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 July 31, 2020

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
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, 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 August 21, 2020 was as follows:

58,164,495 shares of common stock ($.0001 par value per share)

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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		Six Months Ended	
	July 31, 2020	August 2, 2019	**July 31, 2020**	August 2, 2019
	(in millions, except per share amounts)			
Revenues	**$ 1,764**	$ 1,594	**$ 3,521**	$ 3,209
Cost of revenues	**1,564**	1,409	**3,138**	2,844
Selling, general and administrative expenses	**89**	82	**165**	159
Acquisition and integration costs	**15**	8	**44**	18
Other operating income	**(4)**	—	**(4)**	—
Operating income	**100**	95	**178**	188
Interest expense	**32**	22	**63**	47
Other (income) expense, net	**(2)**	(1)	**—**	(3)
Income before income taxes	**70**	74	**115**	144
Provision for income taxes	**(17)**	(17)	**(25)**	(31)
Net income	**53**	57	**90**	113
Net income attributable to non-controlling interest	**2**	—	**3**	1
Net income attributable to common stockholders	**$ 51**	$ 57	**$ 87**	$ 112
Earnings per share:				
Basic	**$ 0.88**	$ 0.97	**$ 1.50**	$ 1.90
Diluted	**$ 0.87**	$ 0.96	**$ 1.49**	$ 1.88

See accompanying notes to condensed and consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019	July 31, 2020	August 2, 2019
	(in millions)			
Net income	$ 53	$ 57	$ 90	$ 113
Other comprehensive loss, net of tax:				
Net unrealized loss on derivative instruments	(1)	(35)	(37)	(45)
Defined benefit obligation adjustment	—	—	—	—
Total other comprehensive loss, net of tax	(1)	(35)	(37)	(45)
Comprehensive income	$ 52	$ 22	$ 53	$ 68
Comprehensive income attributable to non-controlling interest	2	—	3	1
Comprehensive income attributable to common stockholders	$ 50	$ 22	$ 50	$ 67

See accompanying notes to condensed and consolidated financial statements.

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

		July 31, 2020		January 31, 2020
		(in millions)		
ASSETS				
Current assets:				
Cash and cash equivalents	$	197	$	188
Receivables, net		1,032		1,099
Inventory, prepaid expenses and other current assets		184		143
Total current assets		1,413		1,430
Goodwill		2,789		2,139
Intangible assets, net		1,217		711
Property, plant, and equipment (net of accumulated depreciation of $169 million and $181 million at July 31, 2020 and January 31, 2020, respectively)		103		91
Operating lease right of use assets		251		190
Other assets		174		150
Total assets	$	5,947	$	4,711
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$	952	$	814
Accrued payroll and employee benefits		331		244
Long-term debt, current portion		90		70
Total current liabilities		1,373		1,128
Long-term debt, net of current portion		2,657		1,851
Operating lease liabilities		223		172
Other long-term liabilities		244		133
Commitments and contingencies (Note 12)				
Equity:				
Common stock, $.0001 par value, 1 billion shares authorized, 58 million shares issued and outstanding as of July 31, 2020 and January 31, 2020		—		—
Additional paid-in capital		996		983
Retained earnings		550		506
Accumulated other comprehensive loss		(109)		(72)
Total common stockholders' equity		1,437		1,417
Non-controlling interest		13		10
Total stockholders' equity		1,450		1,427
Total liabilities and stockholders' equity	$	5,947	$	4,711

See accompanying notes to condensed and consolidated financial statements.

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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	Non-controlling interest	Total
			(in millions)			
Balance at May 1, 2020	**58**	**$ 983**	**$ 520**	**$ (108)**	**$ 13**	**$ 1,408**
Net income	—	—	51	—	2	53
Issuances of stock	—	3	—	—	—	3
Other comprehensive loss, net of tax	—	—	—	(1)	—	(1)
Cash dividends of $0.37 per share	—	—	(21)	—	—	(21)
Stock-based compensation	—	11	—	—	—	11
Repurchases of stock	—	(1)	—	—	—	(1)
Distributions to non-controlling interest	—	—	—	—	(2)	(2)
Balance at July 31, 2020	**58**	**$ 996**	**$ 550**	**$ (109)**	**$ 13**	**$ 1,450**
Balance at January 31, 2020	**58**	**$ 983**	**$ 506**	**$ (72)**	**$ 10**	**$ 1,427**
Net income	—	—	87	—	3	90
Issuances of stock	—	6	—	—	—	6
Other comprehensive loss, net of tax	—	—	—	(37)	—	(37)
Cash dividends of $0.74 per share	—	—	(43)	—	—	(43)
Stock-based compensation	—	9	—	—	—	9
Repurchases of stock	—	(2)	—	—	—	(2)
Distributions to non-controlling interest	—	—	—	—	—	—
Balance at July 31, 2020	**58**	**$ 996**	**$ 550**	**$ (109)**	**$ 13**	**$ 1,450**
Balance at May 3, 2019	**59**	**$ 1,086**	**$ 400**	**$ (24)**	**$ 11**	**$ 1,473**
Net income	—	—	57	—	—	57
Issuances of stock	—	3	—	—	—	3
Other comprehensive loss, net of tax	—	—	—	(35)	—	(35)
Cash dividends of $0.37 per share	—	—	(22)	—	—	(22)
Stock-based compensation	—	9	—	—	—	9
Repurchases of stock	(1)	(135)	—	—	—	(135)
Distributions to non-controlling interest	—	—	—	—	(1)	(1)
Balance at August 2, 2019	**58**	**$ 963**	**$ 435**	**$ (59)**	**$ 10**	**$ 1,349**
Balance at February 1, 2019	**60**	**$ 1,132**	**$ 367**	**$ (14)**	**$ 14**	**$ 1,499**
Net income	—	—	112	—	1	113
Issuances of stock	—	6	—	—	—	6
Other comprehensive loss, net of tax	—	—	—	(45)	—	(45)
Cash dividends of $0.74 per share	—	—	(44)	—	—	(44)
Stock-based compensation	—	5	—	—	—	5
Repurchases of stock	(2)	(180)	—	—	—	(180)
Distributions to non-controlling interest	—	—	—	—	(5)	(5)
Balance at August 2, 2019	**58**	**$ 963**	**$ 435**	**$ (59)**	**$ 10**	**$ 1,349**

See accompanying notes to condensed and consolidated financial statements.

