UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K/A

(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 13, 2020

Science Applications International Corporation
(Exact name of registrant as specified in its charter)

Delaware	001-35832	46-1932921
(State or other Jurisdiction of Incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

12010 Sunset Hills Road, Reston, VA 20190
(Address of Principal Executive Offices) (Zip Code)

(703) 676-4300
Registrant's telephone number, including area code

Not Applicable
(Former name or former address if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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 is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

Explanatory Note

This Current Report on Form 8-K/A is filed as an amendment (Amendment No. 1) to the Current Report on Form 8-K filed on March 16, 2020 by Science Applications International Corporation ("the Company") (the "Initial 8-K") in order to provide financial information required by Item 9.01. As previously reported in the Initial 8-K, on March 13, 2020, the Company completed the acquisition of Unisys Federal, an operating unit of Unisys Corporation ("Unisys"), pursuant to an Asset Purchase Agreement, dated as of February 5, 2019 (the "Asset Purchase Agreement") by and between the Company and Unisys. The foregoing description of the Asset Purchase Agreement and the transactions contemplated therein is not complete and is subject to, and qualified in its entirety by, the full text of the Asset Purchase Agreement, which is attached as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on February 6, 2020 and incorporated herein by reference.

Items and exhibits previously reported in the Initial 8-K that are not included in this Amendment No. 1 remain unchanged.

Item 9.01. *Financial Statements and Exhibits*

(a) Financial statements of businesses acquired.

The audited combined financial statements of Unisys Federal, an operating unit of Unisys Corporation, as of and for the year ended December 31, 2019, are attached as Exhibit 99.2 to this Amendment No. 1 and are incorporated herein by reference.

(b) Pro forma financial information.

The unaudited pro forma condensed, consolidated, and combined financial information as of and for the twelve months ended January 31, 2020 is filed as Exhibit 99.3 to this Amendment No. 1 and is incorporated herein by reference.

(d) Exhibits.

Exhibit Number	Description of Exhibit
2.1	Asset Purchase Agreement, dated February 5, 2020, by and among Science Applications International Corporation, Inc., a Delaware corporation and Unisys Corporation, a Delaware corporation. Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K as filed with the SEC on February 6, 2020.
23.1	Consent of KPMG LLP, independent auditors of Unisys Federal.
99.1	Press Release, dated March 16, 2020. Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K as filed with the SEC on March 16, 2020.
99.2	Audited combined financial statements of Unisys Federal as of and for the year ended December 31, 2019.
99.3	Unaudited pro forma condensed, consolidated, and combined financial information as of and for the twelve months ended January 31, 2020.
101	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document
104	The cover page from this Current Report on Form 8-K, 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 hereunto duly authorized.

Date: April 22, 2020

Science Applications International Corporation

By: /s/ Steven G. Mahon

Steven G. Mahon
Executive Vice President, General Counsel and Corporate Secretary

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the registration statements (No. 333-191436, No. 333-203222, and No. 333-229254) on Form S-8 of Science Applications International Corporation of our report dated February 20, 2020, with respect to the combined balance sheet of Federal (A Business of Unisys Corporation) as of December 31, 2019, the related combined statements of income, cash flows and changes in net parent investment for the year then ended, and the related notes, which report appears in this Form 8-K/A of Science Applications International Corporation dated April 22, 2020. Our report refers to the adoption of Accounting Standards Update No. 2016-02, Leases (Topic 842).

/s/ KPMG LLP

Philadelphia, Pennsylvania
April 22, 2020

Exhibit 99.2

Federal
(A Business of Unisys Corporation)

Combined Financial Statements

As of and for the year ended December 31, 2019

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Independent Auditors' Report

The Board of Directors
Unisys Corporation:

We have audited the accompanying combined financial statements of Federal (A Business of Unisys Corporation), which comprise the combined balance sheet as of December 31, 2019, and the related combined statements of income, cash flows and changes in net parent investment for the year then ended, and the related notes to the combined statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with US. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Federal (A Business of Unisys Corporation) as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with US. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 3 to the combined financial statements, in 2019, Federal (A Business of Unisys Corporation) adopted Accounting Standards Update No. 2016-02, Leases (Topic 842). Our opinion is not modified with respect to this matter.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 20, 2020

COMBINED STATEMENT OF INCOME
(MILLIONS)

Year ended December 31,		**2019**
Revenue	$	725.9
Costs and Expenses:		
Cost of Revenue *(Note 1)*		600.7
Selling, general and administrative expenses *(Note 1)*		55.9
Research and development expenses *(Note 1)*		2.5
Income before income taxes		66.8
Provision for income taxes *(Note 5)*		17.4
Combined net income	$	49.4

See notes to combined financial statements.

(U.S. dollars in millions, except where otherwise noted)

COMBINED BALANCE SHEET
(MILLIONS)

As of December 31,		2019
Assets		
Current assets:		
Cash and cash equivalents	$	—
Accounts receivable, net		77.3
Contract assets *(Note 7)*		14.6
Prepaid expenses and other current assets		17.4
Total current assets		109.3
Properties *(Note 9)*		22.0
Less - Accumulated depreciation and amortization		13.6
Properties, net		8.4
Operating lease right-of-use assets *(Note 4)*		55.7
Deferred income taxes *(Note 5)*		23.3
Goodwill *(Note 10)*		66.8
Other long-term assets		2.9
Total assets	$	266.4
Liabilities and net Parent investment		
Current liabilities:		
Short-term operating lease liabilities *(Note 4)*	$	35.9
Accounts payable		45.0
Deferred revenue *(Note 7)*		42.2
Other accrued liabilities *(Note 11)*		20.6
Total current liabilities		143.7
Long-term operating lease liabilities *(Note 4)*		27.6
Other long-term liabilities		0.7
Total liabilities		172.0
Commitments and contingencies *(Notes 4 and 13)*		
Net Parent investment		
Net Parent investment		94.4
Total liabilities and net Parent investment	$	266.4

See notes to combined financial statements.

(U.S. dollars in millions, except where otherwise noted)

COMBINED STATEMENT OF CASH FLOWS
(MILLIONS)

Year ended December 31,		2019
Cash flows from operating activities		
Combined net income	$	49.4
Adjustments to reconcile combined net income to net cash provided by operating activities:		
Depreciation and amortization		2.3
Other non-cash operating activities		0.2
Changes in operating assets and liabilities:		
Accounts receivable, net		2.6
Inventories		(1.6)
Other assets		(15.9)
Accounts payable and other accrued liabilities		45.0
Other liabilities		(8.7)
Net cash provided by operating activities		73.3
Cash flows from investing activities		
Capital additions		(1.6)
Net cash used for investing activities		(1.6)
Cash flows from financing activities		
Net transfers to Parent		(72.0)
Other		0.3
Net cash used for financing activities		(71.7)
Increase in cash and cash equivalents		—
Cash and cash equivalents, beginning of year		—
Cash and cash equivalents, end of year	$	—

See notes to combined financial statements.

