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 October 29, 2021

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 November 19, 2021 was as follows:

56,941,372 shares of common stock ($.0001 par value per share)

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FORM 10-Q
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PART I—FINANCIAL INFORMATION

Item 1. *Financial Statements*

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

	Three Months Ended		Nine Months Ended	
	October 29, 2021	October 30, 2020	**October 29, 2021**	October 30, 2020
	(in millions, except per share amounts)			
Revenues	**$ 1,898**	$ 1,818	**$ 5,612**	$ 5,339
Cost of revenues	**1,685**	1,609	**4,950**	4,747
Selling, general and administrative expenses	**87**	96	**252**	261
Acquisition and integration costs	**12**	3	**36**	47
Other operating income	**—**	—	**(3)**	(4)
Operating income	**114**	110	**377**	288
Interest expense	**26**	32	**79**	95
Other (income) expense, net	**—**	—	**(3)**	—
Income before income taxes	**88**	78	**301**	193
Provision for income taxes	**(17)**	(18)	**(66)**	(43)
Net income	**71**	60	**235**	150
Net income attributable to non-controlling interest	**—**	—	**1**	3
Net income attributable to common stockholders	**$ 71**	$ 60	**$ 234**	$ 147
Earnings per share:				
Basic	**$ 1.24**	$ 1.03	**$ 4.05**	$ 2.53
Diluted	**$ 1.22**	$ 1.02	**$ 4.01**	$ 2.51

See accompanying notes to condensed and consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	October 29, 2021	October 30, 2020	**October 29, 2021**	October 30, 2020
	(in millions)			
Net income	**$ 71**	$ 60	**$ 235**	$ 150
Other comprehensive income (loss), net of tax:				
Net unrealized gain (loss) on derivative instruments	**17**	11	**32**	(26)
Total other comprehensive income (loss), net of tax	**17**	11	**32**	(26)
Comprehensive income	**$ 88**	$ 71	**$ 267**	$ 124
Comprehensive income attributable to non-controlling interest	**—**	—	**1**	3
Comprehensive income attributable to common stockholders	**$ 88**	$ 71	**$ 266**	$ 121

See accompanying notes to condensed and consolidated financial statements.

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

	October 29, 2021	January 29, 2021
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 148	$ 171
Receivables, net	1,107	962
Inventory, prepaid expenses and other current assets	128	156
Total current assets	1,383	1,289
Goodwill	2,905	2,787
Intangible assets, net	1,166	1,138
Property, plant, and equipment (net of accumulated depreciation of $181 million and $158 million at October 29, 2021 and January 29, 2021, respectively)	103	108
Operating lease right of use assets	223	236
Other assets	136	165
Total assets	$ 5,916	$ 5,723
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 877	$ 861
Accrued payroll and employee benefits	399	346
Long-term debt, current portion	119	68
Total current liabilities	1,395	1,275
Long-term debt, net of current portion	2,433	2,447
Operating lease liabilities	202	205
Other long-term liabilities	241	244
Commitments and contingencies (Note 11)		
Equity:		
Common stock, $0.0001 par value, 1 billion shares authorized, 57 million shares and 58 million shares issued and outstanding as of October 29, 2021 and January 29, 2021, respectively	—	—
Additional paid-in capital	896	1,004
Retained earnings	796	627
Accumulated other comprehensive loss	(57)	(89)
Total common stockholders' equity	1,635	1,542
Non-controlling interest	10	10
Total stockholders' equity	1,645	1,552
Total liabilities and stockholders' equity	$ 5,916	$ 5,723

See accompanying notes to condensed and consolidated financial statements.

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

	Shares of common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Non-controlling interest	Total
			(in millions)			
Balance at July 30, 2021	**58**	**$ 945**	**$ 747**	**$ (74)**	**$ 10**	**$ 1,628**
Net income	—	—	71	—	—	71
Issuances of stock	1	4	—	—	—	4
Other comprehensive income, net of tax	—	—	—	17	—	17
Cash dividends of $0.37 per share	—	—	(22)	—	—	(22)
Stock-based compensation	—	11	—	—	—	11
Repurchases of stock	(2)	(64)	—	—	—	(64)
Distributions to non-controlling interest	—	—	—	—	—	—
Balance at October 29, 2021	**57**	**$ 896**	**$ 796**	**$ (57)**	**$ 10**	**$ 1,645**
Balance at January 29, 2021	**58**	**$ 1,004**	**$ 627**	**$ (89)**	**$ 10**	**$ 1,552**
Net income	—	—	234	—	1	235
Issuances of stock	1	12	—	—	—	12
Other comprehensive income, net of tax	—	—	—	32	—	32
Cash dividends of $1.11 per share	—	—	(65)	—	—	(65)
Stock-based compensation	—	21	—	—	—	21
Repurchases of stock	(2)	(141)	—	—	—	(141)
Distributions to non-controlling interest	—	—	—	—	(1)	(1)
Balance at October 29, 2021	**57**	**$ 896**	**$ 796**	**$ (57)**	**$ 10**	**$ 1,645**
Balance at July 31, 2020	**58**	**$ 996**	**$ 550**	**$ (109)**	**$ 13**	**$ 1,450**
Net income	—	—	60	—	—	60
Issuances of stock	—	4	—	—	—	4
Other comprehensive income, net of tax	—	—	—	11	—	11
Cash dividends of $0.37 per share	—	—	(23)	—	—	(23)
Stock-based compensation	—	11	—	—	—	11
Repurchases of stock	—	(1)	—	—	—	(1)
Distributions to non-controlling interest	—	—	—	—	(2)	(2)
Balance at October 30, 2020	**58**	**$ 1,010**	**$ 587**	**$ (98)**	**$ 11**	**$ 1,510**
Balance at January 31, 2020	**58**	**$ 983**	**$ 506**	**$ (72)**	**$ 10**	**$ 1,427**
Net income	—	—	147	—	3	150
Issuances of stock	—	10	—	—	—	10
Other comprehensive loss, net of tax	—	—	—	(26)	—	(26)
Cash dividends of $1.11 per share	—	—	(66)	—	—	(66)
Stock-based compensation	—	20	—	—	—	20
Repurchases of stock	—	(3)	—	—	—	(3)
Distributions to non-controlling interest	—	—	—	—	(2)	(2)
Balance at October 30, 2020	**58**	**$ 1,010**	**$ 587**	**$ (98)**	**$ 11**	**$ 1,510**

