Science Applications International Corp
Form 10-K
March 29, 2019

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

Form 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended February 1, 2019
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

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

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

Title of each class	Name of each exchange on which registered
Science Applications International Corporation Common Stock, Par Value $.0001 Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	Yes x	No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	Yes	No x
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 x	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 x	No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.	x	

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 x	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 Act). Yes No x

As of August 3, 2018 (the last business day of the registrant's most recently completed second quarter), the aggregate market value of the registrant's common stock (based upon the closing stock price) held by non-affiliates was $3.4 billion.

The number of shares issued and outstanding of the registrant's common stock as of March 8, 2019 was 59,320,566 shares ($.0001 par value per share).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Science Applications International Corporation's Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders are incorporated by reference in Part III of this report.

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Part I
Item 1. Business
The Company
Science Applications International Corporation (herein referred to as “SAIC,” the “Company,” “we,” “us,” or “our”) is a leading provider of technical, engineering and enterprise information technology (IT) services primarily to the U.S. government. We provide engineering, systems integration and information technology offerings for large, complex government projects and offer a broad range of services with a targeted emphasis on higher-end, differentiated technology services. Our end-to-end enterprise IT offerings span the entire spectrum of our customers' IT infrastructure. We commenced operations on September 27, 2013 (the Distribution Date) following completion of a spin-off transaction from our former parent, Leidos Holdings, Inc. (collectively with its consolidated subsidiaries, “former Parent”). On January 14, 2019, we completed the acquisition of Engility Holdings, Inc. (collectively with its consolidated subsidiaries, "Engility"), which provides increased customer and market access, as well as increased scale in strategic business areas of national interest, such as defense, federal civilian agencies, intelligence and space. On May 4, 2015 we completed the acquisition of privately held Scitor Holdings, Inc. (Scitor), a leading provider of services to the intelligence community, which enabled us to gain sufficient scale to competitively pursue opportunities within the intelligence community.
Our business has a long and successful history, tracing its roots to the earliest days of former Parent which was founded in 1969 as a scientific research and engineering firm. The U.S. federal government agencies we serve include all branches of the U.S. military (Army, Air Force, Navy, Marines and Coast Guard), U.S. Defense Logistics Agency, National Aeronautics and Space Administration (NASA), U.S. Department of State, Department of Justice and several sensitive intelligence community agencies. Our long-standing customer relationships have enabled us to achieve an in-depth understanding of our customers’ missions and provide differentiated service offerings to meet our customers’ most complex requirements. Our offerings include: engineering; technology and equipment platform integration; maintenance of ground and maritime systems; logistics; training and simulation; operation and program support services; and end-to-end services spanning the design, development, integration, deployment, management and operations, sustainment and security of our customers’ entire IT infrastructure. We serve our customers through approximately 2,200 active contracts and task orders. We have more than 23,000 employees that are led by an experienced executive team of proven industry leaders.
Our core strengths have supported our successful performance on programs of national importance. Those strengths include:
Enduring Customer Relationships and Mission-Orientation. We have strong and long-lasting customer relationships throughout the U.S. government. Our track record of serving the missions of our government customer spans decades, including several enduring customer relationships that have lasted 20 years or more. Our employees, many of whom are deployed at customer sites, work closely with our customers in fulfilling their missions. Our strong customer relationships enable us to develop deep customer knowledge and translate our mission understanding into successful program execution that fosters continued demand for our services.
Full Life Cycle Offerings. We integrate technologies and deliver services that provide our customers with seamless end-to-end solutions. Our expertise includes initial requirements definition, development and integration services, training, logistics and sustainment. These full life cycle offerings, combined with deep customer knowledge, allow us to more effectively support our customers’ missions.
Significant Scale and Diversified Contract Base. With approximately $4.7 billion in revenue in fiscal 2019, we are one of the largest pure-play technical service providers to the U.S. government. Our significant scale advantage enables us to serve as a prime systems integrator on large, complex programs and to allocate resources toward further developing and expanding our repeatable, proven solutions and differentiated technical capabilities. Our diversified revenue base consists of programs ranging from research and development to operations and maintenance.

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Technical Experts Led by Experienced Management. The quality, training and knowledge of our employees are important competitive assets. Our skilled workforce ranges from entry-level technicians to expert-level professionals in network engineering, software design and development, logistics, technology integration and systems engineering. Additionally, the majority of our workforce holds an active security clearance, which is required on many of our existing programs and future program opportunities.

Our workforce is led by a talented and experienced senior leadership team with a long history of solving our customers' most difficult challenges. Collectively, our executive team averages more than 25 years of industry experience, consisting of members who have served as senior leaders in public companies and are recognized as leaders in their respective markets by customers and partners.

Repeatable Methodologies and Certified Processes. Our technical excellence is driven by our proven, repeatable, disciplined processes for management, engineering, technical support and services. We deploy our tools and processes enterprise-wide and emphasize a consistent approach to planning, designing, and delivering solutions and services to our customers. We hold certifications from the International Organization for Standardization (including ISO 9001:2015, ISO/IEC 27001:2013, ISO 20000-1:2011 and AS9100), and from the Capability Maturity Model Integration Institute as a CMMI®-DEV Maturity Level 3 organization and CMMI®-SVC Maturity Level 2 for Army Programs with Strategic Goals for Best Practice Service Delivery.

The Company is organized as a matrix comprised of three customer facing operating segments supported by a solutions and technology group. The three operating segments are responsible for customer relationships, business development and program management, and delivery and execution, while the solutions and technology group organization manages the development of our offerings, solutions and capabilities. Each of the Company's three operating segments is focused on providing the Company's comprehensive technical, engineering and enterprise IT service offerings to one or more agencies of the U.S federal government. The Company's operating segments are aggregated into one reportable segment for financial reporting purposes.

For additional discussion and analysis related to recent business developments, see "Economic Opportunities, Challenges and Risks" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of this report.

Key Customers

In each of fiscal 2019, 2018 and 2017, over 95% of our total revenues were attributable to prime contracts with the U.S. government or to subcontracts with other contractors engaged in work for the U.S. government. Substantially all of our revenues were earned by entities located in the United States.

The U.S. Army and U.S. Navy each generated more than 10% of our revenues during each of the last three fiscal years. The percentages of total revenues for the U.S. government, its agencies and other customers, including those comprising more than 10% of total revenues for each of the periods presented were approximately:

	Year Ended					
	February 1, 2019		February 2, 2018		February 3, 2017	
U.S. Army	29	%	30	%	28	%
U.S. Navy	13	%	13	%	13	%
Other DoD	18	%	19	%	17	%
Other federal government	37	%	36	%	40	%
Total U.S. government	97	%	98	%	98	%
Other	3	%	2	%	2	%
Total	100	%	100	%	100	%

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Regulation
Our business is heavily regulated and we must comply with and are affected by laws and regulations, including Federal Acquisition Regulations (FAR) and Cost Accounting Standards (CAS), relating to the award, administration and performance of U.S. government and other contracts. These regulations set forth policies, procedures and requirements for the acquisition of goods and services by the U.S. government and impose a broad range of requirements, many of which are unique to government contracting and include procurement, import and export, security, contract termination and adjustment, and audit requirements. In addition, these regulations govern contract pricing and reimbursable costs by, among other things, requiring certification and disclosure of cost or pricing data in connection with certain contract negotiations, defining allowable and unallowable costs, and otherwise governing the right to reimbursement under various flexibly priced contracts. These laws and regulations impose specific cost accounting practices that may increase accounting and internal control costs associated with compliance with government standards. The U.S. government may revise its procurement practices or adopt new contract rules and regulations at any time. Our compliance with these regulations is monitored by the Defense Contract Management Agency and the Defense Contract Audit Agency.
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.
Some of our operations and service offerings involve our access to and use of personally identifiable information and protected health information, which activities are regulated by extensive federal and state privacy and data security laws requiring organizations to provide certain privacy protections and security safeguards for such information.
Internationally, we are subject to foreign government laws and regulations, and U.S. government laws, regulations, and procurement policies and practices (including laws and regulations relating to bribery of foreign government officials, import and export control, investments, exchange controls and repatriation of earnings). We are also susceptible to varying political and economic risks.
In order to help ensure compliance with these complex laws and regulations, we have established policies and procedures that address our approach to meeting these requirements and also administer a robust ethics and compliance training program to maintain a compliance-oriented workforce.
These regulations and risks affecting our business are described in more detail under “Risk Factors” in this report.
Contracts
We must comply with and are affected by laws and regulations relating to the formation, administration and performance of U.S. government and other contracts. The U.S. government procurement environment has evolved due to statutory and regulatory procurement reform initiatives. Budgetary pressures and reforms in the procurement process have increasingly caused many U.S. government agencies to purchase services and solutions using contracting processes that give them the ability to select multiple winners or pre-qualify certain contractors to provide various services or solutions on established general terms and conditions rather than through single award contracts. The predominant contracting methods through which U.S. government agencies procure services and solutions include the following:
Single Award Contracts. U.S. government agencies may procure services and solutions through single award contracts which specify the scope of work that will be delivered and identify the contractor that will provide the specified services. When an agency has a requirement, interested contractors are solicited, qualified and then provided with a request for proposal. The process of qualifying prospective bidders, soliciting proposals and evaluating contractor bids requires the agency to maintain a large, professional procurement staff and the bidding and selection process can take a year or more to complete. This method of contracting may provide the contractor with greater certainty of the timing and amounts to be received at the time of contract award because it generally results in the customer contracting for a specific scope of work from the single successful awardee.

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Indefinite Delivery, Indefinite Quantity (IDIQ) Contracts. The U.S. government uses IDIQ contracts to obtain commitments from contractors to provide certain services or solutions on pre-established terms and conditions. The U.S. government then issues task orders under the IDIQ contracts to purchase the specific services or solutions it needs. IDIQ contracts are awarded to one or more contractors following a competitive procurement process. Under a single award IDIQ contract, all task orders under that contract are awarded to one pre-selected contractor. Under a multi-award IDIQ contract, task orders can be awarded to any of the pre-selected contractors, which can result in further limited competition for the award of task orders. Multi-award IDIQ contracts that are open for any government agency to use for the procurement of services are commonly referred to as "government-wide acquisition contracts." IDIQ contracts often have multi-year terms and unfunded ceiling amounts that enable, but not commit, the U.S. government to purchase substantial amounts of services or solutions from one or more contractors. At the time an IDIQ contract is awarded (prior to the letting of any task orders), a contractor may have limited or no visibility as to the ultimate amount of services or solutions that the U.S. government will purchase under the contract, and, in the case of a multi-award IDIQ, the contractor from which such purchases may be made.
U.S. General Services Administration (GSA) Schedule Contracts. The GSA maintains listings of approved suppliers of services and solutions with pre-negotiated prices for use throughout the U.S. government. In order for a company to provide services under a GSA Schedule contract, a company must be pre-qualified and awarded a contract by the GSA. When an agency uses a GSA Schedule to meet its requirements, the agency (or the GSA on behalf of the agency) conducts the procurement and bidders are limited to GSA Schedule-qualified contractors. GSA Schedule contracts are designed to provide the user agency with reduced procurement time and lower procurement costs. Similar to IDIQ contracts, at the time a GSA Schedule contract is awarded, a contractor may have limited or no visibility as to the ultimate amount of services or solutions that customers will ultimately purchase under the contract.
Contract Types
Generally, the type of contract used for the acquisition of our services and solutions is determined by or negotiated with the U.S. government and may depend on certain factors, including: the type and complexity of the work to be performed; degree and timing of the responsibility to be assumed by the contractor for the costs of performance; the extent of price competition; and the amount and nature of the profit incentive offered to the contractor for achieving or exceeding specified standards or goals. We generate revenues under several types of contracts, including the following:

- Cost-reimbursement contracts provide for reimbursement of our direct contract costs and allocable indirect costs, plus a fee (contract profit). This type of contract is generally used when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use a fixed-price contract. Cost-reimbursement contracts usually subject us to lower risk and generally require us to use our best efforts to accomplish the scope of the work within a specified time and amount of costs.
- Time-and-materials (T&M) contracts typically provide for negotiated fixed hourly rates for specified categories of direct labor plus reimbursement of other direct costs. This type of contract is generally used when there is uncertainty of the extent or duration of the work to be performed by the contractor at the time of contract award or it is not possible to anticipate costs with any reasonable degree of confidence. On T&M contracts, we assume the risk of providing appropriately qualified staff to perform these contracts at the hourly rates set forth in the contracts over their period of performance.
- Firm-fixed price (FFP) contracts provide for a predetermined price for specific solutions. These contracts offer us potential increased profits if we can complete the work at lower costs than planned. While FFP contracts allow us to benefit from cost savings, these contracts also increase our exposure to reduced profits or losses from increased or unexpected costs.

Our earnings and profitability may vary materially depending on changes in the proportionate amount of revenues derived from each type of contract, the nature of services or solutions provided, as well as the achievement of performance objectives and the stage of performance at which the right to receive fees is finally determined. Given the relative amount of risk assumed by the contractor, cost-reimbursement and T&M contracts generally have lower profitability than FFP contracts. For the proportionate amount of revenues derived from each type of contract for the last three fiscal years, see "Other Key Performance Measures—Contract Types" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of this report.

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Selected Financial Data

See "Selected Financial Data" in Part II of this report.

Backlog

Backlog represents the estimated amount of future revenues to be recognized under negotiated contracts as work is performed. Our backlog consists of funded backlog and negotiated unfunded backlog. At February 1, 2019 and February 2, 2018 our total backlog was $13.8 billion and $10.2 billion, respectively. For a complete description of our backlog, see "Other Key Performance Measures—Net Bookings and Backlog" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of this report.

Competition

Competition for contracts is intense and we often compete against a large number of established multinational companies which may have greater name recognition, financial resources and larger technical staffs than we do. We also compete against smaller, more specialized companies that concentrate their resources on particular areas, as well as the U.S. government's own capabilities. As a result of the diverse requirements of the U.S. government, we frequently collaborate with other companies to compete for large contracts and bid against these same companies in other situations. Our principal competitors include the following:

- the engineering and technical services divisions of large defense contractors that provide IT services in addition to other hardware systems and products, which include companies such as General Dynamics Corporation, Northrop Grumman Corporation, and Raytheon Company;
- contractors focused principally on technical and IT services, such as Booz Allen Hamilton Inc., CACI International, Inc., Leidos Holdings, Inc., ManTech International Corporation, Serco Group plc, and Perspecta, Inc.;
- diversified commercial providers that also provide U.S. government IT services, such as Accenture plc, International Business Machines Corporation and Unisys Corporation; and
- contractors providing supply chain management and other logistics services, such as Agility Logistics Corporation

We compete on various factors, which include: our technical expertise and qualified and/or security-cleared personnel; our ability to deliver innovative cost-effective solutions in a timely manner; successful program execution on previous programs; our reputation and standing with customers; pricing; and the size and geographic presence of our Company. Competition within the government services industry has intensified which has led to fewer sole-source awards and an increased emphasis on cost competitiveness and affordability. In addition, procurement initiatives to improve efficiency, refocus priorities and enhance best practices could result in fewer new opportunities for our industry as a whole, which would intensify competition within the industry as companies compete for a more limited set of new programs.

Patents and Proprietary Information

Our technical services and solutions are not generally dependent on patent protection, although we do selectively seek patent protection. We claim a proprietary interest in certain of our solutions, software programs, methodologies and know-how. This proprietary information is protected by copyrights, trade secrets, licenses, contracts and other means. We selectively pursue opportunities to license or transfer our technologies to third parties.

In connection with the performance of services, the U.S. government has certain rights to inventions, data, software codes and related material that we develop under U.S. government-funded contracts and subcontracts. Generally, the U.S. government may disclose or license such information to third parties, including, in some instances, our competitors. In the case of some subcontracts that we perform, the prime contractor may also have certain rights to the programs and solutions that we develop under the subcontract.

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Research and Development

For information related to our research and development activities, see Note 1 of the notes to the consolidated financial statements contained within this report.

Seasonality

The U.S. government’s fiscal year ends on September 30. It is not uncommon for U.S. government agencies to award extra tasks or complete other contract actions leading up to the end of its fiscal year in order to avoid the loss of unexpended fiscal year funds, which may favorably impact our third fiscal quarter. In addition, revenues may be unfavorably impacted during our fourth fiscal quarter due to a greater number of holidays and higher utilization of vacation time. For selected quarterly financial data, see Note 16 of the notes to the consolidated financial statements contained within this report.

Environmental Matters

Our operations are subject to various foreign, federal, state and local environmental protection and health and safety laws and regulations. Although we do not currently anticipate that compliance costs or the liabilities associated with environmental laws will materially and adversely affect us, we cannot ensure that we will not incur material costs or liabilities in the future. These regulations and risks are described in more detail under “Risk Factors” in this report.

Executive Officers

For information about our executive officers, see “Directors, Executive Officers and Corporate Governance” in Part III of this report.

Company Website and Available Information

Our corporate headquarters is located at 12010 Sunset Hills Road, Reston, VA 20190. Our phone number is (703) 676-4300 and our homepage is www.saic.com, which contains information about our Company and operations. Through a link on the Investor Relations section of our website, copies of each of our filings with the Securities and Exchange Commission (SEC) can be viewed and downloaded free of charge as soon as reasonably practicable after the reports and amendments are electronically filed with or furnished to the SEC. The information on our website is not incorporated by reference into and is not a part of this report.

You may also request hard copies of the materials referenced in the preceding paragraph, at no cost, by emailing investor relations at InvestorRelations@saic.com.

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Item 1A. Risk Factors

In your evaluation of our Company and business, you should carefully consider the risks and uncertainties described below, together with information included elsewhere within this report and other documents we file with the SEC. These risks, as well as additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may materially harm our business, financial condition or operating results and result in a decline in the price of our stock.

Risks Relating to Our Business

We depend on U.S. government agencies as our primary customer and, if our reputation or relationships with these agencies were harmed, our future revenues and cash flows would be adversely affected.

We generated either as a prime contractor or a subcontractor to other contractors engaged in work for the U.S. government over 95% of our total revenues during each of the last three fiscal years from contracts with the U.S. government. We expect to continue to derive substantially all of our revenues from work performed under U.S. government contracts. Our reputation and relationship with the U.S. government, and in particular with the agencies of the DoD, are key factors in maintaining and growing these revenues. Negative press reports or publicity, regardless of accuracy, could harm our reputation. If our reputation is negatively affected, or if we are suspended or debarred from contracting with government agencies for any reason, the amount of business with government and other customers would decrease and our future revenues, cash flows, and financial results would be adversely affected.

A decline in the U.S. government defense budget, changes in spending or budgetary priorities, the failure to approve U.S. government budgets on a timely basis or delays in contract awards and other procurement activity may significantly and adversely affect our future revenues, cash flow and financial results.

Because we generate substantially all of our revenues from contracts with U.S. government agencies, our operating results could be adversely affected by spending caps or changes in budgetary priorities, as well as by delays in the government budget process, program starts or the award of contracts or task orders under contracts. Current U.S. government spending levels for defense-related and other programs may not be sustained beyond government fiscal year (GFY) 2019. Future spending and program authorizations may not increase or may decrease or shift to programs in areas in which we do not provide services or are less likely to be awarded contracts. Such changes in spending authorizations and budgetary priorities may occur as a result of shifts in spending priorities from defense-related and other programs as a result of competing demands for federal funds and the number and intensity of military conflicts or other factors.

Without a change to current law, budget levels set for GFY 2020 will constitute a significant cut to both defense and non-defense spending from GFY 2019 levels. The only way to avoid these significant reductions set forth in the 2011 Budget Control Act is for there to be an affirmative agreement to lift defense and non-defense spending caps, as has been done for the past six GFYs.