COMBINED STATEMENT OF CHANGES IN NET PARENT INVESTMENT (MILLIONS)

	Net parent investment
Balance as of January 1, 2019	$ 117.0
Net income	49.4
Net transfers to Parent	(72.0)
Balance as of December 31, 2019	$ 94.4

See notes to combined financial statements.

(U.S. dollars in millions, except where otherwise noted)

FEDERAL
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1 - Description of business and basis of presentation

Description of business:

Federal ("Federal", "we", "our", "us", or the "Company") is an information technology company that builds high performance, security centric solutions for clients across the US federal government market. Federal's offerings include software and services; digital transformation and workplace services; and innovative software operating environments for high-intensity enterprise computing.

Basis of presentation:

We have historically operated as part of Unisys Corporation ("Unisys" or "Parent") and not as a standalone entity. Our combined financial statements present the results of operations, financial position, and cash flows prepared on a standalone basis and have been derived from the consolidated financial statements and accounting records of our Parent. All revenues and costs, as well as assets and liabilities, that are either legally attributable to us or are directly associated with our business activities are included in our combined financial statements. Intercompany transactions between the Company and Unisys have been eliminated in preparing the combined balance sheet. All significant transactions with our Parent are deemed to have been paid in the period the costs were incurred. Our combined financial statements have been derived from the accounting records of the Parent, using the historical results of operations and the historical bases of assets and liabilities of the Company, and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Our combined statement of income includes allocations of certain expenses for services provided by Unisys. All of these expenses have been allocated on a basis considered reasonable by management, using either specific identification, such as direct usage or headcount when identifiable, or proportional allocations determined with reference to time incurred, relative to revenues, or other reasonable methods of allocation. Amounts allocated on a proportional basis relate to certain corporate functions and are reflective of the time and effort expended in the provision of these corporate functions to us.

Corporate allocations during the year ended December 31, 2019 were as follows:

Year ended December 31, 2019	Cost of Revenue	SG&A	R&D	Total
Corporate staff	$ —	$ 2.5	$ —	$ 2.5
Facilities	1.5	2.8	—	4.3
Finance	—	2.1	—	2.1
HR	0.4	2.9	—	3.3
IT	5.9	0.4	—	6.3
Legal	—	2.1	—	2.1
Marketing	—	6.2	—	6.2
Research and development	—	—	2.5	2.5
Restricted stock units	—	1.3	—	1.3
Sales	—	1.3	—	1.3
Platform to sales	1.9	0.2	—	2.1
Corporate admin and corporate other	0.7	5.9	—	6.6
Total	$ 10.4	$ 27.7	$ 2.5	$ 40.6

The allocations referred to above may not, however, reflect all actual expenses we would have incurred and may not reflect the combined results of operations, financial position, and cash flows had we operated as a standalone company during the year presented. The amount of actual costs that may have been incurred if we were a standalone company would depend on a number of factors, including our chosen organizational structure, which functions were performed by our employees or outsourced, and strategic decisions made in areas such as information technology and infrastructure.

Unisys centrally manages substantially all of our financial resources. We finance our operating and capital requirements through cash provided by operations. Long-term debt held at the Unisys corporate level was retained by Unisys and was not assumed by the Company. Accordingly, these combined financial statements do not reflect debt on the combined balance sheet or interest expense in the combined statement of income.

Note 2 - Summary of significant accounting policies

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events. These estimates and assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and the reported amounts of revenue and expenses. Such estimates include the valuation of accounts receivable, contract assets, inventories, operating lease right-of-use ("ROU") assets, goodwill and other long-lived assets, and income taxes, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

Cash and cash equivalents

Unisys uses a centralized approach to cash management. Cash and cash equivalents consist of cash on hand. As of December 31, 2019, Federal had a negligible cash balance on its combined balance sheet, as Federal's cash and cash equivalents are swept to Unisys daily as part of the centralized approach to cash management.

Properties

Properties are carried at cost and are depreciated over the estimated lives of such assets using the straight-line method. The estimated lives used, in years, are as follows: machinery and office equipment, 4 - 7; internal-use software, 3 - 10; and leasehold improvements, 4 - 15.

Shipping and handling

Costs related to shipping and handling are included in cost of revenue.

Goodwill

Historically, Unisys has recorded Goodwill in situations where they have acquired a business and there is excess of the acquisition cost over the fair value of the acquired identifiable assets, liabilities, and contingent liabilities of the entity recognized at the date of acquisition. Goodwill is initially recognized as an asset and is subsequently measured at cost less any accumulated impairment losses.

Unisys has not made any specific acquisitions directly for Federal, therefore there is no Goodwill which is directly attributable to the Company for these financial statements. However, Federal has benefitted from various acquisitions causing management to allocate a portion of Goodwill to the Company. To determine the amount allocated, management determined the relative fair value of Federal compared to Unisys, using the most reliable information available. This resulted in an allocation of $66.8 million of Goodwill to Federal's standalone financial statements.

Revenue recognition

Revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods and services to a customer. The Company determines revenue recognition using the following five steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the Company satisfies a performance obligation.

Revenue includes payments for shipping and handling activities.

At contract inception, the Company assesses the goods and services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either: (1) a good or service (or a bundle of goods or services) that is distinct or (2) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. The Company recognizes revenue only when it satisfies a performance obligation by transferring a promised good or service to a customer.

The Company must apply its judgment to determine the timing of the satisfaction of performance obligations as well as the transaction price and the amounts allocated to performance obligations including estimating variable consideration, adjusting the consideration for the effects of the time value of money and assessing whether an estimate of variable consideration is constrained.

Revenue from hardware sales is recognized upon the transfer of control to a customer, which is defined as an entity’s ability to direct the use of and obtain substantially all the remaining benefits of an asset.

Revenue from software licenses is recognized at the inception of either the initial license term or the inception of an extension or renewal to the license term.

Revenue for operating leases is recognized on a monthly basis over the term of the lease.

Revenue from equipment and software maintenance and post-contract support is recognized on a straight-line basis as earned over the terms of the respective contracts. Cost related to such contracts is recognized as incurred.