See accompanying notes to condensed and consolidated financial statements.

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

	Nine Months Ended	
	October 29, 2021	October 30, 2020
	(in millions)	
Cash flows from operating activities:		
Net income	**$ 235**	$ 150
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**123**	131
Amortization of off-market customer contracts	**(30)**	(11)
Amortization of debt issuance costs	**6**	19
Deferred income taxes	**41**	17
Stock-based compensation expense	**35**	30
(Gain) loss on divestitures	**(2)**	10
Impairment of right of use assets	**10**	—
Increase (decrease) resulting from changes in operating assets and liabilities, net of the effect of acquisitions:		
Receivables	**(123)**	131
Inventory, prepaid expenses and other current assets	**28**	9
Other assets	**(8)**	(11)
Accounts payable and accrued liabilities	**47**	9
Accrued payroll and employee benefits	**45**	141
Operating lease assets and liabilities, net	**4**	(7)
Other long-term liabilities	**4**	84
Net cash provided by operating activities	**415**	702
Cash flows from investing activities:		
Expenditures for property, plant, and equipment	**(27)**	(32)
Purchases of marketable securities	**(5)**	(5)
Sales of marketable securities	**4**	8
Cash paid for acquisitions, net of cash acquired	**(247)**	(1,202)
Proceeds from divestitures	**8**	4
Other	**(5)**	(2)
Net cash used in investing activities	**(272)**	(1,229)
Cash flows from financing activities:		
Dividend payments to stockholders	**(65)**	(65)
Principal payments on borrowings	**(84)**	(376)
Issuances of stock	**12**	9
Stock repurchased and retired or withheld for taxes on equity awards	**(154)**	(13)
Proceeds from borrowings	**116**	1,000
Debt issuance costs	**—**	(27)
Distributions to non-controlling interest	**(1)**	(2)
Net cash (used in) provided by financing activities	**(176)**	526
Net decrease in cash, cash equivalents and restricted cash	**(33)**	(1)
Cash, cash equivalents and restricted cash at beginning of period	**190**	202
Cash, cash equivalents and restricted cash at end of period	**$ 157**	$ 201

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 two customer facing operating sectors supported by an enterprise solutions and operations organization. Each of the Company’s two customer facing operating sectors 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 sectors are aggregated into one reportable segment for financial reporting purposes.

During the second quarter of fiscal 2022, the Company completed the acquisition of Halfaker and Associates, LLC (Halfaker), a mission focused, pure-play health IT company, growing the Company's digital transformation portfolio. Additionally, the Company acquired Koverse, a software company that provides a data management platform enabling artificial intelligence and machine learning on complex sensitive data.

During the first quarter of fiscal 2021, 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.

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 29, 2021.

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 and statements of cash flows. 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 2021 began on February 1, 2020 and ended on January 29, 2021, while fiscal 2022 began on January 30, 2021 and ends on January 28, 2022.

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 October 29, 2021 and January 29, 2021, the fair value of our investments totaled $31 million and $27 million, respectively, and are included in other assets on the condensed and consolidated balance sheets. The Company's investments are primarily held in a custodial account, which includes investments to fund 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:

	October 29, 2021	January 29, 2021
	(in millions)	
Cash and cash equivalents	$ 148	$ 171
Restricted cash included in inventory, prepaid expenses and other current assets	5	5
Restricted cash included in other assets	4	14
Cash, cash equivalents and restricted cash	$ 157	$ 190

Acquisition and Integration Costs

Acquisition-related costs that are not part of the purchase price consideration are generally expensed as incurred, except for certain costs that are deferred in connection with the issuance of debt. These costs typically include transaction-related costs, such as finder's fees, legal, accounting, and other professional costs. Integration-related costs represent costs directly related to combining the Company and its acquired businesses. Integration-related costs typically include strategic consulting services, facility consolidation, employee related costs, such as retention, 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.

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

	Three Months Ended		Nine Months Ended	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020
	(in millions)			
Acquisition(1)	$ —	$ —	$ 3	$ 20
Integration(2)	12	3	33	27
Total acquisition and integration costs	$ 12	$ 3	$ 36	$ 47

(1) Acquisition expenses for the nine months ended October 29, 2021 were related to the acquisitions of Halfaker and Koverse. Acquisition expenses for the nine months ended October 30, 2020 were related to the acquisition of Unisys Federal.
(2) Integration expenses for the nine months ended October 29, 2021 include a $10 million impairment of right of use lease assets. Integration expenses for the nine months ended October 30, 2020 include an $11 million loss on divestiture of non-strategic international operations. Integration expenses for the three and nine months ended October 30, 2020 also include restructuring costs of $2 million and $6 million, respectively.