When the U.S. Congress does not complete a budget before the end of the fiscal year, government operations typically are funded through one or more continuing resolutions that authorize agencies of the U.S. government to continue to operate, but do not authorize new spending initiatives. When the U.S. government operates under a continuing resolution, contract awards may be delayed, canceled, or funded at lower levels which could adversely impact our operations, cash flows and financial results. While the federal government is currently funded in full through the end of GFY 2019, there is a strong possibility that GFY 2020 will begin under a continuing resolution lasting several weeks or months.

There is also a possibility that an impasse on policy issues, such as immigration, could threaten continuous government funding past September 30, 2019. Immigration issues were the root cause of a five-week government shutdown from December 2018 to January 2019, and continue to be the source of partisan disputes. An impasse over immigration or other policy issues could result in another federal government shutdown, which could cause us to incur labor or other costs without reimbursement under customer contracts or the delay or cancellation of key programs, and could adversely affect our operations, cash flows and financial results.

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The U.S. government also conducts periodic reviews of U.S. defense strategies and priorities which may shift DoD budgetary priorities, reduce overall spending or delay contract or task order awards for defense-related programs from which we would otherwise expect to derive a significant portion of our future revenues. A significant decline in overall U.S. government spending, a significant shift in spending priorities, the substantial reduction or elimination of particular defense-related programs or significant budget-related delays in contract or task order awards for large programs could adversely affect our future revenues and limit our growth prospects.

Our failure to comply with a variety of complex procurement rules and regulations could result in our being liable for penalties, including termination of our U.S. government contracts, disqualification from bidding on future U.S. government contracts and suspension or debarment from U.S. government contracting.

We must comply with various laws and regulations relating to the formation, administration and performance of U.S. government contracts, which affect how we do business with our customers and may impose added costs on our business.

Many of our U.S. government contracts contain organizational conflict of interest (OCI) clauses that may limit our ability to compete for or perform certain other contracts or other types of services for particular customers. OCI arises when we engage in activities that may make us unable to render impartial assistance or advice to the U.S. government, impair our objectivity in performing contract work or provide us with an unfair competitive advantage. Existing OCI, and any OCI that may develop, could preclude our competition for or performance on a significant project or contract, which could limit our opportunities.

The U.S. government may adopt new contract rules and regulations or revise its procurement practices in a manner adverse to us at any time.

Our industry continues to experience significant changes to business practices as a result of an increased focus on affordability, efficiencies and recovery of costs, among other items. U.S. government agencies may face restrictions or pressure regarding the type and amount of services that they may obtain from private contractors. Legislation, regulations and initiatives dealing with procurement reform, mitigation of potential OCI's, deterrence of fraud, and environmental responsibility or sustainability could have an adverse effect on us. Moreover, shifts in the buying practices of U.S. government agencies (such as increased usage of fixed price contracts, multiple award contracts and small business set-aside contracts) could have adverse effects on government contractors, including us. Any of these changes could impair our ability to obtain new contracts or contract renewals. Any new contracting requirements or procurement methods could be costly or administratively difficult for us to implement and could adversely affect our future revenues, profitability and prospects.

Our business is subject to reviews, audits and cost adjustments by the U.S. government, which, if resolved unfavorably to us, could adversely affect our profitability, cash flows or growth prospects.

The Defense Contract Audit Agency (DCAA), Defense Contract Management Agency (DCMA) and others routinely audit and review a contractor's performance on government contracts, indirect cost 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, which are defined as the contractor's accounting, earned value management, estimating, materials management, property management and purchasing systems. A finding of significant control deficiencies in a contractor's business systems or a finding of noncompliance with U.S. government Cost Accounting Standards (CAS) can result in decremented billing rates to U.S. government customers until the control deficiencies are corrected and their remediation is accepted by the DCMA. The agencies conducting these audits and reviews have come under increased scrutiny. As a result, audits and reviews have become more rigorous and the standards to which we are held are being more strictly interpreted which has increased the likelihood of an audit or review resulting in an adverse outcome.

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Government audits and reviews may conclude that our practices are not consistent with applicable laws and regulations and result in adjustments to contract costs and mandatory customer refunds. Such adjustments can be applied retroactively, which could result in significant customer refunds. Receipt of adverse audit findings or the failure to obtain an "approved" determination on our various business systems could significantly and adversely affect our business by, among other things, restricting our ability to bid on new contracts and, for those proposals under evaluation, diminishing our competitive position. A determination of noncompliance could also result in the U.S. government imposing penalties and sanctions against us, including withholding of payments, suspension of payments and increased government scrutiny. Increased scrutiny could adversely impact our ability to perform on contracts, affect our ability to invoice for work performed, delay the receipt of timely payment on contracts, and weaken our ability to compete for new contracts with the U.S. government.

The indirect cost audits by the DCAA of our business remain open for fiscal 2010 and subsequent years. We have recorded contract revenues subsequent to and including fiscal 2010 based on an estimate of costs that we believe will be approved on final audit. However, we do not know the outcome of any ongoing or future audits or whether future adjustments will exceed our reserves for potential adjustments.

We have recorded reserves for estimated net amounts to be refunded to customers for potential adjustments for indirect cost audits and compliance with CAS for indemnification obligations owing to former Parent for periods prior to the spin-off date. Any additional amounts which may be determined to be owed for periods prior to the separation will be allocated to former Parent and us in proportions determined in accordance with the Distribution Agreement. Additional amounts that are allocated to us could have a material, adverse impact to our profitability and cash flows. For a more detailed discussion of the terms of the Distribution Agreement governing financial impacts of audits and reviews for periods prior to the spin-off, see Note 15 of the notes to the consolidated financial statements contained within this report.

Our business is subject to governmental review and investigation which could adversely affect our profitability, cash position and growth prospects.

We are routinely subject to governmental investigations relating to our contracts and operations. If a review or investigation identifies improper or illegal activities, we may be subject to civil or criminal penalties or administrative sanctions which could include the termination of contracts, forfeiture of profits, the triggering of price reduction clauses, suspension of payments, fines, and suspension or debarment from doing business with governmental agencies. We may suffer harm to our reputation if allegations of impropriety are made against us, which would impair our ability to win new contract awards or receive contract renewals. Penalties and sanctions are not uncommon in our industry. If we incur a material penalty or administrative sanction or otherwise suffer harm to our reputation, our profitability, cash position and future prospects could be adversely affected.

The U.S. government may terminate, cancel, modify or curtail our contracts at any time and, if we do not replace them, we may be unable to achieve or sustain revenue growth and may suffer a decline in revenues and profitability.

Many of the U.S. government programs in which we participate as a contractor or subcontractor may extend for several years and include one or more base years and one or more option years. Under our contracts, the U.S. government generally has the right not to exercise options to extend or expand our contracts and may otherwise terminate, cancel, modify or curtail our contracts at its convenience. Any decision by the U.S. government not to exercise contract options or to terminate, cancel, modify or curtail our major programs or contracts would adversely affect our revenues, revenue growth and profitability.

We have experienced and continue to experience periodic performance issues under certain of our contracts. If a government customer terminates a contract for default, we may be exposed to liability, including for excess costs incurred by the customer in procuring undelivered services and solutions from another source. Depending on the nature and value of the contract, a performance issue or termination for default could cause our actual results to differ from those anticipated and could harm our reputation.

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We face aggressive competition that can impact our ability to obtain contracts and may affect our future revenues, profitability and growth prospects.

We expect that a majority of the business that we seek in the foreseeable future will be awarded through a competitive bidding process as the U.S. government increasingly relies on IDIQ, GSA Schedule and other multi-award contracts, which has resulted in greater competition and increased pricing pressure. The competitive bidding process involves substantial costs and a number of risks, including significant cost and managerial time to prepare bids and proposals for contracts that may not be awarded to us, or that may be awarded but for which we do not receive meaningful task orders. For contracts awarded to us, we also face the risk of inaccurately estimating the resources and costs that will be required to fulfill any contract we win. Following contract award, we may encounter significant expense, delay, contract modifications or even contract loss as a result of our competitors protesting the award of contracts to us in competitive bidding. Any resulting loss or delay of startup and funding of work under protested contract awards may adversely affect our revenues and/or profitability. In addition, multi-award contracts require that we make sustained post-award efforts to obtain task orders under the contract. As a result, we may not be able to obtain these task orders or recognize revenues under these multi-award contracts. Our failure to compete effectively in this procurement environment would adversely affect our revenues and profitability.

We compete with larger companies that have greater name recognition, financial resources and larger technical staffs and with smaller, more specialized companies that are able to concentrate their resources on particular areas. Additionally, we may compete with the U.S. government's own capabilities. To remain competitive, we must consistently provide superior service, technology and performance on a cost-effective basis to our customers and there is no assurance that we will do so.

A failure to attract, train, retain and utilize skilled employees and our senior management team would adversely affect our ability to execute our strategy and may disrupt our operations.

Our business relies heavily upon the expertise and services of our employees. Our continued success depends on our ability to recruit and retain highly trained and skilled engineering, technical and professional personnel. Competition for skilled personnel is intense and competitors aggressively recruit key employees. In addition, many U.S. government programs require contractors to have security clearances. Depending on the level of required clearance, security clearances can be difficult and time-consuming to obtain and personnel with security clearances are in great demand. Particularly in highly specialized areas, it has become more difficult to retain employees and meet all of our needs for employees in a timely manner, which may affect our growth in the current and future fiscal years. Although we intend to continue to devote significant resources to recruit, train and retain qualified employees, we may not be able to attract, effectively train and retain these employees. Any failure to do so could impair our ability to efficiently perform our contractual obligations, timely meet our customers' needs and ultimately win new business, all of which could adversely affect our future results. In addition, salaries and related costs are a significant portion of the cost of providing our services and, accordingly, our ability to efficiently utilize our workforce impacts our profitability. If our employees are under-utilized, our profitability could suffer.

We believe that our success also depends on the continued employment of a highly qualified and experienced senior management team and that team's ability to retain existing business and generate new business. The loss of key personnel in critical functions could lead to lack of business continuity or disruptions in our business until we are able to hire and train replacement personnel.

We may make acquisitions, investments, joint ventures and divestitures in the future that involve numerous risks, which if realized, may adversely affect our business and our future results.

We may make strategic acquisitions, engage in joint ventures or divest existing businesses, which could cause us to incur unforeseen expenses and have disruptive effects on our business and may not yield the benefits we expect. Our Credit Facility also imposes limitations on our ability to make other acquisitions. Subject to those limitations, we may selectively pursue additional strategic acquisitions, investments and joint ventures in the future. Any future acquisitions, investments and joint ventures may pose many risks that could adversely affect our reputation, operations or financial results, including:

- we may not retain key employees (including those with needed security clearances), customers and business partners of an acquired business in the future;

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- we may fail to successfully integrate acquired businesses, such as failing to successfully implement IT and other control systems relating to the operations of any acquired business;
- we may not generate sufficient earnings to meet the required Leverage Ratio under the Credit Facility, which would give lenders the right to, among other things, foreclose on our assets;
- acquisitions normally require a significant investment of time and resources, which may disrupt our business and distract our management from other important responsibilities;
- we may not be able to accurately estimate the financial effect of any acquisitions and investments on our business and we may not realize anticipated revenue opportunities, cost savings, or other synergies or benefits, or acquisitions may not result in improved operating performance; and
- we may assume known as well as unknown material liabilities, legal or regulatory risks that were not identified as part of our due diligence or for which we are unable to receive a purchase price adjustment or reimbursement through indemnification;

If any acquisitions, investments or joint ventures fail, perform poorly or their value is otherwise impaired for any reason, including contractions in credit markets and global economic conditions, our business and financial results could be adversely affected.

In addition, we may periodically divest businesses, including businesses that are no longer a part of our ongoing strategic plan. These divestitures similarly require significant investment of time and resources and may disrupt our business, distract management from other responsibilities and may result in losses on disposal or continued financial involvement in the divested business, including through indemnification, guarantee or other financial arrangements, for a period of time following the transaction, which could adversely affect our financial results.

We may not be able to successfully integrate the business of Engility with our own or realize the anticipated benefits of the merger in the expected time frame, or at all.

Our ability to realize the anticipated benefits of the merger will depend, to a large extent, on our ability to integrate our and Engility’s business. The merger involves the combination of two companies that operated as independent public companies. The combined company will be required to devote significant management attention and resources to integrating our business practices with those of Engility. The integration process may disrupt the business and, if implemented ineffectively or if impacted by unforeseen negative economic or market conditions or other factors, we may not realize the full anticipated benefits of the merger. Potential difficulties that the combined company may encounter as part of the integration process include the following:

- the inability to successfully combine our business with Engility in a manner that permits the combined company to achieve the full revenue and cost synergies and other benefits anticipated to result from the merger;
- the loss of customers and strategic partners who may not wish to continue their relationships with the combined company;
- required regulatory approvals from governmental entities may result in limitations, additional costs or placement of restrictions on the conduct of the combined company, imposition of additional material costs on or materially limiting the revenues of the combined company following the merger;
- complexities associated with managing the combined businesses, including difficulty addressing possible differences in corporate cultures and management philosophies and the challenge of integrating complex systems, technology, networks and other assets of each of the companies in a seamless manner that minimizes any adverse impact on customers, suppliers, employees and other business partners; and
- potential unknown liabilities and unforeseen increased expenses or delays associated with the merger.

Many of these factors will be outside of our control and any one of them could result in increased costs, decreases in the amount of expected revenues and diversion of management’s time and energy, which could materially impact the business, financial condition and our results of operations. These benefits may not be achieved within the anticipated time frame, or at all. Furthermore, additional unanticipated costs may be incurred in the integration of

the businesses. All of these factors could decrease or delay the anticipated benefits of the merger and negatively impact us. These and other factors could adversely affect our ability to maintain relationships with customers, suppliers, employees and other partners, and our ability to achieve the anticipated benefits of the merger.

We and Engility will incur direct and indirect costs as a result of the merger.

We and Engility will incur substantial expenses in connection with and as a result of the merger and, over a period of time following the completion of the merger, we expect to incur substantial expenses in connection with coordinating our businesses, operations, policies and procedures. While we have assumed that a certain level of transaction expenses will be incurred, factors beyond our control could affect the total amount or the timing of these expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately.

In connection with the merger, we may be required to take write-downs or write-offs, restructuring and impairment or other charges that could negatively affect our business, assets, liabilities, prospects, outlook, financial condition and results of operations.

Although we have conducted extensive due diligence on Engility in connection with the merger, we cannot assure that this diligence revealed all material issues that may be present, that it would be possible to uncover all material issues through a customary amount of due diligence, or that factors outside of our control will not later arise. Even if our due diligence successfully identifies certain risks, unexpected risks may arise and previously known risks may materialize in a manner not consistent with our preliminary risk analysis. Further, as a result of the merger, purchase accounting, and the proposed operation of the company after closing, we may be required to take write-offs or write-downs, restructuring and impairment or other charges that could negatively affect business, assets, liabilities, prospects, outlook, financial condition and results of operations after closing.

Our use of net operating loss carryforwards and other tax attributes to offset future taxable income may become limited in the event that we or the IRS determines that we have experienced an ownership change.

As of February 1, 2019, we have estimated $472 million of net operating loss (NOL), $19 million of disallowed interest carryforwards for U.S. Federal income tax purposes, and tax basis in our amortizable goodwill and other intangible assets of approximately $696 million. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the Code), if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes, such as its adjusted tax basis in its amortizable goodwill, to offset its post-change income and taxes may be limited. Such an ownership change occurred during the acquisition of Engility Holdings, Inc. and as a result of these limitations, $3 million of tax credit carryforwards were eliminated in purchase accounting.

Pension funding and costs are dependent upon several economic assumptions which if changed may cause our future earnings and cash flow to fluctuate significantly.

As a result of the acquisition of Engility, which closed on January 14, 2019, we assumed the obligations under Engility's defined benefit pension plan (the Pension Plan). The impact of the Pension Plan on our GAAP earnings may be volatile in that the amount of expense we record for the Pension Plan may materially change from year to year because those calculations are sensitive to funding levels as well as changes in several key economic assumptions, including interest rates, rates of return on plan assets, and other actuarial assumptions including participant mortality estimates. Changes in these factors also affect our plan funding, cash flow, and stockholders’ equity. In addition, the funding of the Pension Plan may be subject to changes caused by legislative or regulatory actions.

We will make contributions to fund the Pension Plan when considered necessary or advantageous to do so. The macro-economic factors discussed above, including the return on assets and the minimum funding requirements established by government funding or taxing authorities, or established by other agreement, may influence future funding requirements. A significant decline in the fair value of the assets in the Pension Plan, or other adverse changes to the Pension Plan could require us to make significant funding contributions and affect cash flows in future periods.

As a result of the acquisition of Engility, we also assumed the obligations under a Retiree Health Reimbursement Account plan (RHRA). The impact of Engility’s RHRA on our U.S. generally accepted accounting principles (GAAP) earnings may be volatile in that the amount of expense we record for the plan may materially change from year to year because those calculations are sensitive to several key economic assumptions including interest rates and actuarial assumptions related to participant mortality, retirement and termination.

U.S. government Cost Accounting Standards govern the extent to which postretirement costs and plan contributions are allocable to and recoverable under contracts with the U.S. government. On December 27, 2011 the U.S. government's Cost Accounting Standards Board published a final rule that harmonizes Cost Accounting Standards (CAS) pension cost reimbursement rules with the Pension Protection Act of 2006 (PPA) funding requirements. The rule is expected to eventually mitigate the mismatch between CAS costs and PPA-amended Employee Retirement Income Security Act of 1974 (ERISA) minimum funding requirements, and result in an acceleration of allowable CAS pension costs as compared to the prior rules. We anticipate that government contractors will be entitled to an equitable adjustment for any additional CAS contract costs resulting from the final rule. As a result, we have sought and expect to continue to seek reimbursement from the U.S. government for a portion of our postretirement costs and plan contributions. For additional information related to our pension funding and costs, see Note 8 of the notes to the consolidated financial statements contained within this report.

Our earnings and profitability may vary based on the mix of our contracts and may be adversely affected by our failure to accurately estimate and manage costs, time and resources.

We generate revenues under various types of contracts, which include cost-reimbursement, T&M and FFP contracts. Our earnings and profitability may vary materially depending on changes in the proportionate amount of revenues derived from each type of contract, the nature of services or solutions provided, as well as the achievement of performance objectives and the stage of performance at which the right to receive fees, particularly under incentive and award fee contracts, is finally determined. Cost-reimbursement and T&M contracts generally have lower profitability than FFP contracts. To varying degrees, each of our contract types involves some risk that we could underestimate the costs and resources necessary to fulfill the contract. Our profitability is adversely affected when we incur costs on cost-reimbursement and T&M contracts that we cannot bill to our customers. While FFP contracts allow us to benefit from cost savings, these contracts also increase our exposure to the risk of cost overruns. Revenues derived from FFP contracts represented approximately 27% of our total revenues for fiscal 2019. When making proposals on FFP contracts, we rely heavily on our estimates of costs and timing for completing the associated projects, as well as assumptions regarding technical issues. In each case, our failure to accurately estimate costs or the resources and technology needed to perform our contracts or to effectively manage and control our costs during the performance of work could result, and in some instances has resulted, in reduced profits or in losses. More generally, any increased or unexpected costs or unanticipated delays in connection with the performance of our contracts, including costs and delays caused by contractual disputes or other factors outside of our control (such as performance failures of our subcontractors, natural disasters or other force majeure events) could make our contracts less profitable than expected or unprofitable.