Revenue and profit under systems integration contracts are recognized over time as the Company transfers control of goods or services. The Company measures its progress toward satisfaction of its performance obligations using the cost-to-cost method, or when services have been performed, depending on the nature of the project. For contracts accounted for using the cost-to-cost method, revenue and profit recognized in any given accounting period are based on estimates of total projected contract costs. The estimates are continually reevaluated and revised, when necessary, throughout the life of a contract. Any adjustments to revenue and profit resulting from changes in estimates are accounted for in the period of the change in estimate. When estimates indicate that a loss will be incurred on a contract upon completion, a provision for the expected loss is recorded in the period in which the loss becomes evident.

Revenue from time and materials service contracts and outsourcing contracts is recognized as the services are provided using either an objective measure of output or on a straight-line basis over the term of the contract. The Company also enters into multiple-element arrangements, which may include any combination of hardware, software or services. For example, a client may purchase an enterprise server that includes operating system software. In addition, the arrangement may include post-contract support for the software and a contract for post-warranty maintenance for service of the hardware. These arrangements consist of multiple performance obligations, with control over hardware and software transferred in one reporting period and the software support and hardware maintenance services performed across multiple reporting periods. In another example, the Company may provide desktop managed services to a client on a long-term multiple-year basis and periodically sell hardware and license software products to the client. The services are provided on a continuous basis across multiple reporting periods and control over the hardware and software products occurs in one reporting period. To the extent that a performance obligation in a multiple-deliverable arrangement is subject to specific guidance, that performance obligation is accounted for in accordance with such specific guidance. An example of such an arrangement may include leased assets which are subject to specific leasing accounting guidance.

The Company allocates the total transaction price to be earned under an arrangement among the various performance obligations in proportion to their standalone selling prices (relative standalone selling price basis). The standalone selling price for a performance obligation is the price at which the Company would sell a promised good or service separately to a customer.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Many of the Company's contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each performance obligation using its best estimate of the standalone selling price of each distinct good or service in the contract. The primary methods used to estimate standalone selling price are as follows: (1) the expected cost-plus margin approach, under which the Company forecasts its expected costs of satisfying a performance obligation and then adds an appropriate margin for that distinct good or service and (2) the percent discount from list price approach.

For service agreements, substantially all the Company's performance obligations are satisfied over time as work progresses and therefore substantially all the revenue is recognized over time. The Company generally receives payment for these contracts over time as the performance obligations are satisfied.

For technology agreements, substantially all of the Company's goods and services are transferred to customers at a single point in time. Revenue on these contracts is recognized when control over the product is transferred to the customer or a software license term begins. The Company generally receives payment for these contracts upon signature or within 30 to 60 days.

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables, contract assets, and deferred revenue (contract liabilities).

Deposit liabilities represent upfront consideration received from customers for services such as post-contract support and maintenance that allow the customer to terminate the contract at any time for convenience.

The Company's incremental direct costs of obtaining a contract consist of sales commissions which are deferred and amortized ratably over the initial contract life. These costs are classified as current or noncurrent based on the timing of when the Company expects to recognize the expense. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other current assets and in other long-term assets, respectively, in the Company's combined balance sheet. These costs are amortized over the initial contract life and reported in selling, general and administrative. Recoverability of these costs are subject to various business risks. Quarterly, the Company compares the carrying value of these assets with the undiscounted future cash flows expected to be generated by them to determine if there is impairment. If impaired, these assets are reduced to an estimated fair value on a discounted cash flow basis. The Company prepares its cash flow estimates based on assumptions that it believes to be reasonable but are also inherently uncertain. Actual cash flows could differ from these estimates.

Income taxes

Income taxes are based on income before taxes for financial reporting purposes and changes in deferred taxes. Current income tax liabilities are assumed to be immediately settled with our Parent within the net parent investment account. Deferred tax assets or liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax laws and rates. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the asset will not be realized. The Company recognizes penalties and interest accrued related to income tax liabilities in provision for income taxes in its combined statement of income.

Federal's operations have historically been included in the U.S. federal and state income tax filings of Unisys. In these combined financial statements, Federal's income tax provision has been computed and presented under the separate return method. Under this method, Federal is assumed to file hypothetical separate returns with the tax authorities and report deferred taxes on temporary differences and on any carryforwards that it could claim on its hypothetical returns. Current income tax liabilities are assumed to be immediately settled with Unisys against the net parent investment account.

Internal-use software

The Company capitalizes certain internal and external costs incurred to acquire or create internal-use software, principally related to software coding, designing system interfaces, and installation and testing of the software. These costs are amortized in accordance with the fixed asset policy described above.

Customer Concentration

The Company is exposed to risks related to customer concentration. The Company's combined revenue is derived from sales of commercial services and products to clients across the U.S. federal government market. The U.S. Customs and Border Protection agency, the U.S. Department of Homeland Security, and the Internal Revenue Service each accounted for over 10% of Federal's combined revenue. The aggregate revenue from these three customers in 2019 was approximately 53% of combined revenue. The impact of a U.S. federal government shutdown for a significant duration could result in the suspension of work on contracts in process or in payment delays which could have an adverse effect on the Company's revenue, profit and cash flows.

Note 3 - Recent accounting pronouncements and accounting changes

Accounting pronouncements adopted

Effective January 1, 2019, the Company adopted Accounting Standards Update ("ASU") No. 2016-02 Leases ("Topic 842") issued by the Financial Accounting Standards Board ("FASB") which is intended to improve financial reporting about leasing transactions. Topic 842 requires organizations that lease assets, referred to as lessees, to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The standard also requires disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The Company adopted the new standard using the effective date transition method by applying a cumulative-effect adjustment to the balance sheet through the addition of ROU assets and lease liabilities at January 1, 2019. Prior-period results were not restated.

The Company applied certain practical expedients, including the package of practical expedients, permitted under the transition guidance within Topic 842 to leases that commenced before January 1, 2019. The election of the package of practical expedients resulted in the Company not reassessing prior conclusions under FASB Topic 840 Leases related to lease identification, lease classification and initial direct costs for existing leases at January 1, 2019.

The adoption had a material impact on the combined balance sheet and did not have a material impact on the combined statement of income or combined statement of cash flows as of and for the year ended December 31, 2019. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

Note 4 - Leases and commitments

The Company determines if an arrangement is a lease at inception. This determination generally depends on whether the arrangement conveys to the Company the right to control the use of an explicitly or implicitly identified asset for a period of time in exchange for consideration. Control of an underlying asset is conveyed to the Company if the Company obtains the rights to direct the use of and to obtain substantially all the economic benefits from using the underlying asset. The Company is the lessee in lease agreements that include lease and non-lease components, which the Company accounts for as a single lease component for all personal property leases. The Company also has lease agreements in which it is the lessor that include lease and non-lease components. For these agreements, the Company accounts for these components as a single lease component. Lease expense for variable leases and short-term leases is recognized when the expense is incurred.

