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 3, 2019

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	Exact Name of Registrant as Specified in its Charter, Address of Principal Executive Offices and Telephone Number	State or other jurisdiction of incorporation or organization	I.R.S. Employer Identification No.
001-35832	Science Applications International Corporation **12010 Sunset Hills Road, Reston, VA 20190** **703-676-4300**	Delaware	46-1932921

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, 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 24, 2019 was as follows:

59,020,969 shares of common stock ($.0001 par value per share)

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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 3, 2019	May 4, 2018
	(in millions, except per share amounts)	
Revenues	**$ 1,615**	$ 1,175
Cost of revenues	**1,435**	1,074
Selling, general and administrative expenses	**77**	35
Acquisition and integration costs (Note 4)	**10**	—
Operating income	**93**	66
Interest expense	**25**	12
Other (income) expense, net	**(2)**	(1)
Income before income taxes	**70**	55
Provision for income taxes (Note 6)	**(14)**	(6)
Net income	**$ 56**	$ 49
Net income attributable to non-controlling interest	**1**	—
Net income attributable to common stockholders	**$ 55**	$ 49
Earnings per share (Note 2):		
Basic	**$ 0.93**	$ 1.16
Diluted	**$ 0.92**	$ 1.13

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 3, 2019	May 4, 2018
	(in millions)	
Net income	**$ 56**	$ 49
Other comprehensive (loss) income, net of tax:		
Unrealized (loss) gain on derivative instruments, net of tax benefit (expense) of $4 million and ($1) million for the three months ended May 3, 2019 and May 4, 2018, respectively	**(10)**	1
Reclassification adjustment for (benefits) costs realized in net income, net of tax expense (benefit) of $0 million and $0 million for the three months ended May 3, 2019 and May 4, 2018, respectively	**—**	—
Net unrealized (loss) gain on derivative instruments	**(10)**	1
Total other comprehensive (loss) income, net of tax	**(10)**	1
Comprehensive income	**$ 46**	$ 50
Comprehensive income attributable to non-controlling interest	**1**	—
Comprehensive income attributable to common stockholders	**$ 45**	$ 50

See accompanying notes to condensed and consolidated financial statements.

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

	May 3, 2019	February 1, 2019
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 151	$ 237
Receivables, net	1,039	1,050
Inventory, prepaid expenses and other current assets	127	146
Total current assets	1,317	1,433
Goodwill	2,120	2,120
Intangible assets (net of accumulated amortization of $104 million and $79 million at May 3, 2019 and February 1, 2019, respectively)	778	803
Property, plant, and equipment (net of accumulated depreciation of $165 million and $159 million at May 3, 2019 and February 1, 2019, respectively)	103	103
Other assets	289	104
Total assets	$ 4,607	$ 4,563
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 714	$ 632
Accrued payroll and employee benefits	259	241
Long-term debt, current portion (Note 7)	37	24
Total current liabilities	1,010	897
Long-term debt, net of current portion (Note 7)	1,902	2,065
Other long-term liabilities	222	102
Commitments and contingencies (Note 11)		
Equity:		
Common stock, $.0001 par value, 1 billion shares authorized, 59 million and 60 million shares issued and outstanding as of May 3, 2019 and February 1, 2019, respectively	—	—
Additional paid-in capital	1,086	1,132
Retained earnings	400	367
Accumulated other comprehensive loss	(24)	(14)
Total common stockholders' equity	1,462	1,485
Non-controlling interest	11	14
Total stockholders' equity	1,473	1,499
Total liabilities and stockholders' equity	$ 4,607	$ 4,563

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 (loss) income	Non-Controlling Interest	Total
			(in millions)			
Balance at February 1, 2019	**60**	**$ 1,132**	**$ 367**	**$ (14)**	**$ 14**	**$ 1,499**
Net income	—	—	55	—	1	56
Issuances of stock	—	3	—	—	—	3
Other comprehensive loss, net of tax	—	—	—	(10)	—	(10)
Cash dividends of $0.37 per share	—	—	(22)	—	—	(22)
Stock-based compensation	—	(4)	—	—	—	(4)
Repurchases of stock	(1)	(45)	—	—	—	(45)
Distributions to non-controlling interest	—	—	—	—	(4)	(4)
Balance at May 3, 2019	**59**	**$ 1,086**	**$ 400**	**$ (24)**	**$ 11**	**$ 1,473**
Balance at February 2, 2018	**43**	**$ —**	**$ 323**	**$ 4**	**$ —**	**$ 327**
Cumulative impact from adopting ASC 606 on February 3, 2018	—	—	3	—	—	3
Net income	—	—	49	—	—	49
Issuances of stock	1	2	—	—	—	2
Other comprehensive income, net of tax	—	—	—	1	—	1
Cash dividends of $0.31 per share	—	—	(13)	—	—	(13)
Stock-based compensation	—	(2)	(9)	—	—	(11)
Repurchases of stock	(1)	—	(33)	—	—	(33)
Balance at May 4, 2018	**43**	**$ —**	**$ 320**	**$ 5**	**$ —**	**$ 325**

