Section 1: 8-K (FORM 8-K)

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

FORM 8-K

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

Date of Report (Date of earliest event reported): November 14, 2018

PERSPECTA INC.
(Exact name of Registrant as specified in its charter)

Nevada	001-38395	82-3141520
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

15052 Conference Center Drive Chantilly, VA	20151
(Address of Principal Executive Offices)	(Zip Code)

Registrant’s telephone number, including area code (571) 313-6000

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

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

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

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

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

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).
Emerging growth company ☐

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

Item 8.01 Other Events.

During the first quarter of the 2019 fiscal year, Perspecta Inc. (“Perspecta” or the “Company”) performed a segment reassessment following the May 31, 2018 spin-off (the “Spin-Off”) of the United States ("U.S.") Public Sector business (“USPS”) of DXC Technology Company (“DXC”) and the combination of USPS with Vencore Holding Corp. and KGS Holding Corp. (collectively the “Mergers”). Perspecta’s management has determined that, as a result of these organizational changes resulting from the Mergers, the Company’s chief operating decision maker, the chief executive officer, evaluates the Company’s combined operations based on two reportable segments: (1) Defense and Intelligence and (2) Civilian and Health Care.

For informational purposes and to assist investors in making comparisons of the Company’s historical financial information, which reflects one reportable segment, to future financial information, which will reflect two segments, Perspecta has recast certain historical segment information included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2018, as filed with the Securities and Exchange Commission (the “SEC”) on June 29, 2018 (the “2018 10-K”). The following summarizes the sections of our 2018 10-K that have been updated from their previous presentation by the information included as Exhibits 99.1, 99.2, 99.3 and 99.4 to this Current Report on Form 8-K (this “Current Report”), which are incorporated herein by reference, to reflect the Company’s new segment structure:

- The Company has revised and updated Item 1 - Business. See Exhibit 99.1 hereto.

- The Company has revised and updated Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations. See Exhibit 99.2 hereto.

- The Company has revised and updated Note 1 - Overview and Summary of Accounting Policies and Note 10 - Goodwill, and added Note 17 - Segment Information to Notes to Financial Statements under Item 8 - Financial Statements and Supplementary Data. See Exhibit 99.3 hereto for the complete revised and updated financial statements and footnotes.

- The Company has provided certain selected quarterly financial data by segment for the fiscal year ended March 31, 2018. See Exhibit 99.4 hereto.

The changes in the reportable segment structure and information presented in this Current Report, including Exhibits 99.1, 99.2, 99.3 and 99.4 hereto, do not represent a restatement of the Company’s previously reported financial statements for any period, nor do they reflect any subsequent information or events other than as required to reflect the change in segment reporting as described herein.

This Current Report, including Exhibits 99.1, 99.2, 99.3 and 99.4 hereto, should be read in conjunction with the 2018 10-K and the Company’s other filings with the SEC.

Item 9.01 Financial Statements and Exhibits.

(d) The following exhibits are filed herewith.

Exhibit No.	Description of Exhibit
23.1	Consent of Independent Registered Public Accounting Firm
99.1	Item 1 - Business
99.2	Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations
99.3	Item 8 - Financial Statements and Supplementary Data of USPS for the Fiscal Year Ended March 31, 2018, Five Months Ended March 31, 2017 and the Fiscal Years Ended October 31, 2016 and October 31, 2015
99.4	Selected Quarterly Financial Data by Segment for the Three Months Ended March 31, 2018, December 31, 2017, September 30, 2017 and June 30, 2017

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

		PERSPECTA INC.
Dated: November 14, 2018	By:	/s/ John P. Kavanaugh
	Name:	John P. Kavanaugh
	Title:	Senior Vice President and Chief Financial Officer

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Section 2: EX-23.1 (CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-225317 and 333-225315 on Forms S-8 of our report dated June 29, 2018 (November 14, 2018 as to the change in reportable segments described in Note 1), relating to the financial statements of United States Public Sector Business (the "the Company") (formerly the U.S. Public Sector Business of DXC Technology Company) (which report expresses an unqualified opinion and includes an emphasis-of-matter paragraph relating to the allocations inherent in the preparation of the combined financial statements) appearing in this Current Report on Form 8-K of Perspecta Inc. dated November 14, 2018.

/s/ DELOITTE & TOUCHE LLP
McLean, Virginia
November 14, 2018

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Section 3: EX-99.1 (UPDATED DESCRIPTION OF BUSINESS)

Exhibit 99.1

ITEM 1. BUSINESS

Overview

Perspecta is a leading provider of end-to-end enterprise information technology ("IT"), mission, and operations-related services across the United States ("U.S.") federal government to the Department of Defense (“DoD”), the intelligence community, and homeland security, civilian and health care agencies, as well as to certain state and local government agencies through two reportable segments: (1) Defense and Intelligence, which provides services to the DoD, intelligence community, branches of the U.S. Armed Forces, and other DoD agencies and (2) Civilian and Health Care, which provides services to the Departments of Homeland Security, Justice, and Health and Human Services, as well as other federal civilian and state and local government agencies.

Using our market-leading enterprise offerings and solutions, we help our government customers implement modern collaborative workplaces, hybrid cloud platforms and integrated digital systems of engagement with their enterprise management systems. By delivering these modern enterprise solutions, often while ensuring interoperability with mission critical legacy systems, we help our government customers better realize the benefits of technology, which will ultimately enable them to fulfill their mission objectives and achieve business outcomes.

In addition to providing substantial benefits through increased efficiencies and capabilities, we believe demand for our services is also driven by the technological advances that already reinvented commercial industries, which are now exerting a similar evolutionary effect on government customers. In response to these pressures, modern government customers are increasingly turning to outside partners, such as Perspecta, to help guide them through this digital transformation.

History and Development

On May 31, 2018, DXC completed the spin-off of its U.S. Public Sector business ("USPS") held by Perspecta (the "Spin-Off"), and combination with Vencore Holding Corp. ("Vencore HC") and KGS Holding Corp. ("KGS HC") pursuant to an agreement and plan of merger dated October 11, 2017 (the “Merger Agreement”). To effect the Spin-Off, DXC distributed all of the shares of Perspecta common stock on a pro rata basis to the record holders of DXC common stock (the "Distribution"). Following the Spin-Off, on May 31, 2018, Perspecta, a Nevada Corporation, became a publicly traded company. On May 31, 2018, pursuant to the Merger Agreement, Perspecta completed the combination of USPS with Vencore HC and KGS HC through the following transactions:

- Ultra KMS Inc., a wholly-owned subsidiary of Perspecta, merged with and into KGS HC (the “KeyPoint Merger”), with KGS HC surviving the KeyPoint Merger;
- concurrently with the KeyPoint Merger, Ultra First VMS Inc., another wholly-owned subsidiary of Perspecta, merged with and into Vencore HC (the “First Vencore Merger”), with Vencore HC surviving the First Vencore Merger; and
- immediately following the KeyPoint Merger and First Vencore Merger, Vencore HC merged with and into Ultra Second VMS LLC ("Ultra Second") (the “Second Vencore Merger” and, together with the KeyPoint Merger and the First Vencore Merger, the “Mergers”), with Ultra Second surviving the Second Vencore Merger.

As a result of these transactions, the businesses owned by Vencore HC and KGS HC became wholly-owned by Perspecta. The financial results of USPS as of and for the twelve months ended March 31, 2018 are based upon the historical results of USPS and do not give effect to the Mergers.

DXC was formed on April 1, 2017, through the strategic combination of Computer Sciences Corporation (“CSC”) with the Enterprise Services business unit (“HPES”) of Hewlett Packard Enterprise Company ("HPE") (the "HPES Merger"). Following the HPES Merger, USPS, which had been a part of HPES, became a business unit of DXC.

The Enterprise Services business was founded in 1962 by H. Ross Perot as Electronic Data Systems Corporation (“EDS”). EDS was a pioneer in IT outsourcing providing infrastructure, applications and business process outsourcing to a variety of domestic and international clients. EDS was acquired by Hewlett-Packard Company in 2008 and, in 2009, began going to market as HP Enterprise Services. On November 1, 2015, Hewlett-Packard Company completed its division into two publicly traded companies with HP Inc. focused on personal systems and printing, and HPE focused on enterprise technology infrastructure, software and services.

Mission

Government agencies are charged with achieving critical mission objectives and providing citizen services in areas such as national security, health and welfare, and national infrastructure, all while managing within significantly constrained budgets. These organizations must anticipate changing demands of the public while staying ahead of threats and adversaries. We believe IT plays a dual role in this ongoing transformation imperative, both as a driver of change and an essential enabler to adapt to evolving business and mission requirements. Given the central role IT plays, we believe we can continue to play a critical role in helping our public sector customers continue to develop innovative ways to address their specific enterprise needs as they continue to evolve technologically to address changing demands and threats.

Our Offerings

We deliver IT services and business solutions to all levels of government in the United States. Our enterprise-based offerings and solutions for U.S. government customers include:

- *Cloud, Platform and IT Outsourcing ("ITO") Services*. Through our cloud, platform and ITO solutions, we are able to help public sector clients transform to hybrid infrastructure and bridge private and public cloud environments into their legacy infrastructure.
- *Enterprise and Cloud Applications*. Our applications services and program excellence solutions for U.S. government customers cover four areas: application modernization and transformation; application development; testing and digital assurance; and application management.
- *Enterprise Security*. Our enterprise security solutions include building security infrastructures into the fabric of U.S. government agencies' digital enterprises.
- *Mobility and Workplace*. We offer, through three primary focus areas, a full range of services for converged mobility and workplace management: (i) Mobile Enterprise Services allows clients to manage their mobile environment as a service with solutions for procurement, provisioning, refresh, proactive Enterprise Mobility Management, hardware and software support, security, and business usage analytics; (ii) Virtual Desktop and Application Services untethers data and desktop applications from physical user devices to give workforces and partners secure access to desktops, applications, and data from any device, anywhere; and (iii) Workplace Device Services transforms traditional workplace environments to deliver a comprehensive, secure, flexible and configurable environment that provides lightweight management of desktops, laptops and mobile.
- *Analytics*. We offer a complete portfolio of analytics services such as analytics platforms, information governance, artificial intelligence and advisory services, to rapidly provide insights and accelerate our public sector customers' digital transformation.

We believe our breadth of contracts and customers in the U.S. government, and our history of having partnered with public sector customers for more than 50 years, provides us with a competitive advantage. For example, we have existing contracts with a range of public sector entities ranging from the U.S. Department of Veteran Affairs ("VA") and the DoD, to the United States Postal Service, the U.S. National Aeronautics and Space Administration ("NASA"), the U.S. Food and Drug Administration (the "FDA") and large state and local government customers such as the county of San Diego, California. Based on this breadth of experience and expertise, we believe we are well positioned to help U.S. government customers continue their ongoing digital transformation journey all the while addressing real business needs.

For the years ended March 31, 2018 and October 31, 2016 and 2015, our revenue was $2,819 million, $2,732 million and $2,585 million, respectively, and net income (loss) was $208 million, $80 million and $(29) million, respectively. For the five months ended March 31, 2017, our revenue was $1,073 million and net income was $36 million.

Our core services, key capabilities, and areas of expertise are further described below.

Core Services	**Cloud, Platforms and ITO**	**Enterprise and Cloud Applications**	**Enterprise Security**	**Mobility and Workplace**	**Analytics**
Key Capabilities	Cloud Advisory Workload Migrations Platform Services Business Continuity Brokerage Services Service Integration and Management AWS and Azure Solutions Private Cloud & Utility Services Network Management Datacenter Hosting and Project Services	Cloud and Mobile Applications Microsoft Dynamics ServiceNow Salesforce Workday Oracle DigitalTransformation Assessment for Oracle Cloud SAP IBM	Cloud Security Services Data Protection and Privacy Identity and Access Management Infrastructure and Endpoint Security Intelligent Security Operations Security Advisory Security Risk Management Threat and Vulnerability Management	Microsoft 365 Virtual Desktop Services Invisible Workplace Productivity Applications Campus and Connectivity Networks Enterprise Mobility Services	Analytics Advisory Analytics and Big Data Platform Analytics Solutions and Services Artificial Intelligence and Internet of Things ("IoT") Analytics Information Governance Managed Business Intelligence and Analytics
Areas of Expertise	Civilian Defense National Security State, Local and Education Federal Healthcare		Digital Business Transformation Digital Government Transformation Transformation Roadmaps Managing Enterprise Risk in a Connected World Enabling the Enterprise Through Hybrid Cloud Cybersecurity		

Cloud, Platforms and ITO Services

Our cloud, platforms and ITO services include incorporating modern computing platforms, such as cloud-based and hybrid cloud services and hyper-converged and converged systems, into existing or new government enterprise platforms, and assisting government customers in updating their legacy systems. Our designed and developed cloud-based services include our own Federal Risk and Authorization Management Program (“FedRAMP”) community cloud services and private clouds based on VMware which can either be hosted by the government customer or Perspecta. Through FedRAMP cloud and private cloud offerings, we are able to help our U.S. government customers run critical application workloads on shared infrastructure. In addition to creating private secure cloud solutions, we also help government customers transform to the cloud and hybrid cloud systems with cloud advisory and workload migration services. We also help our customers implement feature-rich cloud solutions by being a managed service provider of Amazon Web Services (“AWS”) and Microsoft Azure. For example, we design and develop mission-oriented cloud solutions in partnership with Microsoft Azure and AWS to modernize and transform government IT services. Our cloud experts provide a range of services to include cloud advisory, applications and workload migration, cloud infrastructure management, and cloud utilization optimization. We adhere to the DoD Secure Cloud Computing Architecture and FedRAMP criteria to meet the critical cloud security controls required by our federal, state and local government clients. We provide a compelling solution platform to achieve government-wide mandates to modernize and secure systems, improve efficiency, and reduce cost for aging government systems of record as well as new systems.

In addition to incorporating cloud platforms, we also assist our customers with IT brokerage and IT service management offering by helping clients govern and manage their IT services and workloads across the optimal mix of public, private and traditional datacenter environments, all the while providing enhanced security and high availability. For example, we provide high availability with continuity service, which is a service that helps government customers identify potential at risk systems, and protect their enterprises by implementing bespoke solutions that can mitigate the damage from a malfunction or other network failure. In the event of a malfunction or network failure, we also assist our government customers by helping them recover their IT infrastructure, data and applications by moving these systems to one of our recovery centers. We also provide traditional datacenter hosting, network, storage and mainframes services and other solutions to help government customers maintain efficient IT platforms.

We believe that demand for cloud, platform and ITO services will continue to be strong. For example, as government organizations create a new “right mix” of applications and data, they are looking for a right mix of infrastructure to support it, some of which originates outside the boundaries of the government itself. This leads them to transform to hybrid infrastructure - migrating and managing workloads across on-premises and off-premises data centers as well as private and public clouds and- permitting the consumption of evergreen software-as-a-service offerings.

Further, advances in cloud computing and storage, elastic networks, and sophisticated development and analytics platforms are making inexpensive, massively scalable computing resources available to virtually any government organization. As a result, government organizations that previously may have not been able to update their legacy infrastructure systems, are increasingly turning to companies such as Perspecta to help them implement these new digital systems. These digital tools are useful for government customers as they provide the ability to rapidly try new services, instantly scale those that deliver mission outcomes, and quickly eliminate those that do not.

Enterprise and Cloud Applications

Through our enterprise and cloud application services, we are able to assist government customers with the incorporation of enterprise and cloud applications that can be utilized to increase efficiencies and government capabilities. For example, utilizing expertise and longstanding experience in advising government organizations, we work with customers to develop bespoke applications to, among other things, enhance customer engagement and employee productivity. These services, which are provided through our development centers, include user experience design, mobile app development, native cloud app development, and testing. We also partner with organizations like The International Business Machines Corporation (“IBM”), Microsoft Corp. (“Microsoft”) and Oracle Corp. (“Oracle”) to provide application solutions. For example, we partner with IBM to help our government customers derive more value from legacy applications. We believe we are able to achieve this by leveraging IBM tools such as API Connect and IBM Cloud (formerly Bluemix) to develop solutions that allow new digital applications to interface seamlessly with legacy applications. Additionally, we help our government customers by improving third-party applications. For example, we have SAP application services that help our customers transform their SAP applications environment into a more cost-effective and efficient ecosystem.

We believe that demand for enterprise and cloud applications service will continue to be strong because modern government customers are increasingly moving away from on-premise, highly customized implementations of commercial off-the-shelf and government off-the-shelf software packages in favor of cloud native software-as-a-service alternatives. We believe government customers are making this change because, for the end user/consumer, cloud-native applications offer a continuous and rapid feed of new features, functions and capabilities, and for the government IT departments, cloud-native applications offer a much lighter workload, eliminating the need for personnel to manage updates, upgrades and patches.

Enterprise Security

With enterprise security services, we provide U.S. government customers increased protection in a time of growing cybersecurity risks. For example, our enterprise security services include providing data protection and privacy solutions and identity and access management solutions that can be implemented directly into existing government IT enterprise systems. Another aspect of our enterprise security is intelligent security operations, which provide tailored solutions to support the government customer’s digital enterprise, ultimately enabling it to monitor and respond to the evolving threat landscape. We also help customers by providing security advisory and security risk management services. These consultancy-led services help the government customer assess risks through penetration testing, vulnerability scanning, social engineering and attack simulations, and implement remediation plans to help ensure cybersecurity.

Due to the escalating risks associated with cyber-attacks, government customers are placing a greater emphasis on enterprise security. Further, expanding enterprise boundaries, building ecosystems with third parties and making information available to many more stakeholders, both inside and outside government, are all creating new security challenges for government customers to address. In this environment, a fortress mentality does not work. Government customers must strike a balance between enablement and protection, drawing on cybersecurity fundamentals but implementing these solutions using new and emerging technological approaches provided by companies such as Perspecta.

Mobility and Workplace

Through mobility and workplace services, we are able to provide to our government customers enterprise solutions that provide new workplace capabilities, improve efficiency and operational flexibility. For example, we have helped our government customers by providing virtual desktop services that untether data and desktop applications from physical user devices to give client workforce and partners secure access to desktops, applications, and data from any device, anywhere. In addition to providing desktop services, we also provide our government customers productivity applications such as providing the collaboration tools available through Microsoft Office 365 and Windows 10. In addition to providing mobility and workplace solutions, we also provide our government customers ongoing support and consulting. For example, we can help our government customers manage their mobile environment by providing solutions for procurement, provisioning, refresh, hardware and software support, security, and business usage analytics.

