
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 April 29, 2022

or

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

For the transition period from _____ to _____

**Commission
File Number**

001-35832

**Exact Name of Registrant as Specified in its Charter,
Address of Principal Executive Offices and Telephone Number**

**Science Applications
International Corporation**

**State or other
jurisdiction of
incorporation or
organization**

Delaware

**I.R.S. Employer
Identification
No.**

46-1932921

12010 Sunset Hills Road, Reston, VA 20190
703-676-4300

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

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

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

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

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

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

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

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

The number of shares issued and outstanding of the registrant's common stock as of May 20, 2022 was as follows:

55,683,744 shares of common stock (\$.0001 par value per share)

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
FORM 10-Q

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PART I—FINANCIAL INFORMATION

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

	Three Months Ended	
	April 29, 2022	April 30, 2021
	(in millions, except per share amounts)	
Revenues	\$ 1,996	\$ 1,878
Cost of revenues	1,770	1,661
Selling, general and administrative expenses	92	80
Acquisition and integration costs	9	10
Other operating income	—	(3)
Operating income	125	130
Interest expense	27	27
Other (income) expense, net	3	(2)
Income before income taxes	95	105
Provision for income taxes	(21)	(23)
Net income	74	82
Net income attributable to non-controlling interest	1	1
Net income attributable to common stockholders	\$ 73	\$ 81
Earnings per share:		
Basic	\$ 1.30	\$ 1.39
Diluted	\$ 1.29	\$ 1.38

See accompanying notes to condensed and consolidated financial statements.

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

	Three Months Ended	
	April 29, 2022	April 30, 2021
	(in millions)	
Net income	\$ 74	\$ 82
Other comprehensive income, net of tax:		
Net unrealized gain on derivative instruments	37	14
Total other comprehensive income, net of tax	37	14
Comprehensive income	\$ 111	\$ 96
Comprehensive income attributable to non-controlling interest	1	1
Comprehensive income attributable to common stockholders	\$ 110	\$ 95

See accompanying notes to condensed and consolidated financial statements.

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

	April 29, 2022	January 28, 2022
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 56	\$ 106
Receivables, net	1,104	1,015
Inventory, prepaid expenses and other current assets	131	142
Total current assets	1,291	1,263
Goodwill	2,911	2,913
Intangible assets, net	1,101	1,132
Property, plant, and equipment (net of accumulated depreciation of \$189 million and \$182 million at April 29, 2022 and January 28, 2022, respectively)	97	100
Operating lease right of use assets	187	209
Other assets	129	129
Total assets	\$ 5,716	\$ 5,746
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 820	\$ 840
Accrued payroll and employee benefits	395	364
Long-term debt, current portion	119	148
Total current liabilities	1,334	1,352
Long-term debt, net of current portion	2,342	2,370
Operating lease liabilities	175	192
Deferred income taxes	45	43
Other long-term liabilities	170	160
Commitments and contingencies (Note 11)		
Equity:		
Common stock, \$0.0001 par value, 1 billion shares authorized, 56 million shares issued and outstanding as of April 29, 2022 and January 28, 2022	—	—
Additional paid-in capital	770	838
Retained earnings	870	818
Accumulated other comprehensive loss	—	(37)
Total common stockholders' equity	1,640	1,619
Non-controlling interest	10	10
Total stockholders' equity	1,650	1,629
Total liabilities and stockholders' equity	\$ 5,716	\$ 5,746

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 January 28, 2022	56	\$ 838	\$ 818	\$ (37)	\$ 10	\$ 1,629
Net income	—	—	73	—	1	74
Issuances of stock	1	5	—	—	—	5
Other comprehensive income, net of tax	—	—	—	37	—	37
Cash dividends of \$0.37 per share	—	—	(21)	—	—	(21)
Stock-based compensation	—	(4)	—	—	—	(4)
Repurchases of stock	(1)	(69)	—	—	—	(69)
Distributions to non-controlling interest	—	—	—	—	(1)	(1)
Balance at April 29, 2022	56	\$ 770	\$ 870	\$ —	\$ 10	\$ 1,650
Balance at January 29, 2021	58	\$ 1,004	\$ 627	\$ (89)	\$ 10	\$ 1,552
Net income	—	—	81	—	1	82
Issuances of stock	—	4	—	—	—	4
Other comprehensive income, net of tax	—	—	—	14	—	14
Cash dividends of \$0.37 per share	—	—	(21)	—	—	(21)
Stock-based compensation	—	(3)	—	—	—	(3)
Repurchases of stock	—	(40)	—	—	—	(40)
Distributions to non-controlling interest	—	—	—	—	(1)	(1)
Balance at April 30, 2021	58	\$ 965	\$ 687	\$ (75)	\$ 10	\$ 1,587

See accompanying notes to condensed and consolidated financial statements.