Restructuring

During the three and nine months ended October 30, 2020, the Company incurred $4 million of severance and other employee costs associated with an internal reorganization. These costs are presented within selling, general and administrative expenses in the condensed and consolidated statements of income.

Accounting Standards Updates

In October 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured at the acquisition date in accordance with Topic 606 as if the acquirer had originated the contracts. ASU 2021-08 becomes effective for the Company in the first quarter of fiscal 2024 and is required to be adopted on a prospective basis with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its financial statements.

Other Accounting Standards Updates effective after October 29, 2021 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		Nine Months Ended	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020
	(in millions)			
Basic weighted-average number of shares outstanding	57.5	58.2	57.8	58.1
Dilutive common share equivalents - stock options and other stock-based awards	0.5	0.5	0.6	0.5
Diluted weighted-average number of shares outstanding	58.0	58.7	58.4	58.6

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

	Three Months Ended		Nine Months Ended	
	October 29, 2021	October 30, 2020	**October 29, 2021**	October 30, 2020
	(in millions)			
Antidilutive stock options excluded	**—**	0.4	**—**	0.4

Dividends

The Company declared and paid a quarterly dividend of $0.37 per share of its common stock during the three months ended October 29, 2021. Subsequent to the end of the quarter, on December 1, 2021, the Company's Board of Directors declared a quarterly dividend of $0.37 per share of the Company's common stock payable on January 28, 2022 to stockholders of record on January 14, 2022.

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 occur routinely over the performance period for a variety of reasons, which include: changes in scope; changes in cost estimates due to unanticipated cost growth or reassessments of risks impacting costs; changes in the estimated transaction price, such as variable amounts for incentive or award fees; and performance being better or worse than previously estimated.

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

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

	Three Months Ended		Nine Months Ended	
	October 29, 2021	October 30, 2020	**October 29, 2021**	October 30, 2020
	(in millions, except per share amounts)			
Net favorable (unfavorable) adjustments	**$ —**	$ (4)	**$ 9**	$ (1)
Net favorable (unfavorable) adjustments, after tax	**—**	(3)	**7**	(1)
Diluted EPS impact	**$ —**	$ (0.05)	**$ 0.12**	$ (0.01)

Revenues were $1 million and $21 million higher for the three and nine months ended October 29, 2021, respectively, and $1 million lower and $5 million higher for the three and nine months ended October 30, 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		Nine Months Ended	
	October 29, 2021	October 30, 2020	**October 29, 2021**	October 30, 2020
	(in millions)			
Department of Defense	**$ 920**	$ 851	**$ 2,740**	$ 2,543
Other federal government agencies	**940**	926	**2,762**	2,683
Commercial, state and local	**38**	41	**110**	113
Total	**$ 1,898**	$ 1,818	**$ 5,612**	$ 5,339

Disaggregated revenues by contract-type were as follows:

	Three Months Ended		Nine Months Ended	
	October 29, 2021	October 30, 2020	**October 29, 2021**	October 30, 2020
	(in millions)			
Cost reimbursement	**$ 1,045**	$ 962	**$ 3,028**	$ 2,869
Time and materials (T&M)	**363**	405	**1,139**	1,181
Firm-fixed price (FFP)	**490**	451	**1,445**	1,289
Total	**$ 1,898**	$ 1,818	**$ 5,612**	$ 5,339

Disaggregated revenues by prime vs. subcontractor were as follows:

	Three Months Ended		Nine Months Ended	
	October 29, 2021	October 30, 2020	**October 29, 2021**	October 30, 2020
	(in millions)			
Prime contractor to federal government	**$ 1,722**	$ 1,632	**$ 5,069**	$ 4,813
Subcontractor to federal government	**138**	145	**433**	413
Other	**38**	41	**110**	113
Total	**$ 1,898**	$ 1,818	**$ 5,612**	$ 5,339

Contract Balances

Contract balances for the periods presented were as follows:

	Balance Sheet line item	October 29, 2021	January 29, 2021
		(in millions)	
Billed and billable receivables, net[1]	Receivables, net	**$ 673**	$ 600
Contract assets - unbillable receivables	Receivables, net	**434**	362
Contract assets - contract retentions	Other assets	**17**	18
Contract liabilities - current	Accounts payable and accrued liabilities	**49**	82
Contract liabilities - non-current	Other long-term liabilities	**$ 11**	$ 17

(1) Net of allowance of $3 million as of October 29, 2021 and January 29, 2021.

During the three and nine months ended October 29, 2021, the Company recognized revenues of $8 million and $72 million, respectively, relating to amounts that were included in the opening balance of contract liabilities as of January 29, 2021. During the three and nine months ended October 30, 2020, the Company recognized revenues of $5 million and $27 million, respectively, relating to amounts that were included in the opening balance of contract liabilities as of January 31, 2020.

Remaining Performance Obligations

As of October 29, 2021, the Company had $6.0 billion of remaining performance obligations. Remaining performance obligations represent the expected value, both funded and unfunded, yet to be recognized on exercised contracts. Remaining performance obligations exclude unexercised option periods and unissued task orders under indefinite delivery, indefinite quantity (IDIQ) contracts. Remaining performance obligations also 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.