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 3, 2019	May 4, 2018
	(in millions)	
Cash flows from operating activities:		
Net income	**$ 56**	$ 49
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**36**	11
Deferred income taxes	**9**	—
Stock-based compensation expense	**8**	8
Increase (decrease) resulting from changes in operating assets and liabilities:		
Receivables	**11**	8
Inventory, prepaid expenses and other current assets	**16**	7
Other assets	**11**	(6)
Accounts payable and accrued liabilities	**20**	(24)
Accrued payroll and employee benefits	**18**	34
Other long-term liabilities	**(7)**	1
Net cash provided by operating activities	**178**	88
Cash flows from investing activities:		
Expenditures for property, plant, and equipment	**(9)**	(6)
Purchases of marketable securities	**(21)**	—
Net cash used in investing activities	**(30)**	(6)
Cash flows from financing activities:		
Dividend payments to stockholders	**(23)**	(14)
Principal payments on borrowings	**(153)**	(8)
Issuances of stock	**2**	2
Stock repurchased and retired or withheld for taxes on equity awards	**(56)**	(53)
Debt issuance costs	**—**	(1)
Distributions to non-controlling interest	**(4)**	—
Net cash used in financing activities	**(234)**	(74)
Net (decrease) increase in cash, cash equivalents and restricted cash	**(86)**	8
Cash, cash equivalents and restricted cash at beginning of period	**246**	152
Cash, cash equivalents and restricted cash at end of period (Note 1)	**$ 160**	$ 160

See accompanying notes to condensed and consolidated financial statements.

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

Overview

Science Applications International Corporation (collectively, with its consolidated subsidiaries, the “Company”) is a leading provider of technical, engineering and enterprise information technology (IT) services primarily to the U.S. government. The Company provides engineering and integration services for large, complex projects and offers a broad range of services with a targeted emphasis on higher-end, differentiated technology services. The Company is organized as a matrix comprised of three customer facing operating segments supported by a solutions and technology group. Each of the Company’s three customer facing operating segments is focused on providing the Company’s comprehensive technical and enterprise IT service offerings to one or more agencies of the U.S federal government. The Company's operating segments are aggregated into one reportable segment for financial reporting purposes.

On January 14, 2019, the Company completed the acquisition of Engility Holdings, Inc. (collectively with its consolidated subsidiaries, "Engility"), which provides increased customer and market access, as well as increased scale in strategic business areas of national interest, such as defense, federal civilian agencies, intelligence and space.

Principles of Consolidation and Basis of Presentation

The accompanying financial information has been 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, which consist of normal recurring 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 1, 2019.

Non-controlling Interest. As a result of the acquisition of Engility, the Company holds a 50.1% majority interest in Forfeiture Support Associates J.V. (FSA). The results of operations of FSA are included in the Company's condensed and consolidated statements of income. The non-controlling interest reported on the condensed and consolidated balance sheets represents the portion of FSA's equity that is attributable to the non-controlling interest.

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 2019 began on February 3, 2018 and ended on February 1, 2019, while fiscal 2020 began on February 2, 2019 and ends on January 31, 2020.

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.

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 or canceled. See Note 8 for further discussion on the Company's derivative instruments designated as cash flow hedges.

Inventory

Inventory is substantially comprised of finished goods inventory purchased for resale to customers, such as tires and lubricants, and is valued at the lower of cost or net realizable value, generally using the average method. The Company evaluates current inventory against historical and planned usage to estimate the appropriate provision for obsolete inventory.

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 3, 2019 and February 1, 2019, the fair value of our investments total $26 million and $4 million and was included in other assets on our condensed and consolidated balance sheets. Our investments are primarily held in a custodial account, which includes investments to fund our 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 within the condensed and consolidated balance sheets for the periods presented:

	May 3, 2019	February 1, 2019
	(in millions)	
Cash and cash equivalents	**$ 151**	$ 237
Restricted cash included in other assets	**9**	9
Cash, cash equivalents and restricted cash	**$ 160**	$ 246

Accounting Standards Updates

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), which supersedes the existing lease accounting standards (Topic 840). Under the new guidance, a lessee will be required to recognize lease assets and lease liabilities for all leases with lease terms in excess of twelve months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as either a finance lease or operating lease. The criteria for distinction between a finance lease and an operating lease are substantially similar to existing lease guidance for capital leases and operating leases. Some changes to lessor accounting have been made to conform and align that guidance with the lessee guidance and other areas within GAAP, such as *Revenue from Contracts with Customers (Topic 606)*. In July 2018, the FASB provided an optional transition method of adoption, permitting entities to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption as opposed to the beginning of the earliest period presented in the financial statements.

ASU 2016-02 became effective for the Company in the first quarter of fiscal 2020. The Company adopted the standard using the optional transition method. Accordingly, the prior periods were not recast, and all prior period amounts disclosed are presented under ASC 840. The Company elected certain practical expedients provided under the standard, including the package of practical expedients, which allows entities not to reassess whether existing contracts are or contain leases. Therefore, at adoption, existing leases have been identified using the criteria of ASC 840.

As a result of the adoption of the new standard, on February 2, 2019, the Company recognized approximately $169 million of right of use operating assets and $187 million of operating lease liabilities, of which $140 million was noncurrent. The adoption did not have a material impact on retained earnings, the condensed and consolidated statements of income, or the condensed and consolidated statements of cash flows.

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the capitalization requirements for implementation costs incurred in a hosting arrangement that is a service contract with the existing capitalization requirements for implementation costs incurred to develop or obtain internal-use software *(Subtopic 350-40)*. ASU 2018-15 becomes effective for the Company in the first quarter of fiscal 2021 and may be adopted either retrospectively or prospectively. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this standard on its financial statements.