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

	Three Months Ended	
	April 29, 2022	April 30, 2021
	(in millions)	
Cash flows from operating activities:		
Net income	\$ 74	\$ 82
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	41	42
Amortization of off-market customer contracts	(2)	(4)
Amortization of debt issuance costs	2	2
Deferred income taxes	2	20
Stock-based compensation expense	11	10
Gain on divestitures	—	(3)
Impairment of assets	—	7
Increase (decrease) resulting from changes in operating assets and liabilities:		
Receivables	(89)	(61)
Inventory, prepaid expenses and other current assets	11	(5)
Other assets	3	(4)
Accounts payable and accrued liabilities	39	44
Accrued payroll and employee benefits	31	57
Operating lease assets and liabilities, net	(4)	5
Other long-term liabilities	(1)	(3)
Net cash provided by operating activities	118	189
Cash flows from investing activities:		
Expenditures for property, plant, and equipment	(5)	(10)
Purchases of marketable securities	(2)	(2)
Sales of marketable securities	1	1
Proceeds from divestitures	—	8
Other	—	(1)
Net cash used in investing activities	(6)	(4)
Cash flows from financing activities:		
Dividend payments to stockholders	(22)	(22)
Principal payments on borrowings	(59)	(39)
Issuances of stock	4	4
Stock repurchased and retired or withheld for taxes on equity awards	(84)	(53)
Proceeds from borrowings	—	16
Distributions to non-controlling interest	(1)	(1)
Net cash used in financing activities	(162)	(95)
Net (decrease) increase in cash, cash equivalents and restricted cash	(50)	90
Cash, cash equivalents and restricted cash at beginning of period	115	190
Cash, cash equivalents and restricted cash at end of period	\$ 65	\$ 280

See accompanying notes to condensed and consolidated financial statements.

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

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

Overview

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

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

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.

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 28, 2022.

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.

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

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 2023 began on January 29, 2022 and ends on February 3, 2023, while fiscal 2022 began on January 30, 2021 and ended 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 April 29, 2022 and January 28, 2022, the fair value of our investments totaled \$27 million and \$28 million, respectively, and are included in other assets on the condensed and consolidated balance sheets. The Company's investments are primarily held in a custodial account, which includes investments to fund 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:

	April 29, 2022	January 28, 2022
	(in millions)	
Cash and cash equivalents	\$ 56	\$ 106
Restricted cash included in inventory, prepaid expenses and other current assets	5	5
Restricted cash included in other assets	4	4
Cash, cash equivalents and restricted cash	\$ 65	\$ 115

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 and severance, costs to integrate information technology infrastructure, enterprise planning systems, processes, and other non-recurring integration-related costs. Acquisition and integration costs are presented together as acquisition and integration costs on the condensed and consolidated statements of income.

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

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

	Three Months Ended	
	April 29, 2022	April 30, 2021
	(in millions)	
Acquisition ⁽¹⁾	\$ (1)	\$ 1
Integration ⁽²⁾	10	9
Total acquisition and integration costs	\$ 9	\$ 10

(1) Acquisition expenses for the three months ended April 29, 2022 and April 30, 2021 relate to the acquisition of Koverse. The three months ended April 29, 2022 reflects the amount recognized to reduce the fair value of the Koverse earnout liability. See Note 4 for additional information related to the acquisition.

(2) Integration expenses for the three months ended April 30, 2021 include \$7 million for the impairment of assets.

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. The standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, and must be applied prospectively. Early adoption is permitted. The Company adopted the requirements of ASU 2021-08 on a prospective basis effective the first day of fiscal 2023.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This standard provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference the London Interbank Offered Rate (LIBOR) or other reference rates expected to be discontinued due to reference rate reform. The Company adopted this standard on a prospective basis in the fourth quarter of fiscal 2021, and the adoption did not have a material impact on the Company's financial statements. The Company's credit facility and derivative instruments reference LIBOR-based rates. Although the Company does not expect the transition from LIBOR to have a material impact on its financial statements, it will continue to monitor the impact until transition is completed.