We believe that government demand for our mobility and workplace solutions will continue to grow because modern government customers are starting to adapt commercial sector initiatives such as open source communities and collaboration platforms. As a result of this initiative, government organizations are rapidly adopting cloud-native software- as-a-service offerings such as Microsoft Office 365, Skype, Teams, Slack and Facebook. These offerings provide dramatic new options for communication and collaboration, not only within government organizations, but also across government silos and out to partners and citizens.

Analytics

Our analytics services provide our U.S. government customers a wide range of tools to help understand, and improve, their organizations. For example, we have the ability to bring out-of-the-box technologies and data scientists to quickly support client needs and leverage existing investment. Further, our analytics solutions can be tailored to the customer’s needs and objectives, with right-sized tiered solutions and deployment options across clouds and on premise. We also utilize advanced, proprietary technologies, such as machine learning, artificial intelligence, and IoT, to provide enhanced insights with real-time situational intelligence and improved business outcomes. Our analytics services also include information governance consulting to help our government customers classify, archive and manage both physical and electronic data reliably and cost effectively.

__Long Standing Relationships with Industry and Customers__

We have partnered with, and provided technology-focused enterprise solutions to, the U.S. federal, state and local governments for more than 50 years. Utilizing our enterprise solutions, we have been able to aid a variety of U.S. government partners achieve significant improvements and milestones as further illustrated below:

Government Partner	Our Solution	Outcome
U.S. Navy	We provide the U.S. Navy with innovative solutions to secure its intranet, the largest in the world, by implementing a broad range of integrated security solutions to improve depth and secure posture, and network security and authentication for secure network access across all devices.	Through our multifaceted security solution, the U.S. Navy's intranet successfully detects over 300 million threats and prevents over 2.5 billion unauthorized intrusion attempts per year.
Centers for Medicare and Medicaid Services ("CMS")	As a result of the implementation of the Affordable Care Act, uninsured Americans were able to purchase health insurance through the Federal Health Insurance Marketplace (heathcare.gov) which we helped CMS and the U.S. government develop.	In the 2017 enrollment year, healthcare.gov achieved high performance and reliability goals. More than 18 million users were on the site from November 1 to December 15, including 700,000 users on the Spanish-language site. Despite high peak numbers on many days, site reliability and security was never compromised. Open Enrollment 2018 represented a record year for the federal marketplace as well as state-based exchanges, even with the compressed enrollment period. Approximately 8.8 million Americans from 39 states signed up for coverage through the state exchanges.
County of San Diego	To help San Diego County probation officers more efficiently manage their caseloads outside the office, we developed the Probation Utility and Mobile Applications ("PUMA"), which empowered probation officers by providing on-demand access to their cases and the ability to enter contact notes in the field. We rationalized and modernized hundreds of sprawling applications in a heterogeneous applications infrastructure across a distributed management structure, transforming the applications environment allowing for the county to achieve its IT vision of "anytime, anywhere" service.	As a result of the PUMA system developed by us, San Diego County probation officers were able to increase productivity by approximately 54% all the while ensuring accuracy and consistency. Application rationalization and modernization resulted in a 25% reduction in applications and a refocusing of apps management personnel for higher value initiatives. Applications portfolio now in a position for further modernization in a cloud environment.
California Department of Corrections and Rehabilitation ("CDCR")	To help the CDCR, which operates one of the largest correctional systems in the world, we developed the enterprise solution Strategic Offender Management System ("SOMS") which streamlines processes by consolidating legacy databases and converting inmate records into digital files.	Created and hosted by us, the SOMS solution provides the CDCR an integrative record system for more than 175,000 offenders in the CDCR.
Defense Information Systems Agency ("DISA")	We partnered with DISA to transform key applications and services to drive efficiencies, improve security and capture costs savings.	Through the integration of our offerings, DISA is able to provide integrated, interoperable and assured infrastructure capabilities, applications and services to its users across the software development lifecycle, engineering and technical support.
U.S. federal government	We are partnering with a client in the U.S. federal government to develop a DevOps environment, providing IT and engineering services for software residing on the government's secure version of AWS. The program scope includes identifying, prioritizing, integrating, and testing new and modified software and components to satisfy the architectural vision of the enterprise of the Software Services Platform.	Through the contract, government client has enjoyed an exponential growth in the user base and the number of software services offerings to the enterprise community. As a result there is realized savings in project schedules and cost across the many contracts within the enterprise.

The above chart illustrates only a handful of the beneficial outcomes our enterprise solutions have afforded our U.S. government partners.

In addition, we serve as the prime contractor on 91% of work, as measured by annual revenue. We believe that our sophisticated solutions, and proprietary processes and tools developed over decades-long support of our customers' missions make it difficult for our competitors to displace us. This is evidenced by our 90% historical re-compete win rate. In addition, we have longstanding relationships with our customers, with relationships with certain key customers spanning over 50 years.

Business Environment and Competitive Landscape

Market Dynamics and Potential for Growth

We believe significant change is coming to the government sector, enabled by new technologies and the demand for empowered citizens and employees. Instead of delivering services through traditional channels, agencies are expected to deliver new services that inspire public trust by holistically delivering outcomes that meet the rapidly changing needs of citizens and requirements of government policies. These services must be simple and flexible enough for citizens to evaluate, tailor and consume through multiple channels and multi-organizational composition.

To deliver on these growing expectations, government agencies can make substantive progress in four key areas: modern collaborative workplaces, hybrid cloud platforms, citizen/user experience platforms, and integrated digital service management platforms. To do this, government agencies are developing an ecosystem of partners and value-added service providers, connected through digital platforms. They are also overhauling processes through digital transformation and gaining control over their vast IT estate to become more effective and efficient in supporting programs.

At the center of this shift is a rapid migration from government-owned and developed custom IT systems, to standardized, service-delivered platforms and utilities. Clients - particularly the mission leaders who are driving purchasing decisions - see that standardized platforms are at least "good enough" to meet their needs and, in many cases, offer cost, scalability and interoperability benefits that would be unachievable with an "owned and operated" approach. In this environment, we believe a limited number of key digital platforms will become dominant, such as Microsoft (with Azure, Office 365 and Dynamics), AWS and ServiceNow.

We believe the market for providing technology-based enterprise solutions to the U.S. public sector, at the U.S. federal, state and local levels, has the potential for growth based on the following factors:

- *Large addressable market*. We expect the overall amount spent on contracted services between federal state and local governments will be more than $100 billion during the upcoming fiscal year and expect this amount to continue to see incremental growth in the near term.
- *Increasing demand for technology-based enterprise solutions.* We believe the public sector marketplace is undergoing a transformation where IT is being incorporated in all levels of the U.S. government. This transformation is being driven, at least in part, by the imperative that public agencies be able to anticipate changing demands of the public while staying ahead of threats and adversaries. Given the central role IT plays in this transformation, which will continue to evolve as demands and threats change, we believe there will be a continued demand for our enterprise solutions.
- *Government-wide mandate to improve efficiency and reduce cost*. U.S. federal, state and local governments have expressed a need to improve efficiency and reduce costs to help fund shifting government priorities such as national defense, cybersecurity, and an aging infrastructure. IT has the potential to disrupt traditional government business models and be an enabler of increased efficiency and cost savings, while improving public value.
- *Government cloud-first policy*. The U.S. federal government's cloud-first policy, which has already driven an initial wave of migration to the cloud, with the easier migrations having been completed, is creating demand for complex cloud-based solutions to address the more difficult migrations. In addition, the Executive Branch of the U.S. federal government has recently announced significantly higher expectations for standardization, rationalization and modernization of IT, with significant targets for reduced IT budgets in order to redirect funding to mission priorities, especially in defense, the intelligence community and U.S. Department of Homeland Security. In addition to the U.S. federal government's cloud-first policy, state chief information officers, or individuals holding similar positions (together, "State CIOs"), indicate that over 70% of states have cloud-first policies and over 70% are developing strategies to migrate legacy applications to the cloud according to a survey conducted by the National Association of State Chief Information Officers in 2016. As the IT market shifts, mission owners, with clear targets for policy outcomes, are becoming increasingly significant in digital decision making. This shift presents an opportunity for us to increase our

market share and overall growth by leading government clients in digital business transformation to modern service-delivered platforms.
- *Aging critical systems require modernization*. Mission critical legacy applications are rapidly aging, but still have rising costs, decreased performance, reliability, and functionality issues. The U.S. federal government has prioritized modernizing their IT systems, including the passage of the Modernizing Government Technology Act attached to the FY 2018 National Defense Authorization Act, which created a working capital fund to support legacy modernization efforts. According to a survey conducted by the National Association of State Chief Information Officers in 2016, State CIOs have reported that legacy systems that have to be replaced or even modernized account for over 60% of their current applications. We believe that our customers require application modernization and transformation services to update legacy systems in order to maintain mission critical services and leverage social, mobile, analytical and cloud technologies to improve IT services available to government employees and citizens.
- *Increased cybersecurity demands and focus*. U.S. federal, state and local governments have established initiatives to modernize their cybersecurity in order to protect their IT enterprise systems. The need to secure large, complex, sensitive government networks, communications, data, and applications has created a growing demand for innovative security solutions to defend the country and protect sensitive information of its citizens.

Competitive Landscape

Our market for providing services to the U.S. public sector is highly competitive and favors participants with competitive cost structures and experience providing, procuring and delivering on bids. We believe we are well suited to compete given our experience and the breadth of professional IT services we can and have historically provided to our U.S. public sector customers. Given that we provide services across the U.S. public sector marketplace, we regularly compete with a range of companies including:

- Pure-play U.S. government service providers that are highly specialized firms with exceptional mission knowledge, customer intimacy or specific intellectual property ("IP") that can make them major competitors in the markets that they serve. Some of our competitors in this category include Leidos Holdings, Inc. (“Leidos”), Booz Allen Hamilton Inc., Consolidated Analysis Center Incorporated, General Dynamics Information Technology, Inc. (“General Dynamics”), Science Applications International Corporation, Engility Corporation, and ManTech International Corporation.
- Large defense contractors that are capable of competing across our entire market, possessing the reputation and ability to compete on large deals with any U.S. government agency and the financial strength to manage and execute large-scale programs. Some of the large defense contractors we regularly compete with include Lockheed Martin Corporation (“Lockheed Martin”), Northrop Grumman Corporation (“Northrop Grumman”), Raytheon Company (“Raytheon”), Boeing and General Dynamics.
- Diversified commercial consulting, technology and outsourcing service providers which are highly regarded and successful with commercial customers, but typically lack the breadth of public sector offerings and presence to compete broadly across the public-sector market. Some of our competitors in this category include subsidiaries of IBM, Deloitte & Touche LLP, AT&T Inc., Verizon Communications Inc., Dell Inc., Accenture plc, NTT Data Corp, Unisys Corporation, and CGI Group Inc.
- Small businesses generally providing services to the U.S. government pursuant to requirements and incentive programs designed to create entrepreneurial opportunities for small business owners. These can include businesses identified to receive a “fair proportion” of government contracts through the Small Business Act such as small disadvantaged businesses, woman owned small businesses, HUBZone businesses and service disabled veteran owned small businesses.
- Commercial IT vendors have recently emerged as players in the U.S. government market. These vendors include AWS, Microsoft Azure, Google Inc., Salesforce.com, Inc., ServiceNow, Inc. and other cloud providers.

Employees

We are led by an experienced team of senior executives with a long history of supporting the U.S. public sector. Our senior leadership has an average of over 18 years of experience in relevant industries or roles and are well regarded by our customers and partners.

As a service company providing enterprise solutions, our employees are our most valuable and important asset. We believe the quality and credentials of our employees represent a key differentiating feature in the market for our services. As of March 31, 2018, we had approximately 7,700 employees, with approximately 45% of our employees having some form of security clearance and approximately 27% of our employees having Top Secret and/or Sensitive Compartmented Information level clearance, which typically requires the completion of a polygraph.

Intellectual Property

Our services and solutions are not generally dependent upon patent protection, although we anticipate we will selectively seek certain patent protections. Our largely proprietary IP portfolio, comprising products, technical services, consulting, methodologies, and know-how, are licensed to us by DXC and protected using non-disclosure agreements and contractual arrangements, as well as one or more of the following: trade secret, patent, copyright or trademark protections.

For our work under U.S. federal government funded contracts and subcontracts, the U.S. federal government obtains certain rights to data, software and related information developed under such contracts or subcontracts. These rights may allow the U.S. federal government to disclose such data, software and related information to third parties.

Intellectual Property Arrangements with DXC

Pursuant to the Separation and Distribution Agreement (the "SDA") and the Intellectual Property Matters Agreement ("IPMA") entered into between us and DXC on May 31, 2018, DXC retained ownership of substantially all proprietary IP owned by DXC and USPS at the time of the Distribution and used by us. Pursuant to the IPMA, DXC grants us a perpetual, royalty-free, non-assignable license to certain know-how owned by DXC that we used to run our business prior to the Spin-Off. In addition, DXC grants us a perpetual, royalty-free, non-assignable license to certain software used in the conduct of the Perspecta business (including binaries, APIs, libraries, scripts, patches, configuration files, examples and documentation). Upon termination or expiration of the IPMA, we will only be entitled to access and use the then-current versions of the licensed products in our possession. The foregoing licenses granted to us will be restricted to use solely in connection with U.S. government and certain state and local government customers, and will be exclusive with respect to the federal government market for a period of five years, and non-exclusive with respect to certain U.S. state and local government customers. In addition, any improvements we make to such IP or derivative works of such IP that we develop during the five-year term of the agreement will be assigned to DXC and licensed back to us subject to the same limitations on use. DXC also grants a limited, non-exclusive, non-assignable, royalty-free license to use certain trademarks in connection with Perspecta for six months from the date of the IPMA to allow us to transition away from use of those that include “DXC” and certain other marks used historically by USPS. Any additional rights to use other DXC products, improvements or proprietary rights will be negotiated by the parties in good faith on commercially reasonable arm's-length terms.

Pursuant to the IPMA, we grant to DXC a perpetual, royalty-free, transferrable, assignable license to know-how owned by us as of the Spin-Off. Further, we grant to DXC a perpetual, royalty-free, fully paid-up, non-assignable license to any IP acquired or developed by us within six months following the Spin-Off (other than IP rights acquired from Vencore HC or KGS HC or their respective subsidiaries). During the first five years following the Distribution, the foregoing licenses granted by us will be restricted to use solely in connection with private sector customers on an exclusive basis and certain U.S. state and local government customers on a non-exclusive basis.

In addition to the foregoing licenses, we grant DXC a non-transferrable, non-assignable license for the five years following the Distribution to access, use, copy, make improvements and sublicense certain IP we obtained from our acquisition of Vencore HC or KGS HC and their respective subsidiaries. The foregoing license is exclusive with respect to DXC’s private sector business and non-exclusive for all other fields. Such license is royalty-free to the extent DXC does not commercially exploit the IP of Vencore HC or KGS HC or their respective subsidiaries, and will otherwise be subject to a commercially reasonable royalty, to be negotiated in good faith, for commercial exploitation. Further, we agreed to negotiate in good faith the terms and conditions of a license or services agreement relating to or permitting use by DXC of Perspecta Labs, Inc. ("Perspecta Labs", then named Vencore Labs Inc.) as acquired from Vencore HC and our existing security and digital protection service offerings, in each case on commercially reasonable arm's-length terms in DXC’s private sector field. Further, during the five years following the Distribution, DXC will have the first right to participate in the event Perspecta Labs wishes to pursue research and development which has potential applicability in the DXC private sector field. Perspecta Labs must notify DXC of such opportunities and DXC has the right to elect to enter a collaborative development and commercialization effort with Perspecta Labs.

All licenses granted to us by DXC will not extend to any acquiring party of our business, and will be limited to the Perspecta entities that are subsidiaries prior to such acquisition. If either we or DXC divest any portion of our businesses or acquire a new business, the licenses granted under the IPMA may follow such divested business or extend to such newly acquired business, provided the licensed party adheres to all restrictions on the relevant license, notably the relevant licensed fields of each party.

DXC will indemnify Perspecta from all losses incurred by Perspecta as a direct result of any third-party claim that Perspecta’s use of any improvements to the products licensed by DXC under the IPMA infringes or misappropriates any U.S. copyright, trademark or trade secret, except to the extent resulting from Perspecta’s modification, adaptation, failure to update, or third-party components. Perspecta will indemnify DXC from all losses incurred by DXC as a direct result of any third-party claim relating to Perspecta’s use of the products licensed by DXC, or arising from DXC’s use of Perspecta’s improvements to the licensed products, except to the extent resulting from DXC’s modification, adaptation, failure to update, or third-party components.

