	34 %	\$ 73
Net cash provided by operating activities	\$ 82	(31 %)	\$ 118

Revenues. Revenues increased \$32 million for the three months ended May 5, 2023 as compared to the same period in the prior year primarily due to ramp up on existing and new contracts, partially offset by contract completions and \$37 million due to the deconsolidation of FSA (see Note 4 for additional information). Adjusting for the impact of the deconsolidation of FSA, revenues grew 3.5%.

Cost of Revenues. Cost of revenues increased \$23 million for the three months ended May 5, 2023 as compared to the same period in the prior year primarily due to ramp up on existing and new contracts, partially offset by the deconsolidation of FSA (\$33 million).

Selling, General and Administrative Expenses (SG&A). SG&A decreased \$8 million for the three months ended May 5, 2023 as compared to the same period in the prior year primarily due to lower indirect costs and intangible asset amortization.

Operating Income. Operating income as a percentage of revenues for the three months ended May 5, 2023 increased from the comparable prior year period primarily due to lower indirect costs, lower acquisition and integration costs, and a \$7 million gain recognized from the deconsolidation of FSA (see Note 4).

Net Cash Provided by Operating Activities. Net cash provided by operating activities decreased \$36 million for the three months ended May 5, 2023 as compared to the prior year primarily due to the timing of payroll payments, partially offset by the timing of customer collections and vendor payments, and cash payments during the prior year associated with certain change in control provisions related to the acquisition of Halfaker and Associates, LLC.

Non-GAAP Measures

Earnings before interest, taxes, depreciation and amortization (EBITDA), and adjusted EBITDA are non-GAAP financial measures. While we believe that these non-GAAP financial measures are useful for management and investors in evaluating our financial information, they should be considered as supplemental in nature and not as a substitute for financial information prepared in accordance with GAAP. Reconciliations, definitions, and how we believe these measures are useful to management and investors are provided below. Other companies may define similar measures differently.

EBITDA and Adjusted EBITDA. The performance measure EBITDA is calculated by taking net income and excluding interest and loss on sale of receivables, provision for income taxes, and depreciation and amortization. Adjusted EBITDA is a performance measure that excludes the impact of non-recurring transactions that we do not consider to be indicative of our ongoing performance. Adjusted EBITDA is calculated by taking EBITDA and excluding acquisition and integration costs, impairments, restructuring costs, and any other material non-recurring items. Integration costs are costs to integrate acquired companies including costs of strategic consulting services, facility consolidation and employee related costs such as retention and severance costs. The acquisition and integration costs relate to the Company's acquisitions.

We believe that EBITDA and adjusted EBITDA provide management and investors with useful information in assessing trends in our ongoing operating performance and may provide greater visibility in understanding the long-term financial performance of the Company.

EBITDA and adjusted EBITDA for the periods presented were calculated as follows:

	Three Months Ended	
	May 5, 2023	April 29, 2022
	(dollars in millions)	
Net income	\$ 98	\$ 74
Interest expense and loss on sale of receivables	36	28
Interest income	(1)	—
Provision for income taxes	25	21
Depreciation and amortization	36	41
EBITDA	194	164
<i>EBITDA as a percentage of revenues</i>	<i>9.6 %</i>	<i>8.2 %</i>
Acquisition and integration costs	—	9
Restructuring and impairment costs	1	—
Gain on divestitures, net of transaction costs	(6)	—
Adjusted EBITDA	\$ 189	\$ 173
<i>Adjusted EBITDA as a percentage of revenues</i>	<i>9.3 %</i>	<i>8.7 %</i>

Adjusted EBITDA as a percentage of revenues for the three months ended May 5, 2023 increased to 9.3% from 8.7% for the same period in the prior year primarily due to lower indirect costs and improved profitability across our contract portfolio.