Other Accounting Standards Updates effective after April 29, 2022 are not expected to have a material effect on the Company's financial statements.

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

Earnings Per Share (EPS)

Basic earnings per share 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	
	April 29, 2022	April 30, 2021
	(in millions)	
Basic weighted-average number of shares outstanding	56.1	58.1
Dilutive common share equivalents - stock options and other stock-based awards	0.5	0.6
Diluted weighted-average number of shares outstanding	56.6	58.7

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

Antidilutive stock awards excluded from the weighted-average number of shares outstanding used to compute diluted EPS for the three months ended April 29, 2022 and April 30, 2021 were immaterial.

Share Repurchases

The Company may repurchase shares in accordance with established repurchase plans. The Company retires its common stock upon repurchase with the excess over par value allocated to additional paid-in capital. The Company has not made any material purchases of common stock other than in connection with established share repurchase plans. On March 27, 2019, the number of shares of our common stock that may be repurchased under our existing repurchase plan was 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 April 29, 2022, we have repurchased approximately 15.2 million shares of common stock under the program. Subsequent to the end of the quarter, the number of shares that may be repurchased increased by approximately 8.0 million shares, bringing the total authorized shares to be repurchased under the plan to approximately 24.4 million shares.

Dividends

The Company declared and paid a quarterly dividend of \$0.37 per share of its common stock during the three months ended April 29, 2022. Subsequent to the end of the quarter, on May 31, 2022, the Company's Board of Directors declared a quarterly dividend of \$0.37 per share of the Company's common stock payable on July 29, 2022 to stockholders of record on July 15, 2022.

Note 3—Revenues:

Changes in Estimates on Contracts

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

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	
	April 29, 2022	April 30, 2021
	(in millions, except per share amounts)	
Net favorable adjustments	\$ 5	\$ 3
Net favorable adjustments, after tax	4	2
Diluted EPS impact	\$ 0.07	\$ 0.03

Revenues were \$4 million and \$5 million higher for the three months ended April 29, 2022 and April 30, 2021, respectively, due to net revenue recognized from performance obligations satisfied in prior periods.

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

Disaggregation of Revenues

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

Disaggregated revenues by customer were as follows:

	Three Months Ended	
	April 29, 2022	April 30, 2021
	(in millions)	
Department of Defense	\$ 946	\$ 920
Other federal government agencies	1,013	923
Commercial, state and local	37	35
Total	\$ 1,996	\$ 1,878

Disaggregated revenues by contract-type were as follows:

	Three Months Ended	
	April 29, 2022	April 30, 2021
	(in millions)	
Cost reimbursement	\$ 1,095	\$ 990
Time and materials (T&M)	386	411
Firm-fixed price (FFP)	515	477
Total	\$ 1,996	\$ 1,878

Disaggregated revenues by prime versus subcontractor were as follows:

	Three Months Ended	
	April 29, 2022	April 30, 2021
	(in millions)	
Prime contractor to federal government	\$ 1,822	\$ 1,690
Subcontractor to federal government	137	153
Other	37	35
Total	\$ 1,996	\$ 1,878

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

Contract Balances

Contract balances for the periods presented were as follows:

	Balance Sheet line item	April 29, 2022	January 28, 2022
		(in millions)	
Billed and billable receivables, net ⁽¹⁾	Receivables, net	\$ 675	\$ 615
Contract assets - unbillable receivables	Receivables, net	429	400
Contract assets - contract retentions	Other assets	17	17
Contract liabilities - current	Accounts payable and accrued liabilities	44	55
Contract liabilities - non-current	Other long-term liabilities	\$ 8	\$ 9

(1) Net of allowance of \$4 million as of April 29, 2022 and January 28, 2022.

During the three months ended April 29, 2022 and April 30, 2021, the Company recognized revenues of \$27 million and \$50 million relating to amounts that were included in the opening balance of contract liabilities as of January 28, 2022 and January 29, 2021, respectively.

Remaining Performance Obligations

As of April 29, 2022, the Company had \$4.8 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.