We use estimates in recognizing revenues and, if we make changes to estimates used in recognizing revenues, our profitability may be adversely affected.

A significant portion of our revenues are recognized on performance obligations satisfied over time, which requires estimates of total costs at completion, fees earned, or both. Particularly due to the technical nature of the services being performed and the length of certain performance obligations, this estimation process is complex and involves significant judgment. Adjustments to original estimates are often required as work progresses, experience is gained and additional information becomes known, even though the scope of the work required under the performance obligation may not change. Any adjustment as a result of a change in estimate is recognized immediately. Changes in the underlying assumptions, circumstances or estimates could result in adjustments that may adversely affect future financial results.

Our business and financial results could be negatively affected by cyber or other security threats.

As a U.S. government contractor and a provider of IT services operating in multiple regulated industries and geographies, we handle a variety of sensitive information including personally identifiable information, protected health information, personnel information, classified information, and financial information, concerning our business and employees and those of our customers. We are continuously exposed to cyber and other security threats, including computer viruses, attacks by hackers, malware, insider threats and physical break-ins. Any unauthorized electronic or physical intrusion or other security threat may jeopardize the protection of sensitive or other information stored or transmitted through our IT systems and networks. This could lead to disruptions in mission-critical systems, unauthorized release of sensitive information and the theft or corruption of data. Although we have implemented and regularly update and improve policies, procedures and other controls to monitor, protect against, detect and mitigate cyber and other security threats, attempts to gain unauthorized access to our IT systems and networks are becoming more sophisticated. We, however, seek to detect and investigate all security events and prevent their occurrence.

In addition, we work with industry and the U.S. government to share threat intelligence and promote increased awareness and enhanced protections against cybersecurity threats. However, because of the evolving nature of these security threats, there can be no assurance that our policies, procedures and other controls will detect or prevent them, and we cannot predict their full impact. We may experience similar security threats to the IT systems that we develop, install or maintain under customer contracts, including customer contracts under which we may have access to or management responsibility for customer databases or networks that contain sensitive information relating to our customers, their employees or related third parties. Although we work cooperatively with our customers to seek to minimize the impacts of cyber and other security threats, we must usually rely on the safeguards used or required by those customers. In the event of unauthorized access to sensitive information for which are responsible under customer contracts, our customers, their employees, or third parties may seek to hold us liable for any costs or other damages associated with the unauthorized access. In addition, government agencies may bring legal actions against us for violation of or noncompliance with regulatory requirements relating to any unauthorized access to sensitive information. Any remediation costs, damages or other liabilities related to unauthorized access of sensitive information of ours or our customers caused by cyber or other security threats may not be fully insured or indemnified by other means. Occurrence of any unauthorized access caused by these security threats could adversely affect our reputation, business operations and financial results.

Customer systems failures could damage our reputation and adversely affect our revenues and profitability.

Many of the systems and networks that we develop, install and maintain for our customers involve managing and protecting personal information and information relating to national security and other sensitive government functions. While we have programs designed to comply with relevant privacy and security laws and restrictions, if a system or network that we develop, install or maintain were to fail or experience a security breach or service interruption, whether caused by us, third-party service providers, cybersecurity threats or other events, we may experience loss of revenue, remediation costs or face claims for damages or contract termination. Any such event could cause serious harm to our reputation and prevent us from having access to or being eligible for further work on such systems and networks. Our errors and omissions liability insurance may be inadequate to compensate us for all of the damages that we may incur and, as a result, our future results could be adversely affected.

Legal disputes could require us to pay potentially large damage awards and could be costly to defend, which would adversely affect our cash balances and profitability, and could damage our reputation.

We are subject to a number of lawsuits and claims described under “Legal Proceedings” in Part I of this report. We are also subject to, and may become a party to, a variety of other litigation or claims and suits that arise from time to time in the ordinary course of our business. The Department of Justice and other enforcement agencies of the U.S. government may bring claims or lawsuits against us in connection with our performance of government contracts or our billing or record-keeping relating to those contracts. The Department of Justice has considerably more resources at its disposal than we do, and can bring suspension and debarment proceedings against us that would prevent us from working for some or all U.S. government customers. In addition, certain statutes under which the Department of Justice may bring claims (like the False Claims Act) provide for treble damages and penalties on a per invoice basis against government contractors. These circumstances generally give the Department of Justice significantly more leverage in any legal dispute with us than if we were defending ourselves against claims brought by a commercial enterprise. Adverse judgments or settlements in some or all of these legal disputes may result in significant monetary damages or injunctive relief against us. Any claims or litigation could be costly to defend, and even if we are successful or if fully indemnified or insured, could damage our reputation and make it more difficult to compete effectively or obtain adequate insurance in the future. Litigation and other claims, including those described under “Legal Proceedings” in Part I of this report, are subject to inherent uncertainties and management’s view of these matters may change in the future.

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Our business is subject to numerous legal and regulatory requirements and any violation of these requirements or any misconduct by our employees, subcontractors, agents or business partners could harm our business and reputation.
In addition to government contract procurement laws and regulations, we are subject to numerous other federal, state and foreign legal requirements on matters as diverse as data privacy and protection, employment and labor relations, immigration, taxation, anti-corruption, import/export controls, trade restrictions, internal and disclosure control obligations, securities regulation and anti-competition. Compliance with diverse and changing legal requirements is costly, time-consuming and requires significant resources. Violations of one or more of these requirements in the conduct of our business could result in significant fines and other damages, criminal sanctions against us or our officers, prohibitions on doing business and damage to our reputation. Violations of these regulations or contractual obligations related to regulatory compliance in connection with the performance of customer contracts could also result in liability for significant monetary damages, fines and/or criminal prosecution, unfavorable publicity and other reputational damage, restrictions on our ability to compete for certain work and allegations by our customers that we have not performed our contractual obligations.
Misconduct by our employees, subcontractors, agents or business partners could subject us to fines and penalties, restitution or other damages, loss of security clearance, loss of current and future customer contracts and suspension or debarment from contracting with federal, state or local government agencies, any of which would adversely affect our business and our future results. Such misconduct could include fraud or other improper activities such as falsifying time or other records, failure to comply with our policies and procedures or violations of applicable laws and regulations.
Goodwill and intangible assets represent a significant amount of our total assets and any impairment of these assets would negatively impact our results of operations.
Goodwill and intangible assets are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Examples of events or changes in circumstances indicating that the carrying value of goodwill may not be recoverable could include a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, loss of key contracts, customer relationships, or personnel that affect current and future operating cash flows of the reporting unit. Any future impairment of goodwill or other intangible assets would have a negative impact on our profitability and financial results.
We depend on our teaming arrangements and relationships with other contractors and subcontractors. If we are not able to maintain these relationships, or if these parties fail to satisfy their obligations to us or the customer, our revenues, profitability and growth prospects could be adversely affected.
We rely on teaming relationships with other prime contractors and subcontractors in order to submit bids for large procurements or other opportunities where we believe the combination of services, products and solutions provided by us and our teammates will help us to win and perform the contract. Our future revenues and growth prospects could be adversely affected if other contractors eliminate or reduce their contract relationships with us, or if the U.S. government terminates or reduces these other contractors' programs, does not award them new contracts or refuses to pay under a contract. Companies that do not have access to U.S. government contracts or experience with our customers may perform services as our subcontractor that we cannot otherwise provide ourselves, and that exposure could enhance such companies' prospect of securing a future position as a prime U.S. government contractor which could increase competition for future contracts and impair our ability to win these contracts.
Whenever our subcontractors fail to timely meet their contractual obligations, have regulatory compliance or other problems, our ability to fulfill our obligations as a prime contractor or higher tier subcontractor may be jeopardized. In addition, we have certain obligations to our former Parent to permit it to perform up to one hundred percent (100%) of task orders as a subcontractor to us under certain contracts that were novated to us in the spin-off transaction. Subcontractor performance deficiencies under subcontracts with us as the prime contractor, including performance by our former Parent, could lead to significant losses in future periods and could result in our termination for default as the prime contractor even though it was the subcontractor that failed to perform and not our personnel.

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We have only a limited ability to protect our intellectual property rights, which are important to our success. Our failure to adequately protect our proprietary information and intellectual property rights could adversely affect our competitive position.

We rely principally on trade secrets to protect much of our intellectual property in cases where we do not believe that patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. Although our employees are subject to confidentiality obligations, this protection may be inadequate to deter or prevent misappropriation of our confidential information. We may be unable to detect unauthorized use of our intellectual property or otherwise take appropriate steps to enforce our rights. Failure to obtain or maintain trade secret protection could adversely affect our competitive business position. If we are unable to prevent third parties from infringing or misappropriating our copyrights, trademarks or other proprietary information, our competitive position could be adversely affected. In addition, in connection with the performance of services, the U.S. government has certain rights to inventions, data, software codes and related material that we develop under government-funded contracts and subcontracts, which may permit the U.S. government to disclose or license this information to third parties, including, in some instances, our competitors.

In the course of conducting our business, we may inadvertently infringe the intellectual property rights of others, resulting in claims against us or our customers. Our contracts generally indemnify our customers for third-party claims for intellectual property infringement by the services and solutions we provide. The expense of defending these claims may adversely affect our financial results.

We could incur significant liabilities and suffer negative publicity if our detection systems fail to operate as intended or our assessment reports prove to be inaccurate.

We have developed and sold tsunami buoys and related services that are designed to assist in the detection of tsunamis or large waves that may have catastrophic consequences to coastal communities. Our buoys have been deployed by the U.S. National Oceanic and Atmospheric Administration and non-U.S. governments in other areas around the world. There are many factors, some of which are beyond our control, which could result in the failure of these buoys. We may develop other products or provide services for the detection of natural or man-made threats that could have catastrophic consequences if the threats are realized. In addition, we prepare reports for various government customers in the evaluation or assessment of the consequences of certain threats or natural disasters. The failure of our products and services to help detect the threats for which they were designed or the failure of our reports to accurately assess the consequences of certain threats could contribute to injury, death and extensive property damage and may lead to product liability, professional liability, or other claims against us. Further, if our products, services or reports fail to, or are perceived to have failed to help detect or adequately assess a threat, the negative publicity from such incident could have a material adverse effect on our business.

Our services and operations sometimes involve using, handling or disposing of hazardous substances or dangerous materials, which could expose us to potentially significant liabilities.

Some of our services and operations involve the use, handling or disposal of hazardous substances or dangerous materials, including explosive, chemical, biological, radiological or nuclear materials. These activities generally subject us to extensive foreign, federal, state and local environmental protection and health and safety laws and regulations, which, among other things, require us to incur costs to comply with these regulations and could impose liability on us for handling or disposing of hazardous substances or dangerous materials. Furthermore, failure to comply with these environmental protection and health and safety laws and regulations could result in civil, criminal, regulatory, administrative or contractual sanctions, including fines, penalties or suspension or debarment from contracting with the U.S. government or could cause us to incur costs to change, upgrade, remediate and/or close some of our operations or properties. Although we do not have extensive real estate holdings, our ownership and operation of real property also subjects us to environmental protection laws, some of which hold current or previous owners or operators of businesses and real property liable for hazardous substance releases, even if they did not know of and were not responsible for the releases. If we have any violations of, or incur liabilities pursuant to, these laws or regulations, our financial condition and operating results could be adversely affected.

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We face risks associated with our international business.
Our international business operations may be subject to additional and different risks than our U.S. business. Failure to comply with U.S. government laws and regulations applicable to international business such as the Foreign Corrupt Practices Act or U.S. export control regulations could have an adverse impact on our business with the U.S. government and could expose us to administrative, civil or criminal penalties and may expose us to potentially significant contract losses. In addition, we provide services and solutions in support of U.S. government customers in countries with governments that may be or may become unstable or are in areas of active military or intelligence operations. Operating in such environments may increase the risk of an incident resulting in injury or loss of life, or damage or destruction of property, or inability to meet our contractual obligations. Although our international operations have historically generated a small proportion of our revenues, we do not know the impact that these regulatory, geopolitical and other factors may have on our business in the future and any of these factors could adversely affect our business.

Forward-Looking Statement Risks

You may not be able to rely on forward-looking statements.
This report contains forward-looking statements that are based on our management's belief and assumptions about the future in light of information currently available to our management. In some cases, you can identify forward-looking statements by words such as "may," "will," "should," "expects," "projects," "intends," "plans," "anticipates," "believes," "esti "predicts," "potential," "continue," "outlook," and similar words or phrases or the negative of these words or phrases. These statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable when made, we cannot guarantee future results, levels of activity, performance or achievements. There are a number of important factors that could cause our actual results to differ materially from those results anticipated by our forward-looking statements, which include, but are not limited to the risk factors discussed above.
We do not undertake any obligation to update or revise any of the forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence of unanticipated events after the date of those statements or to conform these statements to actual results.

Item 1B. Unresolved Staff Comments

No information is required in response to this item.

Item 2. Properties

We occupy approximately 4 million square feet of floor space, substantially all of which is leased. Our corporate headquarters is located in Reston, Virginia. Our principal locations outside of Reston, Virginia include Chantilly, Virginia, Huntsville, Alabama, Oak Ridge, Tennessee, El Segundo, California and Annapolis Junction, Maryland. As of February 1, 2019, we conducted our operations in approximately 190 offices located in 32 states, the District of Columbia, and various foreign countries. We consider our facilities suitable and adequate for our present needs, which are generally limited to office, warehouse and computer laboratory spaces.

Item 3. Legal Proceedings

We have provided information about legal proceedings in which we are involved in Note 15 of the notes to the consolidated financial statements contained within this report.
We are also routinely subject to investigations and reviews relating to compliance with various laws and regulations. Additional information regarding such investigations and reviews is described under the heading "Government Investigations, Audits and Reviews" in Note 15 of the notes to the consolidated financial statements contained within this report.

Item 4. Mine Safety Disclosures

No information is required in response to this item.

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Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities

Our common stock is listed on the New York Stock Exchange under the ticker symbol "SAIC". As of March 8, 2019, there were approximately 25,000 holders of record of our common stock. The number of holders of record of our common stock may not be representative of the number of beneficial owners due to shares that may be held by depositories, brokers or nominees.

Stock Performance Graph

The following graph compares the total cumulative return on our common stock, from the beginning of fiscal year 2015 through fiscal year 2019, to three indices: (i) the Standard & Poor's (S&P) MIDCAP 400 Index, (ii) the Russell 1000 Index and (iii) the Dow Jones US Computer Services Index. The graph assumes an initial investment of $100 on January 31, 2014 and that dividends have been reinvested. The comparisons in the graph are required by the U.S. Securities and Exchange Commission (SEC), based upon historical data and are not intended to forecast or be indicative of possible future performance of our common stock.

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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.

The following table presents repurchases of our common stock during the three months ended February 1, 2019:

Period[1]	Total Number of Shares (or Units) Purchased[2]	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs[3]
November 3, 2018 - December 7, 2018	289	$ 69.79	—	2,317,844
December 8, 2018 - January 4, 2019	—	—	—	2,317,844
January 5, 2019 - February 1, 2019	120,445	65.92	119,234	2,198,610
Total	120,734	$ 65.93	119,234	

(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 December 15, 2016, the number of additional shares of our common stock that may be repurchased under our existing repurchase program previously announced in October 2013 was increased by approximately 3.3 million shares, bringing the total authorized shares to be repurchased under the program to approximately 11.8 million shares. As of February 1, 2019, we have repurchased approximately 9.6 million shares of common stock under the program. Subsequent to the end of fiscal 2019, the number of shares that may be repurchased increased by approximately 4.6 million shares, bringing the total authorized shares to be repurchased under the plan to approximately 16.4 million shares.

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Item 6. Selected Financial Data

On January 14, 2019 we acquired Engility Holdings, Inc. (Engility) and on May 4, 2015, we acquired privately held Scitor Holdings, Inc. (Scitor). The consolidated statement of income data includes the results of operations subsequent to each acquisition.

This information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes thereto contained within this report.

	Year Ended February 1, 2019[2]	February 2, 2018	February 3, 2017	January 29, 2016	January 30, 2015
	(in millions, except per share data)				
Consolidated and Combined Statement of Income Data:					
Revenues	$4,659	$ 4,454	$ 4,442	$ 4,315	$ 3,885
Operating income	220	256	263	227	240
Net income	137	179	143	117	141
Earnings per share[1]:					
Basic	$3.16	$ 4.13	$ 3.21	$ 2.55	$ 3.01
Diluted	$3.11	$ 4.02	$ 3.12	$ 2.47	$ 2.91
Cash dividend per share	$1.24	$ 1.24	$ 1.24	$ 1.21	$ 1.12

Consolidated and Combined Balance Sheet Data:	February 1, 2019[2]	February 2, 2018	February 3, 2017	January 29, 2016	January 30, 2015
Total assets	$ 4,563	$ 2,073	$ 2,042	$ 2,122	$ 1,389
Long-term debt, including current portion	2,089	1,024	1,047	1,070	486
Other long-term liabilities and deferred income taxes	102	68	48	41	38

(1) For more information on the calculation of Basic and Diluted Earnings per share see Note 2 of the notes to the consolidated financial statements contained within this report.

(2) The Company adopted ASC 606 on February 3, 2018, using the modified retrospective method whereby the Company recognized the cumulative effect of adoption as an adjustment to its opening balance of retained earnings on February 3, 2018, see Note 1 of the notes to the consolidated financial statements contained within this report.

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Item 7. 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 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 this report), including statements regarding our intent, belief, or current expectations with respect to, among other things, trends affecting our financial condition or results of operations (including our financial targets discussed below under "Management of Operating Performance and Reporting" and "Liquidity and Capital Resources"); backlog; our industry; government budgets and spending; market opportunities; the impact of competition; and the impact of the Engility and Scitor acquisitions. Such statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. Risks, uncertainties and assumptions that could cause or contribute to these differences include those discussed below and elsewhere in this report, particularly in "Risk Factors" in Part I of this report. 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. References herein to "former Parent" refer to Leidos Holdings, Inc. (formerly SAIC, Inc.) collectively with 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 2017 began on January 30, 2016 and ended on February 3, 2017, fiscal 2018 began on February 4, 2017 and ended on February 2, 2018, and fiscal 2019 began on February 3, 2018 and ended on February 1, 2019. The number of weeks for each quarter for fiscal 2019, 2018 and 2017 are as follows:

	Fiscal 2019	Fiscal 2018	Fiscal 2017
	(weeks)		
First Quarter	13	13	14
Second Quarter	13	13	13
Third Quarter	13	13	13
Fourth Quarter	13	13	13
Fiscal Year	52	52	53

Business Overview

We are a leading technology integrator providing full life cycle services and solutions in the technical, engineering and enterprise information technology (IT) markets. We developed our brand by addressing our customers' mission critical needs and solving their most complex problems for over 50 years. As one of the largest pure-play technical service providers to the U.S. government, we serve markets of significant scale and opportunity. Our primary customers are the departments and agencies of the U.S. government. We serve our customers through approximately 2,200 active contracts and task orders and employ more than 23,000 individuals who are led by an experienced executive team of proven industry leaders. Our long history of serving the U.S government has afforded us the ability to develop strong and longstanding relationships with some of the largest customers in the markets we serve. Substantially all of our revenues and tangible long-lived assets are generated by or owned by entities located in the United States.