Lessor revenue

The Company leases IT equipment and hardware to its customers. All of the Company's lessor arrangements are operating leases. Operating lease revenue is recognized on a straight-line basis over the term of the lease. Operating lease income is reported as revenue on the condensed and consolidated statements of income. Operating lease income was $3 million and $14 million for the three and nine months ended October 29, 2021, respectively, and $11 million and $28 million for the three and nine months ended October 30, 2020, respectively.

Note 4—Acquisitions:

Halfaker Acquisition

On July 2, 2021, the Company completed the acquisition of Halfaker, a mission focused, pure-play health IT company for a preliminary purchase price of $220 million, net of $3 million cash acquired, subject to post-closing adjustments. The Company funded the transaction from increased borrowings (as discussed in Note 7) and cash on hand. The allocation of the preliminary purchase price resulted in goodwill of $98 million and intangible assets of $112 million, all of which is deductible for income tax purposes. During the third quarter of fiscal 2022, the Company increased goodwill by $6 million which consisted of a $3 million increase in the preliminary purchase price for final working capital adjustments and $3 million in fair value adjustments for other assets acquired. The goodwill is primarily associated with future customer relationships and an acquired assembled work force. The intangible assets consist of customer relationships of $95 million and backlog of $17 million that will be amortized over a period of nine years and one year, respectively. The Company has not yet finalized the purchase accounting for the acquisition as it is still in the process of finalizing the valuation for certain assets acquired. The Company will make additional cash payments of $21 million in March 2022 associated with certain change in control provisions that will be recognized as post-combination expense.

Koverse Acquisition

On May 3, 2021, the Company acquired Koverse, a software company that provides a data management platform enabling artificial intelligence and machine learning on complex sensitive data, for a preliminary purchase price of $30 million, net of $2 million cash acquired, subject to post-closing adjustments. The preliminary purchase price includes $3 million of contingent consideration, representing the fair value recognized for potential future earnout payments of up to $27 million based on the achievement of certain revenue targets over the next four years. The allocation of the preliminary purchase price resulted in goodwill of $21 million and intangible assets of $10 million, which are not deductible for income tax purposes. The goodwill is primarily associated with intellectual capital, future customer relationships, and an acquired assembled work force. The intangible assets, which primarily consist of developed technology, are being amortized over a weighted average period of seven years. The Company is recognizing an additional $13 million in post-combination compensation expense over the next two years associated with employee retention agreements.

Unisys Federal Acquisition

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. 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, proceeds from the sale of receivables under its MARPA Facility, and cash on its balance sheet to finance the acquisition and pay related fees and expenses.

During the second quarter of fiscal 2022, the Company accelerated the amortization for certain off-market customer contracts as a result of a change in the expected contractual terms which resulted in additional amortization of $9 million and $17 million for the three and nine months ended October 29, 2021. Amortization for the next four years is expected to be as follows: $3 million for the remainder of 2022, $9 million in 2023, $8 million in 2024, and $2 million in 2025.

The amount of Unisys Federal's revenue included in the condensed and consolidated statements of income for the three and nine months ended October 30, 2020, was $200 million and $479 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 nine months ended October 30, 2020, was $21 million and $40 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 nine months ended October 30, 2020:

	Three Months Ended October 30, 2020	Nine Months Ended October 30, 2020
	(in millions)	
Revenues	$ 1,818	$ 5,429
Net income attributable to common stockholders	$ 71	$ 186

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 $2,905 million and $2,787 million as of October 29, 2021 and January 29, 2021, respectively. Goodwill increased by $118 million during the nine months ended October 29, 2021, primarily due to the acquisitions of Halfaker ($98 million) and Koverse ($21 million) as discussed in Note 4. There were no impairments of goodwill during the periods presented.

Intangible Assets

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

	October 29, 2021			January 29, 2021		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
			(in millions)			
Customer relationships	$ 1,467	$ (323)	$ 1,144	$ 1,371	$ (241)	$ 1,130
Backlog	17	(5)	12	47	(41)	6
Developed technology	10	(1)	9	9	(7)	2
Trade name	1	—	1	—	—	—
Total intangible assets	$ 1,495	$ (329)	$ 1,166	$ 1,427	$ (289)	$ 1,138

Amortization expense related to intangible assets was $33 million and $94 million for the three and nine months ended October 29, 2021, respectively, and $40 million and $108 million for the three and nine months ended October 30, 2020, respectively. There were no intangible asset impairment losses during the periods presented.

As of October 29, 2021, the estimated future annual amortization expense related to intangible assets is as follows:

Fiscal Year Ending	(in millions)
Remainder of 2022	$ 33
2023	125
2024	115
2025	115
2026	115
Thereafter	663
Total	$ 1,166

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 19.4% and 22.0% for the three and nine months ended October 29, 2021, respectively, and 22.4% and 22.2% for the three and nine months ended October 30, 2020, respectively. The Company's effective tax rate was lower for the three and nine months ended October 29, 2021 compared to the prior year periods primarily due to the completion of prior year tax return planning efforts recorded during the three months ended October 29, 2021. Tax rates for the three and nine months ended October 29, 2021 were lower than the combined federal and state statutory rates principally due to excess tax benefits related to employee stock-based compensation, research and development tax credits, a Foreign Derived Intangible Income deduction, and other permanent book tax differences.