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. During the three months ended April 29, 2022, the Company recognized revenue of \$23 million from the exercise of purchase options under certain lessor arrangements. Operating lease income was immaterial for the three months ended April 29, 2022 and \$9 million for the three months ended April 30, 2021.

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

Note 4—Acquisitions:

Halfaker

On July 2, 2021, the Company completed the acquisition of Halfaker, a mission focused, pure-play health IT company for a purchase price of \$228 million, net of \$3 million cash acquired. The Company funded the transaction from increased borrowings and cash on hand. During the first quarter of fiscal 2023, the Company made fair value adjustments decreasing goodwill and increasing customer relationships intangible assets by \$2 million. As of April 29, 2022, the Company has completed the determination of fair values of the acquired assets and liabilities assumed. The allocation of the purchase price resulted in goodwill of \$104 million and intangible assets of \$114 million, both of which are deductible for income tax purposes. The recognized goodwill is primarily associated with future customer relationships and an acquired assembled work force. The intangible assets consist of customer relationships of \$97 million and backlog of \$17 million that will be amortized over a period of nine years and one year, respectively. The Company made additional cash payments of \$21 million in March 2022 associated with certain change in control provisions that are recognized as post-combination expense.

Koverse

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 purchase price of \$30 million, net of \$2 million cash acquired. The purchase price included \$3 million of contingent consideration, representing the acquisition date fair value recognized for up to \$27 million gross of potential future earnout payments based on the achievement of certain revenue targets over the next four years. The Company has completed the allocation of the purchase price which resulted in goodwill of \$21 million and intangible assets of \$10 million, which are both 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 of post-combination compensation expense associated with certain employee retention agreements over a two year period.

Note 5—Goodwill and Intangible Assets:

Goodwill

Goodwill had a carrying value of \$2,911 million and \$2,913 million as of April 29, 2022 and January 28, 2022, respectively. There were no impairments of goodwill during the periods presented.

Intangible Assets

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

	April 29, 2022			January 28, 2022		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
	(in millions)					
Customer relationships	\$ 1,467	\$ (378)	\$ 1,089	\$ 1,467	\$ (351)	\$ 1,116
Backlog	17	(14)	3	17	(10)	7
Developed technology	10	(2)	8	10	(2)	8
Trade name	1	—	1	1	—	1
Total intangible assets	\$ 1,495	\$ (394)	\$ 1,101	\$ 1,495	\$ (363)	\$ 1,132

Amortization expense related to intangible assets was \$33 million and \$32 million for the three months ended April 29, 2022 and April 30, 2021, respectively. There were no intangible asset impairment losses during the periods presented.

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As of April 29, 2022, the estimated future annual amortization expense related to intangible assets is as follows:

Fiscal Year	(in millions)
Remainder of 2023	\$ 92
2024	115
2025	115
2026	115
2027	115
Thereafter	549
Total	\$ 1,101

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 22.0% and 22.5% for the three months ended April 29, 2022 and April 30, 2021, respectively. The Company's effective tax rate was lower for the three months ended April 29, 2022 compared to the prior year period primarily due to an increased deduction for foreign-derived intangible income. Tax rates for the three months ended April 29, 2022 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, and other permanent book tax differences.

Note 7—Debt Obligations:

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

	April 29, 2022				January 28, 2022			
	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	2.51 %	2.84 %	\$ 731	\$ (3)	\$ 728	\$ 785	\$ (5)	\$ 780
Term Loan A2 Facility due October 2023	2.51 %	2.67 %	99	—	99	100	—	100
Term Loan B Facility due October 2025	2.64 %	2.84 %	979	(7)	972	983	(7)	976
Term Loan B2 Facility due March 2027	2.64 %	3.04 %	272	(5)	267	272	(5)	267
Senior Notes due April 2028	4.88 %	5.04 %	400	(5)	395	400	(5)	395
Total long-term debt			\$ 2,481	\$ (20)	\$ 2,461	\$ 2,540	\$ (22)	\$ 2,518
Less current portion			119	—	119	148	—	148
Total long-term debt, net of current portion			\$ 2,362	\$ (20)	\$ 2,342	\$ 2,392	\$ (22)	\$ 2,370

As of April 29, 2022, the Company has a \$2.5 billion credit facility (the Credit Facility) consisting of a secured Term Loan A Facility due October 2023, a secured Term Loan A2 Facility due October 2023, a secured Term Loan B Facility due October 2025, a 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 April 29, 2022. As of April 29, 2022, the Company was in compliance with the covenants under its Credit Facility.