Regulatory Matters

As a U.S. government contractor, Perspecta’s business is heavily regulated and, as a result, our need for compliance awareness and business and employee support is significant. Specifically, Perspecta’s industry is governed by various laws and regulations, including but not limited to laws and regulations relating to: the formation, administration, and performance of contracts; the security and control of information and information systems; international trade compliance; human trafficking; and the mandatory disclosure of “credible evidence” of a violation of certain criminal laws receipt of significant overpayments, or violations of the civil False Claims Act. In addition, U.S. government contractors are generally subject to other federal and state laws and regulations, including:

- the Federal Acquisition Regulation ("FAR"), agency supplements to the FAR, and related regulations, which regulate the formation, administration, and performance of U.S. federal government contracts;
- the False Claims Act, which allows the government and whistleblowers filing on behalf of the government to pursue treble damages, civil penalties, and sanctions for the provision of false or fraudulent claims to the U.S. federal government.
- the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with the negotiation of certain contracts, modifications, or task orders;
- the Procurement Integrity Act, which regulates access to competitor bid and proposal information, as well as certain internal government procurement sensitive information, and regulates our ability to provide compensation to certain former government procurement officials;
- laws and regulations restricting the ability of employees of the U.S. government to accept gifts or gratuities from a contractor;
- post-government employment laws and regulations, which restrict the ability of a contractor to recruit and hire current employees of the U.S. government and deploy former employees of the U.S. government;
- laws, regulations, and executive orders requiring the safeguarding of and restricting the use and dissemination of information classified for national security purposes or determined to be “controlled unclassified information,” "covered defense information," or “for official use only”;
- laws and regulations relating to the export of certain products, services, and technical data, including requirements regarding any applicable licensing of our employees involved in such work;
- laws, regulations, and executive orders regulating the handling, use, and dissemination of personally identifiable information in the course of performing a U.S. government contract;
- laws, regulations, and executive orders governing organizational conflicts of interest that may prevent us from bidding for or restrict our ability to compete for certain U.S. government contracts because of the work that we currently perform for the U.S. government;
- laws, regulations, and executive orders that mandate compliance with requirements to protect the government from risks related to our supply chain;
- laws, regulations, and mandatory contract provisions providing protections to employees or subcontractors seeking to report alleged fraud, waste, and abuse related to a government contract;
- the DoD's “Contractor Business Systems Rule,” which authorizes DoD agencies to withhold a portion of our payments if we are determined to have a significant deficiency in any of our accounting, cost estimating, purchasing, earned value management, material management and accounting, or property management systems; and

- the Cost Accounting Standards and the Cost Principles, which impose accounting requirements that govern our right to reimbursement under certain cost-based U.S. government contracts and require consistency of accounting practices over time.

We are also subject to oversight by the U.S. Office of Federal Contract Compliance Programs ("OFCCP") for federal contract and affirmative action compliance, including the following areas:

- affirmative action plans;
- applicant tracking;
- compliance training;
- customized affirmative action databases and forms;
- glass ceiling and compensation audits;
- desk and on-site audits;
- conciliation agreements;
- disability accessibility for applicants and employees;
- diversity initiatives;
- equal employment opportunity compliance;
- employment eligibility verification (known as "E-Verify");
- internal affirmative action audits;
- internet recruiting and hiring processes;
- OFCCP administrative enforcement actions;
- record-keeping requirements; and
- Sarbanes-Oxley Act of 2002 compliance.

The U.S. federal government routinely revises its procurement practices and adopts new contract statutes, rules and regulations. In order to anticipate compliance with changes to laws and regulations, we participate in industry-wide associations that represent the industry perspectives on proposed regulations to the government, monitor proposed regulatory changes to adapt our policies and processes to accommodate the changes when they become effective, maintain compliance staff in our corporate departments, and conduct awareness and training for affected employees, such as our contracts staff and government compliance team.

The U.S. federal government has a broad range of tools available to enforce its procurement law and policies. These include debarring or suspending a particular contractor, certain of its operations and/ or individual employees from future government business. Individuals, on behalf of the federal government, may also bring qui tam suits against us for any alleged fraud related to payments under a U.S. federal government contract or program.

The U.S. federal government's fiscal year ends on September 30. It is not uncommon for U.S. federal government agencies to award extra tasks or complete other contract actions in the weeks leading up to the end of its fiscal year in order to avoid the loss of unexpended fiscal year funds. We have generally experienced increased bid and proposal costs in the months leading up to the U.S. federal government's fiscal year end as we pursue new contract opportunities being awarded at such time. We also experience some seasonality effects from the timing of the fiscal year end close for state and local governments, which in many instances are different than the U.S. federal government fiscal year end. In general, we tend to experience an increase in revenue in the first half of the calendar year from our state and local government customers as that is when funds are generally allocated to specific projects. Finally, we also tend to generate less revenue and profit from our labor services during the three months ending December 31, as a result of higher leave-taking during the holiday season.

Financial Information about Segments and Geographic Areas

The Company reports separately information about each of its operating segments that engage in business activities from which revenue is recognized and expenses are incurred, and for which discrete financial information is available. These operating results are regularly reviewed by the Company's chief operating decision maker, who is the chief executive officer. During the period prior to the Spin-Off, the Company had identified a single reportable segment that was regularly reviewed by the chief operating officer, who was the Company's chief operating decision maker during that period. Following, and as a result of, the Spin-Off and Mergers and the identification of a new chief operating decision maker, management reevaluated its reportable segments and determined that the information obtained, reviewed and used by the chief operating decision maker to manage the Company's financial performance is based on two reportable segments rather than one. These segments are aligned with the Company's industry verticals and include:

- Defense and Intelligence - provides services to the DoD, intelligence community, branches of the U.S. Armed Forces, and other DoD agencies; and
- Civilian and Health Care - provides services to the Departments of Homeland Security, Justice, and Health and Human Services, as well as other federal civilian and state and local government agencies.

The segment information for the period prior to the Spin-Off has been recast to reflect the Company's current reportable segments structure. For additional information, see exhibits 99.2, 99.3 and 99.4 included with the Company's Current Report on Form 8-K filed on November 14, 2018.

All of our revenues for the year ended March 31, 2018, the five-month period ended March 31, 2017, and the years ended October 31, 2016 and 2015 were attributable to U.S. customers. All of our long-lived assets are located in the United States.

Available Information

We use our corporate website, *www.perspecta.com*, as a routine channel for distribution of important information, including detailed company information, financial news, Securities and Exchange Commission ("SEC") filings, Annual Reports, historical stock information and links to webcasts. Perspecta's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports, and the Proxy Statements for our Annual Meetings of Stockholders will be made available, free of charge, on our corporate website as soon as reasonably practicable after such reports have been filed with or furnished to the SEC. Our corporate governance guidelines, Board of Directors' committee charters (including the charters of the Audit Committee, Human Resources and Compensation Committee and Nominating/Corporate Governance Committee) and code of business conduct and ethics entitled "*The Standard*" are also available on our website. The information on our website is not incorporated by reference into, and is not a part of, this Annual Report on Form 10-K.

Any materials we file with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC, 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (*http://www.sec.gov*) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

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Section 4: EX-99.2 (UPDATED MANAGEMENT DISCUSSION AND ANALYSIS)

Exhibit 99.2

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to help investors understand our business, financial condition, results of operations, liquidity and capital resources. You should read this discussion in conjunction with the Combined Financial Statements and related Notes included elsewhere in this document.

The statements in this discussion regarding industry outlook, expectations regarding our future performance, liquidity and capital resources and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements." Actual results may differ materially from those contained in any forward-looking statements.

The Combined Financial Statements, discussed below, reflect our financial condition, results of operations, and cash flows. The financial information discussed below and included in this document, however, may not necessarily reflect what our financial condition, results of operations, or cash flows would have been had we been operated as a separate, independent entity during the periods presented, or what our financial condition, results of operations, and cash flows may be in the future.

Overview

We are a leading provider of end-to-end enterprise IT services to government customers across U.S. federal, state and local markets. Using our market-leading enterprise offerings and solutions, we help our government customers implement modern collaborative workplaces, hybrid cloud platforms and integrated digital systems of engagement with their enterprise management systems. By delivering these modern enterprise solutions, often while ensuring interoperability with mission critical legacy systems, we believe we have helped our government customers better realize the benefits of technology, which will ultimately enable them to fulfill their mission objectives and achieve business outcomes.

In addition to providing substantial benefits through increased efficiencies and capabilities, we believe demand for our services is also driven by the technological advances that already reinvented commercial industries, which are now exerting a similar evolutionary effect on government customers. In response to these pressures, we believe modern government customers are increasingly turning to outside partners, such as Perspecta, to help guide them through this digital transformation.

We believe our breadth of contracts and customers in the U.S. government, and our longstanding history of having partnered with our public sector customers for more than 50 years, provides us with a competitive advantage. For example, we have existing contracts with a range of public sector entities ranging from the VA, to the United States Postal Service, NASA, the FDA and the large state and local government customers such as the county of San Diego, California. Based on this breadth of experience and our expertise, we believe we are well positioned to help its U.S. government customers continue our ongoing digital transformation journey, all the while addressing real business needs.

Perspecta was formed on May 31, 2018, when DXC completed the previously announced Spin-Off and Mergers. Following the completion of the Spin-Off and Mergers, Perspecta, a Nevada corporation, became a publicly traded company. Perspecta’s common stock began trading under the ticker symbol “PRSP” on the New York Stock Exchange on June 1, 2018. The financial results of Perspecta for the year ended March 31, 2018, the five months ended March 31, 2017 and the years ended October 31, 2016 and 2015, are based upon the historical results of USPS and do not give effect to the Mergers. See Note 1 - "Overview and Summary of Significant Accounting Policies" to the Financial Statements included in this Current Report on Form 8-K for additional details.

The purpose of this Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is to present information that management believes is relevant to an assessment and understanding of Perspecta’s results of operations and cash flows for the year ended March 31, 2018, the five months ended March 31, 2017 and the years ended October 31, 2016 and 2015. This MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and accompanying notes.

Basis of Presentation

The Combined Financial Statements included in this Current Report on Form 8-K have been derived from the Consolidated Financial Statements and accounting records of Parent, as if USPS operated on a standalone basis during the periods presented, and were prepared in accordance with GAAP. USPS historically reported its results based on a fiscal year ending on October 31 and upon the formation of DXC, USPS began reporting its results based on a fiscal year ended March 31. The combined financial statements of USPS for the annual periods ending October 31, 2015 and 2016, for the five-month period ended March 31, 2017 do not give effect to purchase price allocation adjustments associated with the HPES Merger. These adjustments are reflected in the successor period results for USPS for the annual period ending March 31, 2018, therefore, successor period results for USPS are not comparable to predecessor period results.

The Combined Statements of Operations reflect allocations of general corporate expenses from Parent including, but not limited to, executive management, finance, legal, IT, employee benefits administration, treasury, risk management, procurement and other shared services. These allocations were made on a direct usage basis when identifiable, with the remainder allocated on the basis of revenue, expenses, headcount or other relevant measures. We consider these allocations to be a reasonable reflection of the utilization of services by, or the benefits provided to, USPS. The allocations may not, however, reflect the expense USPS would have incurred as a standalone company for the periods presented. Actual costs that may have been incurred if we had been a standalone company would depend on a number of factors, including the chosen organizational structure, what functions were outsourced or performed by employees and strategic decisions made in areas such as IT and infrastructure.

The Combined Balance Sheets include Parent assets and liabilities that are specifically identifiable or otherwise attributable to USPS, including subsidiaries and affiliates in which Parent had a controlling financial interest or of which was the primary beneficiary. Parent’s cash has not been assigned to USPS for any of the periods presented because those cash balances are not directly attributable to USPS. We reflect transfers of cash to and from Parent's cash management system as a component of Parent investment on the Combined Balance Sheets. Parent’s receivables sales facility and long-term debt, other than capital lease obligations, have not been attributed to us for any of the periods presented because Parent's borrowings are not our legal obligation.

Parent maintained various benefit and stock-based compensation plans at a corporate level and other benefit plans at a subsidiary level. Our employees participate in those programs and a portion of the cost of those plans are allocated and included in the Combined Financial Statements. However, the Combined Balance Sheets do not include any net benefit plan obligations as the pension plans were accounted as multiemployer benefit plans.

In the opinion of management, the Combined Financial Statements of USPS contain all adjustments, including normal recurring adjustments, necessary to present fairly USPS’s financial position as of March 31, 2018 and 2017, and its results of operations and cash flows for the fiscal year ending March 31, 2018, the five months ended March 31, 2017, and the fiscal years ending October 31, 2016 and 2015.

Principles of Combination

The Combined Financial Statements include USPS’s net assets and results of operations as described above. All intercompany transactions and accounts within the combined businesses of USPS have been eliminated.

Intercompany transactions between USPS and Parent other than leases with HPE’s wholly-owned leasing subsidiary (“HPE Financial Services”) are considered to be effectively settled in the Combined Financial Statements at the time the transaction is recorded. The total net effect of the settlement of these intercompany transactions is reflected in the Combined Statements of Cash Flows within financing activities and in the combined balance sheets within Parent’s investment.

The Combined Financial Statements include the operations of USPS except for certain USPS consulting activities that were historically conducted pursuant to contracts with USPS's former parent, HPE, rather than USPS or its subsidiaries. Because those contracts were not novated to USPS until after October 31, 2016, no information regarding our consulting activities performed pursuant to those contracts has been presented in the results of operations for the fiscal years ending October 31, 2016 and 2015 and only a portion of the revenues associated with these consulting activities is presented in the results of operations for the five-month period ended March 31, 2017. Periods subsequent to March 31, 2017 reflect all these consulting activities performed pursuant to those contracts in our results of operations. For comparability purposes, the revenue and income before taxes related to these contracts not reflected in the results of operations for the periods referenced above are set forth below:

	Predecessor		
	Five Months Ended	Fiscal Years Ended	
(in millions)	March 31, 2017	October 31, 2016	October 31, 2015
Revenue	$ 10	$ 136	$ 141
Income before taxes	$ 3	$ 42	$ 39

Factors and Trends Affecting our Results of Operations

Revenue Generation

Revenue is generated by providing services on a variety of contract types which vary in duration from as little as six months to more than 10 years. Factors affecting revenue include our ability to successfully:

- bid on and win new contract awards;
- satisfy existing customers, obtain add-on business, and win contract re-competes;
- compete on services offered, delivery models offered, technical ability and innovation, quality, flexibility, experience, and results created; and
- identify and integrate acquisitions and leverage them to generate new revenues.

Earnings are impacted by the above revenue factors and, in addition, our ability to:

- integrate acquisitions and eliminate redundant costs;
- control costs, particularly labor costs, subcontractor expenses, and overhead costs including healthcare, pension and general and administrative costs;
- anticipate talent needs to avoid staff shortages or excesses; and
- accurately estimate various factors incorporated in contract bids and proposals.

Competitive Markets

We believe that we are well positioned to take advantage of the markets in which we operate because of our expertise and specialization. Our ability to effectively manage project engagements, including logistics, client requirements, engineering resources and service levels, will affect our financial performance. Increased competition from other government contractors and market entrants seeking to take advantage of certain industry trends may result in the emergence of companies that are better able to compete against us.

Regulations

Increased audit, review, investigation and general scrutiny by U.S. government agencies of government contractors’ performance under U.S. government contracts and compliance with the terms of those contracts and applicable laws could affect our operating results. Negative publicity and increased scrutiny of government contractors in general, including us, relating to U.S. government expenditures for contractor services; incidents involving the mishandling of sensitive or classified information; and the increasingly complex requirements of the DoD and the intelligence community, including those related to cybersecurity, management of federal health care cost growth, and focus on reforming existing government regulation of various sectors of the economy, such as financial regulation and healthcare, could impact our ability to perform in the marketplace.

Seasonality

The U.S. federal government’s fiscal year ends on September 30. It is not uncommon for U.S. federal government agencies to award extra tasks or complete other contract actions in the weeks leading up to the end of its fiscal year in order to avoid the loss of unexpended fiscal year funds. We have generally experienced increased bid and proposal costs in the months leading up to the U.S. federal government’s fiscal year end as we pursue new contract opportunities being awarded shortly before the U.S. federal government fiscal year end. We also experience some seasonality effects from the timing of the fiscal year end close for state and local governments, which in many instances are different than the U.S. federal government fiscal year end. In general, we tend to experience an increase in revenue in the first half of the calendar year from our state and local government customers as that is when funds are generally allocated to specific projects. Finally, we also tend to generate less revenue and profit from our labor services during the three months ending December 31, as a result of higher leave-taking during the holiday season.

Segments and Services

Upon consummation of the Spin-Off and Mergers, our reportable segments are (1) Defense and Intelligence, which provides services to the DoD, intelligence community, branches of the U.S. Armed Forces, and other DoD agencies and (2) Civilian and Health Care, which provides services to the Departments of Homeland Security, Justice, and Health and Human Services, as well as other federal civilian and state and local government agencies. Segment information is included in Note 17 – “Segment Information” to the Financial Statements included in this Current Report on Form 8-K.

Cash Flows

Cash flows are affected by the above earnings factors and, in addition, by the following factors:

- the ability to efficiently manage capital resources and expenditures;
- timely management of receivables and payables;
- investment opportunities available, particularly related to business acquisitions and implementations, dispositions and large outsourcing contracts; and
- tax obligations.

Key Performance Indicators

We manage and assess the performance of our business through various means, with the primary financial measures including new contract wins, revenue and Adjusted EBITDA (as defined below under "Non-GAAP Financial Measures").

New contract wins - In addition to being a primary driver of future revenue, new contract wins also provide management an assessment of our ability to compete. The total level of wins tends to fluctuate from year to year depending on the timing of new or re-competed contracts, as well as numerous external factors.

Revenue - Revenue is a product of contracts won in prior periods, and work secured in the current year. Year-over-year revenues tend to vary less than new contract wins, and reflect performance on both new and existing contracts.

Adjusted EBITDA - Adjusted EBITDA is a non-GAAP measure that we use to evaluate financial performance and is one of the measures we use in assessing management performance. We believe that this non-GAAP financial measure provides useful information to investors regarding our results of operations as it provides another measure of our profitability, our ability to service the planned debt, and is considered an important measure by financial analysts covering our industry.

Economic and Industry Factors

Our results of operations are impacted by general economic conditions including macroeconomic conditions. We are monitoring current macroeconomic and credit market conditions and levels of business confidence and their potential effect on our customers and on us. A severe and/or prolonged economic downturn could adversely affect our customers’ financial condition and the levels of business activities in the industries and geographies in which we operate. Such a downturn may reduce demand for our services or depress pricing of those services and have a material adverse effect on our new contract bookings and results of operations. Particularly in light of recent economic uncertainty, we continue to monitor costs closely in order to respond to changing conditions and to manage any impact to our results of operations. Our results of operations are also affected by the evolving priorities of the U.S. federal government, as well as by the pace of technological change and the type and level of technology spending by our customers. The ability to identify and capitalize on these markets and technological changes early in their cycles is a key driver of our performance.

We see potential for positive developments in the federal government budget for its 2018 fiscal year. We are also experiencing an increased number of requests to extend the period of performance for our largest and most complex IT contracts, are observing increased procurement activity across the U.S. federal government and expect to see adjudications increase. We expect another threatened government shut down by Congress and the passage of a series of continuing resolutions to keep the U.S. federal government funded, with the possibility that Congress will ultimately pass a full year continuing resolution. In the event Congress passes a full year continuing resolution, we would expect this to support our initiative to extend the period of performance for its largest and most complex IT contracts.