Other Accounting Standards Updates effective after May 3, 2019 are not expected to have a material effect on the Company's financial statements.

Note 2—Earnings Per Share and Dividends:

Earnings Per Share

Basic earnings per share (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.

A reconciliation of the weighted-average number of shares outstanding used to compute basic and diluted EPS was:

	Three Months Ended	
	May 3, 2019	May 4, 2018
	(in millions)	
Basic weighted-average number of shares outstanding	**59.3**	42.4
Dilutive common share equivalents - stock options and other stock-based awards	**0.7**	1.0
Diluted weighted-average number of shares outstanding	**60.0**	43.4

The following stock-based awards were excluded from the weighted-average number of shares outstanding used to compute diluted EPS:

	Three Months Ended	
	May 3, 2019	May 4, 2018
	(in millions)	
Antidilutive stock options excluded	**0.4**	0.3

Dividends

The Company declared and paid a quarterly dividend of $0.37 per share of its common stock during the three months ended May 3, 2019. On June 5, 2019, the Company's Board of Directors declared a quarterly dividend of $0.37 per share of the Company's common stock payable on July 26, 2019 to stockholders of record on July 12, 2019.

Note 3—Revenues:

Changes in Estimates

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 routinely occur 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. 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.

Aggregate changes in these estimates increased operating income by $8 million ($0.11 per diluted share) for the three months ended May 3, 2019, and decreased operating income by $5 million ($0.09 per diluted share) for the three months ended May 4, 2018. Changes in these estimates increased net income by $6 million for the three months ended May 3, 2019. In addition, revenues were $9 million higher for the three months ended May 3, 2019, 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 vs. subcontractor to the federal government.

Disaggregated revenues by customer were as follows:

	Three Months Ended	
	May 3, 2019	May 4, 2018
	(in millions)	
Department of Defense	**$ 864**	$ 746
Other federal government agencies	**722**	413
Commercial, state and local	**29**	16
Total	**$ 1,615**	$ 1,175

Disaggregated revenues by contract-type were as follows:

	Three Months Ended	
	May 3, 2019	May 4, 2018
	(in millions)	
Cost reimbursement	**$ 921**	$ 533
Time and materials (T&M)	**325**	315
Firm-fixed price (FFP)	**369**	327
Total	**$ 1,615**	$ 1,175

Disaggregated revenues by prime vs. subcontractor were as follows:

	Three Months Ended	
	May 3, 2019	May 4, 2018
	(in millions)	
Prime contractor to federal government	$ 1,434	$ 1,077
Subcontractor to federal government	152	82
Other	29	16
Total	$ 1,615	$ 1,175

Contract Balances

Contract balances for the periods presented were as follows:

	Balance Sheet line item	May 3, 2019	February 1, 2019
		(in millions)	
Billed and billable receivables, net(1)	Receivables, net	$ 714	$ 740
Contract assets - unbillable receivables	Receivables, net	325	310
Contract assets - contract retentions	Other assets	16	13
Contract liabilities - current	Accounts payable and accrued liabilities	36	34
Contract liabilities - non-current	Other long-term liabilities	$ 8	$ 6

(1) Net of allowance for doubtful accounts of $2 million as of May 3, 2019 and February 1, 2019.

During the three months ended May 3, 2019 and May 4, 2018, the Company recognized revenues of $13 million and $9 million relating to amounts that were included in the opening balance of contract liabilities as of February 1, 2019 and February 3, 2018, respectively.

Deferred Costs

Deferred costs for the periods presented were as follows:

	Balance Sheet line item	May 3, 2019	February 1, 2019
		(in millions)	
Pre-contract costs	Inventory, prepaid expenses and other current assets	$ —	$ 1
Fulfillment costs - non-current	Other assets	$ 14	$ 13

Pre-contract costs of $1 million were expensed during the three months ended May 3, 2019. Fulfillment costs of $1 million were amortized during the three months ended May 3, 2019.

Remaining Performance Obligations

As of May 3, 2019, the Company had $4.1 billion of remaining performance obligations. Remaining performance obligations exclude any variable consideration that is allocated entirely to unsatisfied performance obligations on our supply chain contracts. The Company expects to recognize revenue on approximately 80% of the remaining performance obligations over the next 12 months and approximately 90% over the next 24 months, with the remaining recognized thereafter.

Note 4—Engility Acquisition:

On January 14, 2019, the Company completed the acquisition of Engility Holdings, Inc., a leading provider of integrated solutions and services supporting U.S. government customers in the defense, federal civilian, and intelligence and space communities. This strategic acquisition enables greater market and customer access, particularly in the intelligence and space communities, and enhances the Company's portfolio of capabilities, particularly in the area of systems engineering and integration. The acquisition enables acceleration of revenue growth through increased market and customer access, increased investment capacity, addition of cleared personnel and strategic alignment with key customers. The acquisition also enables increased profitability and cash generation with an improved margin profile and greater financial flexibility for investment and capital deployment.