Operating leases are included in operating lease ROU assets, short-term operating lease liabilities, and long-term operating lease liabilities on the combined balance sheet. Operating lease ROU assets and lease liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term. Operating lease payments are recognized as lease expense on a straight-line basis over the lease term.

The Company does not have any finance leases.

The Company has not capitalized leases with terms of twelve months or less.

(U.S. dollars in millions, except where otherwise noted)

As most of the Company's leases do not provide an implicit rate, the Company uses Unisys' incremental borrowing rate, based on the information available at the lease commencement date, in determining the present value of lease payments.

The lease term for all of the Company's leases includes the non-cancelable period of the lease plus any additional periods covered by either a Company option to extend (or not to terminate) the lease that the Company is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor.

Lease payments included in the measurement of the lease liability are comprised of fixed payments, variable payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee, and the exercise of the Company option to purchase the underlying asset, if reasonably certain.

Variable lease payments associated with the Company's leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented as an operating expense in the Company's combined statement of income in the same line item as expense arising from fixed lease payments.

The Company uses the long-lived assets impairment guidance in FASB Accounting Standards Codification ("ASC") Subtopic 360-10 Property, Plant, and Equipment to determine whether a ROU asset is impaired, and if so, the amount of the impairment loss to recognize. If impaired, ROU assets for operating leases are reduced for any impairment losses.

The Company monitors for events or changes in circumstances that require a reassessment of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in the combined statement of income.

The Company has commitments under operating leases for certain facilities and equipment used in its operations. The Company's leases generally have initial lease terms ranging from 1 to 8 years, most of which include options to extend or renew the leases for up to 5 years, and some of which may include options to terminate the leases within 1 year. Certain lease agreements contain provisions for future rent increases.

The components of lease expense for the year ended December 31, 2019 were as follows:

		2019
Operating lease cost	$	31.7
Short-term lease costs		1.0
Variable lease cost		2.1
Total lease cost	$	34.8

Approximately 85 percent of the total lease cost is included in cost of revenue on the combined statement of income. The remainder is included in selling, general and administrative expense.

(U.S. dollars in millions, except where otherwise noted)

Supplemental balance sheet information related to leases was as follows:

		2019
Operating Leases		
Operating lease right-of-use assets	$	55.7
Short-term operating lease liabilities		35.9
Long-term operating lease liabilities		27.6
Total operating lease liabilities	$	63.5
Weighted Average of Remaining Term of Operating Leases (in years)		2.85
Weighted Average Discount rate of Operating Leases		6.12%

The amount of cash payments for operating leases included in operating activities is $30.9 million. The amount of ROU assets obtained in exchange for new operating lease liabilities is $52.2 million.

Maturities of operating lease liabilities as of December 31, 2019 were as follows:

Year ending December 31,		2019
2020	$	38.5
2021		10.8
2022		7.5
2023		5.0
2024		4.6
Thereafter		2.8
Total lease payments		69.2
Less imputed interest		5.7
Total	$	63.5

Note 5 - Income taxes

Federal’s operations have historically been included in the U.S. federal and state income tax filings of Unisys. In these combined financial statements, Federal’s income tax provision has been computed and presented under the separate return method. Under this method, Federal is assumed to file hypothetical separate returns with the tax authorities and report deferred taxes on temporary differences and on any carryforwards that it could claim on its hypothetical returns. Current income tax liabilities are assumed to be immediately settled with Unisys against the net parent investment account.

(U.S. dollars in millions, except where otherwise noted)

Following is the total income before income taxes and the provision for income taxes for the year ended December 31, 2019:

Year ended December 31,		2019
Income before income taxes	$	66.8
Provision for income taxes		
Current		28.7
Deferred		(11.3)
Total provision for income taxes	$	17.4

Following is a reconciliation of the provision for income taxes at the United States statutory tax rate to the provision for income taxes as reported:

Year ended December 31,		2019
United States statutory income tax provision	$	14.0
State income taxes, net of federal benefit		3.4
		17.4
Permanent items		0.2
Income tax credits		(0.2)
Provision for income taxes	$	17.4

The tax effects of temporary differences and carryforwards that give rise to significant portions of deferred tax assets and liabilities at December 31, 2019 were as follows:

As of December 31,		2019
Deferred tax assets		
Deferred revenue	$	11.1
Internal-use software		8.0
Employee benefits and compensation		4.1
Depreciation		2.0
Other		0.5
Total deferred tax assets	$	25.7
Deferred tax liabilities		
Goodwill and intangible amortization		2.4
Total deferred tax liabilities	$	2.4
Net deferred tax assets	$	23.3

U.S. GAAP requires a valuation allowance to reduce the deferred tax assets reported if it is more likely than not that some portion or all of the deferred tax assets will not be realized. At December 31, 2019, Federal determined that it is more likely than not that its deferred tax assets would be realized based on tax calculations performed using the separate return approach. As such, no valuation allowance has been recorded for 2019.

The Company recognizes the impact of an uncertain income tax position in the combined financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. At December 31, 2019, there were no unrecognized tax benefits. Accrued interest and penalties on tax positions are recorded as a component of the provision for income taxes. There was no interest and penalties expense for 2019.

(U.S. dollars in millions, except where otherwise noted)

Federal has historically been included in the income tax returns for the U.S. federal, state, and local jurisdictions of Unisys. Unisys is routinely subject to examinations by these various domestic taxing authorities. As of December 31, 2019, there are several U.S. state income tax audits in process, which are not expected to have a material impact on Federal's financial position. Unisys is liable for all historic income tax liabilities as of December 31, 2019.

Note 6 - Accounts receivable

Accounts receivable consist principally of trade accounts receivable from the U.S. government and are generally unsecured and due within 30 to 90 days. The U.S. government has the ability to cancel contracts at any time through a termination for the convenience of the U.S. government. Most of our contracts have cancellation terms that would permit us to recover all or a portion of our incurred costs and contract profit for work performed when the U.S. government issues a termination for convenience.