Other Key Performance Measures

In addition to the financial measures described above, we believe that bookings and backlog are useful measures for management and investors to evaluate our potential future revenues. We also consider measures such as contract types and cost of revenues mix to be useful for management and investors to evaluate our operating income and performance.

Net Bookings and Backlog. Net bookings represent the estimated amount of revenues to be earned in the future from funded and negotiated unfunded contract awards that were received during the period, net of adjustments to estimates on previously awarded contracts. We calculate net bookings as the period's ending backlog plus the period's revenues less the prior period's ending backlog and initial backlog obtained through acquisitions.

Backlog represents the estimated amount of future revenues to be recognized under negotiated contracts as work is performed. We do not include in backlog estimates of revenues to be derived from IDIQ contracts, but rather record backlog and bookings when task orders are awarded on these contracts. Given that much of our revenue is derived from IDIQ contract task orders that renew annually, bookings on these contracts tend to refresh annually as the task orders are renewed. Additionally, we do not include in backlog contract awards that are under protest until the protest is resolved in our favor.

We segregate our backlog into two categories as follows:

- **Funded Backlog.** Funded backlog for contracts with government agencies primarily represents estimated amounts of revenue to be earned in the future from contracts for which funding is appropriated less revenues previously recognized on these contracts. It does not include the unfunded portion of contracts in which funding is incrementally appropriated or authorized on a quarterly or annual basis by the U.S. government and other customers even though the contract may call for performance over a number of years. Funded backlog for contracts with non-government customers represents the estimated value on contracts, which may cover multiple future years, under which we are obligated to perform, less revenues previously recognized on these contracts.
- **Negotiated Unfunded Backlog.** Negotiated unfunded backlog represents estimated amounts of revenue to be earned in the future from negotiated contracts for which funding has not been appropriated or otherwise authorized and from unexercised priced contract options. Negotiated unfunded backlog does not include any estimate of future potential task orders expected to be awarded under IDIQ, GSA Schedules or other master agreement contract vehicles, with the exception of certain IDIQ contracts where task orders are not competitively awarded and separately priced but instead are used as a funding mechanism, and where there is a basis for estimating future revenues and funding on future anticipated task orders.

We expect to recognize revenue from a substantial portion of our funded backlog within the next twelve months. However, the U.S. government can adjust the scope of services of or cancel contracts at any time. Similarly, certain contracts with commercial customers include provisions that allow the customer to cancel prior to contract completion. Most of our contracts have cancellation terms that would permit us to recover all or a portion of our incurred costs and fees (contract profit) for work performed.

The estimated value of our total backlog as of the dates presented was:

	May 5, 2023	February 3, 2023
	(in millions)	
Funded backlog	\$ 3,899	\$ 3,554
Negotiated unfunded backlog	19,895	20,248
Total backlog	\$ 23,794	\$ 23,802

We had net bookings worth an estimated \$2.1 billion during the three months ended May 5, 2023. Total backlog at the end of the first quarter of fiscal 2024 is consistent with our total backlog at prior year end.

Contract Types. Our earnings and profitability may vary materially depending on changes in the proportionate amount of revenues derived from each type of contract. For a discussion of the types of contracts under which we generate revenues, see “Contract Types” in Part I of the most recently filed Annual Report on Form 10-K. The following table summarizes revenues by contract type as a percentage of revenues for the periods presented:

	Three Months Ended	
	May 5, 2023	April 29, 2022
Cost reimbursement	55 %	55 %
Time and materials (T&M)	18 %	19 %
Firm-fixed price (FFP)	27 %	26 %
Total	100 %	100 %

Cost of Revenues Mix. We generate revenues by providing a customized mix of services to our customers. The profit generated from our service contracts is affected by the proportion of cost of revenues incurred from the efforts of our employees (which we refer to below as labor-related cost of revenues), the efforts of our subcontractors and the cost of materials used in the performance of our service obligations under our contracts. Contracts performed with a higher proportion of SAIC labor are generally more profitable. The following table presents cost mix for the periods presented:

	Three Months Ended	
	May 5, 2023	April 29, 2022
	(as a % of total cost of revenues)	
Labor-related cost of revenues	52 %	54 %
Subcontractor-related cost of revenues	29 %	29 %
Supply chain materials-related cost of revenues	8 %	7 %
Other materials-related cost of revenues	11 %	10 %
Total	100 %	100 %

Liquidity and Capital Resources

As a services provider, our business generally requires minimal infrastructure investment. We expect to fund our ongoing working capital, commitments and any other discretionary investments with cash on hand, future operating cash flows and, if needed, borrowings under our \$1.0 billion Revolving Credit Facility and \$300 million MARPA Facility.

We anticipate that our future cash needs will be for working capital, capital expenditures, and contractual and other commitments. We consider various financial measures when we develop and update our capital deployment strategy, which include evaluating cash provided by operating activities, free cash flow and financial leverage. When our cash generation enables us to exceed our target average minimum cash balance, we intend to deploy excess cash through dividends, share repurchases, debt prepayments or strategic acquisitions.

Our ability to fund these needs will depend, in part, on our ability to generate cash in the future, which depends on our future financial results. Our future results are subject to general economic, financial, competitive, legislative and regulatory factors that may be outside of our direct control. Although we believe that the financing arrangements in place will permit us to finance our operations on acceptable terms and conditions for at least the next year, our future access to, and the availability of financing on acceptable terms and conditions will be impacted by many factors (including our credit rating, capital market liquidity and overall economic conditions). Therefore, we cannot ensure that such financing will be available to us on acceptable terms or that such financing will be available at all. Nevertheless, we believe that our existing cash on hand, generation of future operating cash flows, and access to bank financing and capital markets will provide adequate resources to meet our short-term liquidity and long-term capital needs.

Beginning in fiscal 2023, the Tax Cuts and Jobs Act of 2017 requires the capitalization of research and development costs for tax purposes and requires taxpayers to amortize such expenditures over five years. We estimate that our income taxes payable for fiscal 2024 will increase by approximately \$76 million as a result of this provision, offset by a corresponding deferred tax asset. The actual impact will depend on the amount of research and development costs incurred by the Company, whether the U.S. Congress modifies, or repeals this provision and whether new guidance and interpretive rules are issued by the U.S. Treasury, among other factors.

Historical Cash Flow Trends

The following table summarizes our cash flows:

	Three Months Ended	
	May 5, 2023	April 29, 2022
	(in millions)	
Net cash provided by operating activities	\$ 82	\$ 118
Net cash provided by (used in) investing activities	336	(6)
Net cash used in financing activities	(105)	(162)
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 313	\$ (50)

Net Cash Provided by Operating Activities. Refer to “Results of Operations” above for a discussion of the changes in cash provided by operating activities between the three months ended May 5, 2023 and the comparable prior year period.

Net Cash Provided by (Used in) Investing Activities. Cash provided by investing activities for the three months ended May 5, 2023 was \$336 million compared to cash used in investing activities of \$6 million in the prior year period. This change is primarily due to the \$355 million refundable cash deposit received for the sale of our logistics and supply chain management business which closed subsequent to the end of the first quarter of fiscal 2024 (see Note 4 and Note 12 to the condensed and consolidated financial statements).

Net Cash Used in Financing Activities. Cash used in financing activities for the three months ended May 5, 2023 decreased compared to the prior year period due to term loan principal payments in the prior year period.

Critical Accounting Policies and Estimates

There have been no changes to our critical accounting policies and estimates during the three months ended May 5, 2023 from those disclosed in our most recently filed Annual Report on Form 10-K.

Recently Issued But Not Yet Adopted Accounting Pronouncements

For information on recently issued but not yet adopted accounting pronouncements, see Note 1 to the condensed and consolidated financial statements contained within this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to our market risks from those discussed in our most recently filed Annual Report on Form 10-K.