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

	Six Months Ended	
	July 31, 2020	August 2, 2019
	(in millions)	
Cash flows from operating activities:		
Net income	$ 90	$ 113
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	83	66
Amortization of off-market customer contracts	(7)	—
Amortization of debt issuance costs	12	4
Deferred income taxes	11	16
Stock-based compensation expense	19	20
Loss on divestiture	10	—
Increase (decrease) resulting from changes in operating assets and liabilities, net of the effect of the acquisition:		
Receivables	151	17
Inventory, prepaid expenses and other current assets	(15)	11
Other assets	(7)	(2)
Accounts payable and accrued liabilities	(4)	7
Accrued payroll and employee benefits	80	18
Operating lease assets and liabilities, net	(5)	—
Other long-term liabilities	53	3
Net cash provided by operating activities	471	273
Cash flows from investing activities:		
Expenditures for property, plant, and equipment	(23)	(14)
Purchases of marketable securities	(4)	(22)
Sales of marketable securities	7	2
Cash paid for acquisition	(1,202)	—
Proceeds from divestiture	1	—
Other	(2)	(3)
Net cash used in investing activities	(1,223)	(37)
Cash flows from financing activities:		
Dividend payments to stockholders	(44)	(44)
Principal payments on borrowings	(158)	(155)
Issuances of stock	6	5
Stock repurchased and retired or withheld for taxes on equity awards	(12)	(195)
Proceeds from borrowings	1,000	100
Debt issuance costs	(27)	—
Distributions to non-controlling interest	—	(5)
Net cash provided by (used in) financing activities	765	(294)
Net increase (decrease) in cash, cash equivalents and restricted cash	13	(58)
Cash, cash equivalents and restricted cash at beginning of period	202	246
Cash, cash equivalents and restricted cash at end of period	$ 215	$ 188

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 March 13, 2020, the Company completed the acquisition of Unisys Federal, a former operating unit of Unisys Corporation, which enhances our capabilities in government priority areas, expands our portfolio of intellectual property and technology-driven offerings, and increases our access to current and new customers.

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 January 31, 2020. Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Non-controlling Interest. 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 and comprehensive 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 2020 began on February 2, 2019 and ended on January 31, 2020, while fiscal 2021 began on February 1, 2020 and ends on January 29, 2021.

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.

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 July 31, 2020 and January 31, 2020, the fair value of our investments total $24 million and $27 million, respectively, and was 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 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:

	July 31, 2020	January 31, 2020
	(in millions)	
Cash and cash equivalents	$ 197	$ 188
Restricted cash included in inventory, prepaid expenses and other current assets	5	4
Restricted cash included in other assets	13	10
Cash, cash equivalents and restricted cash	$ 215	$ 202

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, employee related costs, such as severance and accelerated vesting of assumed stock awards, 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.

Divestiture

On July 3, 2020, in connection with the integration of Engility, the Company sold certain non-strategic international operations for $22 million and recognized a loss on the divestiture of $11 million, including $1 million of transaction costs. The loss is included in acquisition and integration costs on the condensed and consolidated statements of income. The Company received $1 million cash proceeds upon closing with the remaining balance due in installments through October 2021.

Accounting Standards Updates

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires entities to use a forward-looking model to estimate credit losses over the contractual term of financial assets, including short-term trade receivables and contract assets. The Company adopted ASU 2016-13 in the first quarter of fiscal 2021 using the modified retrospective approach. The adoption did not have a material impact on the Company's financial statements.

Other Accounting Standards Updates effective after July 31, 2020 are not expected to have a material effect on the Company's financial statements.

Note 2—Earnings Per Share and Dividends:

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		Six Months Ended	
	July 31, 2020	August 2, 2019	**July 31, 2020**	August 2, 2019
		(in millions)		
Basic weighted-average number of shares outstanding	**58.1**	58.6	**58.0**	59.0
Dilutive common share equivalents - stock options and other stock-based awards	**0.5**	0.5	**0.5**	0.6
Diluted weighted-average number of shares outstanding	**58.6**	59.1	**58.5**	59.6

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

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019	**July 31, 2020**	August 2, 2019
		(in millions)		
Antidilutive stock options excluded	**0.4**	0.3	**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 July 31, 2020. On August 31, 2020, the Company's Board of Directors declared a quarterly dividend of $0.37 per share of the Company's common stock payable on October 30, 2020 to stockholders of record on October 16, 2020.

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 net changes in these estimates increased operating income by $3 million ($0.04 per diluted share) for the six months ended July 31, 2020, and increased operating income by $4 million ($0.05 per diluted share) and $12 million ($0.16 per diluted share) for the three and six months ended August 2, 2019, respectively. There were no aggregate net changes in these estimates for the three months ended July 31, 2020. Changes in these estimates increased net income by $2 million for the six months ended July 31, 2020. In addition, revenues were $2 million and $6 million higher for the three and six months ended July 31, 2020, 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 vs. subcontractor to the federal government.

Disaggregated revenues by customer were as follows:

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019	**July 31, 2020**	August 2, 2019
	(in millions)			
Department of Defense	**$ 833**	$ 846	**$ 1,692**	$ 1,710
Other federal government agencies	**894**	716	**1,757**	1,438
Commercial, state and local	**37**	32	**72**	61
Total	**$ 1,764**	$ 1,594	**$ 3,521**	$ 3,209

Disaggregated revenues by contract-type were as follows:

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019	**July 31, 2020**	August 2, 2019
	(in millions)			
Cost reimbursement	**$ 937**	$ 918	**$ 1,907**	$ 1,839
Time and materials (T&M)	**402**	321	**776**	646
Firm-fixed price (FFP)	**425**	355	**838**	724
Total	**$ 1,764**	$ 1,594	**$ 3,521**	$ 3,209

Disaggregated revenues by prime vs. subcontractor were as follows:

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019	**July 31, 2020**	August 2, 2019
	(in millions)			
Prime contractor to federal government	**$ 1,593**	$ 1,405	**$ 3,181**	$ 2,839
Subcontractor to federal government	**134**	157	**268**	309
Other	**37**	32	**72**	61
Total	**$ 1,764**	$ 1,594	**$ 3,521**	$ 3,209

Contract Balances

Contract balances for the periods presented were as follows:

	Balance Sheet line item	July 31, 2020	January 31, 2020
		(in millions)	
Billed and billable receivables, net[1]	Receivables, net	$ 649	$ 720
Contract assets - unbillable receivables	Receivables, net	383	379
Contract assets - contract retentions	Other assets	18	17
Contract liabilities - current	Accounts payable and accrued liabilities	96	41
Contract liabilities - non-current	Other long-term liabilities	$ 13	$ 10

(1) Net of allowance of $3 million and $4 million as of July 31, 2020 and January 31, 2020, respectively.