As of October 29, 2021, the Company's total liability for unrecognized tax benefits was $71 million, which is classified as other long-term liabilities on the condensed and consolidated balance sheets, and if recognized, would positively impact the effective tax rate.

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 the 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 October 29, 2021.

Note 7—Debt Obligations:

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

	October 29, 2021					January 29, 2021		
	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	1.84%	2.16%	$ 785	$ (5)	$ 780	$ 844	$ (6)	$ 838
Term Loan A2 Facility due October 2023	1.84%	1.99%	100	—	100	—	—	—
Term Loan B Facility due October 2025	1.96%	2.16%	1,018	(8)	1,010	1,026	(9)	1,017
Term Loan B2 Facility due March 2027	1.96%	2.36%	272	(5)	267	272	(6)	266
Senior Notes due April 2028	4.88%	5.04%	400	(5)	395	400	(6)	394
Total long-term debt			$2,575	$ (23)	$2,552	$2,542	$ (27)	$2,515
Less current portion			119	—	119	68	—	68
Total long-term debt, net of current portion			$2,456	$ (23)	$2,433	$2,474	$ (27)	$2,447

As of October 29, 2021, the Company has a $2.6 billion credit facility (the Credit Facility) consisting of a $785 million secured Term Loan A Facility due October 2023, a $100 million secured Term Loan A2 Facility due October 2023, a $1,018 million secured Term Loan B Facility due October 2025, a $272 million secured Term Loan B2 Facility due March 2027 (together, the Term Loan Facilities), and a $400 million secured Revolving Credit Facility due October 2023. There is no balance outstanding on the Revolving Credit Facility as of October 29, 2021. As of October 29, 2021, the Company was in compliance with the covenants under its Credit Facility.

On March 1, 2021, the Company executed the Third Amendment to the Third Amended and Restated Credit Agreement, which reduced the applicable margin for the Term Loan B2 Facility due March 2027 for LIBOR loans from 2.25% to 1.875% and for base rate loans from 1.25% to 0.875%.

On July 2, 2021, the Company executed the Fourth Amendment to the Third Amended and Restated Credit Agreement, which established a new senior secured incremental term loan credit facility commitment in the amount of $100 million (the Term Loan A2 Facility due October 2023). The entirety of the Term Loan A2 Facility due October 2023 was borrowed by the Company and the proceeds were immediately used to pay a portion of the purchase price of Halfaker (see Note 4).

The Term Loan A2 Facility due October 2023 will amortize quarterly beginning October 31, 2021 at 0.3125% of the original borrowed amount thereunder. The Term Loan A2 Facility due October 2023 may be prepaid at any time without penalty and is subject to the same mandatory prepayments, including from excess cash flow, as the Company's existing term loans under the Credit Facility. The Term Loan A2 Facility due October 2023 will mature and be due and payable in full on October 31, 2023.

The Term Loan A2 Facility due October 2023 is secured by substantially all of the assets of the Company and the Company's wholly owned domestic subsidiaries, and is guaranteed by each of the Company's wholly owned domestic subsidiaries. The Term Loan A2 Facility due October 2023 will bear interest at a variable rate of interest based on LIBOR or a base rate, plus an applicable margin of 1.25% to 2.00% for LIBOR loans and 0.25% to 1.00% for base rate loans, dependent upon the Company's leverage ratio.

The Term Loan A2 Facility due October 2023 is subject to the same covenants and events of default as the Company's existing term loans under the Credit Facility.

As of October 29, 2021 and January 29, 2021, the carrying value of the Company's outstanding debt obligations approximated its fair value. The fair value of long-term debt is calculated using Level 2 inputs, based on interest rates available for debt with terms and maturities similar to the Company's Term Loan Facilities and Senior Notes.

Note 8—Derivative Instruments Designated as Cash Flow Hedges:

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

	Notional Amount at October 29, 2021	Pay Fixed Rate	Receive Variable Rate	Settlement and Termination	Fair Value of Liability[1] at October 29, 2021	Fair Value of Liability[1] at January 29, 2021
	(in millions)				(in millions)	(in millions)
Interest rate swaps #1	$ —	2.78%	1-month LIBOR	Monthly through July 30, 2021	$ —	$ (3)
Interest rate swaps #2	685	3.07%	1-month LIBOR	Monthly through October 31, 2025	(55)	(81)
Interest rate swaps #3	563	2.49%	1-month LIBOR	Monthly through October 31, 2023	(19)	(33)
Total	$ 1,248				$ (74)	$ (117)

(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 income (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 $32 million of unrealized losses from accumulated other comprehensive loss into earnings in the twelve months following October 29, 2021.

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 October 29, 2021			
Balance at July 30, 2021	$ (71)	$ (3)	$ (74)
Other comprehensive income before reclassifications	13	—	13
Amounts reclassified from accumulated other comprehensive loss	9	—	9
Income tax impact	(5)	—	(5)
Net other comprehensive income	17	—	17
Balance at October 29, 2021	**$ (54)**	**$ (3)**	**$ (57)**
Three months ended October 30, 2020			
Balance at July 31, 2020	$ (104)	$ (5)	$ (109)
Other comprehensive income before reclassifications	7	—	7
Amounts reclassified from accumulated other comprehensive loss	8	—	8
Income tax impact	(4)	—	(4)
Net other comprehensive income	11	—	11
Balance at October 30, 2020	**$ (93)**	**$ (5)**	**$ (98)**
Nine months ended October 29, 2021			
Balance at January 29, 2021	$ (86)	$ (3)	$ (89)
Other comprehensive income before reclassifications	17	—	17
Amounts reclassified from accumulated other comprehensive loss	26	—	26
Income tax impact	(11)	—	(11)
Net other comprehensive income	32	—	32
Balance at October 29, 2021	**$ (54)**	**$ (3)**	**$ (57)**
Nine months ended October 30, 2020			
Balance at January 31, 2020	$ (67)	$ (5)	$ (72)
Other comprehensive loss before reclassifications	(55)	—	(55)
Amounts reclassified from accumulated other comprehensive loss	20	—	20
Income tax impact	9	—	9
Net other comprehensive loss	(26)	—	(26)
Balance at October 30, 2020	**$ (93)**	**$ (5)**	**$ (98)**