Revenues are driven by our ability to secure new contracts and to deliver solutions and services that add value to our customers. Our ability to add value for customers, and therefore generate revenues, depends in part on our ability to deliver market-leading service offerings and to deploy skilled teams of professionals quickly across all government industries and domains. Our market is highly competitive and has characteristics unique to the federal contracting environment. Almost all of our U.S. federal government contracts and subcontracts may be modified, curtailed, or terminated either at the convenience of the government or for default based on factors set forth in the FAR. Upon termination for convenience of a fixed-price type contract, our U.S. federal government contracts normally entitle us to receive the purchase price for delivered items, reimbursement for contractual commitments and allowable costs for work-in-process, and a reasonable allowance for profit, although there can also be financial impact resulting from the negotiated contract settlement. Upon termination for convenience of a U.S. federal government cost reimbursable or time and material contract, we are normally entitled to reimbursement of allowable costs plus a fee. Allowable costs generally include the cost to terminate agreements with suppliers and subcontractors.

The amount of the fee recovered, if any, generally is related to the portion of the work completed prior to termination and is determined by negotiation. See "Risk Factors." If contracts are lost through the competitive bid process, our operating results may differ materially and adversely from those anticipated. Finally, shifting U.S. federal government priorities can also impact the future of projects. Management monitors U.S. federal government priorities and industry factors through numerous industry and government publications and forecasts, legislative activity, budgeting and appropriation processes, and by participating in industry professional associations in order to anticipate these shifting priorities.

Results of Operations

Fiscal 2018 Highlights

Financial highlights for the fiscal year ending March 31, 2018 include the following:

- Revenues were $2,819 million.
- Net income was $208 million, including the cumulative impact of certain items of $173 million, reflecting restructuring costs of $14 million, transaction, separation and integration-related costs of $90 million and amortization of acquired intangible assets of $69 million.
- We generated $530 million of cash from operations.

Year Ended March 31, 2018

Successor (in millions)		**Fiscal Year Ended March 31, 2018**	**Percentage of Revenues**
Revenues	$	2,819	100 %
Costs of services		2,155	76 %
Selling, general and administrative		182	6 %
Depreciation and amortization		167	6 %
Restructuring costs		14	— %
Separation costs		90	3 %
Interest expense		12	— %
Total costs and expenses		2,620	93 %
Income before taxes		199	7 %
Income tax benefit		(9)	— %
Net income	$	208	7 %

Revenues

Our total revenues for the year ended March 31, 2018 were $2,819 million, an increase of $87 million as compared to revenues for the year ended October 31, 2016. The results of the year were primarily impacted by an increase of $79 million in revenues from new business and $63 million associated with increases in ongoing business in addition to the exclusion of certain USPS consulting activities that were historically conducted pursuant to contracts with USPS's former parent, HPE, rather than USPS or its subsidiaries. Because those contracts were not novated to USPS until after October 31, 2016, no information regarding USPS consulting activities performed pursuant to those contracts has been presented in USPS's results of operations for the year ended October 31, 2016. These increases were offset by contracts that concluded or were renewed at a lower rate in 2018 as compared to the year ended October 31, 2016 and by $133 million in revenues recognized in the year ended October 31, 2016 associated with a major contract renegotiation.

Our revenues by reportable segment as of March 31, 2018 were as follows:

Successor (in millions)		**Year Ended March 31, 2018**	**Percentage of Revenues**
Defense and Intelligence	$	1,416	50%
Civilian and Health Care		1,403	50%
Total revenues	$	2,819	

Our defense and intelligence revenues for the year ended March 31, 2018 were $1,416 million, or 50% of our total revenues for the period, and represented an increase of $263 million as compared to revenues for the year ended October 31, 2016. The increase was primarily due to an increase in revenues from new business and increases in ongoing business, in addition to the exclusion of certain USPS consulting activities in the prior period, as mentioned above.

Our civilian and health care revenues for the year ended March 31, 2018 were $1,403 million, or 50% of our total revenues for the period, and represented a decrease of $176 million as compared to revenues for the year ended October 31, 2016. The decrease was primarily due to contracts that concluded or were renewed at a lower rate in 2018 as compared to the year ended October 31, 2016, and revenues recognized in the year ended October 31, 2016 associated with a major contract renegotiation.

Costs of services

Costs of services for the year ended March 31, 2018 were $2,155 million, an increase of $69 million as compared to cost of services for the year ended October 31, 2016. The increase is due to increases in new and ongoing business in addition to the exclusion of certain USPS consulting activities that were historically conducted pursuant to contracts with USPS's former parent, HPE, rather than USPS or its subsidiaries. Because those contracts were not novated to USPS until after October 31, 2016, no information regarding USPS consulting activities performed pursuant to those contracts has been presented in USPS's results of operations for the year ended October 31, 2016. These increases were offset by USPS's implementation of certain strategic measures to improve efficiencies across multiple clients and programs and the 2016 major contract renegotiation.

Selling, general and administrative

Selling, general and administrative expenses for the year ended March 31, 2018 was $182 million, a decrease of $25 million as compared to the year ended October 31, 2016. The decrease was largely driven by efficiencies gained as a result of USPS's implementation of certain strategic measures to improve efficiencies in an effort to reduce expenses.

Depreciation and amortization

Depreciation and amortization for the year ended March 31, 2018 was $167 million and represented 6% of revenues, a decrease, on a percentage of revenue basis, from the year ended October 31, 2016, which was largely driven by reductions in property and equipment balances in the period associated with acquisition accounting.

Separation costs

Separation costs for the year ended March 31, 2018 were $90 million and represented 3% of revenues. Separation costs of $42 million and $48 million were associated with expenses incurred in connection with the HPES Merger and the Spin-Off and Mergers, respectively.

Interest expense

Interest expense for the year ended March 31, 2018 was $12 million and relates to interest associated with capital lease obligations. Interest expense for the year decreased $24 million as compared to the year ended October 31, 2016, primarily due to reductions in capital lease balances in the period.

Income tax benefit

Our effective tax rate ("ETR") on income for the year ended March 31, 2018 was (5)%. In fiscal 2018, the ETR was primarily impacted by the U.S. tax reform. A reconciliation of the differences between the U.S. federal statutory rate and the ETR, as well as other information about our income tax provision, is provided in Note 7 - "Income Taxes" to the Combined Financial Statements.

Five Months Ended March 31, 2017

Predecessor (in millions)		**Five Months Ended March 31, 2017**	**Percentage of Revenues**
Revenues	$	1,073	100%
Costs of services		820	76%
Selling, general and administrative		77	7%
Depreciation and amortization		73	7%
Separation costs		34	3%
Interest expense		10	1%
Total costs and expenses		1,014	95%
Income before taxes		59	5%
Income tax expense		23	2%
Net income	$	36	3%

Revenues

Revenues for the five-month period ended March 31, 2017 were $1,073 million.

Our revenues by reportable segment for the five-month period ended March 31, 2017 were as follows:

Predecessor (in millions)		**Five Months Ended March 31, 2017**	**Percentage of Revenues**
Defense and Intelligence	$	488	45%
Civilian and Health Care		585	55%
Total revenues	$	1,073	

Our defense and intelligence revenues for the five month period ended March 31, 2017 comprised 45% of total revenue, up from 42% for the year ended October 31, 2016, due to increases in revenues from new business and increases in ongoing business. Our civilian and health care revenues for the five month period ended March 31, 2017 comprised 55% of our total revenues, down from 58% for the year ended October 31, 2016. The year ended October 31, 2016 revenues included a major contract negotiation that resulted in the recognition of $133 million of revenues that had been previously deferred, offset by contracts that concluded or were renewed at a lower rate.

Costs of services

Costs of services for the five-month period ended March 31, 2017 was $820 million and represented 76% of revenues, which was the same, on a percentage of revenue basis, as the year ended October 31, 2016.

Selling, general and administrative

Selling, general and administrative expenses for the five-month period ended March 31, 2017 were $77 million and represented 7% of revenues, a 1% decrease, on a percentage of revenue basis, from the year ended October 31, 2016.

Depreciation and amortization

Depreciation and amortization for the five-month period ended March 31, 2017 was $73 million and represented 7% of revenues, a 1% decrease, on a percentage of revenue basis, from the year ended October 31, 2016, which was largely driven by reductions in property and equipment balances in the period.

Separation costs

Separation costs for the five-month period ended March 31, 2017 were $34 million and represented 3% of revenues. Separation costs were associated with expenses incurred in connection with the HPES Merger. Separation costs for the year ended October 31, 2016 were $34 million and mainly related to the separation of HPE from HPI in early 2016.

Interest expense

Interest expense for the five-months ended March 31, 2017 was $10 million or 1% of revenues, which was the same, on a percentage of revenue basis, as the year ended October 31, 2016. Interest expense relates to interest associated with capital lease obligations.

Interest income

No interest income was earned in the five-months ended March 31, 2017. Interest income for the fiscal year ended October 31, 2016 was $5 million and related to lease rental income.

Years Ended October 31, 2016 and 2015

Predecessor (in millions)	Year Ended October 31, 2016	Percentage of Revenues	Year Ended October 31, 2015	Percentage of Revenues	Change $	Change %
Revenues	$ 2,732	100 %	$ 2,585	100 %	$ 147	6 %
Costs of services	2,086	76 %	2,101	81 %	(15)	(1)%
Selling, general and administrative	207	8 %	242	9 %	(35)	(14)%
Depreciation and amortization	225	8 %	214	8 %	11	5 %
Restructuring costs	20	1 %	22	1 %	(2)	(9)%
Separation costs	34	1 %	28	1 %	6	21 %
Interest expense	36	1 %	33	1 %	3	9 %
Interest income	(5)	— %	(4)	— %	(1)	25 %
Total costs and expenses	2,603	95 %	2,636	102 %	(33)	(1)%
Income before taxes	129	5 %	(51)	(2)%	180	NM
Income tax expense	49	2 %	(22)	(1)%	71	NM
Net income	$ 80	3 %	$ (29)	(1)%	$ 109	NM

Revenues

Our revenues for the year ended October 31, 2016 increased $147 million, or 6%, as compared to the prior fiscal year. The $147 million increase in revenues for the year ended October 31, 2016 was primarily due to an increase of $41 million in revenues from new business and $133 million associated with a major contract renegotiation that resulted in the recognition of revenues that had been previously deferred. These increases were partially offset by contracts that concluded or were renewed at a lower rate.

Our revenues by reportable segment were as follows:

Predecessor (in millions):	Year Ended October 31, 2016	Percentage of Revenues	Year Ended October 31, 2015	Percentage of Revenues	Change $	Change %
Defense and Intelligence	$ 1,153	42%	$ 1,167	45%	$ (14)	(1)%
Civilian and Heath Care	1,579	58%	1,418	55%	161	11 %
Total revenues	$ 2,732		$ 2,585		$ 147	6 %

Our defense and intelligence revenues for the year ended October 31, 2016 were $1,153 million or 42% of our total revenues for the period and represented a decrease of $14 million as compared to revenues for the year ended October 31, 2016. These revenues were primarily impacted by a large contract transition that completed in fiscal year 2015 and contracts that were renewed at a lower rate.

Our civilian and health care revenues for the year ended October 31, 2016 were $1,579 million or 58% of our total revenues for the period and represented an increase of $161 million as compared to revenues for the year ended October 31, 2015. The increase in our civilian and health care segment was primarily due to $133 million in revenues recognized in the year ended October 31, 2016 associated with a major contract renegotiation that had been previously deferred. These increases were partially offset by contracts that concluded or were renewed at a lower rate.

Costs of services

Costs of services for the year ended October 31, 2016 decreased $15 million, or 1%, as compared to the prior fiscal year. The decrease was mainly driven by labor and non-labor efficiency actions taken across multiple clients and programs associated with the Company's restructuring programs (see Note 2 - "Acquisition" to the Combined Financial Statements).

Selling, general and administrative

Selling, general and administrative expenses for the year ended October 31, 2016 decreased $35 million, or 14%, as compared to the prior fiscal year. The decrease was mainly driven by the implementation during the year of certain strategic measures to improve efficiencies in an effort to reduce expenses.

Depreciation and amortization

Depreciation and amortization expenses for the year ended October 31, 2016 increased $11 million, or 5%, as compared to the prior fiscal year. The increase was mainly driven by acquisitions of property and equipment through capital leases during the year.

Restructuring costs

Restructuring costs for the year ended October 31, 2016 remained consistent with the prior year, with a decrease of $2 million, or 9%, as compared to the prior fiscal year. Restructuring costs incurred in fiscal year 2016 are associated with employee severance and infrastructure charges recognized with the restructuring plan in fiscal year 2015 (see Note 4 - "Restructuring" to the Combined Financial Statements).

Separation Costs

Separation costs for the year ended October 31, 2016 increased $6 million, or 21%, as compared to the prior fiscal year. Separation costs incurred in the fiscal years ended October 31, 2016 and 2015 were mainly associated with the separation of HPE from HPI in early 2016.

Interest expense

Interest expense for the year ended October 31, 2016 increased $3 million, or 9%, as compared to the prior fiscal year. Our interest expense results from capital lease obligations, which remained at similar levels year over year.

Interest income

Interest income for the year ended October 31, 2016 increased $1 million as compared to the prior fiscal year. Interest income recognized during the year is related to lease rental income earned during the year.

Income (loss) before taxes

Income before taxes for the year ended October 31, 2016 increased $180 million to $129 million in fiscal year 2016 as compared to the prior fiscal year. The increase was mainly driven by the increase in revenues of $147 million and the decrease in costs and expenses of $33 million, which was largely due to the successful implementation by USPS of certain strategic initiatives during the year, which increased efficiencies.

Income taxes

Income taxes for the year ended October 31, 2016 increased $71 million to a $49 million tax provision in fiscal year 2016 as compared to a $22 million tax benefit in the same period in the prior year. The increase was driven by the increase in revenues and decrease in costs that resulted in higher income before taxes in 2016 as compared to 2015.

Non-GAAP Financial Measures

We present non-GAAP financial measures of performance that are derived from the combined statements of operations for the twelve-month period ended March 31, 2018, the combined statements of operations for the five-month period ended March 31, 2017 and the combined statements of operations for the twelve-month periods ended October 31, 2016 and 2015. These non-GAAP financial measures include earnings before interest, taxes and depreciation and amortization ("EBITDA") and Adjusted EBITDA.

We present these non-GAAP financial measures to provide investors with meaningful supplemental financial information, in addition to the financial information presented on a GAAP basis. These non-GAAP financial measures exclude certain items from GAAP results, which our management believes are not indicative of core operating performance. Our management believes these non-GAAP measures provide investors supplemental information about our financial performance exclusive of the impacts of corporate wide strategic decisions.

We believe that adjusting for these items provides investors with additional measures to evaluate the financial performance of our core business operations on a comparable basis from period to period. We believe the non-GAAP measures provided are also considered important measures by financial analysts.

There are limitations to the use of the non-GAAP financial measures we present. One of the limitations is that they do not reflect complete financial results. We compensate for this limitation by providing a reconciliation between our non-GAAP financial measures and the respective most directly comparable financial measure calculated and presented in accordance with GAAP. Other companies, including companies in our industry, may calculate non-GAAP financial measures differently than we do, limiting the usefulness of those measures for comparative purposes between us and other companies.

Reconciliation of Non-GAAP Financial Measures

Our adjustments to our non-GAAP performance measures include:

- Restructuring costs-reflects restructuring costs, net of reversals, related to workforce optimization and infrastructure charges.
- Transaction, separation and integration-related costs-reflects costs related to integration planning, financing, and advisory fees associated with the separation of HPI into two separate companies in 2015 and the HPES Merger, forming DXC.
- Share-based compensation-represents the share-based compensation attributable to USPS based on the awards and terms previously granted under the incentive compensation plan to USPS's employees and an allocation of Parent's corporate and shared functional employee expenses.

A reconciliation of net income (loss) to EBITDA and Adjusted EBITDA is as follows:

	Successor	Predecessor		
	Year Ended	Five Months Ended	Years Ended	
(in millions)	March 31, 2018	March 31, 2017	October 31, 2016	October 31, 2015
Net income (loss)	$ 208	$ 36	$ 80	$ (29)
Income tax expense (benefit)	(9)	23	49	(22)
Interest expense, net	12	10	31	29
Depreciation and Amortization	167	73	225	214
EBITDA	378	142	385	192
Restructuring	14	—	20	22
Transaction, Separation and integration-related costs	90	34	34	28
Stock-based compensation	6	7	20	23
Adjusted EBITDA [(1)]	**$ 488**	**$ 183**	**$ 459**	**$ 265**

[(1)] Includes corporate allocations as set forth below:

	Successor	Predecessor		
	Year Ended	Five Months Ended	Years Ended	
(in millions)	March 31, 2018	March 31, 2017	October 31, 2016	October 31, 2015
Corporate dedicated and corporate shared expenses (excluding share-based compensation)	$ 120	$ 48	$ 120	$ 134
Global support functions	$ 22	$ 3	$ 12	$ 12

Liquidity and Capital Resources

Liquidity Prior to the Spin-Off and the Mergers

Our total liquidity is comprised of operating cash and cash equivalents. We have generated and expect to continue to generate positive operating cash flow to fund our requirements for working capital, capital expenditures and other discretionary investments. Our exposure to operational liquidity risk is primarily from long-term contracts, which require significant investment of cash flows from operating activities during the initial phases of the contracts. The recovery of these investments is over the life of the contract and is dependent upon our performance as well as customer acceptance.

Liquidity Following the Spin-Off and the Mergers

Following the Spin-Off and Mergers, existing cash and cash equivalents and cash generated by operations will continue to be our primary sources of liquidity, as well as available borrowings under our Revolving Credit Facility and sales of receivables under our MARPA Facility (defined under "Accounts Receivable Facility" below). See “Description of Material Indebtedness” and “Accounts Receivable Facility” for more information. Our primary cash needs will continue to be for working capital, capital expenditures and other discretionary investments, as well as to service our outstanding indebtedness, including borrowings under our Credit Facilities (defined under "Description of Material Indebtedness" below); however, our capital structure and liquidity profile have changed because we are no longer a part of DXC. Our ability to fund our future operating needs depends, in part, on our ability to continue to generate positive cash flows from operations and, if necessary, raise cash in the capital markets. Following the Spin-Off and the Mergers, it is our belief, based upon our history of generating strong cash flows, that we will be able to meet our short-term liquidity and cash needs, including debt servicing, through the combination of cash flows from operating activities, available cash balances, available borrowings under our Revolving Credit Facility (defined under "Description of Material Indebtedness" below) and sales of receivables under our MARPA Facility. If these sources of liquidity need to be augmented, additional cash requirements would likely be financed through the issuance of debt or equity securities, although there can be no assurance that we will able to obtain such financing on acceptable terms (or at all) in the future.