During the six months ended July 31, 2020 and August 2, 2019, the Company recognized revenues of $22 million and $19 million relating to amounts that were included in the opening balance of contract liabilities as of January 31, 2020 and February 1, 2019, respectively. During the three months ended July 31, 2020 and August 2, 2019, the Company recognized revenues of $5 million and $6 million relating to amounts that were included in the opening balance of contract liabilities as of January 31, 2020 and February 1, 2019, respectively.

Deferred Costs

Deferred costs for the periods presented were as follows:

	Balance Sheet line item	July 31, 2020	January 31, 2020
		(in millions)	
Pre-contract costs	Inventory, prepaid expenses and other current assets	$ 1	$ 3
Fulfillment costs - non-current	Other assets	$ 14	$ 12

Pre-contract costs of $2 million and $5 million were expensed during the three and six months ended July 31, 2020, respectively, and $1 million were expensed during the six months ended August 2, 2019. Fulfillment costs of $1 million and $2 million were amortized during the three and six months ended July 31, 2020, respectively, and $1 million and $2 million were amortized during the three and six months ended August 2, 2019, respectively.

Remaining Performance Obligations

As of July 31, 2020, the Company had $4.6 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—Acquisitions:

On March 13, 2020, the Company completed the acquisition of Unisys Federal, a former operating unit of Unisys Corporation. Unisys Federal provides infrastructure modernization, cloud migration, managed services, and enterprise IT-as-a-service solutions to U.S. federal civilian agencies and the Department of Defense. This strategic acquisition enhances our capabilities in government priority areas, expands our portfolio of intellectual property and technology-driven offerings, and increases our access to current and new customers. The Company purchased substantially all of the assets and liabilities of Unisys Federal for an aggregate purchase price of $1.2 billion. The Company used the net proceeds from its offering of Senior Notes and borrowings under the Term Loan B2 Facility (as discussed in Note 7), proceeds from the sale of receivables under its MARPA Facility (as discussed in Note 10), and cash on its balance sheet to finance the acquisition and pay related fees and expenses.

The purchase price was allocated, on a preliminary basis, among assets acquired and liabilities assumed at fair value on the acquisition date, March 13, 2020, based on the best available information, with the excess purchase price recorded as goodwill. The fair values of the non-financial assets acquired and liabilities assumed were preliminarily determined using income, market and cost valuation methodologies. The fair value measurements were estimated using significant inputs that are not observable in the market and thus represent a Level 3 measurement. As of July 31, 2020, the Company had not finalized the determination of fair values allocated to various assets and liabilities, including, but not limited to, receivables, intangible assets, property, plant, and equipment, other assets, accounts payable and accrued liabilities, off-market customer contracts, 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, property, plant, and equipment, lease arrangements, deferred income taxes, contracts with customers, receivables, and deferred revenue.

The Company expects to have sufficient information available to resolve these items by the first quarter of fiscal 2022, which could potentially result in changes in assets or liabilities on Unisys Federal’s opening balance sheet and an adjustment to goodwill.

During the second quarter of fiscal 2021, the Company made adjustments to the preliminary purchase price resulting in a $41 million increase to goodwill. The measurement period adjustments included: $6 million increase to the purchase price associated with final net working capital adjustment; $67 million increase to other long-term liabilities associated with off-market customer contracts; $26 million net increase to intangible assets; and, $6 million increase to deferred tax assets. The resulting impact to the Company’s condensed and consolidated statements of income for the three months ended July 31, 2020 was a $6 million increase to selling, general and administrative expenses associated with the change in amortization expense due to the incremental value assigned to our intangible assets, of which $2 million relates to the first quarter of fiscal 2021.

The adjusted preliminary purchase price allocation is as follows:

		(in millions)
Receivables	$	114
Inventory, prepaid expenses and other current assets		14
Goodwill		656
Intangible assets		574
Property, plant, and equipment		4
Operating lease right of use assets		43
Other assets		7
Total assets acquired		1,412
Accounts payable and accrued liabilities		105
Accrued payroll and employee benefits		7
Operating lease liabilities		30
Other long-term liabilities		68
Total liabilities assumed		210
Net assets acquired	$	1,202
Amount of tax deductible goodwill	$	595

Goodwill resulting from the acquisition of Unisys Federal was primarily associated with intellectual capital, an acquired assembled work force, and future customer relationships. The identifiable intangible assets and goodwill acquired by the Company are amortizable for tax purposes.

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

	Amount	Weighted-Average Amortization Period
	(in millions)	(in years)
Customer relationships	$ 520	13
Backlog	47	1
Developed technology	7	1
Total intangible assets	$ 574	12

The backlog intangible asset is comprised solely of funded backlog as of the acquisition date. The customer relationships intangible asset consists of unfunded backlog as of the acquisition date and estimated future renewals and recompetes. The backlog and customer relationships intangible assets were valued using the excess earnings method (income approach) in which the value is derived from an estimation of the after-tax cash flows specifically attributable to the intangible asset being valued. The analysis included assumptions for projections of revenues and expenses, tax rates, contributory asset charges, discount rates, and a tax amortization benefit.

The developed technology asset was valued using the relief from royalty method (income approach) in which the value is derived by estimation of the after-tax royalty savings attributable to owning the developed technology asset. Assumptions in this analysis included projections of revenues, royalty rates representing costs avoided due to ownership of the developed technology asset, discount rates, a tax amortization benefit, and future obsolescence of the technology.