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Economic Opportunities, Challenges and Risks

In fiscal 2019, we generated greater than 95% of our revenues from contracts with the U.S. government, including subcontracts on which we perform. Our business performance is affected by the overall level of U.S. government spending and the alignment of our offerings and capabilities with the budget priorities of the U.S. government. Appropriations measures passed in September 2018 and February 2019, combined, provide full funding for the federal government through the end of government fiscal year (GFY) 2019. These bills are funded at increased levels for defense and non-defense spending based on a bi-partisan agreement reached in February 2018 to lift caps set by the Budget Control Act in August 2011, providing additional business opportunities for the Company. However, beyond GFY 2019, there remains uncertainty on whether, and by how much, discretionary spending will be increased above the budget caps put in place in the Budget Control Act. Without additional action in the form of another bi-partisan budget agreement to lift the Budget Control Act caps, federal expenditures would decline sharply in GFY 2020. In addition, if there were a Continuing Resolution to begin GFY 2020, the effect of the Budget Control Act caps likely would be to reduce spending levels through sequestration from the levels set for GFY 2019 to much lower levels set in the Budget Control Act for GFY 2020.

Adverse changes in fiscal and economic conditions could materially affect our business. Some changes that could have an adverse impact on our business include the implementation of future spending reductions (including sequestration), government shutdowns, and issues related to required increases to the nation's debt ceiling (under current law, the debt ceiling will be reached in March 2019).

The U.S. government has increasingly relied on contracts that are subject to a competitive bidding process (including indefinite delivery, indefinite quantity (IDIQ), U.S. General Services Administration (GSA) schedules and other multi-award contracts) which has resulted in greater competition and increased pricing pressure. We expect that a majority of the business that we seek in the foreseeable future will be awarded through a competitive bidding process. Despite the budget and competitive pressures impacting the industry, we believe we are well positioned to protect and expand existing customer relationships and benefit from opportunities that we have not previously pursued. Our scale, size and prime contractor leadership position are expected to help differentiate us from our competitors, especially on large contracts. We believe our long-term, trusted customer relationships and deep technical expertise provide us with the sophistication to handle highly complex mission-critical contracts. SAIC's value proposition is found in the proven ability to serve as a trusted adviser to our customers. In doing so, we leverage our expertise and scale to help them execute their mission.

We succeed as a business based on the solutions we deliver, our past performance and our ability to compete on price. Our solutions, inspired through innovation, are based on best practices and technology transfer. Our past performance was achieved by employee dedication and customer focus. Our current cost structure, as well as our ongoing efforts to reduce costs by strategic sourcing and developing repeatable offerings, is 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 of successful program execution, competitive cost structure and efficiencies in assigning the right people, at the right time, in support of our contracts.

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

See "Risk Factors" in Part I of this report for additional discussion of our industry and regulatory environment.

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Restructuring

During fiscal 2018, the Company initiated restructuring activities (the "Restructuring") intended to improve operational efficiency, reduce costs, and better position the Company to drive future growth. Management's restructuring activities included involuntary and voluntary terminations and the consolidation of existing leased facilities. The Company completed the Restructuring in fiscal 2018 with total restructuring costs of approximately $13 million, comprised of $6 million for employee severance and $7 million of lease exit costs. Refer to "Results of Operations" below, and "Restructuring" in Note 1 of the notes to the consolidated financial statements for further details.

Management of Operating Performance and Reporting

We manage our business to achieve our long-term financial targets, which we expect to accomplish on average and over time. These financial targets include:

- low single digit annual revenue growth percentage, excluding impacts from acquisitions,
- adjusted EBITDA margin expansion of 10 to 20 basis points annually, and
- return of capital in excess of operating needs.

Adjusted EBITDA is a non-GAAP financial measure described in more detail in “Non-GAAP Measures” below.

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

We evaluate our results of operations by considering the drivers causing changes in revenues, operating income and operating cash flows. Given that revenues fluctuate on our contract portfolio over time due to contract awards and completions, changes in customer requirements, and increases or decreases in ordering volume of materials, we evaluate significant trends and fluctuations in these terms. Whether performed by our employees or by our subcontractors, we primarily provide services and, as a result, our cost of revenues are predominantly variable. We also analyze our cost mix (labor, subcontractor or materials) in order to understand operating margin because contracts performed 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 contract 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.

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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:

	Year Ended					
	February 1, 2019	Percent change	February 2, 2018	Percent change	February 3, 2017	
	(dollars in millions)					
Revenues	$4,659	5 %	$ 4,454	— %	$ 4,442	
Cost of revenues	4,195	4 %	4,043	1 %	4,003	
As a percentage of revenues	90.0 %		90.8 %		90.1 %	
Selling, general and administrative expenses	158	2 %	155	(7)%	166	
Acquisition and integration costs	86	100 %	—	(100)%	10	
Operating income	220	(14)%	256	(3)%	263	
As a percentage of revenues	4.7 %		5.7 %		5.9 %	
Net income	$137	(23)%	$ 179	25 %	$ 143	
Cash flows provided by operating activities	$184	(15)%	$ 217	(21)%	$ 273	

Revenues. Revenues increased $205 million from fiscal 2018 to fiscal 2019 primarily due to newly awarded contracts ($164 million), which includes information technology (IT) integration contracts supporting state and local, and federal civilian agency customers, increased orders in our supply chain portfolio ($102 million), and the acquisition of Engility ($98 million). These increases were partially offset by reduced volume in fixed price vehicle production in the platform integration portfolio, completion of contracts and other net decreases across our portfolio ($159 million). Excluding acquired revenues and the impact of the partial government shutdown, compared to prior year, revenues increased by 2.6%.

Revenues increased $12 million from fiscal 2017 to fiscal 2018 primarily due to revenue on new contracts supporting NASA, the U.S. Army, and the Environmental Protection Agency (EPA) ($156 million), increased orders within our supply chain portfolio ($56 million) and higher revenue on platform integration programs ($31 million). These increases were partially offset by one additional week in the prior year ($88 million) and completion of contracts and other net decreases across our portfolio ($143 million), including the loss of an IT integration contract supporting the DHS ($46 million).

Cost of Revenues. Cost of revenues increased $152 million from fiscal 2018 to fiscal 2019 primarily due to an increase in revenue volume and the acquisition of Engility. Cost of revenues as a percentage of revenues decreased from 90.8% in fiscal 2018 to 90.0% in fiscal 2019, driven by improved performance across our portfolio ($45 million), inclusive of newly awarded contracts, higher net favorable changes in estimates related to performance obligations satisfied over time ($20 million) and realization of cost efficiencies related to our restructuring activities in fiscal 2018. These improvements were partially offset by an increase in our provisions for inventory and deferred contract costs ($36 million).

Cost of revenues increased $40 million from fiscal 2017 to fiscal 2018 and as a percentage of revenues increased from 90.1% in fiscal 2017 to 90.8% in fiscal 2018, primarily due to lower net favorable changes in estimates on contracts related to performance obligations satisfied over time ($25 million), and lower profit from a higher material cost mix and higher volume of cost reimbursable contracts ($8 million). Lower net favorable changes in estimates were largely driven by increased costs on platform integration programs supporting the U.S. Marine Corps combined with prior year write-ups on certain programs supporting federal civilian agencies. Additionally, we incurred higher severance costs related to our restructuring in fiscal 2018 ($5 million).

Cost of revenues also decreased in fiscal 2018 and fiscal 2019 due to an annual update to our Disclosure Statements that we prepare in accordance with U.S. government Cost Accounting Standards. We classify indirect costs as cost of revenues or selling, general and administrative expenses (SG&A) in the same manner as such costs are defined in our

Disclosure Statements. The update resulted in certain types of costs that had previously

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been included in cost of revenues to be included in SG&A ($2 million and $9 million for fiscal 2019 and fiscal 2018, respectively); however, total operating costs were not affected by this change.

Selling, General and Administrative Expenses. SG&A increased $3 million from fiscal 2018 to fiscal 2019 primarily due to the acquisition of Engility ($7 million) and higher intangible asset amortization driven by Engility ($3 million), partially offset by a gain realized from the settlement of claims against the indemnification escrow balance established when Scitor was acquired ($6 million).

SG&A decreased $11 million, from fiscal 2017 to fiscal 2018 primarily due to lower lease exit costs ($8 million), lower business development costs ($8 million), lower amortization of intangible assets ($5 million), and lower compensation expense ($3 million). These decreases were partially offset by restructuring costs incurred in fiscal 2018 ($7 million) and updates to our Disclosure Statements.

Operating Income. Operating income as a percentage of revenues decreased to 4.7% for fiscal 2019, compared to 5.7% for fiscal 2018, primarily due to costs associated with the acquisition and integration of Engility ($86 million) and an increase in our inventory and deferred contract cost provisions, partially offset by improved performance across our portfolio and the realization of cost efficiencies resulting from our restructuring activities in fiscal 2018.

Operating income as a percentage of revenues decreased to 5.7% for fiscal 2018, compared to 5.9% for fiscal 2017, primarily due to lower net favorable changes in estimates on contracts related to performance obligations satisfied over time and restructuring costs in fiscal 2018. These decreases were partially offset by lower SG&A costs as we continue to drive efficiencies across our operating structure.

Net Income. Net income decreased $42 million from fiscal 2018 to fiscal 2019 primarily due to lower operating income, expenses associated with the debt refinancing activities in the current year, and a higher effective tax rate in the current year.

Net income increased $36 million from fiscal 2017 to fiscal 2018 primarily due to lower income tax expense as a result of the adoption of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting ($22 million), a one-time benefit from the effect of the federal corporate tax rate change ($17 million) and lower interest expense. These increases were partially offset by lower operating income.

Cash Flows Provided by Operating Activities. Cash flows provided by operating activities were $184 million for fiscal 2019 which represented a decrease of $33 million from fiscal 2018 primarily due to acquisition and integration expenses and the U.S. federal government partial shutdown, which was partially offset by higher profit margin and strong collections on our supply chain contracts.

Cash flows provided by operating activities were $217 million for fiscal 2018 which represented a decrease of $56 million from fiscal 2017 primarily due to the timing of customer collections ($125 million), partially offset by an extra week of payroll in the prior year ($30 million), a net reduction in working capital investments in Marine Corps platform integration and IT services programs ($18 million) and excess tax benefits for stock based compensation in the current year ($22 million).

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.

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EBITDA and Adjusted EBITDA. The performance measure EBITDA is calculated by taking net income and excluding interest expense, interest income, provision for income taxes, and depreciation and amortization. Adjusted EBITDA is calculated by taking EBITDA and excluding restructuring costs, and acquisition and integration costs. Integration costs excluded are costs to integrate acquired companies and include the costs of strategic consulting services, facility consolidation and employee severance. The acquisition and integration costs relate to the Company's significant acquisitions of Engility and Scitor. We began excluding restructuring costs in the third quarter of fiscal 2018 as a result of the restructuring described above. Adjusted EBITDA is a performance measure that excludes costs that we do not consider to be indicative of our ongoing operating performance.

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 is calculated as follows:

	Year Ended		
	February 1, 2019	February 2, 2018	February 3, 2017
	(in millions)		
Net income	$137	$ 179	$ 143
Interest expense	53	44	52
Interest income	(3)	(1)	—
Provision for income taxes	33	35	69
Depreciation and amortization	47	44	50
EBITDA	267	301	314
EBITDA as a percentage of revenues	5.7 %	6.8 %	7.1 %
Acquisition and integration costs	86	—	10
Restructuring costs	—	13	—
Depreciation included in restructuring costs and acquisition and integration costs	—	(1)	(2)
Adjusted EBITDA	$353	$ 313	$ 322
Adjusted EBITDA as a percentage of revenues	7.6 %	7.0 %	7.2 %

Adjusted EBITDA as a percentage of revenues increased to 7.6% for fiscal 2019, compared to 7.0% for fiscal 2018, driven by improved performance across our portfolio and higher net favorable changes in estimates related to performance obligations satisfied over time and realization of cost efficiencies, partially offset by an increase in our inventory and deferred contract cost provisions.

Adjusted EBITDA as a percentage of revenues decreased to 7.0% for fiscal 2018, compared to 7.2% for fiscal 2017, due to lower net favorable changes in estimates on contracts related to performance obligations satisfied over time. These drivers were partially offset by lower SG&A costs in the current year as we continue to drive efficiencies across our operating structure.

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.

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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:

	February 1, 2019	February 2, 2018
	(in millions)	
Funded backlog	$2,753	$ 2,012
Negotiated unfunded backlog	11,048	8,215
Total backlog	$13,801	$ 10,227

We had net bookings worth an estimated $4.6 billion and $6.7 billion during fiscal 2019 and fiscal 2018, respectively. Fiscal 2019 total backlog has increased from the prior year primarily due to the acquisition of Engility in the fourth quarter; $3.6 billion of acquired backlog from Engility was recorded as an increase to backlog as of the acquisition date.

Contract Types. Our earnings and profitability may vary materially depending on changes in the proportionate amount of revenues derived from each type of contract. For a discussion of the types of contracts under which we generate revenue, see "Business—Contract Types" in Part I of this report. The following table summarizes revenues by contract type as a percentage of revenues for the periods presented:

	Year Ended		
	February 1, 2019	February 2, 2018	February 3, 2017
Cost reimbursement	50 %	45 %	41 %
Time and materials (T&M)	23 %	27 %	30 %
Firm-fixed price (FFP)	27 %	28 %	29 %
Total	100 %	100 %	100 %

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Our contract mix reflects an increase in cost reimbursement type contracts due to newly awarded contracts supporting federal civilian agencies and a change in contract type on a significant contract supporting the Department of Defense that shifted from a time and materials to cost reimbursement contract.
Cost of Revenues Mix. We generate revenues by providing a customized mix of services to our customers. The profit generated from our service contracts is affected by the proportion of cost of revenues incurred from the efforts of our employees (which we refer to below as labor-related cost of revenues), the efforts of our subcontractors and the cost of materials used in the performance of our service obligations under our contracts. Contracts performed with a higher proportion of SAIC labor are generally more profitable. The following table presents changes in cost mix for the periods presented:

	Year Ended					
	February 1, 2019		February 2, 2018		February 3, 2017	
	(as a % of total cost of revenues)					
Labor-related cost of revenues	48	%	47	%	48	%
Subcontractor-related cost of revenues	30	%	33	%	34	%
Supply chain materials-related cost of revenues	15	%	13	%	12	%
Other materials-related cost of revenues	7	%	7	%	6	%

Cost of revenues mix for fiscal 2019 and 2018 both reflect an increase in supply chain material content.

Liquidity and Capital Resources
As a services provider, our business generally requires minimal infrastructure investment. We expect to fund our ongoing working capital, commitments and any other discretionary investments with cash on hand, future operating cash flows and, if needed, borrowings under our $400 million Revolving Credit Facility.
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 cash 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.
Upon the acquisition of Engility, we drew $1.1 billion on our committed five-year senior secured term loan facility, see Note 10 to the Consolidated Financial Statements. The proceeds were used to repay Engility's existing credit facility and outstanding notes. In addition, the Revolving Credit Facility increased by an additional $200 million upon the successful completion of the acquisition.
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 fund our short-term liquidity and long-term capital needs.
Borrowings under our Term Loan Facilities and, if used in the future, our Revolving Credit Facility incur interest at a variable rate. In accordance with our risk management objectives, we hold fixed interest rate swap agreements to hedge the variability in interest payment cash flows on a substantial portion of our outstanding variable rate debt. These instruments are accounted for as cash flow hedges. Under the swap agreements, we pay the fixed rate and the counterparties to the agreement pay a floating interest rate.

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Our Credit Facility contains customary terms and conditions including financial covenants and covenants restricting the Company's ability to merge or consolidate with another entity or undertake other fundamental changes, enter into property sale and leaseback transactions, and incur liens. The Company's dividends and share repurchases may be limited under certain leverage ratios, and we may be required to make an annual debt prepayment based on our cash flows from operating activities. See Note 10 of the notes to the consolidated financial statements contained within this report for a more complete understanding of our Credit Facility.

We currently maintain credit ratings from major U.S. rating agencies. Failure to maintain acceptable ratings could have an adverse effect on the Company's future cost of capital and any significant increase in the level of our borrowings could negatively impact these ratings.

During fiscal 2019 we repurchased approximately 0.5 million shares of our common stock for $40 million from the open market in connection with our existing share repurchase program. During fiscal 2018 we repurchased approximately 2.0 million shares for $150 million. Since the program's inception in December of 2013 we have repurchased 9.6 million shares for $539 million.

Historical Cash Flow Trends

The following table summarizes our cash flows:

	Year Ended February 1, 2019	February 2, 2018	February 3, 2017
	(in millions)		
Net cash provided by operating activities	$184	$ 217	$ 273
Net cash used in investing activities	(1,028)	(22)	(17)
Net cash provided by (used in) financing activities	938	(261)	(247)
Total increase (decrease) in cash, cash equivalents and restricted cash	$94	$ (66)	$ 9

Cash Provided by Operating Activities. Refer to "Results of Operations" above for a discussion of the changes in cash provided by operating activities between fiscal 2019 and fiscal 2018 and between fiscal 2018 and fiscal 2017.

Cash Used in Investing Activities. Cash used in investing activities increased in fiscal 2019 compared to the prior year period due to cash paid for the acquisition of Engility and higher capital expenditures. Cash used in investing activities increased in fiscal 2018 compared to fiscal 2017, primarily due to higher capital expenditures.

Cash Provided by/Used in Financing Activities. Cash provided by financing activities increased in fiscal 2019 compared to the prior year period primarily due to proceeds from borrowings and lower share repurchases, partially offset by higher principal payments on borrowings.

Cash used in financing activities increased in fiscal 2018 compared to the prior year period primarily due to the change in classification of excess tax benefits from stock based compensation, from being classified as a financing activity in fiscal 2017 to an operating activity in fiscal 2018, as a result of the adoption of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting.

Off-Balance Sheet Arrangements

For an understanding of our obligations relating to surety bonds, see Note 15 of the notes to the consolidated financial statements contained within this report. For an understanding of our operating leases, see "Contractual Obligations" within this section and Note 13 of the notes to the consolidated financial statements contained within this report.

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Contractual Obligations

The following table summarizes, as of February 1, 2019, our obligations to make future payments pursuant to certain contracts or arrangements and provides an estimate of the fiscal years in which these obligations are expected to be satisfied:

	Payments Due by Fiscal Year				
	Total	2020	2021-2022	2023-2024	2025 - Thereafter
	(in millions)				
Contractual obligations:					
Long-term debt including current portion[1]	$2,115	$24	$ 138	$ 958	$ 995
Interest payments on long-term debt[2]	479	90	161	152	76
Operating lease obligations	211	55	78	35	43
Estimated purchase obligations[3]	98	62	19	5	12
Other long-term liabilities[4]	40	7	10	5	18
Total contractual obligations	$2,943	$238	$ 406	$ 1,155	$ 1,144

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

(2) Amounts include an estimate of future variable interest payments on the Term Loan Facilities based on scheduled outstanding principal amounts, current applicable margin and projected 1-month LIBOR as of February 1, 2019. The amounts presented in this table exclude the effects of interest rate swaps used to hedge against changes in 1-month LIBOR.

(3) Includes estimated obligations to transfer funds under legally enforceable agreements for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices. Excludes purchase orders for services or products to be delivered pursuant to U.S. government contracts in which we have full recourse under normal contract termination clauses.

(4) Other long-term liabilities primarily consist of liabilities associated with deferred compensation plan obligations, and liabilities for unrecognized tax benefits. Deferred compensation plan obligations have been allocated to fiscal years based on participants’ payment elections on retirement and estimated retirement ages, but is subject to acceleration on participants’ termination of employment prior to retirement. Liabilities for unrecognized tax benefits are allocated to the fiscal years in which the statute of limitations is currently expected to expire.

Commitments and Contingencies

We are subject to a number of reviews, investigations, claims, lawsuits and other uncertainties related to our business. For a discussion of these items, see Note 15 of the notes to the consolidated financial statements contained within this report.