Net accounts receivable as of December 31, 2019 were as follows:

As of December 31,		2019
Billed revenue	$	35.8
Unbilled revenue		42.0
Reserve		(0.5)
Accounts receivable, net	$	77.3

Note 7 - Contract assets and contract liabilities

Contract assets represent rights to consideration in exchange for goods or services transferred to a customer when that right is conditional on something other than the passage of time. Contract liabilities represent deferred revenue.

Net contract assets (liabilities) as of December 31, 2019 were as follows:

As of December 31,		2019
Contract assets - current	$	14.6
Deferred revenue - current		(42.2)
Deferred revenue - long-term[i]		(0.4)

[i] Reported in other long-term liabilities on the combined balance sheet

As of December 31, 2019, deposit liabilities were $21.5 million and were included in current deferred revenue. These deposit liabilities represent upfront consideration received from customers for services such as post-contract support and maintenance that allow the customer to terminate the contract at any time for convenience.

Significant changes during the year ended December 31, 2019 in the above contract asset and liability balances were as follows:

Year ended December 31,		2019
Revenue recognized that was included in deferred revenue at the beginning of the period	$	17.8

Note 8 - Capitalized contract costs

The Company's incremental direct costs of obtaining a contract consist of sales commissions which are deferred and amortized ratably over the initial contract life. These costs are classified as current or noncurrent based on the timing of when the Company expects to recognize the expense. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other current assets and in other long-term assets, respectively, in the Company's combined balance sheet.

(U.S. dollars in millions, except where otherwise noted)

Deferred commissions as of December 31, 2019 were as follows:

As of December 31,		**2019**
Short-term deferred commissions		1.1
Long-term deferred commissions		2.2
Total deferred commissions	$	3.3

Amortization expense related to deferred commissions for the year ended December 31, 2019 was as follows:

Year ended December 31,		**2019**
Deferred commissions - amortization expense[i]	$	0.7

[i] Reported in selling, general and administrative expense on the combined statement of income

Note 9 - Properties

Net properties as of December 31, 2019 were as follows:

As of December 31,		**2019**
Machinery and office equipment	$	6.7
Leasehold Improvements		3.1
Fixed Assets In-process		3.0
Internal-use software		9.2
Properties, gross		22.0
Total accumulated depreciation and amortization		(13.6)
Properties, net	$	8.4

Note 10 - Goodwill

To determine the amount of Goodwill allocated to the Company, management determined the relative fair value of Federal compared to Unisys, using the most reliable information available. This resulted in $66.8 million of Goodwill being allocated to Federal standalone financials.

Federal’s fair value considerably exceeded carrying value in excess of the amount of Goodwill, therefore no impairment charge is needed for Goodwill allocated to Federal, as of December 31, 2019 or any time during 2019.

Note 11 - Other accrued liabilities

Other accrued liabilities (current) were comprised of the following:

As of December 31,		**2019**
Payrolls and commissions	$	11.1
Accrued vacations		7.1
Other		2.4
Total other accrued liabilities	$	20.6

Note 12 - Employee plans

Defined contribution Federal employees are eligible to participate in a Unisys employee savings plan. Under this plan, employees may contribute a percentage of their pay for investment in various investment alternatives. Unisys matches 50 percent of the first 6 percent of eligible pay contributed by participants to the plan on a before-tax basis (subject to IRS limits). Unisys funds the match with cash. The charge to income related to Federal employees for the year ended December 31, 2019 was $4.6 million and has been included in the combined statement of income. Of this amount, approximately 94% is included in cost of revenue.

Retirement benefits For purposes of these combined financial statements, Unisys' defined benefit pension plans are considered multi-employer plans. Therefore, no asset or liability was recorded for pension obligations on Federal's combined balance sheet as of December 31, 2019, since Unisys has ultimate responsibility for such benefits and obligations.

Accordingly, from a statement of income perspective, the accounting treatment would be similar to a defined contribution plan whereby Federal's combined statement of income would reflect Federal's portion of contributions to the plan for the period as an expense. Unisys does not have any pension plans where Federal employees are accruing service cost, since the plans were amended effective December 31, 2006 ending the accrual of future benefits. The pension expense for the year ended December 31, 2019 for Unisys does not include any service cost, and thus, pension expense has not been allocated to Federal's combined statement of income.

Note 13 - **Litigation and contingencies**

At December 31, 2019, there are no material lawsuits, claims, investigations and proceedings that have been brought or asserted against the Company. For any litigation that would arise, the Company records a provision for these matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Any provisions are reviewed at least quarterly and are adjusted to reflect the impact and status of settlements, rulings, advice of counsel, and other information and events pertinent to a particular matter.

Note 14 - Remaining performance obligations

Remaining performance obligations represent the transaction price of firm orders for which work has not been performed and excludes (1) contracts with an original expected length of one year or less and (2) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed. At December 31, 2019, the Company had approximately $31.9 million of remaining performance obligations of which approximately 80% is estimated to be recognized as revenue by the end of 2020.

Note 15 - Related Party Transactions

The Company has not historically operated as a standalone business and has various relationships with Unisys, whereby Unisys provides services to the Company. The nature of our relationship with Unisys has been described in detail in Note 1.

The allocations of services from Unisys to us were reflected in the combined statement of income. The financial information herein may not necessarily reflect our combined financial position, results of operations and cash flows in the future or what they would have been if we had been a separate, standalone entity during the period presented.

Accounts receivable and accounts payable between us and Unisys have been settled through net parent investment. Activities affecting transfers from and to Parent were services provided by Unisys for Federal projects for $41.9 million and Federal support of Unisys projects for $3.0 million. Other intercompany for Federal expenses including payroll, commission, bonuses, payroll tax, employee insurance, 401k match, legal fees, and others. These intercompany transactions are in addition to the allocations from Unisys.

Note 16 - Subsequent event

The combined financial statements of the Company have been derived from the financial statements of the Parent. Management has evaluated subsequent events through February 20, 2020 for disclosure or recognition in the combined financial statements of the Company as appropriate.

On February 5, 2020, Unisys entered into an agreement to sell its U.S. Federal business for a cash purchase price of $1.2

billion, subject to a net working capital adjustment. The transaction is expected to close in the first half of 2020, subject to customary closing conditions.

Unaudited Pro Forma Condensed, Consolidated, and Combined Financial Information as of and for the Twelve Months Ended January 31, 2020.

The following unaudited pro forma condensed, consolidated, and combined financial statements of Science Applications International Corporation ("SAIC") and the Unisys Federal operating unit ("Unisys Federal") of Unisys Corporation (the "pro forma financial statements") include an unaudited pro forma condensed, consolidated, and combined balance sheet (the "pro forma balance sheet") as of January 31, 2020 and unaudited pro forma condensed, consolidated, and combined statement of income for the twelve months ended January 31, 2020 (the "pro forma statement of income") after giving effect to the acquisition of substantially all the assets and liabilities of Unisys Federal by SAIC (the "Acquisition").