The acquisition was funded through a combination of SAIC common stock and additional borrowings. At the effective time of the acquisition, each outstanding share of Engility common stock was automatically cancelled and converted into the right to receive 0.45 shares of the Science Applications International Corporation common stock. The Company amended its credit agreement to provide for a new five-year senior secured $1.1 billion term loan facility. SAIC borrowed the entire amount of the term loan facility, the proceeds of which were immediately used to repay Engility's existing credit facility and outstanding notes and to pay fees and expenses associated with the acquisition, with the balance retained by SAIC to be used for general corporate purposes.

The purchase consideration for the acquisition of Engility was as follows:

		(in millions)
Common stock issued to Engility shareholders[1]	$	1,086
Converted vesting stock awards assumed[2]		22
Cash consideration paid to extinguish Engility outstanding debt		1,052
Purchase price	$	2,160

(1) Represents approximately 16.8 million new shares of SAIC common stock issued to Engility shareholders prior to the market opening on January 14, 2019, using the SAIC share price of $65.03 at the close of business on January 11, 2019.

(2) Represents the fair value of the converted vesting stock awards assumed attributable to pre-acquisition service.

The purchase price was allocated, on a preliminary basis, among assets acquired and liabilities assumed at fair value on the acquisition date, January 14, 2019, based on the best available information, with the excess purchase price recorded as goodwill. As of May 3, 2019, the Company had not finalized the determination of fair values allocated to various assets and liabilities, including, but not limited to, receivables, other current assets, deferred tax assets, property, plant, and equipment, other accrued liabilities and goodwill. The allocation of the purchase price is subject to change as the Company continues to obtain and assess relevant information that existed as of the acquisition date, including but not limited to, information pertaining to Engility's historical government compliance accounting practices, legal proceedings, reserves, income taxes, contracts with customers, and pre-acquisition contingencies. The Company expects to have sufficient information available to resolve these items by the fourth quarter of fiscal 2020, which could potentially result in changes in assets or liabilities on Engility's opening balance sheet and an adjustment to goodwill. The purchase accounting entries were recorded on a preliminary basis as follows:

		(in millions)
Cash and cash equivalents	$	51
Receivables		351
Inventories		5
Prepaid expenses		5
Other current assets		15
Property, plant, and equipment		39
Deferred tax assets		91
Other assets		7
Intangible assets		648
Goodwill		1,257
Total assets acquired		2,469
Accounts payable		115
Accrued payroll and other employee benefits		30
Accrued vacation		39
Other accrued liabilities		58
Other long-term liabilities		54
Total liabilities assumed		296
Non-controlling interest		13
Net assets acquired	$	2,160
Amount of tax deductible goodwill	$	441

Goodwill represents intellectual capital and an acquired assembled work force. The Company inherited Engility's historical tax basis in deductible goodwill, certain other intangible assets, and net operating loss carryforwards.

The following table summarizes the fair value of intangible assets and the related weighted average useful lives:

		Amount	Weighted-Average Amortization Period
		(in millions)	(in years)
Backlog	$	30	1
Developed technology		2	10
Customer relationships		616	14
Total intangible assets	$	648	13

The Company incurred $128 million in costs associated with the acquisition and integration of Engility. Acquisition-related expenses, all of which were incurred in fiscal year 2019, were $63 million including $31 million of debt issue costs, and $2 million in stock issue costs.

For the three months ended May 3, 2019, the Company incurred $10 million of costs in connection with the integration of Engility, primarily for strategic consulting services, severance costs, and other integration-related costs. The Company did not incur any acquisition and integration costs for the three months ended May 4, 2018. These costs are included in acquisition and integration costs on the condensed and consolidated statements of income.

Note 5—Stock-Based Compensation:

Stock Options

During the three months ended May 3, 2019, the Company granted certain employees 0.1 million stock options with a weighted-average exercise price and weighted-average grant date fair value of $74.97 and $16.71, respectively. These options will expire on the seventh anniversary of the grant date and will vest ratably on each anniversary of the grant date over a three-year period.

Restricted Stock Units (RSUs)

During the three months ended May 3, 2019, the Company granted certain employees 0.4 million RSUs with a weighted-average grant date fair value of $74.97, which will vest ratably on each anniversary of the grant date over a three-year period.

Note 6—Income Taxes:

The Company's effective income tax rate was 19.8% for the three months ended May 3, 2019 and 10.3% for the three months ended May 4, 2018. The Company's effective tax rate was higher for the three months ended May 3, 2019 compared to the prior year period due principally to lower excess tax benefits related to employee share-based compensation. Tax rates for the periods ended May 3, 2019 were lower than the combined federal and state statutory rates due principally to excess tax benefits related to employee share-based compensation, research and development credits, partially offset by permanent book tax differences.

As of May 3, 2019, the balance of unrecognized tax benefits included liabilities for uncertainty in income taxes of $15 million, which is classified as other long-term liabilities on the condensed and consolidated balance sheets. Of this balance, $12 million, if recognized, would impact the effective income tax rate for the Company. While the Company believes it has adequate accruals for uncertainty in income taxes, the tax authorities, on review of the Company's tax filings, may determine that the Company owes taxes in excess of recorded accruals, or the recorded accruals may be in excess of the final settlement amounts agreed to by tax authorities. Although the timing of such reviews is not certain, we believe it is reasonably possible that $2 million to $4 million of unrecognized tax benefits will reverse in the next 12 months due to the resolution of a tax authority examination and approximately $2 million as a result of statute of limitations expirations, along with associated interest and penalties.