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As of April 29, 2022 and January 28, 2022, 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 April 29, 2022	Pay Fixed Rate	Receive Variable Rate	Settlement and Termination	Fair Value of (Liability) Asset ⁽¹⁾ at	
					April 29, 2022	January 28, 2022
	(in millions)				(in millions)	
Interest rate swaps #1	\$ 685	3.07 %	1-month LIBOR	Monthly through October 31, 2025	\$ (4)	\$ (39)
Interest rate swaps #2	538	2.49 %	1-month LIBOR	Monthly through October 31, 2023	2	(12)
Total	\$ 1,223				\$ (2)	\$ (51)

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

The Company is party to fixed interest rate swap instruments that are designated and accounted for as cash flow hedges to manage risks associated with interest rate fluctuations on a portion of the Company's floating rate debt. The counterparties to all swap agreements are financial institutions. 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 \$5 million of unrealized losses from accumulated other comprehensive loss into earnings in the twelve months following April 29, 2022.

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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 April 29, 2022			
Balance at January 28, 2022	\$ (38)	\$ 1	\$ (37)
Other comprehensive income before reclassifications	42	—	42
Amounts reclassified from accumulated other comprehensive loss	8	—	8
Income tax impact	(13)	—	(13)
Net other comprehensive income	37	—	37
Balance at April 29, 2022	\$ (1)	\$ 1	\$ —
Three months ended April 30, 2021			
Balance at January 29, 2021	\$ (86)	\$ (3)	\$ (89)
Other comprehensive income before reclassifications	10	—	10
Amounts reclassified from accumulated other comprehensive loss	9	—	9
Income tax impact	(5)	—	(5)
Net other comprehensive income	14	—	14
Balance at April 30, 2021	\$ (72)	\$ (3)	\$ (75)

⁽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. Effective March 31, 2022, the Company amended the MARPA Facility to transition the purchase discount rate defined within the facility agreement from using LIBOR to Term Secured Overnight Finance Rate (SOFR). The amendment did not have a material impact on the Company's condensed and consolidated financial statements.

During the three months ended April 29, 2022 and April 30, 2021, the Company incurred purchase discount fees of \$1 million, which are presented in Other (income) expense, net on the condensed and consolidated statements of income.

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MARPA Facility activity consisted of the following:

	Three Months Ended	
	April 29, 2022	April 30, 2021
	(in millions)	
Beginning balance	\$ 200	\$ 185
Sale of receivables	934	836
Cash collections	(934)	(821)
Outstanding balance sold to Purchaser ⁽¹⁾	200	200
Cash collected, not remitted to Purchaser ⁽²⁾	(22)	(42)
Remaining sold receivables	\$ 178	\$ 158

- (1) There was no net impact to cash flows from operating activities from sold receivables for the three months ended April 29, 2022. For the three months ended April 30, 2021, the Company recorded a net increase to cash flows from operating activities of \$15 million from sold receivables.
- (2) Primarily represents the cash collected on behalf of but not yet remitted to the Purchaser as of April 29, 2022 and April 30, 2021. 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.

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.

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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 April 29, 2022, the Company has recorded a total liability of \$14 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 April 29, 2022, 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 2023 began on January 29, 2022 and ends on February 3, 2023, while fiscal 2022 began on January 30, 2021 and ended 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 technology service providers to the U.S. government, we serve markets of significant scale and opportunity. Our primary customers are the departments and agencies of the U.S. government. We serve our customers through approximately 1,900 active contracts and task orders and employ approximately 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 months ended April 29, 2022, 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 March 2022 provided full funding for the federal government through the end of government fiscal year 2022. In October 2021, the Federal debt ceiling was increased by \$480 billion and in December 2021 was further increased by \$2.5 trillion which is expected to allow the U.S. government to operate into 2023. It is unlikely but possible these measures could expire without extension and lead to a partial or full government shutdown.

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, extreme inflationary increases adversely impacting fixed price contracts, inability to increase or suspend the Federal debt ceiling, and potential government shutdowns.

Spending packages, including the infrastructure bill and future potential spending packages, 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.