Upon completion of the Spin-Off on May 31, 2018, we closed on financing of approximately $2.5 billion under our Term Loan A Facilities and Term Loan B Facility, and drew $50 million in borrowings under our new $600 million Revolving Credit Facility, net of $42 million of issuance costs for all Credit Facilities in the aggregate. Proceeds in the aggregate amount of $1.1 billion were used by Perspecta to pay a distribution of approximately $984 million in cash to DXC and to pay transaction costs. Proceeds in the aggregate amount of $1.5 billion were used to fund the cash portion of the merger consideration to stockholders of Vencore HC, to repay, refinance and/or redeem substantially all of Vencore HC's and KGS HC's existing indebtedness, to pay for additional transaction costs, and for general corporate purposes.

Description of Material Indebtedness

Term Loan Facilities and Revolving Credit Facility

On May 31, 2018, Perspecta, as borrower, entered into a credit agreement ("Credit Agreement") with MUFG Bank, Ltd., a member of MUFG, a global financial group ("MUFG"), as administrative agent, MUFG Union Bank, N.A., as collateral agent, the guarantors party thereto, and a syndicate of banks arranged by MUFG, Merrill Lynch, Pierce, Fenner & Smith Incorporated, JPMorgan Chase Bank, N.A., Mizuho Bank, Ltd. and RBC Capital Markets. The credit facilities under the Credit Agreement include (i) a five-year senior secured revolving credit facility (the "Revolving Credit Facility") with initial borrowing capacity of $600 million, of which $550 million is available and undrawn after giving effect to the Spin-Off and the Merger to provide support for Perspecta's business, including ongoing liquidity, (ii) a three-year senior secured tranche A1 term loan facility in an aggregate principal amount of $350 million (the "Tranche A1 Facility"), (iii) a five-year senior secured tranche A2 term loan facility in an aggregate principal amount of $1.65 billion (the "Tranche A2 Facility" and, together with the Tranche A1 Facility, the "Term Loan A Facilities"; the Term Loan A Facilities together with the Revolving Credit Facility, the "Pro Rata Facilities") and (iv) a seven-year senior secured term loan B facility in an aggregate principal amount of $500 million (the "Term Loan B Facility"; and, together with the Pro Rata Facilities, the "Credit Facilities").

On May 31, 2018, all of the Tranche A1 Facility and a portion of the Tranche A2 Facility were funded in an aggregate amount of $1.1 billion, the proceeds of which were used by Perspecta to pay the Perspecta Payment (defined below) to DXC and to pay transaction costs. Additionally, $50 million of the Revolving Credit Facility, the remainder of the Tranche A2 Facility and all of the Term Loan B Facility were funded in an additional aggregate amount of $1.45 billion, the proceeds of which were used to fund the cash portion of the merger consideration to stockholders of Vencore HC, to repay, refinance and/or redeem substantially all of Vencore HC's and KGS HC's existing indebtedness, to pay for additional transaction costs, and for general corporate purposes. The Pro Rata Facilities and the Term Loan B Facility have the following material terms:

Interest. Borrowings under (1) the Revolving Credit Facility and the Tranche A2 Facility bear interest at an interest rate per annum equal to, at Perspecta's option, (A) LIBOR plus the applicable margin of 1.250%-2.250% or (B) the base rate plus the applicable margin of 0.250%-1.250%, (2) the Tranche A1 Facility bears interest at an interest rate per annum equal to, at Perspecta's option, (A) LIBOR plus the applicable margin of 1.125%-2.125% or (B) the base rate plus the applicable margin of 0.125%-1.125% and (3) the Term Loan B Facility bears interest at an interest rate per annum equal to, at Perspecta's option, (A) LIBOR plus the applicable margin of 2.25% or (B) the base rate plus the applicable margin of 1.25%. In each of the foregoing cases, LIBOR shall at no time be deemed to be less than 0.00%. The applicable margins for borrowings under the Pro Rata Facilities will vary and will be determined based on Perspecta's consolidated total net leverage ratio. Perspecta will also owe unused facility fees on the Revolving Credit Facility and paid upfront fees under the Pro Rata Facilities and (in the form of original issue discount) under the Term Loan B Facility on May 31, 2018.

Amortization and Prepayment. Borrowings under the Revolving Credit Facility can be prepaid at any time and can be repeatedly redrawn until its maturity. The Tranche A1 Facility has no scheduled amortization prior to maturity. The Tranche A2 Facility requires quarterly scheduled amortization at a rate equivalent to 5% of the original principal amount per annum until the remaining balance is due at maturity. The Term Loan B Facility requires quarterly scheduled amortization at a rate equivalent to 1% of the original principal amount per annum until the remaining balance is due at maturity. The Company can prepay the Tranche A1 Facility, the Tranche A2 Facility or the Term Loan B Facility, in whole or in part, at any time at its election at 100% of par without premium; provided that if Perspecta prepays the Term Loan B Facility in connection with a repricing event within six months following the initial funding, the prepayment must be made at 101% of par.

Security and Guarantees. The Pro Rata Facilities and the Term Loan B Facility are guaranteed by each of Perspecta's direct and indirect, existing and future, material domestic subsidiaries (excluding certain entities, including special purpose subsidiaries) (such subsidiaries, together with Perspecta, the "Grantors"), and are secured by a perfected first priority security interest in substantially all of Perspecta's assets and the assets of those guarantors, subject to certain customary exceptions.

Covenants. The Pro Rata Facilities and the Term Loan B Facility contain negative covenants customary for financings of this type, including covenants that place limitations on the incurrence of additional indebtedness; the creation of liens; the payment of dividends; sales of assets; fundamental changes, including mergers and acquisitions; loans and investments; negative pledges; transactions with affiliates; restrictions affecting subsidiaries; modification to charter documents in a manner materially adverse to the lenders; changes in fiscal year and limitations on conduct of business. The Pro Rata Facilities and the Term Loan B Facility also contain affirmative covenants and representations and warranties customary for financings of this type.

In addition, the Pro Rata Facilities contain financial maintenance covenants requiring, as at the end of any fiscal quarter of Perspecta ending on or after September 30, 2018, (a) a ratio of consolidated total net debt to consolidated EBITDA not in excess of 4:50:1:00, stepping down to 3.75: 1.00 no later than fiscal quarter ending December 31, 2019 and thereafter stepping up to 4.00:1.00 during the twelve-month period following the consummation of a permitted acquisition that involves consideration with a fair market value in excess of $100 million; and (b) a ratio of consolidated EBITDA to interest expense of not less than 3.00:1.00.

Events of Default. The lenders under the Pro Rata Facilities and the Term Loan B Facility may declare any indebtedness outstanding thereunder due and payable, and cancel any remaining commitments under the Revolving Credit Facility, if an event of default occurs and is continuing, including a failure to pay principal when due or interest or commitment fees within five days of the date when due; a material inaccuracy of a representation or warranty at the time made; a bankruptcy event; a failure to comply with the covenants (other than the financial covenants), subject to a customary grace period; cross-events of default to material indebtedness; certain material ERISA events; material judgments; actual or asserted invalidity of any guarantee or non-perfection of any material portion of the collateral under the security documents; a change in control; and, solely as to the lenders under the Pro Rata Facilities, a breach of the financial covenants.

In addition, on May 31, 2018, Perspecta and each of the other Grantors entered into a Collateral Agreement (the "Collateral Agreement") with MUFG, in its capacity as administrative agent, and MUFG Union Bank, N.A., in its capacity as Collateral Agent. Pursuant to the terms of the Collateral Agreement, each of the Grantors granted a perfected first priority security interest in substantially all of its assets to secure its obligations under the Credit Agreement and related documents to which it is a party, subject to certain customary exceptions.

Accounts Receivable Facility

On May 31, 2018, Perspecta entered into a Guaranty (the "Guaranty") made in favor of MUFG Bank, Ltd. (f/k/a The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch), as administrative agent (the "Agent"), that guarantees the obligations of Perspecta Enterprise Solutions LLC ("PES LLC", then named Enterprise Services LLC), a Delaware limited liability company (the "Seller") and wholly-owned subsidiary of Perspecta, under a Master Accounts Receivable Purchase Agreement, dated as of July 14, 2017 (as amended by that certain First Amendment to Master Accounts Receivable Purchase Agreement, dated as of January 23, 2018, and that certain Second Amendment to Master Accounts Receivable Purchase Agreement (the "Second Amendment"), dated as of May 31, 2018, the "Purchase Agreement"), among the Seller, the Agent, and MUFG, The Bank of Nova Scotia and Mizuho Bank, Ltd., as purchasers (collectively, the "Purchasers"). The Guaranty does not cover any credit losses with respect to the receivables sold under the Purchase Agreement.

The Purchase Agreement establishes a federal government obligor receivables purchase facility (the "MARPA Facility") that provides for up to $450 million in funding based on the availability of eligible receivables and the satisfaction of certain conditions. The MARPA Facility is a committed facility that has a current term of one (1) year from the effective date of the Second Amendment, unless terminated earlier by the Seller, the Agent or the Purchasers. The Purchase Agreement also provides for optional extensions of the MARPA Facility's term, if agreed to by the Purchasers, in each case for an additional six month duration. Each such extension may be requested as early as two hundred ten (210) days prior to, and not less than sixty (60) days prior to, the then scheduled termination date.

Under the MARPA Facility, the Seller will sell eligible federal government obligor receivables, including both receivables that have already been billed under an invoice and also certain unbilled receivables arising from contracts where the Seller has performed work and revenue has been recognized in accordance with generally accepted accounting principles, subject to satisfaction of other required conditions. The MARPA Facility results in the continuous non-recourse true sale of eligible receivables by the Seller to the Purchasers. The Seller expects to use the proceeds from receivables sales under the MARPA Facility for general corporate purposes.

EDS Notes

On October 12, 1999, PES LLC (then known as Electronic Data Systems Corporation) issued, in a registered offering, $300 million aggregate principal amount of notes (the "EDS Notes") pursuant to that certain first supplemental indenture, dated as of October 12, 1999 (the “First Supplemental Indenture”), between PES LLC (then known as Electronic Data Systems Corporation) and The Bank of New York Mellon Trust Company N.A. (successor to Chase Bank of Texas, National Association (f/k/a Texas Commerce Bank National Association), as trustee (the “Trustee”), supplementing that certain indenture, dated as of August 12, 1996 (the “Base Indenture” and, as amended, modified or otherwise supplemented from time to time, the “EDS Indenture”), between PES LLC (then known as Electronic Data Systems Corporation) and the Trustee. The EDS Notes were deregistered on September 9, 2008.

On January 8, 2018, DXC commenced (i) an exchange offer to exchange all validly tendered and accepted EDS Notes for new notes issued by DXC (the “Exchange Offer”); and (ii) a consent solicitation to certain Amendments (as defined below) to the EDS Indenture (the “Consent Solicitation”). On January 22, 2018, DXC, PES LLC, and the Trustee entered into that certain ninth supplemental indenture to the EDS Indenture, dated as of January 22, 2018 (the “Ninth Supplemental Indenture”), which among other things, eliminates substantially all of the restrictive covenants in the EDS Indenture, eliminates certain events of default, amends the EDS Indenture to provide for the termination and replacement of guarantees and makes certain conforming changes to the EDS Indenture to reflect the foregoing changes (the “Amendments”). The Amendments became operative on February 7, 2018, the settlement date of the Exchange Offer and Consent Solicitation (the “Settlement Date”).

On the Settlement Date, the holders of approximately $234 million aggregate principal amount of EDS Notes exchanged their EDS Notes for a like amount of the DXC Notes. As a result, DXC holds $234 million aggregate principal amount of EDS notes. EDS notes in the aggregate principal amount of $66 million held by public noteholders remain outstanding following the Distribution.

Interest on the EDS Notes, which accrues at the annual rate of 7.45%, is payable on April 15 and October 15 of each year, and the EDS Notes mature on October 15, 2029.

PES LLC may redeem the EDS Notes, in whole or in part, at any time or from time to time, in each case, at its option, at a redemption price equal to (1) the greater of 100% of the principal amount of the EDS Notes and (2) as determined by the Quotation Agent (as defined in the EDS Indenture), the sum of the present values of the principal amount of the notes to be redeemed and the remaining scheduled payments of principal and interest thereon, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined in the First Supplemental Indenture) plus 20 basis points, plus, in either of (1) or (2) above, accrued and unpaid interest to the date of redemption.

The EDS Indenture contains customary events of default, including (1) failure to pay interest with respect to the EDS Notes; (2) failure to pay the principal (or premium, if any) when due with respect to the EDS Notes; (3) failure to pay any sinking fund payment with respect to the EDS Notes (4) failure to observe or perform any other covenant contained in the EDS Notes or the EDS Indenture; and (5) specified events involving bankruptcy, insolvency or reorganization.

Cash and Cash Equivalents and Cash Flows

We reflect transfers of cash to and from Parent’s cash management system as a component of Parent company investment on the Combined Balance Sheets. The following table summarizes our cash flow activity:

	Successor	Predecessor	
	Fiscal Year Ended	Fiscal Years Ended	
(in millions)	March 31, 2018	October 31, 2016	October 31, 2015
Net cash provided by operating activities	$ 530	$ 495	$ 100
Net cash used in investing activities	(34)	(21)	(18)
Net cash provided by (used in) financing activities	(496)	(474)	(82)
Net increase (decrease) in cash and cash equivalents	—	—	—
Cash and cash equivalents at beginning of year	—	—	—
Cash and cash equivalents at the end of period	$ —	$ —	$ —

Operating Cash Flow

Net cash provided by operating activities for the year ended March 31, 2018 was $530 million as compared to $495 million for the year ended October 31, 2016. The increase of $35 million was driven by an increase in net income of $128 million, partially offset by decreases in adjustments to net income of $89 million and decreases in net cash from movements in working capital of $4 million.

Net cash provided by operating activities for the year ended October 31, 2016 was $495 million as compared to $100 million for the year ended October 31, 2015. The increase of $395 million was driven by an increase in net income of $109 million and adjustments to net income of $19 million, as well as net cash increases from movements in working capital of $267 million.

Investing Cash Flow

Net cash used in investing activities for the year ended March 31, 2018 was $34 million as compared to $21 million during the year ended October 31, 2016. This increase of $13 million in cash used in investing activities was driven by higher purchases of property and equipment and higher payments for outsourcing contract costs.

Net cash used in investing activities for the year ended October 31, 2016 was $21 million as compared to $18 million during the year ended October 31, 2015. This increase of $3 million in cash used in investing activities was primarily driven by higher purchases of property and equipment.

Financing Cash Flow

Net cash used in financing activities for the year ended March 31, 2018 was $496 million as compared to $474 million during the year ended October 31, 2016. The increase was due to higher cash transfers to Parent, which are mainly associated with higher cash provided by operating activities.

Net cash used in financing activities for the year ended October 31, 2016 was $474 million as compared to $82 million during the year ended October 31, 2015. The increase was primarily due to higher cash transfers to Parent, which are mainly associated with higher cash provided by operating activities.

Off-Balance Sheet Arrangements

We are party to a receivables sales arrangement with off-balance sheet risk. See Note 3 - "Sales of Receivables" to the Combined Financial Statements for information about our receivables sales arrangement.

Contractual Obligations

Our contractual obligations as of March 31, 2018 were as follows:

(in millions)	Less than 1 year	2-3 years	4-5 years	More than 5 years	Total
Capitalized lease liabilities	$ 160	$ 120	$ 24	$ —	$ 304
Operating leases	38	41	10	12	101
Total	$ 198	$ 161	$ 34	$ 12	$ 405

The amounts reported above do not reflect the obligations of Perspecta following the completion of the Spin-Off and Mergers on May 31, 2018, including the Credit Facilities, MARPA Facility or EDS Notes. See "Liquidity and Capital Resources - Liquidity Following the Spin-Off and the Mergers," "Description of Material Indebtedness" and "Risk Factors - Risks Relating to Our Business - We have substantial indebtedness following the Spin-Off and Mergers, and have the ability to incur significant additional indebtedness, which could adversely affect our business, financial condition and results of operations." above for more information.

Critical Accounting Policies and Estimates

The preparation of combined financial statements in accordance with GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ materially from our estimates under different assumptions, judgments or conditions. We consider the following policies to be critical because of their complexity and the high degree of judgment involved in implementing them: revenue recognition, acquisition accounting and income taxes.

Revenue Recognition

General

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services are rendered, the sales price or fee is fixed or determinable, and collectability is reasonably assured. We limit the amount of revenue recognized for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified refund or return rights.

In instances when revenue is derived from sales of third-party vendor products or services, we record revenue on a gross basis when we are a principal to the transaction and on a net basis when we are acting as an agent between the customer and the vendor. We consider several factors to determine whether we are acting as a principal or an agent, most notably whether we are the primary obligor to the customer, have established our own pricing and have inventory and credit risks.

Multiple Element Arrangements

When a sales arrangement contains multiple elements or deliverables, such as hardware and software products, and/or services, we allocate revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE") of selling price, if available, third-party evidence ("TPE") if VSOE of selling price is not available, or estimated selling price ("ESP") if neither VSOE of selling price nor TPE is available. We establish VSOE of selling price using the price charged for a deliverable when sold separately and, in rare instances, using the price established by management having the relevant authority. We establish TPE of selling price by evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. We establish ESP based on management judgment considering internal factors such as margin objectives, pricing practices and controls, customer segment pricing strategies and the product life-cycle. Consideration is also given to market conditions such as competitor pricing strategies and technology industry life cycles. In most arrangements with multiple elements, we allocate the transaction price to the individual units of accounting at inception of the arrangement based on their relative selling price. We evaluate each deliverable in an arrangement to determine whether it represents a separate unit of accounting.