Note 7—Debt Obligations:

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

	May 3, 2019					February 1, 2019		
	Stated interest rate	Effective interest rate	Principal	Unamortized Debt Issuance Costs	Net	Principal	Unamortized Debt Issuance Costs	Net
					(in millions)			
Term Loan A Facility due October 2023	3.98%	4.32%	$ 918	$ (11)	$ 907	$1,068	$ (14)	$1,054
Term Loan B Facility due October 2025	4.23%	4.45%	1,044	(12)	1,032	1,047	(12)	1,035
Total long-term debt			$1,962	$ (23)	$1,939	$2,115	$ (26)	$2,089
Less current portion			37	—	37	24	—	24
Total long-term debt, net of current portion			$1,925	$ (23)	$1,902	$2,091	$ (26)	$2,065

As of May 3, 2019, the Company has a $2.4 billion credit facility (the Credit Facility) consisting of a $400 million secured Revolving Credit Facility due October 2023, a $918 million secured Term Loan A Facility, and a $1,044 million secured Term Loan B Facility (together, the Term Loan Facilities). There is no balance outstanding on the Revolving Credit Facility as of May 3, 2019. During the three months ended May 3, 2019, the Company made $150 million of voluntary principal prepayments on the Term Loan A Facility.

As of May 3, 2019, the Company was in compliance with the covenants under its Credit Facility.

As of May 3, 2019 and February 1, 2019, 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.

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 3, 2019	Pay Fixed Rate	Receive Variable Rate	Settlement and Termination	Liability Fair Value[1] at May 3, 2019	Liability Fair Value[1] at February 1, 2019
	(in millions)				(in millions)	
Interest rate swaps #1	$ 340	2.78%	1-month LIBOR	Monthly through July 30, 2021	$ (3)	$ (2)
Interest rate swaps #2	500	3.07%	1-month LIBOR	Monthly through October 31, 2025	(28)	(21)
Interest rate swaps #3	500	2.49%	1-month LIBOR	Monthly through October 31, 2023	(6)	(1)
Total	$ 1,340				$ (37)	$ (24)

(1) The fair value of the fixed interest rate swaps liability is included in accounts payable and accrued liabilities 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. See Note 9 for the unrealized change in fair values on cash flow hedges recognized in other comprehensive loss and the amounts reclassified from accumulated other comprehensive loss into earnings for the current and comparative periods presented. The Company estimates that it will reclassify $1 million of unrealized losses from accumulated other comprehensive loss into earnings in the twelve months following May 3, 2019.

On October 31, 2018, the Company exited one of its interest rate swaps and discontinued hedge accounting. The Company received cash proceeds of $6 million upon the early settlement. The $6 million of deferred gains in accumulated other comprehensive loss will be reclassified into interest expense over the original contractual term of the interest rate swaps, which has a maturity date of May 7, 2020.

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

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

	Pre-Tax Amount
	Unrealized Gains (Losses) on Fixed Interest Rate Swap Cash Flow Hedges[1]
	(in millions)
Three months ended May 3, 2019	
Balance at February 1, 2019	$ (19)
Other comprehensive loss before reclassifications	(14)
Amounts reclassified from accumulated other comprehensive loss	—
Net other comprehensive loss	(14)
Balance at May 3, 2019	**$ (33)**
Three months ended May 4, 2018	
Balance at February 2, 2018	$ 5
Other comprehensive income before reclassifications	2
Amounts reclassified from accumulated other comprehensive income	—
Net other comprehensive income	2
Balance at May 4, 2018	**$ 7**

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

Note 10—Leases:

The Company occupies most of its facilities under operating leases. Certain equipment also is leased under short-term or cancelable operating leases.

Effective upon the adoption of ASU 2016-02, the Company recognizes a right of use (ROU) asset and a lease liability upon the commencement of its operating leases. The initial lease liability is equal to the future fixed minimum lease payments discounted using the Company's incremental borrowing rate, on a secured basis. The lease term includes option renewal periods and early termination payments when it is reasonably certain that the Company will exercise those rights. The initial measurement of the ROU asset is equal to the initial lease liability plus any initial direct costs and prepayments, less any lease incentives.

The Company recognizes lease costs on a straight-line basis over the remaining lease term, except for variable lease payments that are expensed in the period in which the obligation for those payments is incurred.

For its facility leases, the Company combines and accounts for lease and non-lease components together as a single component. The Company does not recognize lease liabilities and ROU assets for facility leases with original terms of 12 months or less. ROU assets are evaluated for impairment as a long-lived asset.

Total operating lease cost is comprised of the following:

	Income Statement line item(s)	Three Months Ended May 3, 2019
		(in millions)
Operating lease cost	Cost of revenues and selling, general and administrative expenses	$ 16
Variable lease cost	Cost of revenues and selling, general and administrative expenses	4
Short-term lease cost	Cost of revenues and selling, general and administrative expenses	1
Sublease income	Cost of revenues and selling, general and administrative expenses	(1)
Total lease cost		$ 20

The Company's ROU assets and lease liabilities consisted of the following:

	Balance Sheet line item	May 3, 2019
		(in millions)
Operating lease ROU asset	Other assets	$ 166
Operating lease current liability	Accounts payable and accrued liabilities	49
Operating lease non-current liability	Other long-term liabilities	134
Total operating lease liabilities		$ 183