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

We succeed as a business based on the solutions we deliver, our past performance, and our ability to compete on price. Our solutions are inspired through innovation based on adoption of best practices and technology integration of the best capabilities available. Our past performance was achieved by employees dedicated to supporting our customers' most challenging missions. Our current cost structure and ongoing efforts to reduce costs by strategic sourcing and developing repeatable offerings sold "as a service" and as managed services in a more commercial business model are expected to allow us to compete effectively on price in an evolving environment. 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.

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.

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. In December 2021, a federal district judge issued an order, which temporarily enjoined the federal contractor vaccine mandate. We had taken steps to comply with the vaccine mandate across our workforce until it was enjoined. 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. While we continue to navigate the impacts of the COVID-19 pandemic, COVID-19 did not have as significant an impact on revenues and operating income as compared to the prior year. The full extent of the impact of COVID-19 on our business and our operational and financial performance will depend on future developments, including the duration and spread of the pandemic, all of which are uncertain and cannot be predicted.

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		
	April 29, 2022	Percent change	April 30, 2021
	(dollars in millions)		
Revenues	\$ 1,996	6 %	\$ 1,878
Cost of revenues	1,770	7 %	1,661
<i>As a percentage of revenues</i>	88.7 %		88.4 %
Selling, general and administrative expenses	92	15 %	80
Acquisition and integration costs	9	(10 %)	10
Other operating income	—	(100 %)	(3)
Operating income	125	(4 %)	130
<i>As a percentage of revenues</i>	6.3 %		6.9 %
Net income attributable to common stockholders	\$ 73	(10 %)	\$ 81
Net cash provided by operating activities	\$ 118	(38 %)	\$ 189

Revenues. Revenues increased \$118 million for the three months ended April 29, 2022 as compared to the same period in the prior year primarily due to ramp up on new and existing contracts and the acquisition of Halfaker (approximately \$42 million), partially offset by contract completions. Adjusting for the impact of acquired revenues and divested revenues, revenues grew 3.9% primarily due to ramp up on new and existing contracts.

Cost of Revenues. Cost of revenues increased \$109 million for the three months ended April 29, 2022 as compared to the same period in the prior year primarily due to ramp up on new and existing contracts and the acquisition of Halfaker.

Selling, General and Administrative Expenses. SG&A increased \$12 million for the three months ended April 29, 2022 as compared to the same period in the prior year primarily due to higher indirect expenses and the acquisition of Halfaker.

Operating Income. Operating income as a percentage of revenues for the three months ended April 29, 2022 decreased from the comparable prior year period primarily due to higher indirect costs in the current year period and higher benefit from net favorable settlement of prior indirect rate years in the prior year period, partially offset by improved profitability across our contract portfolio.

Net Cash Provided by Operating Activities. Net cash provided by operating activities was \$118 million for the three months ended April 29, 2022, a decrease of \$71 million compared to the prior year, primarily due to lower net earnings, cash payments during the quarter associated with certain change in control provisions related to the acquisition of Halfaker, and timing of customer collections and vendor disbursements.

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 Halfaker and Koverse in fiscal 2022 and Unisys Federal in fiscal 2021.

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	
	April 29, 2022	April 30, 2021
	(in millions)	
Net income	\$ 74	\$ 82
Interest expense and loss on sale of receivables	28	28
Provision for income taxes	21	23
Depreciation and amortization	41	42
EBITDA	164	175
<i>EBITDA as a percentage of revenues</i>	<i>8.2 %</i>	<i>9.3 %</i>
Acquisition and integration costs	9	10
Depreciation included in acquisition and integration costs	—	(1)
Adjusted EBITDA	\$ 173	\$ 184
<i>Adjusted EBITDA as a percentage of revenues</i>	<i>8.7 %</i>	<i>9.8 %</i>

Adjusted EBITDA as a percentage of revenues for the three months ended April 29, 2022 decreased to 8.7% from 9.8% for the same period in the prior year primarily due to higher indirect costs in the current year period and higher benefit from net favorable settlement of prior indirect rate years in the prior year period, partially offset by improved profitability across our contract portfolio.

Other Key Performance Measures

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

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

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

We segregate our backlog into two categories as follows:

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

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:

	April 29, 2022	January 28, 2022
	(in millions)	
Funded backlog	\$ 3,218	\$ 3,491
Negotiated unfunded backlog	20,894	20,601
Total backlog	\$ 24,112	\$ 24,092

We had net bookings worth an estimated \$2.0 billion during the three months ended April 29, 2022. Total backlog at the end of the first quarter is consistent with our total backlog at prior year end.