A deliverable constitutes a separate unit of accounting when it has standalone value to the customer. For elements with no standalone value, we recognize revenue consistent with the pattern of the undelivered elements. If the arrangement includes a customer-negotiated refund or return right or other contingency relative to the delivered items, and the delivery and performance of the undelivered items is considered probable and substantially within our control, the delivered element constitutes a separate unit of accounting. In arrangements with combined units of accounting, changes in the allocation of the transaction price among elements may impact the timing of revenue recognition for the contract but will not change the total revenue recognized for the contract.

Services Revenue

We recognize revenue from certain fixed-price contracts, such as consulting arrangements, as work progresses over the contract period on a proportional performance basis, as determined by the percentage of labor costs incurred to date compared to the total estimated labor costs of a contract. We recognize revenue on fixed-price contracts for design and build projects (to design, develop and construct software infrastructure and systems) using the percentage-of-completion method. We use the cost-to-cost method to measure progress toward completion as determined by the percentage of cost incurred to date compared to the total estimated costs of the project. Estimates of total project costs for fixed-price contracts are regularly revised during the life of a contract. Provisions for estimated losses on fixed-priced contracts are recognized in the period when such losses become known. If reasonable and reliable cost estimates for a project cannot be made, we use the completed contract method and recognize revenue and costs upon service completion. For time and material contracts, we recognize revenue as services are rendered and recognize costs as they are incurred.

We generally recognize outsourcing services revenue in the period when the service is provided and the amount earned is not contingent on the occurrence of any future event. We recognize revenue using an objective measure of output for unit-priced contracts. Revenue for fixed-price outsourcing contracts with periodic billings is recognized on a straight-line basis if the service is provided evenly during the contract term. Provisions for estimated losses on outsourcing arrangements are recognized in the period when such losses become probable and estimable.

Product Revenue

For hardware and software products, we recognize revenue generated from direct sales to end customers when the relevant revenue recognition criteria are satisfied. Product revenue was not material in any of the periods presented, except for fiscal 2016 when product revenue was approximately 13% of revenue, with a related margin of approximately 16%, primarily as a result of a large product sale on a contract that did not occur in any other period.

Acquisition Accounting

When we acquire a controlling financial interest through a business combination, we use the acquisition method of accounting to allocate the purchase consideration to the assets acquired and liabilities assumed, which are recorded at fair value. Any excess of purchase consideration over the fair value of the assets acquired and liabilities assumed is recognized as goodwill.

Acquisition-related costs are recognized separately from the business combination and are expensed as incurred. The results of operations of acquired businesses are included in the combined financial statements from the acquisition date.

The goodwill impairment test initially involves the assessment of qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. We test goodwill for impairment on an annual basis, as of the first day of the second fiscal quarter, and between annual tests if circumstances change, or if an event occurs, that would more likely than not reduce the fair value of a reporting unit below its carrying amount. A significant amount of judgment is involved in determining whether an event indicating impairment has occurred between annual testing dates. Such indicators include the loss of significant business, significant reductions in U.S. government appropriations or other significant adverse changes in industry or market conditions.

Income Taxes

On December 22, 2017, the President of the United States signed into law comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes significant changes to the Internal Revenue Code of 1986 with varying effective dates. The Tax Act reduces the maximum corporate income tax rate to 21% effective as of January 1, 2018, broadens the tax base, creates a new limitation on the deductibility of interest expense, limits the deductibility of certain executive compensation, and allows for immediate capital expensing of certain qualified property.
As a fiscal year taxpayer, the Company will not be subject to many of the tax law provisions until fiscal year 2019; however, GAAP principles require companies to revalue their deferred tax assets and liabilities with resulting tax effects accounted for in the reporting period of enactment including retroactive effects. Section 15 of the Code stipulates that USPS’s fiscal year ending March 31, 2018, will have an estimated blended corporate U.S. federal income tax rate of 31.5%, which is based on the applicable tax rates before and after the effective date of the Tax Act and the number of days in the Company’s federal tax year ending on October 31, 2017.

Also, the SEC staff issued Staff Accounting Bulletin 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under Accounting Standards Codification 740 (“ASC 740”). In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. We have quantified the impact of the Tax Act on the Combined Financial Statements.

Our operations have historically been included in the tax returns filed by the respective Parent entities of which our businesses have been a part. Income tax expense and other income tax related information contained in the Combined Financial Statements included elsewhere in this Annual Report on Form 10-K are presented on a separate return basis as if USPS filed its own tax returns. The separate return method applies the accounting guidance for income taxes to the standalone financial statements as if we were a separate taxpayer and a standalone enterprise for the periods presented. Current income tax liabilities are assumed to be settled with Parent on the last day of the reporting period and are relieved through the Parent investment account and the net transfers from Parent in the Combined Statements of Cash Flows.

We recognize deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. We record a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

We record accruals for uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more likely than not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. We make adjustments to these accruals when facts and circumstances change, such as the closing of a tax audit or the refinement of an estimate. The provision for income taxes includes the effects of adjustments for uncertain tax positions, as well as any related interest and penalties.

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Section 5: EX-99.3 (UPDATED FINANCIAL STATEMENTS)

Exhibit 99.3

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

UNITED STATES PUBLIC SECTOR BUSINESS

Index to Combined Financial Statements Page

All financial statement schedules have been omitted since they are either not required, not applicable, or the required information is shown in the financial statements or related notes.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Perspecta Inc.

Opinion on the Financial Statements

We have audited the accompanying combined balance sheets of the United States Public Sector Business (the "Company") (formerly the U.S. Public Sector Business of DXC Technology Company) as of March 31, 2018 and March 31, 2017, the related combined statements of operations, cash flows, and changes in equity for the fiscal year ended March 31, 2018, the five-month period from November 1, 2016 to March 31, 2017 and for each of the two fiscal years ended October 31, 2016 and 2015, 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 March 31, 2018 and 2017, and the results of its operations and its cash flows for the fiscal year ended March 31, 2018, five-month period from November 1, 2016 to March 31, 2017 and for each of the two fiscal years in the period ended October 31, 2016, 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 Public Company Accounting Oversight Board (United States) (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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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 included 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.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, DXC Technology Company ("DXC") acquired the Company through the merger of Computer Sciences Corporation and the Enterprise Services Business of Hewlett Packard Enterprise Company ("HPE") on April 1, 2017. These combined financial statements of the Company were derived from the consolidated and combined financial statements and accounting records of DXC for the fiscal year ended March 31, 2018 and HPE for the five-month period from November 1, 2016 to March 31, 2017 and for each of the two fiscal years ended October 31, 2016 and 2015 as if the Company were operated on a standalone basis during the periods presented. The combined statements of operations of the Company reflect allocations of general corporate expenses of DXC and HPE. These allocations may not reflect the expense the Company would have incurred as a standalone company for the periods presented.

/s/ DELOITTE & TOUCHE LLP
McLean, Virginia
June 29, 2018 (November 14, 2018 as to the change in reportable segments described in Note 1)

We have served as the Company's auditor since 2017.

UNITED STATES PUBLIC SECTOR BUSINESS
COMBINED STATEMENTS OF OPERATIONS

	Successor	Predecessor		
	Fiscal Year Ended	Five Months Ended	Fiscal Years Ended	
(in millions)	March 31, 2018	March 31, 2017	October 31, 2016	October 31, 2015
Revenues	$ 2,819	$ 1,073	$ 2,732	$ 2,585
Costs of services (excludes depreciation and amortization and restructuring costs)	2,155	820	2,086	2,101
Selling, general and administrative (excludes depreciation and amortization and restructuring costs)	182	77	207	242
Depreciation and amortization	167	73	225	214
Restructuring costs	14	—	20	22
Separation costs	90	34	34	28
Interest expense	12	10	36	33
Interest income	—	—	(5)	(4)
Total costs and expenses	2,620	1,014	2,603	2,636
Income (loss) before taxes	199	59	129	(51)
Income tax (benefit) expense	(9)	23	49	(22)
Net income (loss)	$ 208	$ 36	$ 80	$ (29)

The accompanying notes are an integral part of these combined financial statements.

UNITED STATES PUBLIC SECTOR BUSINESS
COMBINED BALANCE SHEETS

(in millions)	Successor As of March 31, 2018	Predecessor As of March 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ —	$ —
Receivables, net of allowance for doubtful accounts of $0 and $0	354	391
Prepaid expenses	74	98
Deferred contract costs	21	22
Total current assets	449	511
Intangible assets, net of accumulated amortization of $98 and $60	897	27
Goodwill	2,022	—
Deferred income taxes, net	—	40
Property and equipment, net of accumulated depreciation of $66 and $373	290	469
Other assets	21	26
Total assets	$ 3,679	$ 1,073
LIABILITIES and EQUITY		
Current liabilities:		
Current capital lease liability	$ 160	$ 139
Accounts payable	195	107
Accrued payroll and related costs	17	12
Accrued expenses and other current liabilities	180	132
Deferred revenue and advance contract payments	53	76
Total current liabilities	605	466
Non-current capital lease liability	144	155
Non-current deferred revenue	7	22
Non-current deferred tax liabilities	176	—
Other long-term liabilities	18	14
Total liabilities	950	657
Commitments and contingencies		
Equity:		
Parent company investment	2,729	416
Total equity	2,729	416
Total liabilities and equity	$ 3,679	$ 1,073

The accompanying notes are an integral part of these combined financial statements.

UNITED STATES PUBLIC SECTOR BUSINESS
COMBINED STATEMENTS OF CASH FLOWS

	Successor	Predecessor		
	Fiscal Year Ended	Five Months Ended	Fiscal Years Ended	
(in millions)	March 31, 2018	March 31, 2017	October 31, 2016	October 31, 2015
Cash flows from operating activities:				
Net income (loss)	$ 208	$ 36	$ 80	$ (29)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	167	73	225	214
Stock-based compensation	6	7	20	23
Restructuring charges	14	—	20	22
Deferred taxes	(28)	38	(14)	(36)
Other non-cash charges	—	(1)	(3)	6
Changes in assets and liabilities, net of effects of acquisitions and dispositions:				
Decrease (increase) in receivables	49	32	179	(57)
Decrease (increase) in prepaid expenses and other current assets	20	40	79	(86)
Increase (decrease) in accounts payable and accruals	113	(125)	—	(41)
(Decrease) increase in deferred revenue and advanced contract payments	(11)	(43)	(70)	108
Decrease in accrued restructuring	(8)	(5)	(21)	(24)
Net cash provided by operating activities	530	52	495	100
Cash flows from investing activities:				
Purchases of property, equipment and software	(18)	(2)	(14)	(8)
Payments for outsourcing contract costs	(16)	(8)	(7)	(10)
Net cash used in investing activities	(34)	(10)	(21)	(18)
Cash flows from financing activities:				
Payments on lease liability	(157)	(65)	(160)	(147)
Transfers (to) from Parent, net	(339)	23	(314)	65
Net cash used in financing activities	(496)	(42)	(474)	(82)
Net increase (decrease) in cash and cash equivalents	—	—	—	—
Cash and cash equivalents at beginning of year	—	—	—	—
Cash and cash equivalents at end of year	$ —	$ —	$ —	$ —
Supplemental cash flow disclosures:				
Income taxes paid (refunded), net	$ 19	$ (15)	$ 63	$ 14
Interest paid in relation to capital lease obligations	$ 11	$ 10	$ 31	$ 29
Supplemental schedule of non cash investing and financing activities:				
Property and equipment acquired through capital leases	$ 156	$ 10	$ 170	$ 162

The accompanying notes are an integral part of these combined financial statements.

UNITED STATES PUBLIC SECTOR BUSINESS
COMBINED STATEMENTS OF CHANGES IN EQUITY

(in millions)	Parent Company Investment	Total Equity
Predecessor:		
Balance at October 31, 2014	$ 539	$ 539
Net loss	(29)	(29)
Transfers from Parent, net	45	45
Balance at October 31, 2015	555	555
Net income	80	80
Transfers to Parent, net	(297)	(297)
Balance at October 31, 2016	338	338
Net income	36	36
Transfers from Parent, net	42	42
Balance at March 31, 2017	$ 416	$ 416

(in millions)	Parent Company Investment	Total Equity
Successor:		
Balance at March 31, 2017	$ 416	$ 416
Effects of purchase accounting	2,434	2,434
Net income	208	208
Transfers to Parent, net	(329)	(329)
Balance at March 31, 2018	$ 2,729	$ 2,729

The accompanying notes are an integral part of these combined financial statements.

Note 1 - Overview and Summary of Significant Accounting Policies

Background

The accompanying combined financial statements and notes present the combined results of operations, financial position, and cash flows of the United States Public Sector business (“USPS”) of DXC Technology Company (“DXC”). As used in these notes, the “Company,” “we,” “us,” and “our” refer to USPS from April 1, 2017 through May 30, 2018 and Perspecta Inc. (“Perspecta”) as of May 31, 2018.

USPS delivers technology services and business solutions to all levels of government in the United States. USPS helps clients to address their key objectives of: (1) transforming and modernizing through innovation, (2) enhancing security and privacy, (3) improving efficiency and effectiveness, (4) reducing and optimizing costs, and (5) becoming more agile, flexible, and resilient. USPS aims to be a transformation partner that can maximize technology’s potential to create the solutions that matter most to its government clients. USPS supports various accounts at the U.S. federal, state, and local government levels.

On April 1, 2017, DXC was formed through the strategic combination of Computer Sciences Corporation (“CSC”) with the Enterprise Services business unit (“HPES”) of Hewlett Packard Enterprise Company (“HPE”) (the "HPES Merger"), and USPS, which was a part of the HPES business unit of HPE, became a business unit of DXC. Previously, on November 1, 2015, HPE was spun-off from Hewlett-Packard Company, now called HP Inc. (“HPI”). Accordingly, the term “Parent” refers to HPI for periods prior to October 31, 2015, to HPE for between November 1, 2015 and March 31, 2017 and to DXC for periods from April 1, 2017 onward.

On October 11, 2017, DXC announced its proposed spin-off (the "Spin-Off") of USPS and combination of USPS with Vencore Holding Corp. ("Vencore HC") and KGS Holding Corp. ("KGS HC") pursuant to an agreement and plan of merger dated October 11, 2017 (the “Merger Agreement”). On March 8, 2018, it was announced that the new entity would be called Perspecta.

On May 31, 2018, DXC completed the Spin-Off of USPS. To effect the Spin-Off, DXC distributed all of the shares of Perspecta common stock on a pro rata basis to the record holders of DXC common stock (the “Distribution”). Following the Spin-Off, on May 31, 2018, and pursuant to the Merger Agreement, Perspecta completed the following transactions:

- Ultra KMS Inc., a wholly-owned subsidiary of Perspecta, merged with and into KGS HC (the “KeyPoint Merger”), with KGS HC surviving the KeyPoint Merger;
- concurrently with the KeyPoint Merger, Ultra First VMS Inc., another wholly-owned subsidiary of Perspecta, merged with and into Vencore HC (the “First Vencore Merger”), with Vencore HC surviving the First Vencore Merger; and
- immediately following the KeyPoint Merger and First Vencore Merger, Vencore HC merged with and into Ultra Second VMS LLC (the “Second Vencore Merger” and, together with the KeyPoint Merger and the First Vencore Merger, the “Mergers”), with Ultra Second VMS LLC surviving the Second Vencore Merger.

As a result of these transactions, the businesses owned by Vencore HC and KGS HC became wholly-owned by Perspecta.

As consideration for the Mergers, Perspecta paid affiliates of Veritas Capital Fund Management L.L.C. ("Veritas Capital") $400 million in cash and approximately 14% of the total number of shares of Perspecta common stock outstanding immediately after the Mergers (on a fully diluted basis, excluding certain unvested equity incentive awards).

Perspecta’s Amendment No. 3 to the Registration Statement on Form 10 (the "Registration Statement"), filed with the Securities and Exchange Commission (“SEC”) on April 30, 2018, was declared effective on May 2, 2018. Perspecta’s common stock began regular-way trading on the New York Stock Exchange on June 1, 2018 under the ticker symbol “PRSP”.

Basis of Presentation

These combined financial statements of USPS were derived from the consolidated combined financial statements and accounting records of Parent as if USPS were operated on a standalone basis during the periods presented and were prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). USPS historically reported its results based on a fiscal year ending on October 31 and upon the formation of DXC, the Company began reporting its results based on a fiscal year ended March 31. The combined financial statements of USPS for the annual periods ending October 31, 2015 and 2016, for the five-month period ended March 31, 2017 do not give effect to purchase price allocation adjustments associated with the HPES Merger (as defined in Note 2 - "Acquisition"). These adjustments are reflected in the successor period results for USPS for the annual period ending March 31, 2018, therefore, the successor period results for USPS are not comparable to the predecessor period results.

The combined statements of operations of USPS reflect allocations of general corporate expenses from its Parent including, but not limited to, executive management, finance, legal, information technology ("IT"), employee benefits administration, treasury, risk management, procurement and other shared services. These allocations were made on a direct usage basis when identifiable, with the remainder allocated on the basis of revenue, expenses, headcount or other relevant measures. Management of USPS and Parent consider these allocations to be a reasonable reflection of the utilization of services by, or the benefits provided to, USPS. The allocations may not, however, reflect the expense USPS would have incurred as a standalone company for the periods presented. Actual costs that may have been incurred if USPS had been a standalone company would depend on a number of factors, including the chosen organizational structure, what functions were outsourced or performed by employees and strategic decisions made in areas such as IT and infrastructure.

The combined balance sheets of USPS include Parent assets and liabilities that are specifically identifiable or otherwise attributable to USPS, including subsidiaries and affiliates in which Parent has a controlling financial interest or is the primary beneficiary. Parent’s cash has not been assigned to USPS for any of the periods presented because those cash balances are not directly attributable to USPS. USPS reflects transfers of cash to and from Parent’s cash management system as a component of Parent company investment on the combined balance sheets. Parent’s receivables sales facility and long-term debt, other than capital lease obligations, have not been attributed to USPS for any of the periods presented because Parent’s borrowings are not the legal obligation of USPS.