Other supplemental operating lease information consists of the following:

	Three Months Ended May 3, 2019
	(dollars in millions)
Cash paid for amounts included in the measurement of operating lease liabilities	16
ROU assets obtained in exchange for new operating lease obligations	11
Weighted average remaining lease term	5 years
Weighted average discount rate	4.3%

Maturities of operating lease liabilities as of May 3, 2019 were as follows:

Fiscal Year Ending	Total
	(in millions)
2020 (excluding the three months ended May 3, 2019)	$ 41
2021	45
2022	39
2023	21
2024	18
Thereafter	43
Total minimum lease payments	207
Less: imputed interest	(24)
Present value of operating lease liabilities	$ 183

As of May 3, 2019, the Company has rental commitments of $24 million for facility leases that have not yet commenced. These operating leases are expected to commence in fiscal 2020 and have a weighted average lease term of approximately 10 years.

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.

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.

Beginning in fiscal 2018, the Company entered into contracts with various vendors for long-lead time materials that would be necessary to complete the low-rate initial production (LRIP) phase of the program, including portions of the LRIP phase which had not yet been awarded. As a result of the program termination, the Company recognized an inventory provision for long-lead items. The Company is continuing to negotiate with the Marine Corps to recover all costs associated with the termination.

Agreements with Former Parent

The Company commenced its operations on September 27, 2013 (the Distribution Date) following completion of a tax-free spin-off transaction from its former parent company, Leidos Holdings, Inc. (formerly SAIC, Inc., collectively with its consolidated subsidiaries, "former Parent"). In the spin-off transaction, former Parent's technical, engineering and enterprise IT services business was separated (the separation) into an independent, publicly traded company named Science Applications International Corporation (formerly SAIC Gemini, Inc.).

Former Parent and the Company executed various agreements to provide mechanisms for an orderly transition and to govern certain ongoing relationships between the companies following the separation. The agreements include a Distribution Agreement, Employee Matters Agreement, Tax Matters Agreement, Master Transition Services Agreement, and Master Transitional Contracting Agreement (MTCA). These agreements generally provide that each party is responsible for its respective assets, liabilities and obligations, including employee benefits, insurance and tax-related assets and liabilities. The MTCA also governs the relationship between former Parent and the Company with regard to the treatment of contracts, proposals, and teaming arrangements where both companies are or will be jointly performing work after separation. Each of former Parent and the Company indemnify the other party for work performed by it under the MTCA.

Contingent losses that were unknown at the time of separation and arise from the operation of the Company's historical business or the former Parent's historical corporate losses will be shared between the parties to the extent that losses in any such category exceed $50 million in the aggregate. If they arise and exceed the $50 million threshold, the Company will be responsible for 30% of the former Parent's incremental contingent losses on corporate claims (and former Parent will be responsible for 70% of the Company's incremental losses on claims relating to operations that exceed $50 million).

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 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 fiscal 2011 and subsequent years. Although the Company has recorded contract revenues subsequent to and including fiscal 2011 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.

The Company has recorded reserves for estimated net amounts to be refunded to customers for potential adjustments for indirect cost audits and compliance with Cost Accounting Standards. As of May 3, 2019, the Company has recorded a total liability of $64 million for estimated net amounts to be refunded to customers for potential adjustments from audits of contract costs, which is presented in accounts payable and accrued liabilities on the condensed and consolidated balance sheets. Any additional amounts which may be determined to be owed for periods prior to the separation will be allocated to former Parent and the Company in proportions determined in accordance with the Distribution Agreement.

Letters of Credit and Surety Bonds

The Company has outstanding obligations relating to letters of credit of $11 million as of May 3, 2019, principally related to guarantees on insurance policies. The Company also has outstanding obligations relating to surety bonds in the amount of $18 million, principally related to performance and payment bonds on the Company's contracts.

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 the Engility and Scitor acquisitions. 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 2019 began on February 3, 2018 and ended on February 1, 2019, while fiscal 2020 began on February 2, 2019 and ends on January 31, 2020.

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 technical 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 2,200 active contracts and task orders and employ more than 23,000 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 by or owned by entities located in the United States.

Economic Opportunities, Challenges, and Risks

In fiscal year 2019, we generated greater than 95% 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 September 2018 and February 2019, when combined, provide full funding for the federal government through the end of government fiscal year (GFY) 2019. These bills are funded at increased levels for defense and non-defense spending based on a bi-partisan agreement reached in February 2018 to lift caps set by the Budget Control Act of 2011 (BCA), providing additional business opportunities for the Company. However, beyond GFY 2019, there remains uncertainty on whether, and by how much, discretionary spending will be increased above the budget caps put in place in the BCA. Without additional action in the form of another bi-partisan budget agreement to lift the BCA caps, federal expenditures would decline sharply in GFY 2020. In addition, if there were a Continuing Resolution of longer than a few months to begin GFY 2020, the effect of the BCA caps, absent a change in the law, would be to reduce spending levels through sequestration from the levels set for GFY 2019 to much lower levels set in the BCA for GFY 2020.

Adverse changes in fiscal and economic conditions could materially impact our business. Some changes that could have an adverse impact on our business include the implementation of future spending reductions (including sequestration), government shutdowns, and issues related to mandatory increases to the nation's debt ceiling (the debt ceiling was reached in March 2019, and the Treasury is now operating under "extraordinary measures" which will be exhausted in approximately October 2019).