The pro forma balance sheet as of January 31, 2020 has been presented as if the Acquisition had occurred on such date. The pro forma statement of income for the twelve months ended January 31, 2020 has been prepared as if the Acquisition had occurred on February 2, 2019, the beginning of the fiscal period. The historical financial information has been adjusted in the pro forma financial statements to give effect to pro forma events that are (1) directly attributable to the Acquisition, (2) factually supportable, and (3) with respect to the pro forma statement of income, expected to have a continuing impact on the results of operations of the combined business.

The pro forma financial statements are for informational purposes only and are not intended to represent or to be indicative of the actual results of operations or financial position that the combined SAIC and Unisys Federal business would have reported had the Acquisition been completed as of the dates set forth in the pro forma financial statements, and should not be taken as being indicative of SAIC's future consolidated results of operations or financial position.

The pro forma financial statements have been derived and should be read in conjunction with the accompanying notes to the pro forma financial statements included herein and the historical consolidated financial statements and related notes of each of SAIC and Unisys as of and for the applicable periods, which can be found, along with the annual, quarterly and current reports of each of SAIC and Unisys, on the website of the U.S. Securities and Exchange Commission at http://www.sec.gov.

UNAUDITED PRO FORMA CONDENSED, CONSOLIDATED, AND COMBINED BALANCE SHEET
As of January 31, 2020

	Historical				
	SAIC as of January 31, 2020	Unisys Federal as of December 31, 2019	Pro Forma Adjustments	Footnote Reference	Pro Forma Combined
		(in millions)			
ASSETS					
Current assets:					
Cash and cash equivalents	$ 188	$ —	$ (18)	4.A	$ 170
Receivables, net	1,099	77	(185)	4.B, 1	991
Contract assets	—	15	(15)	1	—
Prepaid expenses and other current assets	—	17	(17)	1	—
Inventories, net	84	—	4	1	88
Prepaid expenses	40	—	13	1	53
Other current assets	19	—	—		19
Total current assets	1,430	109	(218)		1,321
Goodwill	2,139	67	705	4.C	2,911
Intangible assets, net	711	—	420	4.D	1,131
Property, plant, and equipment, net	91	8	—		99
Operating lease right-of-use assets	190	56	—		246
Deferred income taxes	—	23	(23)	4.E	—
Other assets	150	3	6	4.F	159
Total assets	$ 4,711	$ 266	$ 890		$ 5,867
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$ 527	$ 45	$ 25	4.G	$ 597
Accrued payroll and other employee benefits	126	—	10	1	136
Short-term operating lease liabilities	—	36	(36)	1	—
Deferred revenue	—	42	(42)	1	—
Accrued vacation	118	—	7	1	125
Other accrued liabilities	287	21	61	1	369
Long-term debt, current portion	70	—	6	4.H, 3	76
Total current liabilities	1,128	144	31		1,303
Long-term debt, net of current portion	1,851	—	972	4.H, 3	2,823
Operating lease liabilities	172	28	—		200
Other long-term liabilities	133	—	—		133
Commitments and contingencies					
Equity:					
Common stock	—	—	—		—
Additional paid-in capital	983	—	—		983
Net parent investment	—	94	(94)	4.I	—
Retained earnings	506	—	(19)	4.J	487
Accumulated other comprehensive loss	(72)	—	—		(72)
Total common stockholders' equity	1,417	94	(113)		1,398
Non-controlling interest	10	—	—		10
Total stockholders' equity	1,427	94	(113)		1,408
Total liabilities and stockholders' equity	$ 4,711	$ 266	$ 890		$ 5,867

See accompanying notes to unaudited pro forma condensed, consolidated, and combined financial information.

UNAUDITED PRO FORMA CONDENSED, CONSOLIDATED, AND COMBINED STATEMENT OF INCOME
For the Twelve Months Ended January 31, 2020

	Historical				
	SAIC for the Twelve Months Ended January 31, 2020	Unisys Federal for the Twelve Months Ended December 31, 2019	Pro Forma Adjustments	Footnote Reference	Pro Forma Combined
	(in millions, except per share amounts)				
Revenues	$ 6,379	$ 726	$ —		$ 7,105
Cost of revenues	5,673	601	2	5.A	6,276
Selling, general and administrative expenses	288	56	66	5.B, 1	410
Acquisition and integration costs	48	—	(2)	5.C	46
Research and development expenses	—	3	(3)	1	—
Operating income	370	66	(63)		373
Interest expense	90	—	44	5.D	134
Other (income) expense, net	(6)	—	3	5.E	(3)
Income before income taxes	286	66	(110)		242
Provision for income taxes	(57)	(17)	28	5.F	(46)
Net income	$ 229	$ 49	$ (82)		$ 196
Net income attributable to non-controlling interest	3	—	—		3
Net income attributable to common stockholders	$ 226	$ 49	$ (82)		$ 193
Earnings per share:					
Basic	$ 3.87				$ 3.30
Diluted	$ 3.83				$ 3.27
Weighted-average number of shares outstanding:					
Basic shares	58.4				58.4
Diluted shares	59.0				59.0

See accompanying notes to unaudited pro forma condensed, consolidated, and combined financial information.

Note 1—Basis of Presentation

The accompanying pro forma financial statements were prepared in accordance with Article 11 of Regulation S-X and present the pro forma balance sheet and pro forma statement of income of SAIC based upon the historical financial statements of SAIC and Unisys Federal after giving effect to the Acquisition and are intended to reflect the impact of the Acquisition on SAIC's financial statements. The historical financial information has been adjusted in the pro forma financial statements to give effect to pro forma events that are (1) directly attributable to the Acquisition, (2) factually supportable, and (3) with respect to the pro forma statement of income, expected to have a continuing impact on the results of operations of the combined business. The pro forma balance sheet as of January 31, 2020 has been presented as if the Acquisition had occurred on such date. The pro forma statement of income for the twelve months ended January 31, 2020 has been prepared as if the Acquisition had occurred on February 2, 2019.