Item 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, have evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) and have concluded that as of May 5, 2023 these controls and procedures were operating and effective.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarterly period covered by this report that materially affected, or are likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION
Item 1. Legal Proceedings

We have provided information about legal proceedings in which we are involved in our fiscal 2023 Annual Report on Form 10-K, and we have provided an update to this information in Note 11 to the condensed and consolidated financial statements contained within this report, which is incorporated herein by reference.

In addition to the described legal proceedings, we are routinely subject to investigations and reviews relating to compliance with various laws and regulations. Additional information regarding such investigations and reviews is included in our fiscal 2023 Annual Report on Form 10-K, and we have also updated this information in Note 11 to the condensed and consolidated financial statements contained within this report, under the heading "Government Investigations, Audits and Reviews," which is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in our most recently filed Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities. We may repurchase shares on the open market in accordance with established repurchase plans. Whether repurchases are made and the timing and amount of repurchases depend on a variety of factors including market conditions, our capital position, internal cash generation and other factors. We also repurchase shares in connection with stock option and stock award activities to satisfy tax withholding obligations.

The following table presents repurchases of our common stock during the three months ended May 5, 2023:

Period ⁽¹⁾	Total Number of Shares (or Units) Purchased ⁽²⁾	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs ⁽³⁾
February 4, 2023 - March 10, 2023	198,344	\$ 106.95	190,865	7,202,833
March 11, 2023 - April 7, 2023	153,280	105.25	153,280	7,049,553
April 8, 2023 - May 5, 2023	320,651	103.85	320,651	6,728,902
Total	672,275	\$ 105.08	664,796	

(1) Date ranges represent our fiscal periods during the current quarter. Our fiscal quarters typically consist of one five-week period and two four-week periods.

(2) Includes shares purchased on surrender by stockholders of previously owned shares to satisfy minimum statutory tax withholding obligations related to stock option exercises and vesting of stock awards in addition to shares purchased under our publicly announced plans or programs.

(3) In June 2022, the number of shares that may be purchased increased by 8.0 million shares, bringing the total authorized shares to be repurchased under the plan to approximately 24.4 million shares. As of May 5, 2023, we have repurchased approximately 17.7 million shares of common stock under the program.

Item 3. Defaults Upon Senior Securities

No information is required in response to this item.

Item 4. Mine Safety Disclosures

No information is required in response to this item.

Item 5. Other Information

No information is required in response to this item.

Item 6. Exhibits

Exhibit Number	Description of Exhibit
<u>10.1*</u>	<u>Transition Letter, dated May 15, 2023. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 18, 2023.</u>
<u>31.1</u>	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2</u>	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101	Interactive Data File. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104	The cover page from this Quarterly Report on Form 10-Q, formatted as Inline XBRL.
*	Management contract or compensatory plan or agreement.

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 thereunto duly authorized.

Date: June 5, 2023

Science Applications International Corporation

/s/ Prabu Natarajan

Prabu Natarajan
Executive Vice President and Chief Financial Officer

**SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Nazzic S. Keene, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended May 5, 2023 of Science Applications International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 5, 2023

/s/ Nazzic S. Keene

**Nazzic S. Keene
Chief Executive Officer**

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Prabu Natarajan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended May 5, 2023 of Science Applications International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 5, 2023

/s/ Prabu Natarajan

Prabu Natarajan
Chief Financial Officer

**SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Science Applications International Corporation (the "Company") on Form 10-Q for the period ended May 5, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nazzic S. Keene, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 5, 2023

/s/ Nazzic S. Keene

Nazzic S. Keene
Chief Executive Officer

**SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Science Applications International Corporation (the "Company") on Form 10-Q for the period ended May 5, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Prabu Natarajan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 5, 2023

/s/ Prabu Natarajan

**Prabu Natarajan
Chief Financial Officer**