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. We expect that a majority of the business that we seek in the foreseeable future will be awarded through a competitive bidding process.

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 contracts. We believe our long-term, trusted customer relationships and deep technical expertise provide us with the sophistication to handle highly complex, mission-critical contracts. SAIC’s 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 employee dedication and customer focus. Our current cost structure and ongoing efforts to reduce costs by strategic sourcing and developing repeatable offerings are expected to allow us to compete effectively on price in an evolving environment. Our ability to be competitive in the future will continue to be driven by our reputation for successful program execution, competitive cost structure, and efficiencies in assigning the right people, at the right time, in support of our contracts.

On January 14, 2019, we completed the acquisition of Engility Holdings, Inc. (collectively with its consolidated subsidiaries, "Engility"). The acquisition of Engility accelerates the execution of our long-term strategy to be the premier technology integrator in the government services market and deliver sustained profitable growth. The acquisition of Engility strengthens the execution of our long-term strategy by: (1) combining two leading government service providers with highly complementary capabilities, customers, and cultures; (2) accelerating both companies' long-term strategies, creating sub-segment scale in strategic business areas of national interest; and (3) enhancing shareholder value through improved cash flow and margin profile driven by cost synergies and increased growth from greater customer access with more competitive and differentiated solutions.

Management of Operating Performance and Reporting

Our business and program management process is directed by professional managers focused on satisfying our customers by providing high quality services in achieving program requirements. These managers carefully monitor contract margin performance by constantly evaluating contract risks and opportunities. Through each contract's life cycle, program managers review performance and update contract performance estimates to reflect their understanding of the best information available. For performance obligations satisfied over time, updates to estimates are recognized on inception-to-date activity, during the period of adjustment, resulting in either a favorable or unfavorable impact to operating income.

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 in these terms. 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 or materials) in order to understand operating margin because programs with a higher proportion of SAIC labor are generally more profitable. Changes in costs of revenues as a percentage of revenue 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 delivery 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 3, 2019	Percent change	May 4, 2018
		(in millions)	
Revenues	$ 1,615	37%	$ 1,175
Cost of revenues	1,435	34%	1,074
As a percentage of revenues	*88.9%*		*91.4%*
Selling, general and administrative expenses	77	120%	35
Acquisition and integration costs	10	100%	—
Operating income	93	41%	66
As a percentage of revenues	*5.8%*		*5.6%*
Net income attributable to common stockholders	$ 55	12%	$ 49
Net cash provided by operating activities	$ 178	102%	$ 88

Revenues. Revenues increased $440 million or 37.4% for the three months ended May 3, 2019 as compared to the same period in the prior year due to the acquisition of Engility. Excluding acquired revenues, revenues contracted 2.8%, attributable to humanitarian relief materials in the prior year quarter and the effect of acquisition related revenue dis-synergies.

Cost of Revenues. Cost of revenues increased $361 million for the three months ended May 3, 2019 as compared to the same period in the prior year primarily due to the acquisition of Engility. Cost of revenues as a percentage of revenues decreased from 91.4% in the prior year quarter to 88.9%, driven by cost synergies as a result of the acquisition of Engility and improved performance across our portfolio including higher net favorable changes in estimates related to performance obligations satisfied over time ($13 million).

Selling, General and Administrative Expenses. SG&A increased $42 million for the three months ended May 3, 2019 as compared to the same period in the prior year primarily due to the acquisition of Engility ($23 million) and related intangible asset amortization ($20 million).

Operating Income. Operating income as a percentage of revenues of 5.8% for the three months ended May 3, 2019 increased from 5.6% in the comparable prior year period, due to the acquisition of Engility, cost synergies related to the acquisition, and improved performance across our portfolio, partially offset by higher costs associated with the acquisition and integration of Engility.

Net Income Attributable to Common Stockholders. Net income attributable to common stockholders for the three months ended May 3, 2019 increased $6 million as compared to the same period in the prior year primarily due to increased operating income ($24 million, net of tax), partially offset by higher interest expense and a higher effective tax rate.

Net Cash Provided by Operating Activities. Net cash provided by operating activities was $178 million for the three months ended May 3, 2019, an increase of $90 million compared to the prior year, primarily due to customer collections recouped from the U.S. federal government partial shutdown that occurred in the prior quarter, strong customer collections across several programs, and cash provided from the operating activities of Engility.

Non-GAAP Measures

EBITDA and Adjusted EBITDA. Earnings before interest, taxes, depreciation and amortization (EBITDA) is a non-GAAP financial performance measure that is calculated by taking net income attributable to common stockholders and excluding interest, provision for income taxes, and depreciation and amortization. Adjusted EBITDA is calculated by taking EBITDA and excluding acquisition and integration costs that we do not consider to be indicative of our ongoing operating performance. The acquisition and integration costs relate to the Company's significant acquisition of Engility.

While we believe that these non-GAAP financial measures may be useful in evaluating our financial information, it should be considered as supplemental in nature and not as a substitute for financial information prepared in accordance with GAAP. Other companies may define similar measures differently.