Critical Accounting Policies

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

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

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Revenue Recognition. We generate our revenues primarily from long-term contracts in which we provide technical, engineering and enterprise IT services directly for the U.S. government and as a subcontractor with other contractors engaged in work for the U.S. government. We evaluate the nature of the contract and the services provided when determining the accounting method utilized for each contract. We recognize a significant portion of our revenues using a cost input measure of progress that requires us to rely on the skill and expertise of our engineers, program managers and business management professionals in the many areas of cost estimation. These estimates of costs can span several years and take into account many factors including the availability, productivity and cost of labor, potential delays in our performance and the level of future indirect cost allocations.

We provide for anticipated losses on long-term production type contracts and service contracts with the U.S. government by recording an expense for the total expected contract loss during the period when the loss is determined. Contract costs incurred for U.S. government contracts (including allocated indirect costs) are subject to audit and adjustment through negotiations with government representatives. Revenues on U.S. government contracts have been recorded in amounts that are expected to be realized on final settlement.

Many of our contracts include forms of variable consideration such as reimbursable costs, award and incentive fees, usage-based pricing, service-level penalties, performance bonuses, and other provisions that can either increase or decrease the transaction price. Variable amounts generally are determined upon our achievement of certain performance metrics, program milestones or cost targets and may be based upon customer discretion. At contract inception, we estimate the transaction price and may include variable consideration in the transaction price only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. When developing these estimates, we consider the customer, contract terms, the complexity of the work and related risks, the extent of customer discretion, historical experience and the potential of a significant reversal of revenue.

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 routinely occur over the performance period for a variety of reasons, which include: changes in scope; changes in cost estimates due to unanticipated cost growth or reassessments of risks impacting costs; changes in the estimated transaction price, such as variable amounts for incentive or award fees; and performance being better or worse than previously estimated. In cases when total expected costs exceed total estimated revenues for a performance obligation, the Company recognizes the total estimated loss in the quarter identified. Total estimated losses are inclusive of any unexercised options that are probable of award, only if they increase the amount of the loss. Aggregate changes in contract estimates increased operating income by $17 million for fiscal 2019, decreased operating income by $3 million for fiscal 2018 and increased operating income by $22 million for fiscal 2017. For additional information related to changes in estimates on contracts, including gross favorable and unfavorable adjustments as well as the impact to earnings per share, see Note 3 of the notes to the consolidated financial statements contained within this report.

Business Combinations. We record all tangible and intangible assets acquired and liabilities assumed in a business combination at fair value as of the acquisition date, which is determined using a cost, market or income approach. The excess amount of the aggregated purchase consideration paid over the fair value of the net of assets acquired and liabilities assumed is recorded as goodwill. Acquisition date fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as measured on the acquisition date.

The valuations are based on information that existed as of the acquisition date. During the measurement period that shall not exceed one year from the acquisition date, we may adjust provisional amounts recorded for assets acquired and liabilities assumed to reflect new information that we have subsequently obtained regarding facts and circumstances that existed as of the acquisition date.

Acquisition-related costs that are not part of the purchase price consideration are expensed as incurred, except for certain costs that are deferred in connection with the issuance of debt or stock. These costs typically include transaction-related costs, such as finder's fees, and legal, accounting and other professional costs.

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Goodwill and Intangible Assets. Goodwill is recorded as the difference between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired and liabilities assumed. Goodwill is not amortized, but rather tested for potential impairment annually at the beginning of the fourth quarter, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

The goodwill impairment test is performed at the reporting unit level. The Company estimates and compares the fair value of each reporting unit to its respective carrying value including goodwill. If the fair value is less than the carrying value, the amount of impairment expense is equal to the difference between the reporting unit’s fair value and the reporting unit’s carrying value.

Determining the fair value of each reporting unit involves judgment and the use of estimates and assumptions. We estimate the fair value of our reporting units using either a market approach, income approach, or a combination of both. For our annual impairment analysis, we reconcile the aggregate fair value of all of our reporting units to our market capitalization as of the measurement date.

Under the income approach, we estimate the fair value of a reporting unit using a multi-year discounted cash flow model that involves assumptions about projected future revenue growth, operating margins, income tax rates, capital expenditures, discount rate and terminal value. The discount rate is an estimate of the cost of capital that a market participant would expect for the respective reporting unit. The terminal value represents the present value in the last year of the projection period of all subsequent cash flows into perpetuity.

Under the market approach, we estimate the fair value of a reporting unit based on multiples of earnings derived from observable market data of comparable public companies. We evaluate companies within our industry that have operations with observable and comparable economic characteristics and are similar in nature, scope and size to the reporting unit being compared. We analyze historical acquisitions in our industry to estimate a control premium that we incorporate into the fair value estimate of a reporting unit under the market approach.

During the fourth quarter of fiscal 2019, we completed our annual goodwill impairment testing and determined that each reporting unit's fair value significantly exceeded its carrying value. Subsequent to our goodwill impairment testing, on January 14, 2019 we completed the acquisition of Engility. Since the acquisition there have been no events or changes in circumstances to indicate that the carrying value may not be recoverable.

In addition, determining the carrying value of each reporting unit requires judgment and involves the assignment of assets and liabilities to the reporting units based on a systematic and rational allocation methodology. Certain assets and liabilities may be specifically identified and assigned to a reporting unit based on the information contained within our financial systems; whereas, other assets and liabilities may be allocated using measurable relationships or other basis for allocation.

Intangible assets with finite lives are amortized using the method that best reflects how their economic benefits are utilized or, if a pattern of economic benefits cannot be reliably determined, on a straight-line basis over their estimated useful lives. Intangible assets with finite lives are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Income Taxes. Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect our best estimate of current and future taxes to be paid and includes judgments related to matters for which ultimate resolution may not become known until the final resolution of an examination by taxing authorities or the statute of limitations lapses.

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making this determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent operating results. If we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount or would no longer be able to realize our deferred income tax assets in the future as currently recorded, we would make an adjustment to the valuation allowance which would either decrease or increase, respectively, the provision for income taxes.

The Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017, which amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. The SEC staff issued Staff Accounting Bulletin No 118 ("SAB 118"), which allows us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. As of February 1, 2019, we have completed our accounting for the tax effects of enactment of the Tax Act. Prior to February 1, 2019, there were two areas still under review including: (1) the expensing of qualified assets and (2) the limitation on the deductibility of certain executive compensation. No material measurement period adjustments were required as a result of this review.

We also recognize liabilities for uncertainty in income taxes when it is more likely than not that a tax position will not be sustained on examination and settlement with various taxing authorities. Liabilities for any uncertainty in income taxes are measured based on our estimate of the largest amount of benefit that is greater than 50% likely of being realized on ultimate settlement.

Stock-Based Compensation. We issue stock-based awards, including stock options, vesting stock awards and performance share awards as compensation to employees and directors. These awards are accounted for as equity awards. We recognize stock-based compensation expense net of estimated forfeitures on a straight-line basis over the underlying award’s requisite service period, as measured using the award’s grant date fair value. For performance share awards, we reassess the probability of achieving the performance conditions at each reporting period and adjust compensation expense based on the number of shares we expect to ultimately issue. Absent sufficient history as a stand-alone company, we estimate forfeitures using former Parent’s historical experience.

We use the Black-Scholes option-pricing model to calculate the grant date fair value of stock options awarded. The model calculates the fair value based on input assumptions about, among other things, employee exercise behavior and the expected volatility of our common stock. The assumptions used in the model represent our best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and recognize expense only for those awards expected to vest. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded over the awards’ respective service periods. For further discussion on the assumptions used, see Note 7 of the notes to the consolidated financial statements contained within this report.

Pension and Defined Benefit Plans. The Company measures plan assets and benefit obligations as of the month-end that is closest to its fiscal year end. Accounting and reporting for the Company's pension and defined benefit plans requires the use of assumptions, including but not limited to, a discount rate and an expected return on assets. These assumptions are reviewed at least annually based on reviews of current plan information and consultation with the Company's independent actuary and the plans’ investment advisor. If these assumptions differ materially from actual results, the Company's obligations under the pension and defined benefit plans could also differ materially, potentially requiring the Company to record an additional liability. The Company's pension and defined benefit plan liabilities are developed from actuarial valuations, which are performed each year.

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 consolidated financial statements contained within this report.

Effects of Inflation

For any of the most recent three fiscal years ended February 1, 2019, inflation has not had a significant impact on revenues or costs. Most of our contracts are paid in U.S. dollars and our cost to perform on these contracts are generally paid in U.S. dollars, so inflation risk is generally limited to that which is related to the U.S. dollar. Approximately 50% of our revenues for fiscal 2019 were derived from cost-reimbursement type contracts, which have limited inflation risk because our contracts generally entail the provision of labor on a reimbursable basis, and, when materials are acquired, they provide for billing to the customer during the period in which the materials were received. Bids for longer-term FFP and T&M contracts typically include sufficient provisions for labor and other cost escalations to cover anticipated cost increases over the period of performance. As a result, if we were to experience significant levels of inflation, our revenues and costs for cost-type contracts would generally both increase commensurate with inflation and operating income as a percentage of total revenues would not be significantly affected. Operating income as a percentage of total revenues would not be significantly affected for longer-term FFP and T&M contracts to the extent that bid contract cost escalations are sufficient to cover heightened inflation levels.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk
We are exposed to certain market risks in the normal course of business. The following information about our market sensitive financial instruments contains forward-looking statements.
Foreign Currency Risk
Since the substantial majority of our business is conducted in U.S. dollars, a 10% change in any foreign currency exchange rates would not have a material impact to our financial condition or results of operations.
Interest Rate Risk
Debt obligations. Our financial risk management objective is to reduce variability in earnings from changes in interest rates, which we may manage through operational means or the use of financial instruments, such as interest rate swaps. We have approximately $2.1 billion of variable rate debt. The fair value of our outstanding long-term debt obligations approximates its carrying value. In connection with the issuances of our variable rate Term Loan A and Term Loan B Facilities, we entered into fixed interest rate swap agreements, effectively converting a substantial portion of our variable rate debt to fixed rate debt in order to mitigate our exposure to fluctuations in interest rates. We regularly evaluate our outstanding debt and swap agreements to meet our risk management objective. A hypothetical 50 basis points (bps) change to interest rates would not materially change our results of operations or cash flows. For additional information related to our debt and interest rate swap agreements, see Note 10 and Note 11, respectively, of the notes to the consolidated financial statements contained in this report.
Derivatives. As of February 1, 2019, the fair value of our fixed interest rate swaps was $24 million (liability). Under the swap agreements, we pay a fixed rate and the counterparties to the agreements pay a floating interest rate based on 1-month LIBOR. A hypothetical 50 bps change in the 1-month LIBOR curve would change the fair value of the fixed interest rate swaps up to $33 million. Since the interest rate swaps are accounted for as cash flow hedges, the change in fair value is reported as a component of equity (accumulated other comprehensive income or loss). We do not hold or issue derivative financial instruments for trading or speculative purposes. For additional information related to calculating the fair value of our interest rate swaps, see Note 11 of the consolidated financial statements included in this report.
Cash equivalents. A 10% unfavorable interest rate movement for interest earned on our cash and cash equivalents would not materially impact the value of our cash holdings and would have a negligible impact on interest income at current market interest rates.
Inflation Risk
We have generally been able to anticipate increases in costs when pricing our contracts. Bids for longer-term FFP contracts typically include labor and other cost escalations in amounts that historically have been sufficient to cover cost increases over the period of contract performance.
Item 8. Financial Statements and Supplementary Data
See our consolidated financial statements attached hereto and listed on the index found on page F-1 of this report.
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure
No information is required in response to this item.
Item 9A. Controls and Procedures
Evaluation of Disclosure Controls and Procedures
Our management, with the participation of our principal executive officer (our Chief Executive Officer) and principal financial officer (our Chief Financial Officer), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of February 1, 2019, and our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. These disclosure controls and

procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the fourth quarter of fiscal 2019, the Company completed its acquisition of Engility. As part of the ongoing integration of the acquired business, we are in the process of incorporating the controls and related procedures of Engility. Other than incorporating the Engility controls, there have been no changes in our internal control over financial reporting during the fourth quarter of fiscal 2019 that materially affected, or are likely to materially affect, our internal control over financial reporting.

Management's Report On Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, completely, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with GAAP; (iii) provide reasonable assurance that our receipts and expenditures are made only in accordance with the authorization of our management and directors; and (iv) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements. Internal control over financial reporting includes the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified.

As permitted by the SEC rules, management's assessment and conclusion on the effectiveness of the Company's internal control over financial reporting as of February 1, 2019, excludes an assessment of the internal control over financial reporting of Engility, acquired on January 14, 2019. Engility represents 22% of the Company's consolidated total assets, excluding the preliminary value of goodwill and intangible assets related to Engility, at February 1, 2019, and 2% and (12)% of the Company's consolidated revenues and operating income, respectively, for the fiscal year then ended.

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our internal control over financial reporting as of February 1, 2019 based on the framework established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management has assessed in its evaluation the effectiveness of our internal control over financial reporting as of February 1, 2019 and has concluded that our internal control over financial reporting was effective.

Ernst & Young LLP, an independent registered public accounting firm, audited our consolidated financial statements included in this report and our internal control over financial reporting, and the firm's report on our internal control over financial reporting are set forth below this report.

Although our management, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, because of inherent limitations, our management does not expect that our internal controls over financial reporting will prevent or detect all errors and all fraud. Also, projections of any evaluation of effectiveness in such assessment to future periods are subject to the risk that controls may be inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Science Applications International Corporation

Opinion on Internal Control Over Financial Reporting

We have audited Science Applications International Corporation's internal control over financial reporting as of February 1, 2019, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Science Applications International Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of February 1, 2019, based on the COSO criteria.

As indicated in the accompanying Management’s Report on Internal Control Over Financial Reporting, management’s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Engility, which is included in the FY 2019 consolidated financial statements of the Company and constituted 22% of the Company’s consolidated total assets, excluding the preliminary value of goodwill and intangible assets related to Engility at February 1, 2019 and 2% and (12)% of the Company’s consolidated revenues and operating income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Engility.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of February 1, 2019, the related consolidated statements of income, comprehensive income, equity, and cash flows for the year ended February 1, 2019, and the related notes and our report dated March 29, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Tysons, Virginia
March 29, 2019

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Item 9B. Other Information

No information is required in response to this item.

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Part III

Item 10. Directors, Executive Officers, and Corporate Governance

Our executive officers as of March 29, 2019, are listed below, along with their ages on that date, positions and offices held and business experience during at least the past five years. All such persons have been elected to serve until their successors are elected and qualified or until their earlier resignation or removal.

Name of officer	Age	Position(s) with the Company and prior business experience
Nazzic S. Keene	58	Chief Operating Officer (COO) since June 2017. Prior to this role Ms. Keene served as Sector President, Global Markets and Missions from September 2013 to June 2017. Ms. Keene served as former Parent’s Senior Vice President for Corporate Strategy and Planning from August 2012 to September 2013. Prior to joining us, Ms. Keene was the Senior Vice President and General Manager for U.S. Enterprise Markets at CGI Group, Inc. from 2004.
Steven G. Mahon	57	General Counsel and Corporate Secretary since November 2015. Mr. Mahon previously served as General Counsel, Chief Compliance Officer and Corporate Secretary at MTS Systems Corporation (MTS) from October 2011 to November 2015. Prior to MTS, Mr. Mahon was Assistant General Counsel for Alliant Techsystems Inc. and is a retired Colonel from the U.S. Army where he served in the U.S. Judge Advocate’s General’s Corps, practicing law in a variety of roles on active duty and in the U.S. Army Reserve.
Charles A. Mathis	59	Chief Financial Officer since November 2016. Mr. Mathis previously served as CFO at ScanSource Inc., a global public company focused on technology services and products, since 2012. Prior to ScanSource, Mathis was CFO from 2008 to 2012 for Force Protection Inc., based in South Carolina, where he led strategic and operational improvements of the global defense company. He was also the CFO for Fort Worth-based EFW, Inc., the U.S.-based subsidiary of the Israeli defense contractor, Elbit Systems from 2006 to 2008.
Anthony J. Moraco[(1)]	59	Chief Executive Officer since September 2013. Mr. Moraco previously served as the President for the Government Solutions Group of former Parent from February 2013 to September 2013. Mr. Moraco also held positions as Group President of former Parent’s Intelligence, Surveillance and Reconnaissance organization from March 2012 to February 2013, Executive Vice President for Operations and Performance Excellence from August 2010 to March 2012, and Business Unit General Manager and other positions for the Space and Geospatial Intelligence business unit from February 2006 to August 2010. Prior to joining us in 2006, Mr. Moraco worked for The Boeing Company from 2000 to 2006 where he served as the Deputy General Manager of Mission Systems in the Space and Intelligence Systems organization as well as the Director of Homeland Security Technology Integration.
Karen A. Wheeler	49	Chief Human Resources Officer since February 2017. Prior to this role, Ms. Wheeler served as Chief Procurement Officer from July 2013 to February 2017. Ms. Wheeler has more than 20 years of experience at SAIC, where she held many key contracts and procurement director positions supporting numerous business areas.

(1) Tony Moraco will retire as chief executive officer effective July 31, 2019, and the Board of Directors has elected Nazzic S. Keene, currently the Company's chief operating officer, to succeed him.

For additional information required by Item 10 with respect to executive officers and directors, including audit committee and audit committee financial experts, procedures by which stockholders may recommend nominees to the Board of Directors, and compliance with Section 16(a) of the Securities Exchange Act of 1934, see the information set forth under the captions “Proposal 1—Election of Directors,” “Corporate Governance” and “Other Information” in the 2019 Definitive Proxy Statement, which information is incorporated by reference into this report.

We have adopted a code of conduct, which describes our standards for protecting SAIC and customer assets, fostering a safe and healthy work environment, dealing fairly with customers and others, conducting international business properly, reporting misconduct and protecting employees from retaliation. This code applies to all executive officers and employees and forms the foundation of our corporate policies and procedures designed to promote ethical behavior in all aspects of our business. To obtain copies of the Code of Conduct, visit our website at www.saic.com and click on the link titled “Corporate Governance” and then “Code of Conduct.” We intend to post on our website any material changes to or waivers from our code of business ethics. The information on our website is not incorporated by reference into and is not a part of this report.

Item 11. Executive Compensation

For information required by Item 11 with respect to executive compensation, see the information set forth under the captions “Compensation Discussion and Analysis,” “Executive Compensation” and “Corporate Governance” in the 2019 Definitive Proxy Statement, which information is incorporated by reference into this report.

For information required by Item 11 with respect to compensation committee interlocks and insider participation, see the information set forth under the caption “Corporate Governance” in the 2019 Definitive Proxy Statement, which information is incorporated by reference into this report.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

For information required by Item 12 with respect to the security ownership of certain beneficial owners and management, see the information set forth under the caption “Other Information” in the 2019 Definitive Proxy Statement, which information is incorporated by reference into this report.

We currently maintain four shareholder-approved equity compensation plans that issue stock-based awards including the 2013 Equity Incentive Plan, the Management Stock Compensation Plan, the 2013 Employee Stock Purchase Plan and the 2012 Long Term Performance Plan. For summaries of these plans, see Note 7 to the consolidated financial statements contained within this report.