Parent maintains various benefit and stock-based compensation plans at a corporate level and other benefit plans at a subsidiary level. USPS’s employees participate in those programs and a portion of the cost of those plans are allocated and included in the combined statement of operations. However, the combined balance sheets do not include any net benefit plan obligations as the pension plans were accounted as multiemployer benefit plans.

In the opinion of management of the Company, the accompanying combined financial statements of USPS contain all adjustments, including normal recurring adjustments, necessary to present fairly USPS’s financial position as of March 31, 2018 and 2017 and its results of operations and cash flows for the fiscal year ending March 31, 2018, the five months ended March 31, 2017, and the fiscal years ending October 31, 2016 and 2015.

Principles of Combination

The combined financial statements include USPS’s net assets and results of operations as described above. All intercompany transactions and accounts within the combined businesses of USPS have been eliminated.

Intercompany transactions between USPS and Parent other than leases with HPE’s wholly-owned leasing subsidiary (“HPE Financial Services”) are considered to be effectively settled in the combined financial statements at the time the transaction is recorded. The total net effect of the settlement of these intercompany transactions is reflected in the combined statements of cash flows within financing activities and in the combined balance sheets within Parent company investment.

The combined financial statements include the operations of USPS except for certain USPS consulting activities that were historically conducted pursuant to contracts with HPE rather than the Company or one of its subsidiaries. Because those contracts were not novated to USPS until after October 31, 2016, no information regarding USPS’s consulting activities performed pursuant to those contracts has been presented in our results of operations for the fiscal years ending October 31, 2016 and 2015 and only a portion of the revenues associated with USPS’s consulting activities is presented in USPS’s results of operations above for the five-month period ended March 31, 2017. Periods subsequent to March 31, 2017 reflect all these consulting activities in our results of operations.

Business Segment Information

The Company reports separately information about each of its operating segments that engage in business activities from which revenue is recognized and expenses are incurred and for which discrete financial information is available, operating results are regularly reviewed by the Company's chief operating decision maker, who is the chief executive officer. During the period prior to the Spin-Off and Mergers, the Company had identified a single reportable segment that was regularly reviewed by the chief operating officer, who was the Company's chief operating decision maker during that period. Following, and as a result of, the Spin-Off and Mergers and the identification of a new chief operating decision maker, management reevaluated its reportable segments and determined that the information obtained, reviewed and used by the chief operating decision maker to manage the Company’s financial performance is based on two reportable segments rather than one. These segments are aligned with the Company's industry verticals and include:

- Defense and Intelligence - provides services to the DoD, intelligence community, branches of the U.S. Armed Forces, and other DoD agencies; and
- Civilian and Health Care - provides services to the Departments of Homeland Security, Justice, and Health and Human Services, as well as other federal civilian and state and local government agencies.

The segment information for the period prior to the Spin-Off has been recast to reflect the Company's current reportable segments structure. The newly reported segment information does not represent a restatement of the Company's previously reported financial statements for any period, nor do they reflect any subsequent information or events other than as required to reflect the change in segment reporting.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and accompanying notes.

Amounts subject to significant judgment and/or estimates include, but are not limited to, intangible assets, goodwill, fair value, certain deferred costs, valuation allowances on deferred tax assets, loss accruals for litigation, and inputs used for computing stock-based compensation. These estimates are based on management’s best knowledge of historical experience, current events, and various other assumptions that management considers reasonable under the circumstances.

Leases with HPE’s Wholly-Owned Leasing Subsidiary

USPS enters into leasing arrangements with HPE Financial Services, which are cash settled on a recurring basis in accordance with the contractual terms of the leasing arrangements. These leasing arrangements are accounted for as capital leases or operating leases based on the contractual terms of the individual leasing arrangements. Capital lease obligations are presented on the face of the combined balance sheets in current and non-current capital lease liability and principal payments on these obligations are reflected in payments on lease liability within financing activities in the combined statements of cash flows.

Parent Company Investment

Parent company investment in the combined balance sheets and combined statements of equity represents Parent’s historical investment in USPS, the net effect of transactions with and allocations from Parent and USPS’s accumulated earnings.

Revenue Recognition

General

USPS recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services are rendered, the sales price or fee is fixed or determinable, and collectability is reasonably assured. USPS limits the amount of revenue recognized for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified refund or return rights.

In instances when revenue is derived from sales of third-party vendor products or services, USPS records revenue on a gross basis when USPS is a principal to the transaction and on a net basis when USPS is acting as an agent between the customer and the vendor. USPS considers several factors to determine whether it is acting as a principal or an agent, most notably whether USPS is the primary obligor to the customer, has established its own pricing and has inventory and credit risks.

USPS reports revenue net of any taxes collected from customers and to be remitted to government authorities. The collected taxes are recorded as current liabilities until they are remitted to the relevant government authority.

Total revenues by customer type were as follows:

	Successor	Predecessor		
	Fiscal Year Ended	Five Months Ended	Fiscal Year Ended	
(in millions)	March 31, 2018	March 31, 2017	October 31, 2016	October 31, 2015
U.S. federal government	$ 2,584	$ 980	$ 2,485	$ 2,332
State and local government	235	93	247	253
	$ 2,819	$ 1,073	$ 2,732	$ 2,585

Multiple element arrangements

When a sales arrangement contains multiple elements or deliverables, such as hardware and software products, and/or services, USPS allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE") of selling price, if available, third-party evidence ("TPE") if VSOE of selling price is not available, or estimated selling price ("ESP") if neither VSOE of selling price nor TPE is available. USPS establishes VSOE of selling price using the price charged for a deliverable when sold separately and, in rare instances, using the price established by management having the relevant authority. USPS establishes TPE of selling price by evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. USPS establishes ESP based on management judgment considering internal factors such as margin objectives, pricing practices and controls, customer segment pricing strategies and the product life cycle. Consideration is also given to market conditions such as competitor pricing strategies and technology industry life cycles. In most arrangements with multiple elements, USPS allocates the transaction price to the individual units of accounting at inception of the arrangement based on their relative selling price.

USPS evaluates each deliverable in an arrangement to determine whether it represents a separate unit of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value to the customer.

For elements with no standalone value, USPS recognizes revenue consistent with the pattern of the undelivered elements. If the arrangement includes a customer-negotiated refund or return right or other contingency relative to the delivered items, and the delivery and performance of the undelivered items is considered probable and substantially within USPS's control, the delivered element constitutes a separate unit of accounting. In arrangements with combined units of accounting, changes in the allocation of the transaction price among elements may impact the timing of revenue recognition for the contract but will not change the total revenue recognized for the contract.

Services Revenue

USPS recognizes revenue from time and materials contracts, cost-plus-fee contracts and fixed-price contracts, such as consulting arrangements, as work progresses over the contract period on a proportional performance basis, as determined by the percentage of labor costs incurred to date compared to the total estimated labor costs of a contract. USPS recognizes revenue on fixed-price contracts for design and build projects (to design, develop and construct software infrastructure and systems) using the percentage-of-completion method. USPS uses the cost-to-cost method to measure progress toward completion as determined by the percentage of cost incurred to date compared to the total estimated costs of the project. Estimates of total project costs for fixed-price contracts are regularly revised during the life of a contract. Provisions for estimated losses on fixed-priced contracts are recognized in the period when such losses become known. If reasonable and reliable cost estimates for a project cannot be made, USPS uses the completed contract method and recognizes revenue and costs upon service completion. Adjustments due to changes in estimates on fixed-price contracts were not material to USPS's combined financial statements for the periods presented. For time and material contracts, USPS recognizes revenue as services are rendered and recognizes costs as they are incurred.

USPS generally recognizes outsourcing services revenue in the period when the service is provided and the amount earned is not contingent on the occurrence of any future event. USPS recognizes revenue using an objective measure of output for unit-priced contracts. Revenue for fixed-price outsourcing contracts with periodic billings is recognized on a straight-line basis if the service is provided evenly during the contract term. Provisions for estimated losses on outsourcing arrangements are recognized in the period when such losses become probable and estimable.

Product Revenue

For hardware and software products, USPS recognizes revenue generated from direct sales to end customers when the relevant revenue recognition criteria are satisfied. Product revenue was not material in any of the periods presented, except for fiscal year ending October 31, 2016 when product revenue was approximately 13% of revenue, with a related margin of approximately 16%, primarily as a result of a large product sale on a contract that did not occur in any other period.

Deferred Revenue

USPS records amounts invoiced to customers in excess of revenue recognized as deferred revenue until the revenue recognition criteria are satisfied. Deferred revenue represents cash amounts received in advance for outsourcing startup services work, consulting and integration projects, or product sales.

Stock-Based Compensation

USPS's employees have historically participated in Parent's stock-based compensation plans. Stock-based compensation expense is based on the measurement date fair value of the award and is recognized only for those awards expected to meet the service and performance vesting conditions on a straight-line basis over the requisite service period of the award. Stock-based compensation expense is determined at the aggregate grant level for service-based awards and at the individual vesting tranche level for awards with performance and/or market conditions. The forfeiture rate is based on Parent's historical experience.

Acquisition Accounting and Goodwill

When USPS acquires a controlling financial interest through a business combination, USPS uses the acquisition method of accounting to allocate the purchase consideration to the assets acquired and liabilities assumed, which are recorded at fair value. Any excess of purchase consideration over the fair value of the assets acquired and liabilities assumed is recognized as goodwill.

Acquisition-related costs are recognized separately from the business combination and are expensed as incurred. The results of operations of acquired businesses are included in the combined financial statements from the acquisition date.

The goodwill impairment test initially involves the assessment of qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. USPS tests goodwill for impairment on an annual basis, as of the first day of the second fiscal quarter, and between annual tests if circumstances change, or if an event occurs, that would more likely than not reduce the fair value of a reporting unit below its carrying amount. A significant amount of judgment is involved in determining whether an event indicating impairment has occurred between annual testing dates. Such indicators include the loss of significant business, significant reductions in U.S. government appropriations or other significant adverse changes in industry or market conditions.

Income Taxes

The Company's operations have historically been included in the tax returns filed by the respective Parent entities of which USPS’s businesses were a part. Income tax expense and other income tax related information contained in these combined financial statements are presented on a separate return basis as if USPS filed its own tax returns. The separate return method applies the accounting guidance for income taxes to the standalone financial statements as if USPS were a separate taxpayer and a standalone enterprise for the periods presented. Current income tax liabilities are assumed to be settled with Parent on the last day of the reporting period and are relieved through the Parent company investment account and the transfers from (to) Parent, net in the combined statements of cash flows.

USPS recognizes deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. USPS records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

USPS records accruals for uncertain tax positions in accordance with Accounting Standards Codification 740 ("ASC 740") on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more likely than not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. USPS makes adjustments to these accruals when facts and circumstances change, such as the closing of a tax audit or the refinement of an estimate. The provision for income taxes includes the effects of adjustments for uncertain tax positions, as well as any related interest and penalties.

Accounts Receivable

Receivables consist of amounts billed and currently due from customers, as well as amounts currently due but unbilled. Unbilled receivables include: (1) amounts to be billed in following month in the ordinary course of business; (2) contracts measured under the percentage-of-completion method of accounting; and (3) amounts retained by the customer until the completion of a specified contract, completion of government audit activities or until negotiation of contract modification or claims.

Allowances for uncollectible billed and unbilled receivables are estimated based on a combination of write-off history, aging analysis and any specific and known collectability issues.

Concentrations of Risk

Financial instruments that potentially subject USPS to significant concentrations of credit risk consist principally of receivables from trade customers and financing receivables.

USPS participates in cash management, funding arrangements and risk management programs managed by Parent. USPS performs ongoing credit evaluations of the financial condition of its customers. USPS receivables are primarily with the U.S. government, and thus USPS does not have material credit risk exposure for amounts billed.

Deferred Contract Costs

Included in the combined balance sheets are certain costs related to the performance of the Company’s U.S. government contracts which are required to be recorded under GAAP but are not currently allocable to contracts. These costs are allocated to contracts when they are paid or otherwise agreed. The Company regularly assesses the probability of recovery of these costs. This assessment requires the Company to make assumptions about the extent of cost recovery under its contracts and the amount of future contract activity.

Property and Equipment

Property and equipment, which includes capital lease assets, are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the asset or the remaining lease term, whichever is shorter. The estimated useful lives of the Company's property and equipment are as follows:

Buildings	Up to 40 years
Computers and related equipment	4 to 5 years
Furniture and other equipment	2 to 15 years
Leasehold improvements	Shorter of lease term or useful life

Intangible Assets

The estimated useful lives for finite-lived intangible assets are shown in the table below:

Software	2 to 10 years
Program assets	Expected program asset life
Outsourcing contract costs	Contract life, excluding option years

Software is amortized predominately using the straight-line method. Costs of outsourcing contracts, including costs incurred for bid and proposal activities, are generally expensed as incurred. However, certain costs incurred upon initiation of an outsourcing contract are deferred and expensed on a straight-line basis over the contract life. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition or transition activities and can be separated into two principal categories: contract premiums and transition/set-up costs. Contract premiums are amounts paid to customers in excess of the fair value of assets acquired and are amortized as a reduction to revenues. Transition/set-up costs are primarily associated with assuming control over customer IT operations and transforming them consistent with contract specifications. Program intangible assets are amortized in proportion to the estimated undiscounted cash flows projected over the estimated life of the asset or on a straight-line basis if such cash flows cannot be reliably estimated.

Long-Lived Asset Impairment

The Company reviews intangible assets with finite lives and long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The Company assesses the recoverability of assets based on the estimated undiscounted future cash flows expected to result from the use and eventual disposition of the asset. If the undiscounted future cash flows are less than the carrying amount, the asset is impaired. The Company measures the amount of impairment loss, if any, as the difference between the carrying amount of the asset and its fair value using an income approach or, when available and appropriate, using a market approach.

Loss Contingencies

The Company is involved in various lawsuits, claims, investigations and proceedings that arise in the ordinary course of business. USPS records a liability for contingencies when it believes it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

Recently Adopted Accounting Pronouncements

For the fiscal year ending March 31, 2018, no recently adopted accounting pronouncements had a material impact on the Company's combined financial statements.

Recently Issued Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which simplifies how an entity is required to test goodwill for impairment. The amendments in ASU No. 2017-04 require goodwill impairment to be measured using the difference between the carrying amount and the fair value of the reporting unit and require the loss recognized to not exceed the total amount of goodwill allocated to that reporting unit. ASU No. 2017-04 should be applied on a prospective basis and is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of adopting ASU No. 2017-14 on its combined financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-01 to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2017 (year ended March 31, 2019 for the Company), including interim periods within those periods. The Company is currently evaluating the impact of adopting ASU 2017-01 on its combined financial statements and related disclosures.

In October 2016, the FASB amended the existing accounting standards for income taxes. The amendments require the recognition of the income tax consequences for intra-entity transfers of assets other than inventory when the transfer occurs. Under current GAAP, current and deferred income taxes for intra-entity asset transfers are not recognized until the asset has been sold to an outside party. The amendments will be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is required to adopt the guidance in the first quarter of the fiscal year ending March 31, 2019. Early adoption is permitted. The adoption of the amendments is not expected to have a material impact on the combined financial statements.

In August 2016, the FASB amended the existing accounting standards for the statement of cash flows. The amendments provide guidance on eight classification issues related to the statement of cash flows. USPS is required to adopt the guidance in the first quarter of fiscal 2019. The amendments should be applied retrospectively to all periods presented. For issues that are impracticable to apply retrospectively, the amendments may be applied prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. The adoption of the amendments is not expected to have a material impact on the combined financial statements.

In February 2016, the FASB amended the existing accounting standards for leases. The amendments require lessees to record, at lease inception, a lease liability for the obligation to make lease payments and a right-of-use (“ROU”) asset for the right to use the underlying asset for the lease term on their balance sheets. Lessees may elect to not recognize lease liabilities and ROU assets for most leases with terms of 12 months or less. The lease liability is measured at the present value of the lease payments over the lease term. The ROU asset will be based on the liability, adjusted for lease prepayments, lease incentives received and the lessee’s initial direct costs. For finance leases, expense will be the sum of interest on the lease obligation and amortization of the ROU asset, resulting in a front-loaded expense pattern. For operating leases, expense will generally be recognized on a straight-line basis over the lease term. The amended lessor accounting model is similar to the current model, updated to align with certain changes to the lessee model and the new revenue standard. The current sale-leaseback guidance, including guidance applicable to real estate, is also replaced with a new model for both lessees and lessors. The Company is required to adopt the guidance in the first quarter of the fiscal year ending March 31, 2020 using a modified retrospective approach. Early adoption is permitted. USPS is currently evaluating the timing and the impact of these amendments on its combined financial statements.

In May 2014, the FASB amended the existing accounting standards for revenue recognition. The amendments, along with amendments issued in 2015 and 2016, will replace most existing revenue recognition guidance under

GAAP and eliminate industry specific guidance. The core principle of the amendments is that revenue is recognized when the transfer of goods or services to customers occurs in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The guidance also addresses the timing of recognition of certain costs incurred to obtain or fulfill a customer contract. Further, it requires the disclosure of sufficient information to enable readers of USPS's financial statements to understand the nature, amount, timing and uncertainty of revenues, and cash flows arising from customer contracts, and information regarding significant judgments and changes in judgments made.

The amendments provide two methods of adoption: full retrospective and modified retrospective. Under the full retrospective method, the standard would be applied to all periods presented with previously disclosed periods restated under the new guidance. Under the modified retrospective method, prior periods would not be restated but rather a cumulative catch-up adjustment would be recorded on the adoption date. USPS will adopt this standard in the first quarter of the fiscal year ended March 31, 2019 and expects to adopt using the modified retrospective method.

The Company has performed an initial assessment of the impact of the standard and continues to assess the impact that the guidance will have on accounting policies, processes, systems and internal controls. The Company is currently in the process of implementing the new standard. Based on the implementation efforts to-date, the Company expects the primary accounting impacts to include the following:

- The Company's IT and business process outsourcing arrangements comprise a series of distinct services, for which revenue is expected to be recognized as the services are provided in a manner that is generally consistent with current practices.
- The Company has certain arrangements involving the sale of proprietary software and related services for which vendor-specific objective evidence of fair value may not exist, which resulted in the deferral of revenues. Under the new standard, estimates of standalone selling price will be necessary for all software performance obligations, which may result in the acceleration of revenues.
- The Company currently does not capitalize commission costs, which will be required in certain cases under the new standard and amortized over the period that services or goods are transferred to the customer. However, USPS is currently assessing the impact of the standard on commission plans of the Company.