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 3, 2019	May 4, 2018
	(in millions)	
Net income attributable to common stockholders	**$ 55**	$ 49
Interest expense	**25**	12
Interest income	**(1)**	(1)
Provision for income taxes	**14**	6
Depreciation and amortization	**33**	10
EBITDA	**126**	76
EBITDA as a percentage of revenues	***7.8%***	*6.5%*
Acquisition and integration costs	**10**	—
Recovery of acquisition and integration costs[1]	**(2)**	—
Adjusted EBITDA	**$ 134**	$ 76
Adjusted EBITDA as a percentage of revenues	***8.3%***	*6.5%*

(1) Adjustment to reflect the portion of acquisition and integration costs recovered through the Company's indirect rates in accordance with Cost Accounting Standards.

Adjusted EBITDA for the three months ended May 3, 2019 increased to 8.3% of revenues from 6.5% of revenues for the prior year driven by the acquisition of Engility, cost synergies related to the acquisition and improved performance across our portfolio including higher net favorable changes in estimates related to performance obligations satisfied over time.

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.

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 3, 2019	February 1, 2019
	(in millions)	
Funded backlog	$ 2,982	$ 2,753
Negotiated unfunded backlog	10,587	11,048
Total backlog	$ 13,569	$ 13,801

We had net bookings worth an estimated $1.4 billion during the three months ended May 3, 2019. Total backlog at the end of the first quarter 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 3, 2019	May 4, 2018
Cost reimbursement	57%	45%
Time and materials (T&M)	20%	27%
Firm-fixed price (FFP)	23%	28%
Total	100%	100%

Our contract mix for the three months ended May 3, 2019 reflects an increase in cost reimbursement type contracts due the acquisition of Engility, which historically had a higher proportion of cost reimbursement type contracts, and a change in contract type on a significant contract supporting the Department of Defense.

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 changes in cost mix for the periods presented:

	Three Months Ended	
	May 3, 2019	May 4, 2018
	(as a % of cost of revenues)	
Labor-related cost of revenues	**55%**	46%
Subcontractor-related cost of revenues	**29%**	32%
Supply chain materials-related cost of revenues	**12%**	16%
Other materials-related cost of revenues	**4%**	6%

Cost of revenues mix for the three months ended May 3, 2019 reflects an increase in labor-related content due to the acquisition of Engility which historically had a higher proportion of such costs.

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 $400 million Revolving Credit 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 includes 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.

Historical Cash Flow Trends

The following table summarizes our cash flows:

	Three Months Ended	
	May 3, 2019	May 4, 2018
	(in millions)	
Net cash provided by operating activities	**$ 178**	$ 88
Net cash used in investing activities	**(30)**	(6)
Net cash used in financing activities	**(234)**	(74)
Net (decrease) increase in cash, cash equivalents and restricted cash	**$ (86)**	$ 8

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 3, 2019 and the comparable prior year period.

Net Cash Used in Investing Activities. Cash used in investing activities for the three months ended May 3, 2019 increased compared to the prior year period due to purchases of marketable securities.

Net Cash Used in Financing Activities. Cash used in financing activities for the three months ended May 3, 2019 increased compared to the prior year period primarily due to $150 million of voluntary principal prepayments on the Term Loan A Facility and an increase in dividend payments to stockholders.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our condensed and consolidated financial statements, which are prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies, as well as the reported amounts of revenues, expenses, gains and losses during the reporting periods. Management evaluates these estimates and assumptions on an ongoing basis. Our estimates and assumptions have been prepared on the basis of the most current reasonably available information and, in some cases, are our basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and assumptions may change in the future as more current information is available.

Management believes that our critical accounting policies are those that are both material to the presentation of our financial condition and results of operations and require management’s most difficult, subjective and complex judgments. Typically, the circumstances that make these judgments difficult, subjective and complex have to do with making estimates about the effect of matters that are inherently uncertain.

There have been no changes to our existing critical accounting policies, other than our accounting policy on leases, during the three months ended May 3, 2019 from those disclosed in our most recently filed Annual Report on Form 10-K. We revised our accounting policy on leases in conjunction with our adoption of Accounting Standards Update No. 2016-02. See Note 10 of the notes to the condensed and consolidated financial statements contained within this report.

Recently Issued But Not Yet Adopted Accounting Pronouncements

For information on recently issued but not yet adopted accounting pronouncements, see Note 1 of the notes 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 3, 2019, 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 reasonably 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 2019 Annual Report on Form 10-K, and we have provided an update to this information in Note 11 of the notes to the condensed and consolidated financial statements contained within this report.

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 2019 Annual Report on Form 10-K, and we have also updated this information in Note 11 of the notes to the condensed and consolidated financial statements contained within this report, under the heading "Government Investigations, Audits and Reviews."

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 3, 2019:

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 2, 2019 - March 8, 2019	202,864	$ 73.36	197,878	2,000,732
March 9, 2019 - April 5, 2019	188,234	73.82	179,277	6,444,989
April 6, 2019 - May 3, 2019	218,703	74.06	213,515	6,231,474
Total	609,801	$ 73.75	590,670	

(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) On March 27, 2019, the number of shares that may be purchased increased by approximately 4.6 million shares, bringing the total authorized shares to be repurchased under the plan to approximately 16.4 million shares. As of May 3, 2019, we have repurchased approximately 10.2 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
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	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.
32.2	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.
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.

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 6, 2019

Science Applications International Corporation

/s/ Charles A. Mathis

Charles A. Mathis
Executive Vice President and Chief Financial Officer