[1] The amount reclassified from accumulated other comprehensive loss is included in interest expense.

Note 10—Sales of Receivables:

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

During the nine months ended October 29, 2021 and October 30, 2020, the Company incurred purchase discount fees of $2 million, which are presented in Other (income) expense, net on the condensed and consolidated statements of income.

MARPA Facility activity consisted of the following:

	Nine Months Ended	
	October 29, 2021	October 30, 2020
	(in millions)	
Beginning balance	**$ 185**	$ —
Sale of receivables	**2,484**	2,416
Cash collections	**(2,469)**	(2,216)
Outstanding balance sold to Purchaser[1]	**200**	200
Cash collected, not remitted to Purchaser[2]	**(31)**	(25)
Remaining sold receivables	**$ 169**	$ 175

(1) For the nine months ended October 29, 2021 and October 30, 2020, the Company recorded a net increase to cash flows from operating activities of $15 million and $200 million, respectively, from sold receivables.
(2) Primarily represents the cash collected on behalf of but not yet remitted to the Purchaser as of October 29, 2021 and October 30, 2020. This balance is included in accounts payable and accrued liabilities on the condensed and consolidated balance sheets.

Note 11—Legal Proceedings and Other Commitments and Contingencies:

Legal Proceedings

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

AAV Termination for Convenience

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

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 that had not yet been awarded.

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 October 29, 2021, the Company has recorded a total liability of $18 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 October 29, 2021, principally related to guarantees on insurance policies. The Company also has outstanding obligations relating to surety bonds in the amount of $19 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 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 2021 began on February 1, 2020 and ended on January 29, 2021, while fiscal 2022 began on January 30, 2021 and ends on January 28, 2022.

Business Overview

We are a leading technology integrator providing full life cycle services and solutions in the technical, engineering and enterprise information technology (IT) markets. We developed our brand by addressing our customers' mission critical needs and solving their most complex problems for over 50 years. As one of the largest pure-play technical service providers to the U.S. government, we serve markets of significant scale and opportunity. Our primary customers are the departments and agencies of the U.S. government. We serve our customers through approximately 2,100 active contracts and task orders and employ approximately 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

During the three and nine months ended October 29, 2021, we generated approximately 98% of our revenues from contracts with the U.S. government, including subcontracts on which we perform. Our business performance is affected by the overall level of U.S. government spending and the alignment of our offerings and capabilities with the budget priorities of the U.S. government. Appropriations measures passed in December 2020 provided full funding for the federal government through the end of government fiscal year (GFY) 2021. These bills are funded at levels for defense and non-defense spending based on the August 2019 Bipartisan Budget Act agreement that raised the Budget Control Act spending caps enacted in August 2011 and suspended 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), delayed passage of appropriations bills resulting in temporary or full-year continuing resolutions, extremely inflationary increases adversely impacting fixed price contracts, inability to increase or suspend the Federal debt ceiling, and potential government shutdowns. The U.S. government is currently operating under a Continuing Resolution for GFY 2022 and in October 2021 the Federal debt ceiling was temporarily increased through early December 2021. It is unlikely but possible these measures will expire without extension and lead to a partial government shutdown.

Potential spending packages including the infrastructure bill and the proposed budget resolution may provide additional opportunity in areas of SAIC focus such as broadband, cyber, and climate resiliency.

The U.S. government has increasingly relied on contracts that are subject to a competitive bidding process (including indefinite delivery, indefinite quantity (IDIQ), U.S. General Services Administration (GSA) schedules, and other multi-award contracts), which has resulted in greater competition and increased pricing pressure. We expect a majority of the business 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 July 2, 2021, we completed the acquisition of Halfaker and Associates, LLC (Halfaker). The acquisition of Halfaker, in alignment with our long-term strategy, grows the Company's digital transformation portfolio while expanding its ability to support the government's healthcare mission.

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 and 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.

Section 3610 of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act 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. This support from the CARES Act expired on September 30, 2021. Reduced activity on contracts, including travel and other direct costs, caused revenues to be approximately $99 million lower for the nine months ended October 29, 2021 (net of $60 million of labor recovered under the provisions of the CARES Act described above to maintain our workforce in a stand-ready state).

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 nine months ended October 29, 2021 was reduced by approximately $7 million.

In addition, the CARES Act allowed for the deferral of certain payroll tax payments through December 31, 2020 and we deferred total payments of approximately $103 million. The first installment of these deferred payroll taxes was paid during the third quarter of fiscal 2022 (approximately $51 million) with the remaining amounts due in the fourth quarter of fiscal 2023.