SAIC and Unisys Federal have different fiscal year ends. SAIC utilizes a 52/53 week fiscal year ending on the Friday closest to January 31, with fiscal quarters typically consisting of 13 weeks. SAIC's fiscal year 2020 began on February 2, 2019 and ended on January 31, 2020. Unisys Federal's fiscal year begins on January 1 and ends on December 31 each year. The pro forma balance sheet and pro forma statement of income have been prepared utilizing period ends that differ by less than 93 days, as permitted by Rule 11-02 Regulation S-X. Due to different fiscal period ends, the pro forma statement of income for the twelve months ended January 31, 2020 combines the historical results of SAIC for the twelve months ended January 31, 2020 and the historical results of Unisys Federal for the twelve months ended December 31, 2019, giving effect to the Acquisition as if it had been consummated on February 2, 2019. The pro forma balance sheet combines the historical balance sheet of SAIC as of January 31, 2020 and the historical balance sheet of Unisys Federal as of December 31, 2019, giving effect to the Acquisition as if it had been consummated on January 31, 2020.

The historical results of Unisys Federal include allocations of general corporate functions of Unisys Corporation, such as executive management, human resources, finance, marketing, and legal. These expenses have been allocated on a basis using either specific identification, such as direct usage or headcount when identifiable, or proportional allocations determined with reference to time incurred, relative to revenues, or other reasonable methods of allocation. SAIC will provide all of these functions previously provided by Unisys Corporation following the Acquisition. The pro forma statement of income does not reflect all of the costs of operating as a standalone company and operating synergies created by the Acquisition. Only costs that management determined to be factually supportable and recurring are included as pro forma adjustments. Refer to Note 5.A and 5.B for further details.

The pro forma financial statements were prepared using the acquisition method of accounting with SAIC considered the accounting acquirer of Unisys Federal. Under the acquisition method of accounting the purchase price is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair values at the acquisition date, with any excess purchase price allocated to goodwill. These preliminary estimates and assumptions are subject to change during the measurement period (up to one year from the acquisition date) as the Company finalizes the valuations of the tangible and intangible assets acquired and liabilities assumed from the Acquisition. These potential changes could be material.

Certain changes to line item descriptions, groupings, and other reclassifications were made to Unisys Federal's financial statements to conform to SAIC's financial statement presentation and accounting policies. The reclassification adjustments related to the balance sheet of Unisys Federal (to conform to SAIC presentation) include the following:

(i) reclassification of $15 million of Contract assets to Receivables, net;

(ii) reclassification of $17 million of Prepaid expense and other current assets to Prepaid expenses of $13 million and Inventories, net of $4 million;

(iii) reclassification of $36 million of Short-term operating lease liabilities to Other accrued liabilities;

(iv) reclassification of $42 million of Deferred revenue to Other accrued liabilities; and

(v) reclassification of $17 million of Other accrued liabilities to Accrued payroll and other employee benefits of $10 million and Accrued vacation of $7 million.

The reclassification adjustments related to the statement of income of Unisys Federal (to conform to SAIC presentation) include the following:

(i) reclassification of $3 million of Research and development expenses to Selling, general and administrative expenses.

At the time of preparing the pro forma financial statements, the Company is not aware of any other accounting policy differences requiring adjustment that would have a material impact. SAIC management's assessment of Unisys Federal's accounting policies is ongoing, and, upon completion, further differences may be identified that could have a material impact on the pro forma financial statements.

Note 2—Purchase Price Allocation

The pro forma balance sheet has been adjusted to reflect the allocation of the preliminary purchase price to the identifiable assets to be acquired and liabilities to be assumed, with the excess recorded as goodwill. The preliminary purchase price of $1,196 million was allocated to assets acquired and liabilities assumed based on the historical audited Unisys Federal Consolidated Balance Sheet at December 31, 2019 as follows:

	(in millions)
Cash and cash equivalents	—
Receivables, net	92
Inventories, net	4
Prepaid expenses	13
Other current assets	—
Intangible assets, net (i)	420
Property, plant, and equipment, net	8
Operating lease right of use assets	56
Other long-term assets	3
Goodwill	772
Total assets acquired	1,368
Accounts payable	45
Accrued vacation	7
Other accrued liabilities	82
Accrued payroll and other employee benefits	10
Long-term debt, net of current portion	—
Operating lease liabilities	28
Other long-term liabilities	—
Total liabilities assumed	172
Net assets acquired	1,196

For the purposes of the preliminary purchase price allocation, the reported values of the assets acquired and liabilities assumed as of December 31, 2019, approximate their fair value, except for the intangible assets acquired. The Company's preliminary valuation of the fair values of assets acquired and liabilities assumed is based on preliminary estimates and assumptions and is subject to change materially upon the finalized valuation.

(i) The identifiable intangible assets acquired in the Acquisition consist of backlog, customer relationships, and developed technology with estimated useful lives of 1, 14, and 9 years, respectively. The estimated fair values of these identifiable intangible assets are $60 million, $300 million, and $60 million, respectively. The preliminary estimated fair value of $420 million was determined by utilizing company-specific information made available by Unisys Federal, relevant industry benchmarks, and comparable market transactions. The final valuation may be materially different and may result in the identification of additional intangible assets as additional information becomes available and certain valuation analyses are completed.

Refer to Note 4 for additional information on how the adjustments described above have been reflected in the pro forma balance sheet.

Note 3—Financing Adjustments

Contemporaneously with the closing of the Acquisition, SAIC amended its Third Amended & Restated Credit Agreement to add a new seven-year senior secured $600 million incremental term loan facility (the "Term Loan B2"). The Term Loan B2 will bear interest at a variable rate of interest based on LIBOR or a base rate, plus an applicable margin of 2.25% for LIBOR loans and 1.25% for base rate loans. SAIC also incurred indebtedness of $400 million of 4.875% Senior Notes due in 2028 (the "Notes") through a private offering. SAIC used the net proceeds from borrowings under its credit facility, offering of notes, proceeds from the sale of receivables under our receivable factoring facility, and cash on its balance sheet to finance the acquisition and pay related fees and expenses.

Long-term debt, current portion was adjusted as follows:

		As of January 31, 2020 (in millions)
To record the current portion of Term Loan B2		6
Total long-term debt, current portion adjustments	$	6

Long-term debt, net of current portion was adjusted as follows:

		As of January 31, 2020 (in millions)
To record the Term Loan B2 (i)		578
To record the Notes (ii)		394
Total long-term debt, net of current portion, adjustments	$	972

(i) Represents the long-term borrowings, net of $6 million of the current portion and $16 million of debt issuance costs.

(ii) Represents the long-term borrowings, net of $6 million of debt issuance costs.