The Company recorded a $67 million provision for certain off-market customer contracts whose terms are unfavorable compared to the current market terms as of the acquisition date. An income approach was used to estimate fair value, involving estimates for future costs to complete the remaining performance under the contract as well as a market participant profit rate of return. The provision for off-market customer contracts is included in other long-term liabilities and will be amortized over the remaining contractual terms as an increase to revenue. Amortization for the three and six months ended July 31, 2020 is $7 million, of which $2 million relates to the first quarter of fiscal 2021. Amortization for the next five years is expected to be as follows: $8 million in the remainder of 2021, $18 million in 2022, $18 million in 2023, $14 million in 2024 and $2 million in 2025.

The Company incurred $49 million in acquisition-related costs associated with the acquisition of Unisys Federal, including $27 million of debt issue costs (as discussed in Note 7).

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

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019	**July 31, 2020**	August 2, 2019
		(in millions)		
Acquisition[1]	**$ —**	$ —	**$ 20**	$ —
Integration[2][3]	**15**	8	**24**	18
Total acquisition and integration costs	**$ 15**	$ 8	**$ 44**	$ 18

(1) Acquisition expenses recognized for the six months ended July 31, 2020 are related to the acquisition of Unisys Federal.
(2) Includes restructuring costs of $4 million for the six months ended July 31, 2020, and $2 million and $6 million for the three and six months ended August 2, 2019, respectively.
(3) Integration expenses for the three and six months ended July 31, 2020 include an $11 million loss associated with the divestiture of non-strategic international operations (see Note 1).

The amount of Unisys Federal's revenue included in the condensed and consolidated statements of income for the three and six months ended July 31, 2020 was $175 million and $279 million, respectively, and the amount of net income attributable to common stockholders included in the condensed and consolidated statements of income for the three and six months ended July 31, 2020 was $8 million and $19 million, respectively.

The following unaudited pro forma financial information presents the combined results of operations for Unisys Federal and the Company for the three and six months ended July 31, 2020 and August 2, 2019, respectively:

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019	**July 31, 2020**	August 2, 2019
		(in millions)		
Revenues	**$ 1,764**	$ 1,779	**$ 3,611**	$ 3,535
Net income attributable to common stockholders	**$ 62**	$ 53	**$ 115**	$ 92

The unaudited pro forma combined financial information presented above has been prepared from historical financial statements that have been adjusted to give effect to the acquisition of Unisys Federal as though it had occurred on February 2, 2019. They include adjustments for intangible asset amortization; interest expense and debt issuance costs on long-term debt; acquisition and other transaction costs; and certain costs allocated from the former parent. The unaudited pro forma financial information is not intended to reflect the actual results of operations that would have occurred if the acquisition had occurred on February 2, 2019, nor is it indicative of future operating results.

Note 5—Goodwill and Intangible Assets:

Goodwill

Goodwill had a carrying value of $2,789 million and $2,139 million as of July 31, 2020 and January 31, 2020, respectively. Goodwill increased by $650 million during the six months ended July 31, 2020 due to the acquisition of Unisys Federal ($656 million) as discussed in Note 4, partially offset by goodwill allocated to the divestiture of non-strategic international operations ($6 million) as discussed in Note 1. There were no impairments of goodwill during the periods presented.

Intangible Assets

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

	July 31, 2020			January 31, 2020		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
	(in millions)					
Customer relationships	$ 1,371	$ (189)	$ 1,182	$ 851	$ (142)	$ 709
Backlog	47	(18)	29	—	—	—
Developed technology	9	(3)	6	2	—	2
Total intangible assets	$ 1,427	$ (210)	$ 1,217	$ 853	$ (142)	$ 711

Amortization expense related to intangible assets was $42 million and $68 million for the three and six months ended July 31, 2020, respectively, and $24 million and $49 million for the three and six months ended August 2, 2019, respectively. There were no intangible asset impairment losses during the periods presented.

As of July 31, 2020, the estimated future annual amortization expense related to intangible assets is as follows:

Fiscal Year Ending	(in millions)
Remainder of 2021	$ 79
2022	110
2023	106
2024	103
2025	103
Thereafter	716
Total	$ 1,217

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 24.9% and 22.0% for the three and six months ended July 31, 2020, respectively, and 23.3% and 21.6% for the three and six months ended August 2, 2019, respectively. The Company's effective tax rate was higher for the three and six months ended July 31, 2020 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 July 31, 2020 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, and other permanent book tax differences.

As of July 31, 2020, the balance of unrecognized tax benefits included liabilities for uncertainty in income taxes of $56 million, which is classified as other long-term liabilities on the condensed and consolidated balance sheets. Of this balance, $55 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, over the next 12 months the Company does not expect a significant increase or decrease in the unrecognized tax benefits recorded at July 31, 2020.

Note 7—Debt Obligations:

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

	July 31, 2020					January 31, 2020		
	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	1.91 %	2.24 %	$ 878	$ (8)	$ 870	$ 904	$ (9)	$ 895
Term Loan B Facility due October 2025	2.04 %	2.23 %	1,032	(10)	1,022	1,037	(11)	1,026
Term Loan B2 Facility due March 2027	2.41 %	2.84 %	473	(12)	461	—	—	—
Senior Notes due April 2028	4.88 %	5.04 %	400	(6)	394	—	—	—
Total long-term debt			$ 2,783	$ (36)	$ 2,747	$ 1,941	$ (20)	$ 1,921
Less current portion			90	—	90	70	—	70
Total long-term debt, net of current portion			$ 2,693	$ (36)	$ 2,657	$ 1,871	$ (20)	$ 1,851

As of July 31, 2020, the Company has a $2.8 billion credit facility (the Credit Facility) consisting of a $400 million secured Revolving Credit Facility due October 2023, an $878 million secured Term Loan A Facility due October 2023, a $1,032 million secured Term Loan B Facility due October 2025, and a $473 million secured Term Loan B2 Facility due March 2027 (together, the Term Loan Facilities). During the three months ended July 31, 2020, the Company made $125 million of voluntary principal prepayments on the Term Loan B2 Facility due March 2027. There is no balance outstanding on the Revolving Credit Facility as of July 31, 2020. As of July 31, 2020, the Company was in compliance with the covenants under its Credit Facility.