In September 2021, the President issued an executive order which requires all federal employees and contractors to be fully vaccinated by January 18, 2022, unless an employee is legally entitled to an accommodation. We are continuing to monitor the impact that the enforcement of this executive order will have on our workforce and operations, but at this point the impact has not been material.

We have not experienced a significant impact to our liquidity or access to capital as a result of the COVID-19 pandemic.

We cannot currently estimate the overall impact of the COVID-19 pandemic. The longer the duration of the event, the more likely that there may be an adverse impact on our business, financial position, results of operations and/or cash flows.

Management of Operating Performance and Reporting

Our business and program management process is directed by professional managers focused on serving 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. Throughout 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			Nine Months Ended		
	October 29, 2021	Percent change	October 30, 2020	**October 29, 2021**	Percent change	October 30, 2020
	(dollars in millions)					
Revenues	**$ 1,898**	*4%*	$ 1,818	**$ 5,612**	*5%*	$ 5,339
Cost of revenues	**1,685**	*5%*	1,609	**4,950**	*4%*	4,747
As a percentage of revenues	***88.8%***		*88.5%*	***88.2%***		*88.9%*
Selling, general and administrative expenses	**87**	*(9%)*	96	**252**	*(3%)*	261
Acquisition and integration costs	**12**	*300%*	3	**36**	*(23%)*	47
Other operating income	**—**	*—%*	—	**(3)**	*(25%)*	(4)
Operating income	**114**	*4%*	110	**377**	*31%*	288
As a percentage of revenues	***6.0%***		*6.1%*	***6.7%***		*5.4%*
Net income attributable to common stockholders	**$ 71**	*18%*	$ 60	**$ 234**	*59%*	$ 147
Net cash provided by operating activities	**$ 134**	*(42%)*	$ 231	**$ 415**	*(41%)*	$ 702

Revenues. Revenues increased $80 million for the three months ended October 29, 2021 as compared to the same period in the prior year primarily due to ramp up on new and existing contracts, the acquisition of Halfaker, and the accelerated amortization on certain off-market liability contracts, partially offset by contract completions. Adjusting for the impact of acquired revenues and divested revenues, revenues grew 2.1% primarily due to net increases in program volume and new awards.

Revenues increased $273 million for the nine months ended October 29, 2021 as compared to the same period in the prior year due to ramp up on new and existing contracts, the acquisitions of Unisys Federal (which occurred in the middle of the first quarter of the prior year period) and Halfaker, net favorable changes in contract estimates, and the accelerated amortization on certain off-market liability contracts, partially offset by contract completions. Adjusting for the impact of acquired revenues and divested revenues, revenues grew 2.8% primarily due to net increases in program volume and new awards.

Cost of Revenues. Cost of revenues increased $76 million for the three months ended October 29, 2021 as compared to the same period in the prior year primarily due to an increase in volume on existing contracts and the acquisition of Halfaker. Cost of revenues as a percentage of revenues increased from the prior year quarter, primarily due to lower employee benefit costs in the prior year period.

Cost of revenues increased $203 million for the nine months ended October 29, 2021 as compared to the same period in the prior year primarily due to an increase in volume on existing contracts and the acquisitions of Unisys Federal (which occurred in the middle of the first quarter of the prior year period) and Halfaker. Cost of revenues as a percentage of revenues decreased from the prior year, primarily due to improved profitability across our contract portfolio, net favorable changes in contract estimates, and the accelerated amortization on certain off-market liability contracts.

Selling, General and Administrative Expenses. SG&A decreased $9 million for the three months ended October 29, 2021 as compared to the same period in the prior year primarily due to decreased intangible asset amortization related to the acquisition of Unisys Federal, partially offset by intangible amortization related to the acquisition of Halfaker.

SG&A decreased $9 million for the nine months ended October 29, 2021 as compared to the same period in the prior year primarily due to decreased intangible asset amortization related to the acquisition of Unisys Federal, partially offset by intangible amortization related to the acquisition of Halfaker and gains related to the resolution of certain legal matters in the prior year.

Operating Income. Operating income as a percentage of revenues of 6.0% for the three months ended October 29, 2021 decreased from 6.1% in the comparable prior year period primarily due to lower employee benefit costs in the prior year period and higher acquisition and integration costs in the current year period, partially offset by net favorable changes in contract estimates and the accelerated amortization on certain off-market liability contracts.

Operating income as a percentage of revenues increased to 6.7% for the nine months ended October 29, 2021 from 5.4% in the comparable prior year period primarily due to improved profitability across our contract portfolio, net favorable changes in contract estimates, and the accelerated amortization on certain off-market liability contracts, partially offset by gains related to the resolution of certain legal and other program contract matters in the prior year.

Net Cash Provided by Operating Activities. Net cash provided by operating activities was $415 million for the nine months ended October 29, 2021, a decrease of $287 million compared to the prior year, primarily due to a net decrease in cash received under the MARPA Facility ($185 million) and working capital impact related to the deferred payroll taxes allowed under the CARES Act.