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The following table provides the number of shares of our common stock to be issued, the weighted-average exercise price of the outstanding stock options and the number of shares remaining for future award grants as of February 1, 2019:

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted-average exercise price of outstanding options, warrants and rights(2)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(3)
	(a)	(b)	(c)
Equity compensation plans approved by security holders	2,343,938	$ 53.67	7,010,527
Equity compensation plans not approved by security holders	—	$ —	—
Total	2,343,938		7,010,527

(1) This amount includes 1,058,165 stock options outstanding, 1,105,473 shares issuable for other stock-based awards under the 2013 Equity Incentive Plan and 180,300 shares issuable for other stock-based awards under the 2012 Long Term Performance Plan (for assumed Engility awards, see Note 7 to the consolidated financial statements contained within this report). This amount does not include shares to be issued pursuant to purchase rights under the 2013 Employee Stock Purchase Plan.

(2) Does not include shares to be issued for stock-based awards, other than stock options, which will not require any payment upon issuance of those shares.

(3) Includes 2,988,496 shares of our common stock available for issuance under the 2013 Employee Stock Purchase Plan (ESPP). The maximum number of shares initially available for issuance under the ESPP was 1 million. The ESPP provides for an automatic increase to the share reserve on the first day of each fiscal year beginning on February 1, 2014 in an amount equal to the lesser of (i) 1 million shares, (ii) two percent of the number of shares of our common stock outstanding on the last day of the immediately preceding fiscal year or (iii) a number determined by the Compensation Committee of the Board of Directors. The amount authorized for issuance under the ESPP increased 500,000, 916,198 and 973,477 during fiscal 2017, 2016 and 2015 respectively. There was no increase to the amount authorized for issuance under the ESPP during fiscal 2018 or fiscal 2019. In addition, this includes 3,106,084 shares of our common stock available for issuance under the 2013 Equity Incentive Plan (EIP). The maximum number of shares initially available for issuance under the EIP was 5.7 million, which was increased by 2.8 million per the amended and restated 2013 Equity Incentive Plan, adopted June 4, 2014, amounting to a total authorized for issuance of 8.5 million. Lastly, this includes 915,947 shares of our common stock available for issuance under the 2012 Long Term Performance Plan (LTPP), see Note 7 to the consolidated financial statements contained within this report. The shares outstanding under the LTPP relate to assumed awards from the Engility acquisition, and as of the acquisition date, January 14, 2019, the maximum number of shares available for issuance under the LTPP was 1,198,010. We expect that the number of shares actually issued under the EIP and LTPP will be significantly less than the number of total awards outstanding under the respective plans because (a) a net option exercise results in a smaller portion of the number of award shares being issued when a participant uses award shares, rather than cash, to pay the exercise price, which historically most participants have elected to do, (b) most participants historically have elected to let the Company retain award shares to pay for taxes due on the exercise of options and all participants are required to use award shares to pay for taxes upon the vesting of restricted stock or

restricted stock units, (c) some participants may terminate employment with the Company before the vesting of awards resulting in awards being forfeited and (d) some participants may not exercise stock options before the expiration date for a variety of reasons, including if the exercise price exceeds the then current market price of shares.

Item 13. Certain Relationships and Related Transactions, and Director Independence

For information required by Item 13 with respect to certain relationships and related transactions and the independence of directors and nominees, see the information set forth under the caption “Corporate Governance” in the 2019 Definitive Proxy Statement, which information is incorporated by reference into this report.

Item 14. Principal Accounting Fees and Services

For information required by Item 14 with respect to principal accounting fees and services, see the information set forth under the caption “Audit Matters” in the 2019 Definitive Proxy Statement, which information is incorporated by reference into this report.

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SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

Part IV
Item 15. Exhibits, Financial Statement Schedules
(a) Documents filed as part of the report
1. Financial Statements
Our consolidated financial statements are attached hereto and listed on the Index to Consolidated Financial Statements set forth on page F-1 of this report.
2. Financial Statement Schedules
Financial statement schedules are omitted because they are not applicable or the required information is shown in our consolidated financial statements or the notes thereto.
3. Exhibits
See Exhibit Index on pages F-45 through F-47 of this report.

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SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

Item 16. Form 10-K Summary
None.
SIGNATURES
Pursuant to the requirements of Section 13 or 15(d) 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.
Science Applications
International Corporation

By /s/ Charles A. Mathis

Charles A. Mathis
Chief Financial Officer
Dated: March 29, 2019
Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Anthony J. Moraco Anthony J. Moraco	Principal Executive Officer and Director	March 29, 2019
/s/ Charles A. Mathis Charles A. Mathis	Principal Financial Officer and Principal Accounting Officer	March 29, 2019
/s/ Donna S. Morea Donna S. Morea	Chair of the Board	March 29, 2019
/s/ Robert A. Bedingfield Robert A. Bedingfield	Director	March 29, 2019
/s/ Deborah B. Dunie Deborah B. Dunie	Director	March 29, 2019
/s/ John J. Hamre John J. Hamre	Director	March 29, 2019
/s/ Mark J. Johnson Mark J. Johnson	Director	March 29, 2019
/s/ David M. Kerko David M. Kerko	Director	March 29, 2019
/s/ Timothy J. Mayopoulos Timothy J. Mayopoulos	Director	March 29, 2019
/s/ Katharina G. McFarland Katharina G. McFarland	Director	March 29, 2019
/s/ Edward J. Sanderson, Jr.	Director	March 29, 2019

Edward J. Sanderson, Jr.

/s/ Steven R. Shane Steven R. Shane	Director	March 29, 2019

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Financial statement schedules are omitted because they are not applicable or the required information is shown in our consolidated financial statements or the notes thereto.

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SCIENCE
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CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Science Applications International Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Science Applications International Corporation (the Company) as of February 1, 2019, the related consolidated statements of income, comprehensive income, equity, and cash flows for the year ended February 1, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of February 1, 2019, and the consolidated results of its operations and its cash flows for the year ended February 1, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company‘s internal control over financial reporting as of February 1, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 29, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company‘s management. Our responsibility is to express an opinion on the Company‘s financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Ernst & Young LLP
We have served as the Company’s auditor since 2018.
Tysons, Virginia
March 29, 2019

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SCIENCE
APPLICATIONS
INTERNATIONAL
CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Science Applications International Corporation
Reston, Virginia

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Science Applications International Corporation and subsidiaries (the "Company") as of February 2, 2018, the related consolidated statements of income and comprehensive income, equity, and cash flows, for each of the two years in the period ended February 2, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of February 2, 2018, and the results of its operations and its cash flows for each of the two years in the period ended February 2, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP
McLean, Virginia
March 29, 2018
We began serving as the Company’s auditor in fiscal 2013. In 2018 we became the predecessor auditor.

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SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended		
	February 1, 2019	February 2, 2018	February 3, 2017
	(in millions, except per share amounts)		
Revenues	$4,659	$ 4,454	$ 4,442
Cost of revenues	4,195	4,043	4,003
Selling, general and administrative expenses	158	155	166
Acquisition and integration costs (Note 4)	86	—	10
Operating income	220	256	263
Interest expense	53	44	52
Other (income) expense, net	(3)	(2)	(1)
Income before income taxes	170	214	212
Provision for income taxes (Note 9)	(33)	(35)	(69)
Net income	$137	$ 179	$ 143
Net income attributable to non-controlling interest	—	—	—
Net income attributable to common stockholders	$137	$ 179	$ 143
Earnings per share (Note 2):			
Basic	$3.16	$ 4.13	$ 3.21
Diluted	$3.11	$ 4.02	$ 3.12

See accompanying notes to consolidated financial statements.

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SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended February 1, 2019	February 2, 2018	February 3, 2017
	(in millions)		
Net income	$137	$ 179	$ 143
Other comprehensive (loss) income, net of tax:			
Unrealized (loss) gain on derivative instruments, net of tax benefit (expense) of $6 million, $(2) million and $(1) million for the year ended February 1, 2019, February 2, 2018 and February 3, 2017, respectively	(17)	3	2
Reclassification adjustment for (benefits) costs realized in net income, net of tax expense (benefit) of $0 million, $(1) million and $(3) million for the year ended February 1, 2019, February 2, 2018 and February 3, 2017, respectively	(1)	2	5
Net unrealized (loss) gain on derivative instruments	(18)	5	7
Total other comprehensive (loss) income, net of tax	(18)	5	7
Comprehensive income	$119	$ 184	$ 150
Comprehensive income attributable to non-controlling interest	—	—	—
Comprehensive income attributable to common stockholders	$119	$ 184	$ 150

See accompanying notes to consolidated financial statements.

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SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
CONSOLIDATED BALANCE SHEETS

	February 1, 2019	February 2, 2018
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$237	$ 144
Receivables, net (Note 3)	1,050	674
Inventories, net	74	68
Prepaid expenses	47	35
Other current assets	25	29
Total current assets	1,433	950
Goodwill (Note 5)	2,120	863
Intangible assets, net (Note 5)	803	179
Property, plant, and equipment, net (Note 6)	103	61
Other assets	104	20
Total assets	$4,563	$ 2,073
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$455	$ 397
Accrued payroll and other employee benefits	121	69
Accrued vacation	120	81
Other accrued liabilities	177	107
Long-term debt, current portion (Note 10)	24	41
Total current liabilities	897	695
Long-term debt, net of current portion (Note 10)	2,065	983
Deferred income taxes	—	23
Other long-term liabilities	102	45
Commitments and contingencies (Note 15)		
Equity:		
Common stock, $.0001 par value, 1 billion shares authorized, 60 million shares and 43 million shares issued and outstanding as of February 1, 2019 and February 2, 2018, respectively	—	—
Additional paid-in capital	1,132	—
Retained earnings	367	323
Accumulated other comprehensive (loss) income	(14)	4
Total common stockholders' equity	1,485	327
Non-controlling interest	14	—
Total stockholders' equity	1,499	327
Total liabilities and stockholders' equity	$4,563	$ 2,073

See accompanying notes to consolidated financial statements.

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SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY

	Shares of common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Non-Controlling Interest	Total
	(in millions)					
Balance at January 29, 2016	45	$ 215	$ 174	$ (9)	$ —	$ 380
Net income	—	—	143	—	—	143
Issuances of stock	1	8	—	—	—	8
Other comprehensive income, net of tax	—	—	—	7	—	7
Cash dividends of $1.24 per share	—	—	(57)	—	—	(57)
Stock-based compensation	—	6	—	—	—	6
Income tax benefits from stock-based compensation	—	18	—	—	—	18
Repurchases of stock	(2)	(156)	—	—	—	(156)
Balance at February 3, 2017	44	91	260	(2)	—	349
Net income	—	—	179	—	—	179
Issuances of stock	1	8	—	—	—	8
Reclassification of AOCI due to the Tax Act	—	—	(1)	1	—	—
Other comprehensive income, net of tax	—	—	—	5	—	5
Cash dividends of $1.24 per share	—	—	(55)	—	—	(55)
Stock-based compensation	—	(4)	—	—	—	(4)
Repurchases of stock	(2)	(95)	(60)	—	—	(155)
Balance at February 2, 2018	43	—	323	4	—	327
Cumulative impact from adopting ASC 606 (Note 1) on February 3, 2018	—	—	3	—	—	3
Net income attributable to common stockholders	—	—	137	—	—	137
Issuances of stock	1	7	—	—	—	7
Other comprehensive loss, net of tax	—	—	—	(18)	—	(18)
Cash dividends of $1.24 per share	—	—	(54)	—	—	(54)
Stock-based compensation	—	52	(9)	—	—	43
Repurchases of stock	(1)	(11)	(33)	—	—	(44)
Stock issued for the Engility acquisition	17	1,084	—	—	—	1,084
Acquired non-controlling interest	—	—	—	—	13	13
Contribution from non-controlling interest	—	—	—	—	1	1
Balance at February 1, 2019	60	1,132	367	(14)	14	1,499

See accompanying notes to consolidated financial statements.

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SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended February 1, 2019	February 2, 2018	February 3, 2017
	(in millions)		
Cash flows from operating activities:			
Net income	$137	$ 179	$ 143
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	49	46	53
Deferred income taxes	19	13	(2)
Stock-based compensation expense	45	27	31
Excess tax benefits from stock-based compensation	—	—	(18)
Loss on disposal of property, plant, and equipment	—	—	1
Loss on extinguishment of debt	4	—	2
Provisions for inventory and deferred contract costs	36	—	—
Increase (decrease) resulting from changes in operating assets and liabilities, net of the effect of the acquisition:			
Receivables	(26)	(135)	96
Inventory, prepaid expenses, and other current assets	(26)	19	(36)
Other assets	(12)	2	—
Accounts payable and accrued liabilities	(65)	68	24
Accrued payroll and employee benefits	22	(8)	(26)
Other long-term liabilities	1	6	5
Net cash provided by operating activities	184	217	273
Cash flows from investing activities:			
Expenditures for property, plant, and equipment	(28)	(22)	(15)
Other	1	—	(2)
Cash paid for acquisition, net of cash acquired	(1,001)	—	—
Net cash used in investing activities	(1,028)	(22)	(17)
Cash flows from financing activities:			
Dividend payments to stockholders	(53)	(54)	(54)
Principal payments on borrowings	(779)	(50)	(236)
Issuances of stock	7	6	5
Stock repurchased and retired or withheld for taxes on equity awards	(69)	(186)	(180)
Excess tax benefits from stock-based compensation	—	—	18
Disbursements for obligations assumed from Scitor acquisition	—	(2)	(7)
Proceeds from borrowings	1,859	25	209
Debt issuance costs	(26)	—	(2)
Equity issuance costs	(2)	—	—
Contributions from non-controlling interest	1	—	—
Net cash provided by (used in) financing activities	938	(261)	(247)
Net increase (decrease) in cash, cash equivalents and restricted cash	94	(66)	9
Cash, cash equivalents and restricted cash at beginning of period	152	218	209
Cash, cash equivalents and restricted cash at end of period (Note 1)	$246	$ 152	$ 218

See accompanying notes to consolidated financial statements.

Supplementary cash flow disclosure:			
Cash paid for interest	$44	$ 41	$ 48
Cash paid for income taxes	$24	$ 31	$ 46
Non-cash investing and financing activities:			
Increase (decrease) in accrued plan share repurchases	$—	$ (1)	$ —
(Decrease) increase in accrued plant, property, and equipment	$(3)	$ 2	$ (1)
Fair value of equity consideration paid for acquisition	$1,108	$ —	$ —

See accompanying notes to consolidated financial statements.

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SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Overview

Description of Business. Science Applications International Corporation (collectively, with its consolidated subsidiaries, the "Company") is a leading provider of technical, engineering and enterprise information technology (IT) services primarily to the U.S. government. The Company provides engineering and integration services for large, complex projects and offers a broad range of services with a targeted emphasis on higher-end, differentiated technology services. The Company is organized as a matrix comprised of three customer facing operating segments supported by a solutions and technology group. Each of the Company's three customer facing operating segments is focused on providing the Company's comprehensive technical, engineering and enterprise IT service offerings to one or more agencies of the U.S federal government. The Company's operating segments are aggregated into one reportable segment for financial reporting purposes, see Note 14.

Acquisitions. On January 14, 2019, we completed the acquisition of Engility Holdings, Inc. (collectively with its consolidated subsidiaries, "Engility"), which provides increased customer and market access, as well as increased scale in strategic business areas of national interest, such as defense, federal civilian agencies, intelligence and space. On May 4, 2015, the Company acquired 100% of privately held Scitor Holdings, Inc. ("Scitor"), a leading global provider of technical services to the U.S. intelligence community and other U.S. government customers.

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

Principles of Consolidation and Basis of Presentation

References to "financial statements" refer to the 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. Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Non-controlling Interest. As a result of the acquisition of Engility, the Company holds a 50.1% majority interest in Forfeiture Support Associates J.V. (FSA). The results of operations of FSA are included in the Company's consolidated statements of operations. The non-controlling interest reported on the 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.

Restructuring

During fiscal 2018, the Company initiated restructuring activities (the "Restructuring") intended to improve operational efficiency, reduce costs, and better position the Company to drive future growth. The restructuring activities consisted of involuntary and voluntary terminations and the consolidation of existing leased facilities. The Company completed the Restructuring in fiscal 2018 with total restructuring costs of approximately $13 million, comprised of $6 million for employee severance and $7 million of lease exit costs. For fiscal year 2018, $6 million of restructuring costs are included in cost of revenues and $7 million in selling, general and administrative expenses in the consolidated statements of income. The Company made cash payments of $5 million and $1 million during fiscal 2018 and fiscal 2019, respectively, for severance associated with the Restructuring. The liability associated with lease exit costs will be substantially settled by the end of fiscal 2021.

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 2017 began on January 30, 2016 and ended on February 3, 2017, fiscal 2018 began on February 4, 2017 and ended on February 2, 2018, and fiscal 2019 began on February 3, 2018 and ended on February 1, 2019. The number of weeks for each quarter for fiscal 2019, 2018 and 2017 are as follows:

	Fiscal 2019	Fiscal 2018	Fiscal 2017
	(weeks)		
First Quarter	13	13	14
Second Quarter	13	13	13
Third Quarter	13	13	13
Fourth Quarter	13	13	13
Fiscal Year	52	52	53

Stock-based Compensation

The Company issues stock-based awards as compensation to employees and directors. Stock-based awards include stock options, vesting stock awards and performance share awards. These awards are accounted for as equity awards. The Company recognizes stock-based compensation expense net of estimated forfeitures on a straight-line basis over the underlying award’s requisite service period, as measured using the award’s grant date fair value. For performance share awards, the Company reassesses the probability of achieving the performance conditions at each reporting period end and adjusts compensation expense based on the number of shares the Company expects to ultimately issue.

Income Taxes

The Company accounts for income taxes under the asset and liability method of accounting, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Under this method, changes in tax rates and laws are recognized in income in the period such changes are enacted. The provision for federal, state, local and foreign income taxes is calculated on income before income taxes based on current tax law and includes the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provision differs from the amounts currently payable because certain items of income and expense are recognized in different reporting periods for financial reporting purposes than for income tax purposes. Recording the provision for income taxes requires management to make significant judgments and estimates for matters for which the ultimate resolution may not become known until the final resolution of an examination by taxing authorities or the statute of limitations lapses. Additionally, recording liabilities for uncertainty in income taxes involves significant judgment in evaluating the Company’s tax positions and developing the best estimate of the taxes ultimately expected to be paid. Tax penalties and interest are included in income tax expense.

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SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company records net deferred tax assets to the extent these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent results of operations. If it is determined that the Company would be able to realize the deferred income tax assets in the future in excess of their net recorded amount or would no longer be able to realize the deferred income tax assets in the future as currently recorded, an adjustment would be made to the valuation allowance which would decrease or increase the provision for income taxes.

The Company has also recognized liabilities for uncertainty in income taxes when it is more likely than not that a tax position will not be sustained on examination and settlement with various taxing authorities. Liabilities for uncertainty in income taxes are measured based on the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. Deferred tax assets and liabilities are netted by taxable jurisdiction and classified as noncurrent on the consolidated balance sheets.

The Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017, which amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Tax Act reduces the corporate federal tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. The rate change is administratively effective at the beginning of our fiscal year 2018, using a blended rate for the fiscal 2018 annual period. As a result, the Company's blended federal statutory tax rate for fiscal year 2018 was 33.7%. The Company has a statutory rate of 21% for fiscal year 2019 and all future periods.

The SEC staff issued Staff Accounting Bulletin No 118 (“SAB 118”), which allows us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. The final amount recorded related to the re-measurement of the Company's net deferred tax liabilities was a $19 million discrete net tax benefit. A net benefit for the corporate rate reduction of $17 million was recognized in income tax expense for fiscal 2018, and an additional $2 million benefit was recognized in income tax expense for fiscal 2019. This rate reduction resulted in a corresponding net decrease of deferred tax liabilities.