On March 13, 2020, the Company entered into the Second Amendment to the Third Amended and Restated Credit Agreement (Second Amendment), which established, among other things, a new $600 million senior secured term loan "B" credit facility commitment (the Term Loan B2 Facility due March 2027) that was funded in full contemporaneously with the closing of the acquisition of Unisys Federal (see Note 4). The Term Loan B2 Facility due March 2027 bears interest at a variable rate of interest based on LIBOR or a base rate, plus, an applicable margin of 2.25% for LIBOR loans and 1.25% for base rate loans. Effective upon funding the Term Loan B2 Facility due March 2027, the applicable margin for the Term Loan B Facility due October 2025 was increased from 1.75% to 1.875% for LIBOR loans and from 0.75% to 0.875% for Base Rate loans.

Borrowings under the Term Loan B2 Facility due March 2027 amortize quarterly beginning on July 31, 2020 at 0.25% of the original borrowed amount with the remaining unamortized balance due in full upon its maturity, March 13, 2027. The Term Loan B2 Facility due March 2027 is subject to the same mandatory prepayments as the Company's existing term loans under the Credit Facility and is subject to the same covenants and events of default as the Company's Term Loan B Facility due October 2025. In the event any portion of the Term Loan B2 Facility due March 2027 is repaid prior to September 13, 2020 with the proceeds of certain types of new indebtedness, the Company will be required to pay a 1.00% fee of the amount repaid.

On March 13, 2020, to partially finance the acquisition of Unisys Federal, the Company issued $400 million of unsecured 4.875% Senior Notes due 2028 (the Senior Notes) through a private offering. Interest is payable semi-annually on April 1 and October 1 of each year, commencing on October 1, 2020, and the principal is due on April 1, 2028.

The Company incurred $27 million of debt issue costs associated with the Second Amendment, the issuance of the Senior Notes, and an undrawn bridge facility that terminated upon the consummation of the acquisition of Unisys Federal. The Company deferred $22 million of financing fees and recognized $5 million of expenses associated with the undrawn bridge facility, which is included in interest expense. Deferred financing fees are amortized to interest expense utilizing the effective interest method.

As of July 31, 2020 and January 31, 2020, 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.

Maturities of long-term debt as of July 31, 2020 are:

Fiscal Year Ending		Total
		(in millions)
Remainder of 2021	$	42
2022		72
2023		154
2024		668
2025		16
Thereafter		1,831
Total principal payments	$	2,783

Subsequent to the end of the second quarter of fiscal 2021, the Company made $100 million of voluntary principal prepayments on the Term Loan B2 Facility due March 2027.

Note 8—Derivative Instruments Designated as Cash Flow Hedges:

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

	Notional Amount at July 31, 2020	Pay Fixed Rate	Receive Variable Rate	Settlement and Termination	Liability Fair Value[1] at July 31, 2020	Liability Fair Value[1] at January 31, 2020
	(in millions)				(in millions)	
Interest rate swaps #1	$ 262	2.78 %	1-month LIBOR	Monthly through July 30, 2021	$ (6)	$ (6)
Interest rate swaps #2	500	3.07 %	1-month LIBOR	Monthly through October 31, 2025	(94)	(62)
Interest rate swaps #3	550	2.49 %	1-month LIBOR	Monthly through October 31, 2023	(40)	(24)
Total	$ 1,312				$ (140)	$ (92)

(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 $35 million of unrealized losses from accumulated other comprehensive loss into earnings in the twelve months following July 31, 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 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 July 31, 2020			
Balance at May 1, 2020	$ (103)	$ (5)	$ (108)
Other comprehensive loss before reclassifications	(10)	—	(10)
Amounts reclassified from accumulated other comprehensive loss	8	—	8
Income tax impact	1	—	1
Net other comprehensive loss	(1)	—	(1)
Balance at July 31, 2020	**$ (104)**	**$ (5)**	**$ (109)**
Three months ended August 2, 2019			
Balance at May 3, 2019	$ (24)	$ —	$ (24)
Other comprehensive loss before reclassifications	(47)	—	(47)
Amounts reclassified from accumulated other comprehensive loss	—	—	—
Income tax impact	12	—	12
Net other comprehensive loss	(35)	—	(35)
Balance at August 2, 2019	**$ (59)**	**$ —**	**$ (59)**
Six months ended July 31, 2020			
Balance at January 31, 2020	$ (67)	$ (5)	$ (72)
Other comprehensive loss before reclassifications	(62)	—	(62)
Amounts reclassified from accumulated other comprehensive loss	12	—	12
Income tax impact	13	—	13
Net other comprehensive loss	(37)	—	(37)
Balance at July 31, 2020	**$ (104)**	**$ (5)**	**$ (109)**
Six months ended August 2, 2019			
Balance at February 1, 2019	$ (14)	$ —	$ (14)
Other comprehensive loss before reclassifications	(61)	—	(61)
Amounts reclassified from accumulated other comprehensive loss	—	—	—
Income tax impact	16	—	16
Net other comprehensive loss	(45)	—	(45)
Balance at August 2, 2019	**$ (59)**	**$ —**	**$ (59)**

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

Note 10—Sales of Receivables

On January 21, 2020 the Company entered into a Master Accounts Receivable Purchase Agreement (MARPA Facility) with MUFG Bank, Ltd. (the Purchaser), for the sale of certain designated eligible receivables with the U.S. government. Under the MARPA Facility, the Company can sell eligible receivables up to a maximum amount of $200 million. On March 17, 2020 the Company amended the MARPA Facility to increase the aggregate facility limit from $200 million to $300 million. The receivables sold under the MARPA Facility are without recourse for any U.S. government credit risk. The MARPA Facility has an initial term of one year.

The Company accounts for these receivable transfers under the MARPA Facility as sales under Accounting Standards Codification (ASC) 860, Transfers and Servicing, and removes the sold receivables from its balance sheet. The fair value of the sold receivables approximated their book value due to their short-term nature.

The Company does not retain an ongoing financial interest in the transferred receivables other than cash collection and administrative services. The Company estimated that its servicing fee was at fair value and therefore has not recognized a servicing asset or liability as of July 31, 2020. Proceeds from the sale of receivables are reflected as cash flows from operating activities on the condensed and consolidated statement of cash flows.