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

	Three Months Ended	
	April 29, 2022	April 30, 2021
Cost reimbursement	55 %	53 %
Time and materials (T&M)	19 %	22 %
Firm-fixed price (FFP)	26 %	25 %
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	
	April 29, 2022	April 30, 2021
	(as a % of total cost of revenues)	
Labor-related cost of revenues	54 %	54 %
Subcontractor-related cost of revenues	29 %	29 %
Supply chain materials-related cost of revenues	7 %	8 %
Other materials-related cost of revenues	10 %	9 %
Total	100 %	100 %

Cost of revenues mix for the three months ended April 29, 2022 were consistent with the same period in the prior year.

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 MARPA Facility.

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

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

Beginning in fiscal 2023, the Tax Cuts and Jobs Act of 2017 requires the capitalization of research and development costs for tax purposes, which can then be amortized over five years. Congress has proposed tax legislation to delay the effective date of this change to 2026, but it is uncertain whether the proposed legislation will ultimately be enacted into law. If the current effective date and current legislation remains in place, the Company's initial assessment is that our cash flows from operations in fiscal 2023 will decrease by a minimum of \$90 million, but our net deferred tax assets will increase by a similar amount.

Historical Cash Flow Trends

The following table summarizes our cash flows:

	Three Months Ended	
	April 29, 2022	April 30, 2021
	(in millions)	
Net cash provided by operating activities	\$ 118	\$ 189
Net cash used in investing activities	(6)	(4)
Net cash used in financing activities	(162)	(95)
Net (decrease) increase in cash, cash equivalents and restricted cash	\$ (50)	\$ 90

Net Cash Provided by Operating Activities. Refer to "Results of Operations" above for a discussion of the changes in cash provided by operating activities between the three months ended April 29, 2022 and the comparable prior year period.

Net Cash Used in Investing Activities. Cash used in investing activities for the three months ended April 29, 2022 increased compared to the prior year period primarily due to proceeds from divestitures in the prior year period, partially offset by lower capital expenditures for property, plant, and equipment.

Net Cash Used in Financing Activities. Cash used in financing activities for the three months ended April 29, 2022 increased compared to the prior year period as a result of higher term loan principal payments in the current year period and higher share repurchases.

Critical Accounting Policies

There have been no changes to our critical accounting policies during the three months ended April 29, 2022 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 April 29, 2022 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 2022 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 2022 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 April 29, 2022:

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⁾
January 29, 2022 - March 4, 2022	377,903	\$ 83.03	377,903	1,657,583
March 5, 2022 - April 1, 2022	215,282	89.91	204,249	1,453,334
April 2, 2022 - April 29, 2022	205,219	88.46	205,219	1,248,115
Total	798,404	\$ 86.28	787,371	

(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 April 29, 2022, we have repurchased approximately 15.2 million shares of common stock under the program. Subsequent to the end of the quarter, the number of shares that may be repurchased increased by approximately 8.0 million shares, bringing the total authorized shares to be repurchased under the plan to approximately 24.4 million shares.

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: June 6, 2022

Science Applications International Corporation

/s/ Prabu Natarajan

Prabu Natarajan
Executive Vice President and Chief Financial Officer

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

I, Nazzic S. Keene, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended April 29, 2022 of Science Applications International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 6, 2022

/s/ Nazzic S. Keene

**Nazzic S. Keene
Chief Executive Officer**

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

I, Prabu Natarajan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended April 29, 2022 of Science Applications International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 6, 2022

/s/ Prabu Natarajan

Prabu Natarajan
Chief Financial Officer

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

In connection with the Quarterly Report of Science Applications International Corporation (the "Company") on Form 10-Q for the period ended April 29, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nazzic S. Keene, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Date: June 6, 2022

/s/ Nazzic S. Keene

Nazzic S. Keene
Chief Executive Officer

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

In connection with the Quarterly Report of Science Applications International Corporation (the "Company") on Form 10-Q for the period ended April 29, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Prabu Natarajan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Date: June 6, 2022

/s/ Prabu Natarajan

**Prabu Natarajan
Chief Financial Officer**