As of February 1, 2019, we have completed our accounting for the tax effects of enactment of the Tax Act. Prior to February 1, 2019, there were two areas still under review including: (1) the expensing of qualified assets and (2) the limitation on the deductibility of certain executive compensation. No material measurement period adjustments were required as a result of this review.

Costs Allocated to Contracts

The Company classifies indirect costs as overhead (included in cost of revenues) or general and administrative expenses in the same manner as such costs are defined in the Company’s Disclosure Statements under U.S. government Cost Accounting Standards (CAS).

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents are comprised of cash in banks and highly liquid instruments, which primarily consist of bank deposits and investments in institutional money market funds. The Company includes outstanding payments within cash and cash equivalents and accounts payable on the consolidated balance sheets and as of February 1, 2019 and February 2, 2018 these amounts were $47 million and $31 million, respectively. The Company does not invest in

high yield or high risk securities. The cash in bank accounts at times may exceed federally insured limits.
Restricted cash consists of cash on deposit in rabbi trusts that are contractually restricted from use in operations, but are subject to future claims of creditors. Restricted cash will be used to fund future payments to settle the Company's obligations related to deferred compensation plans. The following table provides a reconciliation of cash, cash equivalents and restricted cash to amounts reported within the consolidated balance sheets for the periods presented:

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SCIENCE APPLICATIONS INTERNATIONAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	February 1, 2019	February 2, 2018
	(in millions)	
Cash and cash equivalents	$237	$ 144
Restricted cash included in other assets	9	8
Cash, cash equivalents and restricted cash	$246	$ 152

Receivables

Receivables include billed and billable receivables, and unbilled receivables. The Company's receivables are primarily due from the U.S. government, or from prime contractors on which we are subcontractors and the end customer is the U.S. government, and are generally considered collectable from the perspective of the customer's ability to pay. The Company does not have a material credit risk exposure.

Unbilled receivables, substantially all of which are expected to be billed and collected within one year, are stated at their estimated realizable value and consist of costs and fees billable on contract completion or the occurrence of a specified event, other than the passage of time. Legal title to the related accumulated costs of contracts in progress generally vests with the U.S. government on the Company's receipt of progress payments. Progress payments received of $26 million and $20 million offset unbilled receivables as of February 1, 2019 and February 2, 2018, respectively.

Contract retentions are billed when contract conditions have been met and may relate to uncompleted indirect cost negotiations with the U.S. government. Based on historical experience, the majority of retention balances are expected to be collected beyond one year. In fiscal 2018 retention of $11 million was presented within receivables, net on the consolidated balance sheet. With the modified retrospective method of adoption of ASC 606 in fiscal 2019, retention is now presented as a non-current asset in other assets on the consolidated balance sheet, see Note 3. Write-offs of retention balances have not been significant. The Company establishes an allowance for doubtful accounts based on the latest information available to determine whether outstanding invoices are ultimately collectable. The Company determines its allowance for doubtful accounts by analyzing individual receivables, historical bad debts, and, for non-U.S. government customers, customer creditworthiness. Receivable balances are written off in the period during which management determines they are uncollectable, and, at that time, such balances are removed from billed receivables and, if previously reserved, from the allowance for doubtful accounts.

Inventory

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

The Company recognized a $26 million provision for inventory within cost of revenues during fiscal 2019 related to firm purchase commitments on a firm-fixed price program.

Business Combinations

The Company records all tangible and intangible assets acquired and liabilities assumed in a business combination at fair value as of the acquisition date, which is determined using a cost, market or income approach. The excess amount of the aggregated purchase consideration paid over the fair value of the net of assets acquired and liabilities assumed is recorded as goodwill. Acquisition date fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as measured on the acquisition date.
The valuations are based on information that existed as of the acquisition date. During the measurement period that shall not exceed one year from the acquisition date, the Company may adjust provisional amounts recorded for assets acquired and liabilities assumed to reflect new information that the Company has subsequently obtained regarding facts and circumstances that existed as of the acquisition date.

Acquisition-related costs that are not part of the purchase price consideration are expensed as incurred. These costs typically include transaction-related costs, such as finder's fees, and legal, accounting and other professional costs.

Goodwill and Intangible Assets

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired and liabilities assumed. Goodwill and indefinite-lived intangible assets are not amortized, but rather are tested for potential impairment annually at the beginning of the fourth quarter, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. There were no impairments during the periods presented.

The goodwill impairment test is performed at the reporting unit level. The Company estimates and compares the fair value of each reporting unit to its respective carrying value including goodwill. The fair value of the Company's reporting units are determined using either a market approach, income approach, or a combination of both, which involves the use of estimates and assumptions, including projected future operating results and cash flows, the cost of capital, and financial measures derived from observable market data of comparable public companies. If the fair value is less than the carrying value, the amount of impairment expense is equal to the difference between the reporting unit's fair value and the reporting unit's carrying value.

Intangible assets with finite lives are amortized using the method that best reflects how their economic benefits are utilized or, if a pattern of economic benefits cannot be reliably determined, on a straight-line basis over their estimated useful lives. Intangible assets with finite lives are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Impairment of Long-lived Assets

The Company evaluates its long-lived assets for potential impairment whenever there is evidence that events or changes in circumstances indicate that the carrying value may not be recoverable and the carrying amount of the asset exceeds its estimated future undiscounted cash flows. When the carrying amount of the asset exceeds its estimated future undiscounted cash flows, an impairment loss is recognized to reduce the asset's carrying amount to its estimated fair value based on the present value of its estimated future cash flows.

Commitments and Contingencies

Accruals for commitments and loss contingencies are recorded when it is both probable that they will occur and the amounts can be reasonably estimated. In addition, legal fees are accrued for cases where a loss is probable and the related fees can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount of loss. The Company reviews these accruals quarterly and adjusts the accruals to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other updated information.

Pension and Defined Benefit Plans

The Company measures plan assets and benefit obligations as of the month-end that is closest to its fiscal year-end. Accounting and reporting for the Company's pension and defined benefit plans requires the use of assumptions, including but not limited to, a discount rate and an expected return on assets. These assumptions are reviewed at least annually based on reviews of current plan information and consultation with the Company's independent actuary and the plans' investment advisor. If these assumptions differ materially from actual results, the Company's obligations under the pension and defined benefit plans could also differ materially, potentially requiring the Company to record an additional liability. The Company's pension and defined benefit plan liabilities are developed from actuarial valuations, which are performed each year.

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Fair Value Measurements

The Company utilizes fair value measurement guidance prescribed by GAAP to value its financial instruments. The accounting standard for fair value measurements establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: observable inputs such as quoted prices in active markets (Level 1); inputs other than the quoted prices in active markets that are observable either directly or indirectly (Level 2); and unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions (Level 3).

The carrying amounts of cash and cash equivalents, receivables, accounts payable and other amounts included in other current assets and current liabilities that meet the definition of a financial instrument approximate fair value because of the short-term nature of these amounts. The carrying value of the Company's outstanding debt obligations approximates 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 existing debt arrangements.

Non-financial instruments were measured at fair value in connection with the acquisition of Engility, see Note 4. The fair values of the assets acquired and liabilities assumed were preliminarily determined using income, market and cost valuation methodologies. The fair value measurements were estimated using significant inputs that are not observable in the market and thus represent a Level 3 measurement.

Derivative Instruments Designated as Cash Flow Hedges

Derivative instruments are recorded on the 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 ineffective portion of all hedges, if any, is recognized immediately in earnings.

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 11 for further discussion on the Company's derivative instruments designated as cash flow hedges.

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.

Research and Development

The Company conducts research and development activities under customer-funded contracts and with company-funded independent research and development (IR&D) funds. IR&D efforts consist of projects involving basic research, applied research, development, and systems and other concept formulation studies. Company-funded IR&D expense is included in selling, general and administrative expenses and was $5 million, $4 million and $4 million in fiscal 2019, 2018 and 2017, respectively. Customer-funded research and development activities performed under customer contracts are charged directly to cost of revenues for those particular contracts.

Accounting Standards Updates

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements and some cost guidance included in the Accounting Standards Codification (ASC). This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract.

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The Company adopted the standard on February 3, 2018, using the modified retrospective method. Under this method, the Company recognized the cumulative effect of adoption as an adjustment to its opening balance of retained earnings on February 3, 2018. In determining the cumulative impact of the adoption the Company applied the provisions of ASC 606 only to contracts that had not yet been completed at the date of adoption.
Prior periods were not retrospectively adjusted, but the Company has maintained dual reporting for the year of initial application, disclosing the effect of adoption.
Under the new standard, the Company continues to recognize revenue over time as services are rendered to fulfill its contractual obligations; however, the Company generally accounts for customer option period exercises (renewals) and service contract modifications prospectively, instead of as a cumulative adjustment to revenue under a single unit of accounting. Also, under the new standard, award and incentive-based fees generally are recognized during the discrete periods of performance to which they relate as opposed to on a cumulative basis over the contract period. The net impact to opening retained earnings from these changes as a result of the adoption was $3 million.
The Company no longer defers the recognition of revenues and costs associated with significant upfront material acquisitions on programs previously accounted for using the efforts-expended method of percentage of completion. Under the new standard, the Company recognizes revenue on an adjusted cost-to-cost basis, where the amount of revenue that is recognized is equal to the amount of costs incurred plus profit based on the adjusted cost input measure of progress. This change resulted in a $15 million reduction in other current assets and other accrued liabilities on February 3, 2018, but had no impact on the adjustment to opening retained earnings.
The cumulative effect of adopting ASC 606 on the Company's opening balance sheet is as follows:

	Balance at February 2, 2018	Adjustments due to ASC 606	Opening Balance at February 3, 2018
	(in millions)		
Assets			
Receivables, net	$674	$ (1)	$ 673
Inventories, net	68	(2)	66
Other current assets	29	(15)	14
Other assets	20	11	31
Liabilities and Equity			
Other accrued liabilities	107	(13)	94
Deferred income taxes	23	1	24
Other long-term liabilities	45	2	47
Retained earnings	$323	$ 3	$ 326

The amounts by which the Company's financial statements were impacted by the adoption of ASC 606, as compared to the guidance in effect before the change, as of and for the twelve months ended February 1, 2019 were as follows:

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	Twelve Months Ended February 1, 2019		
	As reported	Balances without adoption of ASC 606	Effect of change
	(in millions)		
Income Statement			
Revenues	$4,659	$ 4,672	$ (13)
Cost of revenues	4,195	4,209	(14)
Operating income	$220	$ 219	$ 1

	February 1, 2019		
	As reported	Balances without adoption of ASC 606	Effect of change
	(in millions)		
Balance Sheet			
Assets			
Receivables, net	$1,050	$ 1,048	$ 2
Inventories, net	74	78	(4)
Other assets	104	93	11
Liabilities and Equity			
Other accrued liabilities	177	174	3
Other long-term liabilities	102	100	2
Retained earnings	$367	$ 363	$ 4

These impacts were primarily attributable to the change in accounting for programs previously accounted for using the efforts-expended method of percentage of completion.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedge Activities, which simplifies the application of hedge accounting and eliminates the requirement to separately measure and report hedge ineffectiveness. The Company early adopted the provisions of the standard in the first quarter of fiscal 2019. Adoption did not have a material impact on the Company's financial statements.

In February 2016, the FASB issued ASU No. 2016-2, Leases (Topic 842), which supersedes the existing lease accounting standards (Topic 840). Under the new guidance, a lessee will be required to recognize lease assets and lease liabilities for all leases with lease terms in excess of twelve months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as either a finance lease or operating lease. The criteria for distinction between a finance lease and an operating lease are substantially similar to existing lease guidance for capital leases and operating leases. Some changes to lessor accounting have been made to conform and align that guidance with the lessee guidance and other areas within GAAP, such as Revenue from Contracts with Customers (Topic 606). In July 2018, the FASB provided an optional transition method of adoption, permitting entities to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption as opposed to the beginning of the earliest period presented in the financial statements. ASU 2016-2 becomes effective for the Company in the first quarter of fiscal 2020. The Company will adopt using the optional transition method. The Company is implementing new lease accounting software and is designing new processes and internal controls. The Company continues to evaluate the standard, but has not quantified the impact of adoption on its financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which provides amendments to simplify several aspects of the accounting for share-based payment transactions. Among other requirements in the new standard, the ASU requires that an entity- (i) recognize excess tax benefits and deficiencies related to employee share-based payment transactions in the provision for income taxes, instead of in equity; (ii) classify excess tax benefits as an operating activity on the statement of cash flows, instead of the previous classification as a financing activity; (iii) classify all cash payments made to taxing authorities on the employees' behalf for withheld shares as financing activities on the statement of cash flows; and (iv) make a policy election either to estimate expected forfeitures or to account for them as they occur. The Company adopted the ASU prospectively in the first quarter of fiscal 2018. As a result, for the year ended February 2, 2018, the Company recognized a $22 million tax benefit, which is included in the provision for income taxes on the consolidated statements of income and comprehensive income and as an operating activity in the consolidated statement of cash flows. The amendments were applied prospectively and therefore, prior periods have not been adjusted and there was no impact to beginning retained earnings. The Company will continue to classify cash paid for tax withholding purposes as a financing activity in the statement of cash flows and to estimate forfeitures rather than account for them as they occur.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that restricted cash be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company early adopted this new standard during the first quarter of fiscal 2018, which resulted in a $6 million increase to net cash used in investing activities for the year ended February 3, 2017. A reconciliation of cash, cash equivalents and restricted cash for each period presented is provided above under the heading "Cash, Cash Equivalents and Restricted Cash."

In February 2018, the FASB issued ASU No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220), which allows a reclassification from accumulated other comprehensive income (AOCI) to retained earnings for the deferred taxes previously recorded in AOCI that exceed the current federal tax rate of 21% resulting from the newly enacted corporate tax rate resulting from the Tax Act. The Company early adopted the provisions of the standard in the fourth quarter of fiscal 2018 and reclassified deferred taxes recorded in AOCI in excess of the newly enacted corporate tax rate to retained earnings, which affects only the period that the effects related to the Tax Act are recognized. The effect of adopting the ASU resulted in a decrease to retained earnings and corresponding increase to AOCI of $1 million, at February 2, 2018.

In August 2018, the FASB issued ASU No. 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715- 20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans, which modifies the disclosure requirements for the defined benefit pension plans and other postretirement plans. ASU 2018-14 becomes effective for the Company in the first quarter of fiscal 2022 and is required to be adopted retrospectively. Early adoption is permitted. The Company early adopted the provisions of the standard in the fourth quarter of fiscal 2019 which did not result in a material impact to its financial statements.

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

retrospectively or prospectively. Early adoption is permitted. The Company is currently evaluating the impact of adoption of this standard on its financial statements.
Other Accounting Standards Updates effective after February 1, 2019 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 EPS is computed by dividing net income 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.

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

	Year Ended February 1, 2019	February 2, 2018	February 3, 2017
	(in millions)		
Basic weighted-average number of shares outstanding	43.4	43.3	44.5
Dilutive common share equivalents - stock options and other stock-based awards	0.7	1.2	1.4
Diluted weighted-average number of shares outstanding	44.1	44.5	45.9

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

	Year Ended February 1, 2019	February 2, 2018	February 3, 2017
	(in millions)		
Antidilutive stock options excluded	0.2	0.2	0.2

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 December 15, 2016, the number of shares of our common stock that may be repurchased under our existing repurchase plan, previously announced in October 2013, was increased by approximately 3.3 million shares, bringing the total authorized shares to be repurchased under the plan to approximately 11.8 million shares. As of February 1, 2019, the Company has repurchased approximately 9.6 million shares of common stock under the plan. Subsequent to the end of fiscal 2019, the number of shares that may be repurchased increased by approximately 4.6 million shares, bringing the total authorized shares to be repurchased under the plan to approximately 16.4 million shares.

Dividends

The Company declared and paid quarterly dividends of $0.31 per share every quarter for the years presented. Total dividends declared and paid were $1.24 per share during each of fiscal year 2019, 2018 and 2017.

On March 27, 2019, the Company’s Board of Directors declared a cash dividend of $0.37 per share of the Company’s common stock payable on April 26, 2019 to stockholders of record on April 12, 2019.

Note 3—Revenues:

Revenue Recognition

The Company provides technical, engineering and enterprise IT services under long-term service arrangements primarily with the U.S. government including subcontracts with other contractors engaged in work for the U.S. government. The Company also serves a number of state and local governments, foreign governments and U.S. commercial customers.

The Company provides services under various contract types, including firm-fixed price (FFP), time-and-materials (T&M), cost-plus-fixed-fee, cost-plus-award-fee and cost-plus-incentive-fee contracts. Our service arrangements typically involve an annual base period of performance followed by renewal periods that are accounted for as separate contracts upon each exercise.

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The Company recognizes revenue when, or as, we satisfy our performance obligations under a contract. A performance obligation is the unit of account for revenue recognition and refers to a promise in a contract to transfer a distinct service or good to the customer. The majority of the Company's contracts contain a single performance obligation involving a significant integration of various activities that are performed together to deliver a combined service or solution. Performance obligations may be satisfied over time or at a point in time, but the majority of the Company's performance obligations are satisfied over time. The Company selects the appropriate measure of progress for revenue recognition based on the nature of the performance obligation, contract type and other pertinent contract terms.

Over time performance obligations may involve a series of recurring services, such as network operations and maintenance, operation and program support services, IT outsourcing services, and other IT arrangements where the Company is standing ready to provide support, when-and-if needed. Such performance obligations are satisfied over time because the customer simultaneously receives and consumes the benefits of our performance as services are provided. Alternatively, over time performance obligations may involve the completion of a contract deliverable. Examples include systems integration, network engineering, network design, and engineering and build services. Deliverable-based performance obligations are satisfied over time when the Company's performance creates or enhances an asset that is controlled by the customer, or when the Company's performance creates an asset that is customized to the customer's specifications and the Company has a right to payment, including profit, for work performed to date.

For recurring services performance obligations, the Company measures progress using either a cost input measure (cost-to-cost), a time-elapsed output measure, or the as-invoiced practical expedient. A cost input measure typically is applied to the Company's cost-reimbursable contracts. Revenue is recognized based on the ratio of costs incurred to total estimated costs at completion. Award or incentive fees are allocated to the distinct periods to which they relate. For fixed-price contracts, a time-elapsed output measure is applied to fixed consideration, such that revenue is recognized ratably over the period of performance. Where fixed-price contracts also provide for reimbursement of certain costs, such as travel or other direct costs, consideration may be attributed only to a distinct subset of time within the performance period. The Company's time-and-material and fixed price-level of effort contracts generally qualify for the as-invoiced practical expedient. Revenue is recognized in the amount to which the Company has a contractual right to invoice. Contract modifications typically create new enforceable rights and obligations, which are accounted for prospectively. Changes to our estimates of the transaction price are recognized as a cumulative adjustment to revenue.

For deliverable-based performance obligations satisfied over time, the Company recognizes revenue using a cost input measure of progress (cost-to-cost), regardless of contract type. Revenue is recognized based on the ratio of costs incurred to total estimated costs at completion, except for certain contracts for which the costs associated with significant materials or hardware procurements are excluded from the measure of progress and revenue is recognized on an adjusted cost-to-cost basis. Contract modifications typically change currently enforceable rights and obligations and are accounted for as a cumulative adjustment to revenue. Changes to our estimates of transaction price are recognized as a cumulative adjustment to revenue.

For performance obligations in which the Company does not transfer control over time, we recognize revenue at the point-in-time when the customer obtains control of the related asset, usually at the time of shipment or upon delivery. The Company accrues for shipping and handling costs occurring after the point-in-time control transfers to the customer.