During the six months ended July 31, 2020, the Company incurred purchase discount fees of $1 million, which are presented in Other (income) expense, net on the condensed and consolidated statement of income.

MARPA Facility activity consisted of the following:

	Six Months Ended July 31, 2020
	(in millions)
Beginning balance	$ —
Sale of receivables	1,624
Cash collections	(1,424)
Increase to cash flows from operating activities	200
Cash collected, not remitted to Purchaser(1)	(14)
Remaining sold receivables	$ 186

(1) Includes the cash collected on behalf of but not yet remitted to the Purchaser as of July 31, 2020. This balance is included in accounts payable and accrued liabilities on the condensed and consolidated balance sheet as of July 31, 2020.

Note 11—Leases:

Total operating lease cost is comprised of the following:

	Statement of Income line item(s)	Three Months Ended July 31, 2020	Three Months Ended August 2, 2019	Six Months Ended July 31, 2020	Six Months Ended August 2, 2019
		(in millions)			
Operating lease cost	Cost of revenues and Selling, general and administrative expenses	$ 18	$ 17	$ 35	$ 33
Variable lease cost	Cost of revenues and Selling, general and administrative expenses	6	3	11	7
Short-term lease cost	Cost of revenues and Selling, general and administrative expenses	9	1	15	2
Sublease income	Selling, general and administrative expenses	(1)	(1)	(2)	(2)
Total lease cost		$ 32	$ 20	$ 59	$ 40

The Company's right of use (ROU) assets and lease liabilities consisted of the following:

	Balance Sheet line item	July 31, 2020	January 31, 2020
		(in millions)	
Operating lease ROU asset	Operating lease right of use assets	$ 251	$ 190
Operating lease current liability	Accounts payable and accrued liabilities	47	34
Operating lease non-current liability	Operating lease liabilities	223	172
Total operating lease liabilities		$ 270	$ 206

Other supplemental operating lease information consists of the following:

	Six Months Ended	
	July 31, 2020	August 2, 2019
	(in millions)	
Cash paid for amounts included in the measurement of operating lease liabilities	$ 39	$ 33
ROU assets obtained in exchange for new operating lease obligations	$ 90	$ 43

Maturities of operating lease liabilities as of July 31, 2020 were as follows:

Fiscal Year Ending	Total
	(in millions)
Remainder of 2021	$ 18
2022	72
2023	53
2024	44
2025	35
Thereafter	80
Total minimum lease payments	302
Less: imputed interest	(32)
Present value of operating lease liabilities	$ 270

As of July 31, 2020, the weighted-average remaining lease term and the weighted-average discount rate was 5 years and 3.6%, respectively.

The Company leases IT equipment and hardware to its customers. All of the Company’s lessor arrangements are operating leases. The Company accounts for lease and non-lease components as a single performance obligation when the timing and pattern of transfer are the same. Operating lease revenue is recognized on a straight-line basis over the term of the lease.

For the three and six months ended July 31, 2020, operating lease income was $11 million and $17 million, respectively, and variable lease income was $7 million and $10 million, respectively. Operating and variable lease income are reported as revenue on the condensed and consolidated statements of income.

Note 12—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 during fiscal 2019. The Company is continuing to negotiate with the Marine Corps to recover all costs associated with the termination.

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.

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 July 31, 2020, the Company has recorded a total liability of $48 million which is presented in accounts payable and accrued liabilities on the condensed and consolidated balance sheets.

Letters of Credit and Surety Bonds

The Company has outstanding obligations relating to letters of credit of $10 million as of July 31, 2020, 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 Unisys Federal 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 2020 began on February 2, 2019 and ended on January 31, 2020, while fiscal 2021 began on February 1, 2020 and ends on January 29, 2021.

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 1,800 active contracts and task orders and employ 26,000 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 2020, 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 December 2019 provide full funding for the federal government through the end of government fiscal year (GFY) 2020. These bills are funded at increased levels for defense and non-defense spending based on the August 2019 Bipartisan Budget Act agreement that raises the Budget Control Act spending caps enacted in August 2011 and suspends the Federal debt ceiling until July 31, 2021.

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) and government shutdowns. Currently, no appropriations measures have been enacted for GFY 2021, which begins October 1, 2020. While there are strong indications that the government is likely to be funded for several months on a continuing resolution (CR), as has been a common practice in recent years, a political impasse resulting in a shutdown of some length could negatively affect our business interests.

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 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. 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 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. 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.

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.

On March 13, 2020, we completed the acquisition of Unisys Federal, a former operating unit of Unisys Corporation. The acquisition of Unisys Federal, in alignment with our long-term strategy, positions SAIC as a leading government services technology integrator in digital transformation. The acquisition of Unisys Federal: (1) enhances SAIC's capabilities in government priority areas, including IT modernization, cloud migration, managed services, and development, security and operations; (2) expands SAIC's portfolio of intellectual property and technology-driven offerings that enable government-tailored, commercial-based solutions; (3) increases SAIC's access to current and new customers with a strong pipeline of new business opportunities; and (4) is highly accretive across all key financial metrics.

Impacts of the COVID-19 Pandemic

We are continuing to monitor the ongoing outbreak of the coronavirus disease 2019 (COVID-19) and we continue to work with our stakeholders to assess further possible implications to our business, supply chain and customers, and to take actions in an effort to mitigate adverse consequences. As travel restrictions and social distancing advisories began to be implemented in March, we instructed our workforce to begin to work remotely to the extent possible. While a majority of our workforce is able to work remotely, some employees must still travel to client or company facilities in order to work. Reduced activity on contracts, including travel and other direct costs, caused revenues to be approximately $110 million lower for the six months ended July 31, 2020.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was passed by Congress and signed by the President on March 27, 2020, provides a mechanism to recover our labor costs where our employees are ready and able to work but unable to access required facilities due to COVID-19. We are generally not able to bill profit on those costs and, in some cases, funding limitations and the necessity for contract modifications may cause us not to be able to recover all of the labor costs. As a result, operating income for the six months ended July 31, 2020 was reduced by approximately $16 million. We continue to work with our customers to implement the related provisions of the CARES Act. However, this relief provision will expire with the September 30, 2020 close of GFY 2020. If Congress does not extend this program, our revenue and operating income may be adversely impacted.