Non-GAAP Measures

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

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

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		Nine Months Ended	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020
	(in millions)			
Net income	$ 71	$ 60	$ 235	$ 150
Interest expense and loss on sale of receivables	27	33	81	97
Interest income	—	—	—	(1)
Provision for income taxes	17	18	66	43
Depreciation and amortization	44	48	123	131
EBITDA	159	159	505	420
EBITDA as a percentage of revenues	*8.4%*	*8.7%*	*9.0%*	*7.9%*
Acquisition and integration costs	12	3	36	47
Restructuring and impairment costs	1	4	1	4
Depreciation included in acquisition and integration costs	—	—	(1)	—
Recovery of acquisition and integration costs and restructuring and impairment costs(1)	(1)	(2)	(1)	(3)
Adjusted EBITDA	$ 171	$ 164	$ 540	$ 468
Adjusted EBITDA as a percentage of revenues	*9.0%*	*9.0%*	*9.6%*	*8.8%*

(1) Adjustment reflects the portion of acquisition and integration costs and restructuring and impairment 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 October 29, 2021 remained consistent with the same period in the prior year. Net favorable changes in contract estimates and revenue resulting from the accelerated amortization on certain off-market liability contracts were offset by lower employee benefit costs in the prior year period.

Adjusted EBITDA as a percentage of revenues for the nine months ended October 29, 2021 increased to 9.6% of revenues from 8.8% of revenues from the prior year primarily due to a net increase in profitability across our existing contract portfolio, net favorable changes in contract estimates, and revenue resulting from the accelerated amortization on certain off-market liability contracts, partially offset by gains related to the resolution of certain legal and other program contract matters in the prior year.

Other Key Performance Measures

In addition to the financial measures described above, we believe that net 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:

	October 29, 2021	January 29, 2021
	(in millions)	
Funded backlog	$ 3,441	$ 3,024
Negotiated unfunded backlog	20,213	18,524
Total backlog	$ 23,654	$ 21,548

We had net bookings worth an estimated $1.4 billion and $7.2 billion during the three and nine months ended October 29, 2021. Total backlog at the end of the third quarter has increased compared to total backlog at prior year end primarily due to several large awards received during the period from the U.S. Army. In addition, $0.6 billion of acquired backlog from Halfaker 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:

	Nine Months Ended	
	October 29, 2021	October 30, 2020
Cost reimbursement	54%	54%
Time and materials (T&M)	20%	22%
Firm-fixed price (FFP)	26%	24%
Total	100%	100%

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

	Three Months Ended		Nine Months Ended	
	October 29, 2021	October 30, 2020	**October 29, 2021**	October 30, 2020
Labor-related cost of revenues	**53%**	54%	**54%**	55%
Subcontractor-related cost of revenues	**30%**	29%	**29%**	30%
Supply chain materials-related cost of revenues	**7%**	7%	**8%**	8%
Other materials-related cost of revenues	**10%**	10%	**9%**	7%
Total	**100%**	100%	**100%**	100%

Cost of revenues mix for the nine months ended October 29, 2021 reflects an increase in other materials-related content due in part to the Unisys Federal acquisition (which occurred in the middle of the first quarter of the prior year period and historically had a higher proportion of such costs).

Liquidity and Capital Resources

As a services provider, our business generally requires minimal infrastructure investment. We expect to fund our ongoing working capital, commitments and any other discretionary investments with cash on hand, future operating cash flows and, if needed, borrowings under our $400 million Revolving Credit Facility 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:

	Nine Months Ended	
	October 29, 2021	October 30, 2020
	(in millions)	
Net cash provided by operating activities	**$ 415**	$ 702
Net cash used in investing activities	**(272)**	(1,229)
Net cash (used in) provided by financing activities	**(176)**	526
Net decrease in cash, cash equivalents and restricted cash	**$ (33)**	$ (1)

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 nine months ended October 29, 2021 and the comparable prior year period.

Net Cash Used in Investing Activities. Cash used in investing activities for the nine months ended October 29, 2021 decreased compared to the prior year period primarily due to cash paid for the acquisition of Unisys Federal in the prior year period, partially offset by cash paid for the acquisitions of Halfaker and Koverse in the current year period.

Net Cash Used in / Provided by Financing Activities. Cash used in financing activities for the nine months ended October 29, 2021 was $176 million compared to cash provided by financing activities of $526 million in the prior year period. This change is primarily due to proceeds from borrowings obtained to finance the Unisys Federal acquisition in the prior year period and higher share repurchases in the current year period, partially offset by voluntary principal prepayments in the prior year period and borrowings to finance the Halfaker acquisition in the current year period.

Critical Accounting Policies

There have been no changes to our critical accounting policies during the nine months ended October 29, 2021 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 October 29, 2021 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 2021 Annual Report on Form 10-K, and we have provided an update to this information in Note 11 of the notes to the condensed and consolidated financial statements contained within this report.

In addition to the described legal proceedings, we are routinely subject to investigations and reviews relating to compliance with various laws and regulations. Additional information regarding such investigations and reviews is included in our fiscal 2021 Annual Report on Form 10-K, and we have also updated this information in Note 11 of the notes to the condensed and consolidated financial statements contained within this report, under the heading "Government Investigations, Audits and Reviews."

Item 1A. *Risk Factors*

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

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

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

The following table presents repurchases of our common stock during the three months ended October 29, 2021:

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)
July 31, 2021 - September 3, 2021	175,540	$ 83.73	175,540	3,435,388
September 4, 2021 - October 1, 2021	304,835	85.29	304,835	3,130,553
October 2, 2021 - October 29, 2021	254,008	88.41	254,008	2,876,545
Total	734,383	$ 85.99	734,383	

(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 October 29, 2021, we have repurchased approximately 13.6 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: December 6, 2021

Science Applications International Corporation

/s/ Prabu Natarajan

Prabu Natarajan
Executive Vice President and Chief Financial Officer