Recognizing revenue on long-term contracts involves significant estimates and judgments. The transaction price is the estimated amount of consideration we expect to receive for performance under our contracts. Contract terms may include variable consideration, such as reimbursable costs, award and incentive fees, usage-based fees, service-level penalties, performance bonuses, or other provisions that can either increase or decrease the transaction price. Variable amounts generally are determined upon our achievement of certain performance metrics, program milestones or cost targets and may be based upon customer discretion. When making our estimates, the Company considers the customer, contract terms, the complexity of the work and related risks, the extent of customer discretion, historical experience and the potential of a significant reversal of revenue. The Company includes variable consideration in the transaction price only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved.

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Estimating costs at completion is complex due to the nature of the services being performed and the length of certain contracts. Contract costs generally include direct costs, such as labor, subcontract costs and materials, and indirect costs identifiable with or allocable to a specific contract. Management must make assumptions regarding the complexity of the work to be performed, the schedule and associated tasks, labor productivity and availability, increases in wages and prices of materials, execution by our subcontractors, overhead cost rates, and other variables. Contract costs incurred for U.S. government contracts, including indirect costs, are subject to audit and adjustment by the Defense Contract Audit Agency ("DCAA").

Contract fulfillment costs are expensed as incurred except for certain costs incurred for transition, set-up or other fulfillment activities, which are capitalized and amortized on a straight-line basis over the expected period of benefit, which generally includes the base contract period of performance and anticipated renewal periods. The Company provides for anticipated losses on contracts with the U.S. government by recording an expense for the total expected loss during the period in which the losses are first determined.

For contracts with multiple performance obligations, the Company allocates transaction price to each performance obligation based on the relative standalone selling price of each distinct performance obligation within the contract. Because the Company typically provides customized services and solutions that are specific to a single customer's requirements, standalone selling price is most often estimated based on expected costs plus a reasonable profit margin.

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 routinely occur over the performance period for a variety of reasons, which include: changes in scope; changes in cost estimates due to unanticipated cost growth or reassessments of risks impacting costs; changes in the estimated transaction price, such as variable amounts for incentive or award fees; and performance being better or worse than previously estimated. In cases when total expected costs exceed total estimated revenues for a performance obligation, the Company recognizes the total estimated loss in the quarter identified. Total estimated losses are inclusive of any unexercised options that are probable of award, only if they increase the amount of the loss.

Aggregate changes in these estimates recognized in operating income were:

	Year Ended		
	February 1, 2019	February 2, 2018	February 3, 2017
	(in millions, except per share amounts)		
Favorable adjustments	$30	$ 27	$ 42
Unfavorable adjustments	(13)	(30)	(20)
Net (unfavorable) favorable adjustments	17	(3)	22
Income tax effect	(4)	1	(7)
Net (unfavorable) favorable adjustments, after tax	13	(2)	15

Basic EPS impact	$0.29	$ (0.05)	$ 0.34
Diluted EPS impact	$0.29	$ (0.04)	$ 0.33

In addition, revenues were $8 million higher for the twelve months ended February 1, 2019, due to net revenue recognized from performance obligations satisfied in prior periods.

Disaggregation of Revenues

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

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Disaggregated revenues by customer was as follows:

	Year Ended February 1, 2019 (in millions)
Department of Defense	$ 2,805
Other federal government agencies	1,707
Commercial, state and local	147
Total	$ 4,659

Disaggregated revenues by contract-type was as follows:

	Year Ended February 1, 2019 (in millions)
Cost reimbursement	$ 2,306
Time and materials (T&M)	1,086
Firm-fixed price (FFP)	1,267
Total	$ 4,659

Disaggregated revenues by prime vs. subcontractor was as follows:

	Year Ended February 1, 2019 (in millions)
Prime contractor to federal government	$ 4,178
Subcontractor to federal government	334
Other	147
Total	$ 4,659

Contract Balances

Timing of revenue recognition may differ from the timing of billing and cash receipts from customers. Amounts are invoiced as work progresses, typically biweekly or monthly in arrears, or upon achievement of contractual milestones. We record a contract asset when revenue is recognized prior to invoicing, or a contract liability when cash is received in advance of recognizing revenue. A contract asset is a right to consideration that is conditional upon factors other than the passage of time. Contract assets include unbillable receivables and contract retentions, but exclude billed and billable receivables. Billed and billable receivables are rights to consideration which are unconditional other than to the passage of time. Contract liabilities include customer advances, billings in excess of revenues and deferred revenue. Contract assets and liabilities are recorded net on a contract-by-contract basis and are generally classified as current based on our contract operating cycle. Deferred revenue attributable to long-term contract material renewal options may be classified as non-current when the option renewal period will not occur within one year of the balance sheet date.

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Contract balances for the periods presented were as follows:

	Balance Sheet line item	February 1, 2019	February 3, 2018(1)
		(in millions)	
Billed and billable receivables, net(2)	Receivables, net	$740	$ 515
Contract assets - unbillable receivables	Receivables, net	310	158
Contract assets - contract retentions	Other assets	13	11
Contract liabilities - current	Other accrued liabilities	34	15
Contract liabilities - non-current	Other long-term liabilities	$6	$ 1

(1) Includes the cumulative effect of the changes made to the Company's opening balance sheet at February 3, 2018 from the modified retrospective adoption of ASC 606.

(2) Net of allowance for doubtful accounts of $2 million and $1 million as of February 1, 2019 and February 3, 2018, respectively.

The changes in the Company's contract assets and contract liabilities during the current period primarily results from the acquisition of Engility in fiscal 2019 and timing differences between the Company's performance, invoicing and customer payments. During the twelve months ended February 1, 2019, the Company recognized revenues of $10 million relating to amounts that were included in the opening balance of contract liabilities as of February 3, 2018.

Deferred Costs

Certain eligible costs, typically incurred during the initial phases of our service contracts, are capitalized when the costs relate directly to the contract, are expected to be recovered, and generate or enhance resources to be used in satisfying the performance obligation. These costs primarily consist of transition and set-up costs. Capitalized fulfillment costs are amortized on a straight-line basis over the expected period of benefit, which generally includes the contract base period and anticipated renewals.

The Company defers fulfillment costs incurred to transfer service to a customer prior to the establishment of a contract provided recovery is probable. These pre-contract costs are typically expensed upon contract award unless they are eligible for capitalization.

The Company performs periodic reviews to assess the recoverability of deferred contract transition and setup costs. The carrying amount of the asset is compared to the remaining amount of consideration the Company expects to receive for the services to which the asset relates, less the costs that relate directly to providing those services that have not yet been recognized. If the carrying amount is not recoverable, an impairment loss is recognized.

Deferred costs for the periods presented were as follows:

	Balance Sheet line item	February 1, 2019	February 3, 2018(1)
		(in millions)	
Pre-contract costs	Other current assets	$ 1	$ 1

Fulfillment costs - current	Other current assets	—	3
Fulfillment costs - non-current	Other assets	$ 13	$ —

(1) Includes the cumulative effect of the changes made to the Company's opening balance sheet at February 3, 2018 from the modified retrospective adoption of ASC 606.

Pre-contract costs of $15 million were expensed during the twelve months ended February 1, 2019, which includes $10 million for a contract that was not awarded. Fulfillment costs of $5 million were amortized during the twelve months ended February 1, 2019.

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Remaining Performance Obligations

As of February 1, 2019, the Company had $3.8 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.

Note 4 —Engility Acquisition:

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

The acquisition was funded through a combination of SAIC common stock and additional borrowings. At the effective time of the acquisition, each outstanding share of Engility common stock was automatically canceled and converted into the right to receive 0.45 shares of the SAIC common stock. The Company amended its existing credit agreement to provide for a new five-year senior secured $1.1 billion term loan facility, as discussed in Note 10. SAIC borrowed the entire amount of the term loan facility, the proceeds of which were immediately used to repay Engility's existing credit facility and outstanding notes and to pay fees and expenses associated with the acquisition, with the balance retained by SAIC to be used for general corporate purposes.

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

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

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

(2) Represents the fair value of the converted vesting stock awards assumed attributable to pre-acquisition service. See Note 7.

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The purchase price was allocated, on a preliminary basis, among assets acquired and liabilities assumed at fair value on the acquisition date, January 14, 2019, based on the best available information, with the excess purchase price recorded as goodwill. As of February 1, 2019, the Company had not finalized the determination of fair values allocated to various assets and liabilities, including, but not limited to, receivables, other current assets, deferred tax assets, property, plant, and equipment, other accrued liabilities and goodwill. The allocation of the purchase price is subject to change as the Company continues to obtain and assess relevant information that existed as of the acquisition date, including but not limited to, information pertaining to Engility's historical government compliance accounting practices, legal proceedings, reserves, income taxes, contracts with customers, and pre-acquisition contingencies. The Company expects to have sufficient information available to resolve these items by the fourth quarter of fiscal 2020, which could potentially result in changes in assets or liabilities on Engility's opening balance sheet and an adjustment to goodwill. The purchase accounting entries were recorded on a preliminary basis as follows:

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

Goodwill represents intellectual capital and an acquired assembled work force. The Company inherited Engility's historical tax basis in deductible goodwill, certain other intangible assets, and net operating loss carryforwards.
The following table summarizes the fair value of intangible assets and the related weighted average useful lives:

	Amount	Weighted-Average Amortization Period

	(in millions)	(in years)
Backlog	$ 30	1
Developed technology	2	10
Customer relationships	616	14
Total intangible assets	$ 648	13

The backlog intangible asset is comprised solely of funded backlog as of the acquisition date. The customer relationships intangible asset consists of unfunded backlog as of the acquisition date and estimated future

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

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

The Company incurred $118 million in costs associated with the acquisition and integration of Engility. The Company incurred $63 million in acquisition-related costs, including $31 million of debt issue costs, see Note 10, and $2 million in stock issue costs for fiscal 2019. During fiscal 2019, the Company recognized acquisition-related costs of $31 million and integration-related costs of $55 million, primarily for strategic consulting services, employee termination costs, including severance and the acceleration of assumed vesting stock awards, and other non-recurring integration-related costs, which are presented together as acquisition and integration costs of $86 million on the consolidated statements of income.

The amount of Engility's revenue included in the consolidated statements of income for fiscal 2019 was $98 million and the amount of net loss included in the consolidated statements of income for fiscal 2019 was $19 million, which includes $32 million of integration-related costs.

The following unaudited pro forma financial information presents the combined results of operations for Engility and the Company for the year ended February 1, 2019 and February 2, 2018, respectively:

	Year Ended	
	February 1, 2019	February 2, 2018
	(in millions, except per share amounts)	
Revenues	$6,426	$ 6,352
Net income attributable to common stockholders	$260	$ 140

The unaudited pro forma, combined financial information presented above has been prepared from historical financial statements that have been adjusted to give effect to the acquisition of Engility as though it had occurred on February 4, 2017. They include adjustments for intangible asset amortization; interest expense and debt issuance costs on long-term debt; acquisition, integration, and other transaction costs; and the elimination of intercompany revenue and costs.

Note 5—Goodwill and Intangible Assets:

Goodwill

Goodwill had a carrying value of $2,120 million and $863 million as of February 1, 2019 and February 2, 2018, respectively. Goodwill increased by $1,257 million during fiscal 2019 due to the acquisition of Engility. There were no impairments of goodwill during the periods presented.

Intangible Assets

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

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	February 1, 2019			February 2, 2018		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
	(in millions)					
Customer relationships	$850	$ (78)	$ 772	$234	$ (55)	$ 179
Backlog	30	(1)	29	—	—	—
Developed technology	2	—	2	—	—	—
Total intangible assets	$882	$ (79)	$ 803	$234	$ (55)	$ 179

Amortization expense related to intangible assets was $24 million, $21 million and $26 million for fiscal 2019, 2018 and 2017, respectively. There were no intangible asset impairment losses during the periods presented.
The estimated annual amortization expense related to intangible assets as of February 1, 2019 is as follows:

Fiscal Year Ending	(in millions)
2020	$ 94
2021	64
2022	64
2023	65
2024	63
Thereafter	453
Total	$ 803

Actual amortization expense in future periods could differ from these estimates as a result of future acquisitions, divestitures, impairments and other factors.
Note 6—Property, Plant, and Equipment:
Property, plant, and equipment are carried at cost net of accumulated depreciation and amortization. Purchases of property, plant, and equipment, as well as costs associated with major renewals and betterments, are capitalized. Maintenance, repairs and minor renewals and betterments are expensed as incurred. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is recognized.
Depreciation and amortization is recognized using the methods and estimated useful lives as follows:

	Depreciation or amortization method	Estimated useful lives (in years)	February 1, 2019	February 2, 2018
			(in millions)	
Computer equipment	Straight-line or declining balance	3-10	$90	$ 75
Capitalized software and software licenses	Straight-line or declining balance	3-10	61	58

Leasehold improvements	Straight-line	Shorter of lease term or 10	81	53
Office furniture and fixtures	Straight-line or declining balance	3-10	19	11
Buildings and improvements	Straight-line	40	7	7
Construction in process			3	—
Land			1	—
Property, plant, and equipment			262	204
Accumulated depreciation and amortization			(159)	(143)
Property, plant, and equipment, net			$ 103	$ 61

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Depreciation and amortization expense for property, plant, and equipment was $23 million, $23 million and $24 million in fiscal 2019, 2018 and 2017, respectively.

Note 7—Stock-Based Compensation:

Engility Acquisition Assumed Awards

Upon the acquisition of Engility, all Engility outstanding and unvested equity awards were converted into SAIC vesting stock awards using the same exchange ratio as Engility's common shareholders (0.45 SAIC share per Engility share). The Company assumed approximately 642,000 converted vesting stock awards with a fair value of $65.03 per share for a total of $42 million, which was bifurcated between pre- and post-combination periods of service in the amount of $22 million and $20 million, respectively. The amount attributable to the pre-combination service period is included in the purchase consideration of Engility. The remaining $20 million attributable to the post-combination service period will be recognized as post-combination service expense over the remaining vesting periods of the underlying awards. During fiscal 2019, subsequent to the acquisition, the Company completed certain integration activities that accelerated the recognition of $14 million of the post-combination service period expense, which has been included in the amounts reported within acquisition and integration costs on the consolidated statements of income.

Plan Summaries

Certain of the Company's employees participate in the following four stock-based compensation plans: "2013 Equity Incentive Plan" (EIP), "Management Stock Compensation Plan," "Employee Stock Purchase Plan" (ESPP), and the "2012 Long Term Performance Plan" (LTPP) for Engility assumed awards, which are herein referred to together as the "Plans." The Company issues new shares on the vesting of stock awards or exercise of stock options under these Plans.

The EIP provides the Company's employees and directors the opportunity to receive various types of stock-based compensation and cash awards. The terms of the stock-based awards granted to employees and directors are the same, except that those for directors cliff vest within one year of the grant date. As of February 1, 2019, the Company has outstanding stock options, vested and vesting stock awards, and performance share awards under this plan. Vesting stock awards and stock options granted under the EIP prior to fiscal 2015 generally vest or become exercisable 20%, 20%, 20%, and 40% after one, two, three and four years, respectively. Stock options granted under the EIP in fiscal 2015 and thereafter generally become exercisable 33%, 33%, and 33% after one, two and three years, respectively, while vesting stock awards granted in fiscal 2015 and thereafter generally vest 25%, 25%, 25% and 25% after one, two, three and four years, respectively. The maximum contractual term for stock options granted under the EIP is ten years, but historically the Company has granted stock options with a seven-year contractual term. Vesting may be accelerated for employees meeting retirement eligibility conditions. Stock-based awards generally provide for accelerated vesting if there is a change in control (as defined in the EIP). Vesting stock awards and performance share awards have forfeitable rights to dividends. In June 2014, the EIP was amended and restated to increase the total authorized shares of common stock for issuance under the EIP from 5.7 million to 8.5 million.

The Company grants performance-based stock awards to certain officers and key employees under the EIP. Performance shares are rights to receive shares of the Company's stock on the satisfaction of service requirements and performance conditions. These awards cliff vest at the end of the third fiscal year following the grant date, subject to meeting the minimum service requirements and the achievement of certain annual and cumulative financial metrics of the Company’s performance, with the number of shares ultimately issued, if any, ranging up to 150% of the specified target shares. If performance is below the minimum threshold level of performance, no shares will be issued. For all performance share awards granted, the annual financial metrics are based on operating cash flows and the cumulative financial metrics are based on operating income.

The Management Stock Compensation Plan provides for awards in share units to eligible employees. Benefits from these plans are payable in shares of the Company’s stock that are held in a trust for the purpose of funding benefit payments to the participants. During fiscal 2017 all remaining outstanding awards in the Management Stock Compensation Plan vested. The Board of Directors may at any time amend or terminate the Management Stock Compensation Plan. In the event of a change in control of the Company (as defined by the Management Stock

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Compensation Plan), participant accounts will be immediately distributed, otherwise will generally be distributed upon retirement, based on the participant's payout election, or upon termination. The Management Stock Compensation Plan does not provide for a maximum number of shares available for future issuance.

The Company's ESPP allows eligible employees to purchase shares of the Company's stock at a discount of up to 15% of the fair market value on the date of purchase. During the three years ended February 1, 2019, the discount was 5% of the fair market value on the date of purchase for purchases made under the Company's ESPP, thereby resulting in the ESPP being non-compensatory. As of February 1, 2019, 3.4 million shares of the Company's stock are authorized for issuance under the ESPP.

The LTPP provides certain employees of the Company the opportunity to receive various types of stock-based compensation awards. As of February 1, 2019, the Company has vesting stock awards assumed from the Engility acquisition under this plan. These remaining outstanding vesting stock awards assumed under the LTPP will continue to vest under their original vesting schedule, when granted by Engility prior to the acquisition, and generally cliff vest at the end of the third fiscal year following the grant date. Vesting may be accelerated for employees meeting retirement eligibility conditions. Vesting stock awards under the LTPP have forfeitable rights to dividends.

Expense and Related Tax Benefits Recognized

Stock-based compensation expense and related tax benefits recognized under the Plans were:

	Year Ended		
	February 1, 2019	February 2, 2018	February 3, 2017
	(in millions)		
Stock-based compensation expense:			
Stock options	$3	$ 3	$ 4
Vesting stock awards	37	21	24
Performance share awards	5	3	3
Total stock-based compensation expense	$45	$ 27	$ 31
Tax benefits recognized from stock-based compensation	$20	$ 32	$ 12

Stock Options

Stock options are granted with their exercise price equal to the closing market price of the Company's stock on the last trading day preceding the grant date, except for those stock options outstanding as of September 27, 2013, for which the exercise prices (and number of stock options) were adjusted for the conversion at separation.

Stock option activity for the year ended February 1, 2019 was:

	Shares of stocks under stock options	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
	(in millions)		(in years)	

				(in millions)
Outstanding at February 2, 2018	1.4	$ 43.07	3.5	$ 46
Options granted	0.1	85.62		
Options forfeited or expired	—	—		
Options exercised	(0.4)	32.78		
Outstanding at February 1, 2019	1.1	$ 53.67	3.6	$ 18
Options exercisable at February 1, 2019	0.8	$ 45.78	2.8	$ 17
Vested and expected to vest as of February 1, 2019	1.0	$ 53.43	3.5	$ 18

As of February 1, 2019 there was $2 million of unrecognized compensation cost, net of estimated forfeitures, related to stock options, which is expected to be recognized over a weighted average period of 0.9 years.

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The following table summarizes activity related to exercises of stock options:

	Year Ended February 1, 2019	February 2, 2018	February 3, 2017
	(in millions)		
Cash received from exercises of stock options	$ —	$ —	$