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			Six Months Ended		
	July 31, 2020	Percent change	August 2, 2019	**July 31, 2020**	Percent change	August 2, 2019
Revenues	**$ 1,764**	*11 %*	$ 1,594	**$ 3,521**	*10 %*	$ 3,209
Cost of revenues	**1,564**	*11 %*	1,409	**3,138**	*10 %*	2,844
As a percentage of revenues	***88.7 %***		*88.4 %*	***89.1 %***		*88.6 %*
Selling, general and administrative expenses	**89**	*9 %*	82	**165**	*4 %*	159
Acquisition and integration costs	**15**	*88 %*	8	**44**	*144 %*	18
Other operating income	**(4)**	*100 %*	—	**(4)**	*100 %*	—
Operating income	**100**	*5 %*	95	**178**	*(5 %)*	188
As a percentage of revenues	***5.7 %***		*6.0 %*	***5.1 %***		*5.9 %*
Net income attributable to common stockholders	**$ 51**	*(11 %)*	$ 57	**$ 87**	*(22 %)*	$ 112
Net cash provided by operating activities	**$ 104**	*9 %*	$ 95	**$ 471**	*73 %*	$ 273

Revenues. Revenues increased $170 million or 10.7% for the three months ended July 31, 2020 as compared to the same period in the prior year due to the acquisition of Unisys Federal ($175 million), revenue on new contracts primarily supporting the intelligence community and U.S. Air Force ($28 million), and increased volume on existing programs ($48 million), partially offset by the impacts of COVID-19 ($65 million) and completion of contracts ($18 million). Adjusting for the impact of acquired revenues, revenues contracted 0.7% primarily due to the impacts of COVID-19.

Revenues increased $312 million or 9.7% for the six months ended July 31, 2020 as compared to the same period in the prior year due to the acquisition of Unisys Federal ($279 million), revenue on new contracts primarily supporting the intelligence community and U.S. Air Force ($68 million), and increased volume on existing programs ($115 million), partially offset by the impacts of COVID-19 ($110 million) and completion of contracts ($39 million). Adjusting for the impact of acquired revenues, revenues grew 1.1% primarily attributable to new awards and net increases in program volume.

Cost of Revenues. Cost of revenues increased $155 million for the three months ended July 31, 2020 as compared to the same period in the prior year primarily due to the acquisition of Unisys Federal. Cost of revenues as a percentage of revenues increased from 88.4% in the prior year quarter to 88.7%, due to the impacts of COVID-19.

Cost of revenues increased $294 million for the six months ended July 31, 2020 as compared to the same period in the prior year primarily due to the acquisition of Unisys Federal. Cost of revenues as a percentage of revenues increased from 88.6% in the prior year quarter to 89.1%, due to the impacts of COVID-19 and lower net profit write-ups.

Selling, General and Administrative Expenses. SG&A increased $7 million for the three months ended July 31, 2020 as compared to the same period in the prior year primarily due to the acquisition of Unisys Federal and increased intangible asset amortization, partially offset by lower indirect expenses and gains related to the resolution of certain legal matters.

SG&A increased $6 million for the six months ended July 31, 2020 as compared to the same period in the prior year primarily due to the acquisition of Unisys Federal and increased intangible asset amortization, partially offset by lower indirect expenses and gains related to the resolution of certain legal matters.

Operating Income. Operating income as a percentage of revenues of 5.7% for the three months ended July 31, 2020 decreased from 6.0% in the comparable prior year period due to increased intangible asset amortization and the impacts of COVID-19, partially offset by gains related to the resolution of certain legal and other program contract matters and lower indirect costs.

Operating income as a percentage of revenues decreased to 5.1% for the six months ended July 31, 2020 from 5.9% in the comparable prior year period primarily due to higher acquisition and integration costs, increased intangible asset amortization, and the impacts of COVID-19, partially offset by gains related to the resolution of certain legal and other program contract matters, lower indirect costs, and the acquisition of Unisys Federal.

Net Income Attributable to Common Stockholders. Net income attributable to common stockholders for the three months ended July 31, 2020 decreased $6 million as compared to the same period in the prior year primarily due to higher interest expense, partially offset by increased operating income ($4 million, net of tax).

Net income attributable to common stockholders for the six months ended July 31, 2020 decreased $25 million as compared to the same period in the prior year due to higher interest expense and decreased operating income ($8 million, net of tax).

Net Cash Provided by Operating Activities. Net cash provided by operating activities was $471 million for the six months ended July 31, 2020, an increase of $198 million compared to the prior year, primarily due to sales of receivables under the MARPA Facility ($200 million), cash provided from the operating activities of Unisys Federal, and benefit from the deferral of payroll tax payments afforded by the CARES Act. These increases were partially offset by higher customer collections in the prior year period recouped from the U.S. federal government partial shutdown that occurred in the fourth quarter of fiscal 2019 and delays in billing COVID-19 related stand ready contract costs.

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 and excluding interest and loss on sale of receivables, 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 acquisitions of Engility and Unisys Federal.

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		Six Months Ended	
	July 31, 2020	August 2, 2019	**July 31, 2020**	August 2, 2019
Net income	**$ 53**	$ 57	**$ 90**	$ 113
Interest expense and loss on sale of receivables	**32**	22	**64**	47
Interest income	**—**	(1)	**(1)**	(2)
Provision for income taxes	**17**	17	**25**	31
Depreciation and amortization	**50**	33	**83**	66
EBITDA	**152**	128	**261**	255
EBITDA as a percentage of revenues	***8.6 %***	*8.0 %*	***7.4 %***	*7.9 %*
Acquisition and integration costs	**15**	8	**44**	18
Recovery of acquisition and integration costs(1)	**—**	(2)	**(1)**	(4)
Adjusted EBITDA	**$ 167**	$ 134	**$ 304**	$ 269
Adjusted EBITDA as a percentage of revenues	***9.5 %***	*8.4 %*	***8.6 %***	*8.4 %*

(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 as a percentage of revenues for the three months ended July 31, 2020 increased to 9.5% of revenues from 8.4% of revenues for the prior year quarter driven by gains related to the resolution of certain legal and program contract matters and lower indirect costs across the portfolio, partially offset by the impacts of COVID-19.