Note 4—Pro Forma Adjustments - Balance Sheet

The pro forma adjustments included in the pro forma balance sheet as of January 31, 2020 are as follows (in millions):

A) *Cash and cash equivalents* were adjusted as follows:

To record the net proceeds from issuance of the Term Loan B2 and the Notes		978
To record the cash proceeds from sale of receivables under the Master Accounts Receivable Purchase Agreement		200
To record the cash consideration paid to acquire Unisys Federal		(1,196)
Total cash and cash equivalents adjustments	$	(18)

B) *Receivables, net* were adjusted as follows:

To reclassify Unisys Federal Contract assets to conform to SAIC presentation (see Note 1)		15
To record the non-recourse sale of eligible receivables through the Master Accounts Receivable Purchase Agreement		(200)
Total receivables, net adjustments	$	(185)

C) Goodwill was adjusted as follows:

To remove Unisys Federal historical goodwill		(67)
To record goodwill recognized as a result of the Acquisition (see Note 2)		772
Total goodwill adjustments	$	705

D) Intangible assets, net were adjusted as follows:

To record intangible assets acquired in the Acquisition (see Note 2)		420
Total intangible assets, net adjustments	$	420

E) Deferred income taxes were adjusted as follows:

To remove historical Unisys Federal deferred tax assets and liabilities as a result of the Acquisition		(23)
Total deferred income taxes adjustments	$	(23)

F) Other assets were adjusted as follows:

To record deferred tax assets for transaction costs accrued in connection with the Acquisition (i)		6
Total other assets adjustments	$	6

(i) Reflects a combined federal and state statutory rate of approximately 25.8% for the twelve months ended January 31, 2020 multiplied by the book and tax basis difference. SAIC presents deferred tax assets within Other assets.

G) Accounts payable was adjusted as follows:

To record transaction costs in connection with the Acquisition (i)		25
Total accounts payable adjustments	$	25

(i) Reflects financial advisory fees, legal fees, accounting fees, and insurance policy fees not yet recognized in the historical financial statements. These transaction costs have been excluded from the pro forma statement of income as they reflect charges directly attributable to the Acquisition that will not have an ongoing impact on the combined company.

H) Long-term debt, current portion and *long-term debt, net of current portion* were adjusted as described in Note 3.

I) Net parent investment was adjusted to remove the Unisys Federal historical balance of $94 million.
J) Retained earnings was adjusted as follows:

To recognize transaction costs accrued in connection with the Acquisition, net of tax effects		19
Total retained earnings adjustments	$	19

Note 5—Pro Forma Adjustments - Statement of Income

The pro forma adjustments included in the pro forma statement of income are as follows (in millions):

A) Cost of revenues were adjusted as follows:

		Twelve Months Ended January 31, 2020
To remove certain corporate allocations for Unisys Corporation allocated to Unisys Federal (i)		(5)
To reflect additional costs incurred on technology licenses upon separation from Unisys Corporation (ii)		7
Total cost of revenue adjustments	$	2

(i) Certain corporate allocations of costs will not have a continuing effect on the combined business.

(ii) Separated from Unisys Corporation, Unisys Federal will incur incremental costs compared to costs historically allocated by Unisys Corporation. Upon Unisys Federal separating from Unisys Corporation, the discount on certain technology licenses will decrease, resulting in additional cost of revenues of $7 million.

B) Selling, general and administrative expenses were adjusted as follows:

		Twelve Months Ended January 31, 2020
To record amortization of intangible assets acquired as a result of the Acquisition (i)		88
To remove historical nonrecurring Unisys Federal transaction costs directly associated with the Acquisition		(1)
To reclassify Unisys Federal Research and development to conform to SAIC presentation (see Note 1)		3
To remove corporate allocations for Unisys Corporation allocated to Unisys Federal (ii)		(24)
Total selling, general and administrative expense adjustments	$	66

(i) The estimated amortization expense was computed using the straight-line method and the estimated useful lives for the three intangible assets, as described further in Note 2. An increase or decrease of 10% in the estimated fair value allocated to the intangible assets would result in an increase or decrease in the twelve-month pro forma amortization expense of $9 million. An increase in the estimated useful life of each of the intangible assets of one year would result in a decrease in the twelve-month pro forma amortization expense of $32 million, while a decrease in the estimated useful life of each of the intangible assets of one year would result in an increase in the twelve-month pro forma amortization expense of $3 million.

(ii) Certain corporate allocations of costs will not have a continuing effect on the combined business. These cost allocations primarily relate to Unisys Corporation’s headquarters, executive compensation, corporate marketing, and corporate human resources, which are not conveying to SAIC as part of the Acquisition.

C) Acquisition and integration costs were adjusted by $2 million for the twelve months ended January 31, 2020. This adjustment removes historical nonrecurring SAIC transaction costs directly associated with the Acquisition.

D) Interest expense was adjusted as follows:

		Twelve Months Ended January 31, 2020
To record interest expense on the Term Loan B2 (i)		21
To record interest expense on the Notes (ii)		20
To record incremental interest expense on SAIC’s existing Term Loan A and Term Loan B (iii)		3
Total interest expense adjustments	$	44

(i) Interest expense for the twelve months ended January 31, 2020 is based on the 1-month LIBOR of 0.86% as of April 7, 2020 plus the applicable margin of 2.25%. For each 0.125% change in the interest rate for the Term Loan B2, interest expense would increase or decrease by approximately $1 million for the twelve months ended January 31, 2020.

(ii) Interest expense for the twelve months ended January 31, 2020 is based on the fixed rate of 4.875%.

(iii) Incremental interest expense on SAIC's existing Term Loan A was $2 million for the twelve months ended January 31, 2020. This increase was based on an increase in the applicable Leverage Ratio (as defined in the Third Amended and Restated Credit Agreement) as a result of additional indebtedness incurred in connection with the Acquisition. Incremental interest expense on SAIC's existing Term Loan B was $1 million for the twelve months ended January 31, 2020. This increase was based on an increase in the applicable margin for the Term Loan B from 1.75% to 1.875% for LIBOR loans (as defined in the Second Amendment to the Third Amended and Restated Credit Agreement).

E) Other (income) expense, net was adjusted by $3 million for the twelve months ended January 31, 2020. This adjustment represents the loss on non-recourse sale of eligible receivables through the Master Accounts Receivables Purchase Agreement.

F) Provision for income taxes was adjusted by $28 million for the twelve months ended January 31, 2020. This adjustment represents the income tax impact of the pro forma adjustments, using the blended federal and state statutory tax rate of approximately 25.8% for the twelve months ended January 31, 2020. This does not represent SAIC's effective tax rate, which will include other taxes and benefits, and does not take into account any historical or possible future tax events that may impact SAIC resulting from the Acquisition.