Adjusted EBITDA as a percentage of revenues for the six months ended July 31, 2020 increased to 8.6% of revenues from 8.4% of revenues for the prior year driven by gains related to the resolution of certain legal and program contract matters, lower indirect costs across the portfolio, and the acquisition of Unisys Federal, partially offset by the impacts of COVID-19.

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:

	July 31, 2020	January 31, 2020
	(in millions)	
Funded backlog	$ 3,144	$ 2,569
Negotiated unfunded backlog	16,280	12,748
Total backlog	$ 19,424	$ 15,317

We had net bookings worth an estimated $4.6 billion and $6.2 billion during the three and six months ended July 31, 2020, respectively. Total backlog at the end of the second quarter has increased compared to total backlog at prior year end primarily due to a $2.9 billion award received during the period to provide mission engineering, integration, software development, and other lifecycle support to the U.S. Army. In addition, $1.5 billion of acquired backlog from Unisys Federal was recorded as an increase to backlog as of the acquisition date.

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:

	Six Months Ended	
	July 31, 2020	August 2, 2019
Cost reimbursement	54 %	57 %
Time and materials (T&M)	22 %	20 %
Firm-fixed price (FFP)	24 %	23 %
Total	100 %	100 %

Our contract mix for the six months ended July 31, 2020 reflects a decrease in cost reimbursement type contracts due the acquisition of Unisys Federal, which historically had a higher proportion of firm-fixed price and time and materials type contracts.

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		Six Months Ended	
	July 31, 2020	August 2, 2019	**July 31, 2020**	August 2, 2019
Labor-related cost of revenues	**56 %**	55 %	**56 %**	55 %
Subcontractor-related cost of revenues	**30 %**	30 %	**30 %**	29 %
Supply chain materials-related cost of revenues	**7 %**	10 %	**8 %**	11 %
Other materials-related cost of revenues	**7 %**	5 %	**6 %**	5 %

Cost of revenues mix for the three and six months ended July 31, 2020 reflects an increase in other materials-related content primarily due to the acquisition of Unisys Federal, which historically had a higher proportion of such costs, and a decrease in supply chain materials-related content.

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 and $300 million receivable factoring 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:

	Six Months Ended	
	July 31, 2020	August 2, 2019
	(in millions)	
Net cash provided by operating activities	**$ 471**	$ 273
Net cash used in investing activities	**(1,223)**	(37)
Net cash provided by (used in) financing activities	**765**	(294)
Net increase (decrease) in cash, cash equivalents and restricted cash	**$ 13**	$ (58)

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 six months ended July 31, 2020 and the comparable prior year period.

Net Cash Used in Investing Activities. Cash used in investing activities for the six months ended July 31, 2020 increased compared to the prior year period due to cash paid for the acquisition of Unisys Federal and higher capital expenditures for property, plant, and equipment, partially offset by lower purchases of marketable securities.

Net Cash Provided by Financing Activities. Cash provided by financing activities for the six months ended July 31, 2020 increased compared to the prior year period primarily due to proceeds from borrowings obtained to finance the Unisys Federal acquisition and the absence of share repurchases under our publicly announced repurchase program in the current year period. These changes were partially offset by current year period payments of debt issuance costs related to the additional borrowings.

Contractual Obligations

The table provided below has been included as an update to the contractual obligations table included in our most recently filed Annual Report on Form 10-K to add certain obligations related to the Unisys Federal acquisition. Other than the updates presented below, there have been no material changes to the information reported in our most recently filed Annual Report. The amounts provided in the following table are presented as of July 31, 2020.

	Payments Due by Fiscal Year				
	Total	Remainder of fiscal 2021	2022-2023	2024-2025	2026 and thereafter
	(in millions)				
Contractual obligations:					
Long-term debt including current portion[1]	$ 2,783	$ 42	$ 226	$ 684	$ 1,831
Interest payments on long-term debt[2]	392	36	132	113	111
Operating lease obligations	302	18	125	79	80
Total contractual obligations	$ 3,477	$ 96	$ 483	$ 876	$ 2,022

(1) The amounts presented are based on an anticipated loan repayment schedule. However, we may be required to make certain mandatory prepayments based on our level of cash flow generation and we also have the option to prepay loan principal amounts at any time.

(2) Amounts include an estimate of future variable interest payments on the Term Loan Facilities based on scheduled outstanding principal amounts, current applicable margin and projected 1-month LIBOR as of July 31, 2020. In addition, the above table excludes the effects of interest rate swaps used to hedge against changes in 1-month LIBOR.

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 during the six months ended July 31, 2020 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 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 July 31, 2020 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 2020 Annual Report on Form 10-K, and we have provided an update to this information in Note 12 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 2020 Annual Report on Form 10-K, and we have also updated this information in Note 12 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 July 31, 2020:

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)
May 2, 2020 - June 5, 2020	2,937	$ 83.01	—	4,650,939
June 6, 2020 - July 3, 2020	—	—	—	4,650,939
July 4, 2020 - July 31, 2020	—	—	—	4,650,939
Total	2,937	$ 83.01	—	

(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 July 31, 2020, we have repurchased approximately 11.8 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.
104	The cover page from this Quarterly Report on Form 10-Q, formatted as Inline XBRL.

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: September 2, 2020

Science Applications International Corporation

/s/ Charles A. Mathis

Charles A. Mathis
Executive Vice President and Chief Financial Officer

Exhibit 31.1

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 July 31, 2020 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: September 2, 2020

/s/ Nazzic S. Keene

Nazzic S. Keene
Chief Executive Officer

Exhibit 31.2

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Charles A. Mathis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended July 31, 2020 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: September 2, 2020

/S/ Charles A. Mathis

Charles A. Mathis
Chief Financial Officer

Exhibit 32.1

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 July 31, 2020 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: September 2, 2020

/s/ Nazzic S. Keene

Nazzic S. Keene
Chief Executive Officer

Exhibit 32.2

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 July 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Charles A. Mathis, 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: September 2, 2020

/S/ Charles A. Mathis

Charles A. Mathis
Chief Financial Officer