The adoption of this standard is not expected to have a material impact on our fiscal year 2019 revenue. The disclosures in our notes to consolidated financial statements related to revenue recognition will be significantly expanded under the new standard, specifically around the quantitative and qualitative information about performance obligations, changes in contract assets and liabilities, and disaggregation of revenue.

Note 2 - Acquisition

On April 1, 2017, CSC, HPE, Everett SpinCo, Inc. ("Everett"), and New Everett Merger Sub Inc., a wholly-owned subsidiary of Everett ("Merger Sub"), completed the strategic combination of CSC with HPES to form DXC (the "HPES Merger"). At the time of the HPES Merger, Everett was renamed DXC, and as a result of the HPES Merger, CSC became a direct wholly owned subsidiary of DXC. The transaction was determined to be a reverse merger and CSC was determined to be the accounting acquirer of DXC. Therefore, for accounting purposes DXC, and in turn USPS, was subject to purchase price allocation adjustments as of April 1, 2017.

The information presented in this note represents allocation of USPS's purchase price to the assets acquired and liabilities assumed as of the acquisition date, April 1, 2017. The total fair value of consideration transferred for USPS was approximately $2.85 billion. The purchase price was determined based on the enterprise value of USPS estimated as part of the purchase price allocation related to the HPES Merger compared to the total value of all shares issued by DXC.

The allocation of purchase price was completed as of March 31, 2018. The major classes of assets and liabilities to which the purchase price allocated were as follows:

(in millions)	Fair Value
Cash and cash equivalents	$ —
Accounts receivable	403
Prepaid expenses	86
Other current assets	22
Total current assets	511
Property and equipment	183
Intangible assets	976
Other assets	28
Total assets acquired	1,698
Current capital lease liability, accounts payable, accrued payroll, accrued expenses, and other current liabilities	418
Deferred revenue	71
Non-current capital lease liability	162
Non-current deferred tax liabilities	204
Other liabilities	15
Total liabilities assumed	870
Net identifiable assets acquired	828
Goodwill	2,022
Total estimated consideration transferred	$ 2,850

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed. The goodwill is not deductible for tax purposes.

As of the period ended March 31, 2018, the Company made a number of refinements to the April 1, 2017 preliminary purchase price allocation as reported September 30, 2017. These refinements were primarily driven by the Company recording valuation adjustments to certain preliminary estimates of fair values which resulted in an increase in net assets of $5 million. Total assets increased by $10 million, primarily driven by a $70 million increase in intangible assets, and a $9 million increase in current assets, which was partially offset by a $68 million decrease in property and equipment. Liabilities increased by $5 million primarily driven by increases in current capital lease liability, accrued payroll, accrued expenses, and other current liabilities, as well as non-current capital lease liabilities.

Current Assets and Liabilities

The Company valued current assets and liabilities using existing carrying values as an estimate for the fair value of those items at the HPES Merger date due to short term nature of the underlying assets and liabilities.

Property and Equipment

The acquired property and equipment are summarized in the following table:

(in millions)	Amount
Land, buildings, and leasehold improvements	$ 66
Computers and related equipment	117
Total	$ 183

The Company estimated the value of acquired property and equipment using predominantly the market method and, in certain cases, the cost method.

Identified Intangible Assets

The acquired identifiable intangible assets are summarized in the following table:

(in millions)	Amount	Estimated Useful Lives (Years)
Software	$ 72	2-10
Program assets	900	13
Outsourcing contract costs	4	5
Total	$ 976	

The Company estimated the value of program intangible assets using the multi-period excess earnings method. Outsourcing contract costs were fair valued taking into account continuing performance obligation.

Capital Lease Liability

Assumed indebtedness is comprised of capitalized lease liabilities.

Deferred Tax Liabilities

The Company preliminarily recorded deferred tax assets and liabilities based on statutory tax rates in the U.S. jurisdictions of the legal entities where the acquired assets and liabilities are taxed.

Unaudited Pro Forma Results of Operations

The following table provides unaudited supplemental pro-forma results of operations for fiscal 2016.

	Predecessor
(in millions)	Fiscal Year Ended October 31, 2016
Revenues	$ 2,732
Net income	$ 103

These results have been derived from our historical financial statements and have been prepared to give effect to the HPES Merger, assuming that the HPES Merger occurred on November 1, 2015. The unaudited pro forma information presented is for informational purposes only and is not necessarily indicative of the operating results that would have occurred had the Merger been consummated at November 1, 2015, nor is it necessarily indicative of future operating results.

Note 3 - Sales of Receivables

Receivables Sales Facility

On July 14, 2017, Enterprise Services LLC, a wholly-owned subsidiary of the Company ("ES LLC"), entered into a Master Accounts Receivable Purchase Agreement (the “Purchase Agreement”) with certain financial institutions (the "Financial Institutions"). The Purchase Agreement established a federal government obligor receivables purchase facility (the “MARPA Facility”). Concurrently, Parent entered into a guaranty made in favor of the Financial Institutions, that guarantees the obligations of the sellers and servicers of receivables under the Purchase Agreement. The guaranty does not cover any credit losses under the receivables. In connection with the previously announced Spin-Off of USPS, Parent entered into certain amendments to the guaranty whereby Parent can request to terminate its guaranty at the time of the separation of USPS from DXC. In accordance with the terms of the Purchase Agreement, on January 23, 2018, the Purchase Agreement was amended to increase the facility limit from $200 million to $300 million in funding based on the availability of eligible receivables and the satisfaction of certain conditions. On May 31, 2018, the Purchase Agreement was amended to increase the facility limit from $300 million to $450 million in funding based on the availability of eligible receivables and the satisfaction of certain conditions.

Under the MARPA Facility, Parent sells USPS's eligible federal government obligor receivables, including both billed and certain unbilled receivables. Parent has no retained interests in the transferred receivables other than collection and administrative functions for the Financial Institutions for a servicing fee. The MARPA Facility has a one-year term, but the Purchase Agreement provides for optional extensions, if agreed to by the Financial Institutions, in each case for an additional six month duration. As part of the amendment on May 31, 2018, the term of the Purchase Agreement was extended through May 31, 2019.

The Company accounts for these receivable transfers as sales and derecognizes the sold receivables from its balance sheets. The fair value of the sold receivables approximated their book value due to their short-term nature. The Company estimated that its servicing fee was at fair value and therefore, no servicing asset or liability related to these services was recognized as of March 31, 2018. Sold receivables are presented as a change in receivables within operating activities in the Statements of Cash Flows.

During the fiscal year ended March 31, 2018, the Company sold $2 billion of billed and unbilled receivables. Collections corresponding to these receivables sales were $2 billion during fiscal 2018. As of March 31, 2018, there was $68 million of cash collected by the Company, but not remitted to the Financial Institutions, which represents restricted cash recorded at the Parent level.

The net effect of these transactions with the parent is reflected in Parent company investment.

Note 4 - Restructuring

USPS records charges associated with Parent-approved restructuring plans to simplify business processes and accelerate innovation. Restructuring charges can include infrastructure charges to vacate facilities and consolidate operations and contract cancellation costs. USPS records restructuring charges based on estimated employee terminations and site closure and consolidation plans. USPS accrues for severance and other employee separation costs under these actions when it is probable that benefits will be paid and the amount is reasonably estimable. The rates used in determining severance accruals are based on existing plans, historical experiences and negotiated settlements.

Summary of Restructuring Plans

Restructuring charges of $14 million, $0 million, $20 million, and $22 million have been recorded by USPS during fiscal 2018, the five months ended March 31, 2017, fiscal 2016 and fiscal 2015, respectively, based on restructuring activities impacting USPS’s employees and infrastructure. Restructuring activities related to USPS’s employees and infrastructure, summarized by plan year, were as follows:

Successor:

	Accrued Restructuring as of March 31, 2017	Costs Expensed, Net of Reversals	Cash Paid	Accrued Restructuring as of March 31, 2018
2018 Plan				
Workforce Reductions	$ —	$ 6	$ (5)	$ 1
Facilities Costs	—	8	(2)	6
Total	$ —	$ 14	$ (7)	$ 7
2015 Plan				
Workforce Reductions	$ 1	$ —	$ (1)	$ —
Facilities Costs	—	—	—	—
Total	$ 1	$ —	$ (1)	$ —

Predecessor:

	Accrued Restructuring as of October 31, 2016	Costs Expensed, Net of Reversals	Cash Paid	Accrued Restructuring as of March 31, 2017
2015 Plan				
Workforce Reductions	$ 5	$ —	$ (4)	$ 1
Facilities Costs	—	—	—	—
Total	$ 5	$ —	$ (4)	$ 1
2012 Plan				
Workforce Reductions	$ 1	$ —	$ (1)	$ —
Facilities Costs	—	—	—	—
Total	$ 1	$ —	$ (1)	$ —

	Accrued Restructuring as of October 31, 2015	Costs Expensed, Net of Reversals	Cash Paid	Accrued Restructuring as of October 31, 2016
2015 Plan				
Workforce Reductions	$ —	$ 15	$ (10)	$ 5
Facilities Costs	—	5	(5)	—
Total	$ —	$ 20	$ (15)	$ 5
2012 Plan				
Workforce Reductions	$ 7	$ —	$ (6)	$ 1
Facilities Costs	—	—	—	—
Total	$ 7	$ —	$ (6)	$ 1

	Accrued Restructuring as of October 31, 2014	Costs Expensed, Net of Reversals	Cash Paid	Accrued Restructuring as of October 31, 2015
2012 Plan				
Workforce Reductions	$ 5	$ 22	$ (20)	$ 7
Facilities Costs	—	—	—	—
Total	$ 5	$ 22	$ (20)	$ 7
Other Plans				
Workforce Reductions	$ —	$ —	$ —	$ —
Facilities Costs	4	—	(4)	—
Total	$ 4	$ —	$ (4)	$ —

Restructuring liability is included in accrued expenses and other current liabilities as well as other long-term liabilities in the combined balance sheet at March 31, 2018 and in accrued expenses and other current liabilities at March 31, 2017.

Fiscal 2018 Restructuring Plan

On June 30, 2017, Parent approved a post-HPES Merger restructuring plan (the "2018 Plan"). The restructuring initiatives are intended to reduce Parent's cost structure and related operating costs, improve its competitiveness, and facilitate the achievement of acceptable and sustainable profitability. The 2018 Plan focuses mainly on optimizing specific aspects of workforce and re-balancing the pyramid structure. Additionally, this plan includes facility restructuring. USPS recognized $14 million in total aggregate charges in connection with the 2018 Plan.

Fiscal 2015 Restructuring Plan

On September 14, 2015, Parent's board of directors approved a restructuring plan (the "2015 Plan") in connection with the spin-off of HPE from HPI, which will be implemented through fiscal 2018. USPS recognized $20 million in total aggregate charges in connection with the 2015 Plan. Restructuring plans initiated by Parent in fiscal 2015 were completed as of December 31, 2017.

Fiscal 2012 Restructuring Plan

On May 23, 2012, Parent adopted a multi-year restructuring plan (the “2012 Plan”) designed to simplify business processes, accelerate innovation and deliver better results for customers, employees and stockholders. USPS recognized $34 million in total aggregate charges in connection with the 2012 Plan. Activities under the 2012 Plan were complete as of March 31, 2017.

Note 5 - Retirement and Post-Retirement Benefit Plans

Defined Benefit Plans

Certain eligible employees, retirees and other former employees of USPS participate in certain U.S. defined benefit pension plans offered by Parent. These plans whose participants included both USPS employees and other employees of Parent are accounted for as multiemployer benefit plans and the related net benefit plan obligations are not included in the combined balance sheets. The related benefit plan expense has been allocated to USPS based on USPS’s labor costs and allocations of corporate and other shared functional personnel. USPS total net pension benefit cost was $27 million in fiscal 2015, and was included in costs of services and selling, general and administrative expenses in the combined statements of operations. USPS employees did not participate in the defined benefit plans during fiscal 2018, the five months ended March 31, 2017 and fiscal 2016 and therefore no benefit plan expense was recognized during these periods.

In January 2015, Parent offered certain terminated vested participants of the U.S. HP Pension Plan, a Shared plan, a one-time voluntary window during which they could elect to receive their pension benefit as a lump sum payment. As a result, the Parent pension plan trust made lump sum payments to eligible participants who elected to receive their pension benefit under this lump sum program. The defined benefit plan settlement charges of $27 million was included in selling, general and administrative expenses in the combined statement of operations for the year ended October 31, 2015, primarily include settlement expenses and additional net periodic benefit cost resulting from this lump sum program.

Defined Contribution Plans

Parent offers various defined contribution plans for U.S. employees. USPS defined contribution expense was $15 million, $1 million, $3 million and $3 million in fiscal 2018, five months ended March 31, 2017, fiscal 2016 and fiscal 2015, respectively.

Note 6 - Stock Based Compensation

Certain of USPS’s employees participated in stock-based compensation plans sponsored by Parent. Parent’s stock-based compensation plans included incentive compensation plans and an employee stock purchase plan (“ESPP”). All awards granted under the plans are based on Parent’s common shares and, as such, are not reflected in the combined statements of equity. Stock-based compensation expense includes expense attributable to USPS based on the awards and terms previously granted under the incentive compensation plan to USPS’s employees and an allocation of Parent’s corporate and shared functional employee expenses. Accordingly, the amounts presented are not necessarily indicative of future awards and do not necessarily reflect the results that USPS would have experienced as an independent company for the periods presented.

Parent’s Stock-Based Incentive Compensation Plans

Parent’s stock-based incentive compensation plans include equity plans adopted in 2017, 2015, 2004 and 2000, as amended (“Principal Equity Plans”). Stock-based awards granted from the Principal Equity Plans include restricted stock awards, stock options, and performance-based awards. Employees who meet certain employment qualifications are eligible to receive stock-based awards. For equity incentive awards granted by HPE under HPE equity incentive plans to HPES prior to the acquisition, outstanding options (vested and unvested) and unvested restricted stock unit ("RSU") awards were converted upon the acquisition into economically equivalent DXC option and RSU awards, with terms and conditions substantially the same as the terms of such awards prior to the HPES Merger.

Restricted stock awards are non-vested stock awards that may include grants of restricted stock or restricted stock units. Restricted stock awards and cash-settled awards are generally subject to forfeiture if employment terminates prior to the lapse of the restrictions. Such awards generally vest one to three years from the date of grant. During the vesting period, ownership of the restricted stock cannot be transferred. Restricted stock has the same dividend and voting rights as common stock and is considered to be issued and outstanding upon grant. The dividends paid on restricted stock are non-forfeitable. Restricted stock units have forfeitable dividend equivalent rights equal to the dividend paid on common stock. Restricted stock units do not have the voting rights of common stock, and the shares underlying restricted stock units are not considered issued and outstanding upon grant. The fair value of the restricted stock awards is the closing price of Parent’s common stock on the grant date of the award. USPS expenses the fair value of restricted stock awards ratably over the period during which the restrictions lapse.

Stock options granted under the Principal Equity Plans were generally non-qualified stock options, but the Principal Equity Plans permitted certain options granted to qualify as incentive stock options under the U.S. Internal Revenue Code. Stock options generally vest over three to four years from the date of grant. The exercise price of a stock option was equal to the closing price of Parent’s stock on the option grant date. The majority of stock options issued by Parent contained only service vesting conditions. However, starting in fiscal 2011, Parent began granting performance-contingent stock options that vest only on the satisfaction of both service and market conditions prior to the expiration of those awards.

Stock-Based Compensation Expense

Stock based compensation expense and the resulting tax benefits recognized by USPS were as follows:

	Successor		Predecessor					
	Fiscal Year Ended		Five Months Ended		Fiscal Years Ended			
(in millions)	March 31, 2018		March 31, 2017		October 31, 2016		October 31, 2015	
Share-based compensation expense	$	6	$	7	$	20	$	23
Income tax benefit		2		3		8		9
Stock-based compensation expense, net of tax	$	4	$	4	$	12	$	14

In May 2016, in connection with the announcement of the spin-off of HPES, Parent modified its stock-based compensation program such that unvested equity awards outstanding on May 24, 2016 vested upon the earlier of: (i) the termination of an employee's employment with HPE as a direct result of an announced sale, divestiture or spin-off of a subsidiary, division or other business; (ii) the termination of an employee's employment with HPE without cause; or (iii) June 1, 2018. This modification also included changes to the performance and market conditions of certain performance-based awards.

Cash received from option exercises and purchases under Parent's ESPP by USPS employees was $3 million, $4 million and $4 million in fiscal 2018, fiscal 2016 and fiscal 2015, respectively. There was no cash received from option exercises and purchases under Parent's ESPP by USPS employees for the five months ended March 31, 2017. The net effect of this transaction is reflected within Parent company investment in the combined statements of cash flows.

Restricted Stock Awards

A summary of restricted stock awards activity for restricted stock held by USPS employees under former Parent's plans is as follows:

	Successor		Predecessor					
	Fiscal Year Ended		Five Months Ended		Fiscal Years Ended			
	March 31, 2018		March 31, 2017		October 31, 2016		October 31, 2015	
(in thousands)	Shares	Weighted Average Grant Date Fair Value per Share	Shares	Weighted Average Grant Date Fair Value per Share	Shares	Weighted Average Grant Date Fair Value per Share	Shares	Weighted Average Grant Date Fair Value per Share
Outstanding at beginning of year [(1)]	—	$ —	2,364	$ 15	1,145	$ 15	1,071	$ 22
Converted from former Parent's plan [(1)]	—	—	—	—	914	15	—	—
Employee transition [(2)]	42	35	—	—	—	—	—	—
HPE RSUs converted to DXC RSUs due to HPES Merger	1	69	—	—	—	—	—	—
Options converted to RSUs due to HPES Merger	6	30	—	—	—	—	—	—
Granted	52	84	766	18	555	15	529	37
Vested	(14)	39	(1,455)	17	(181)	15	(435)	39
Forfeited	(5)	34	(1,675)	15	(69)	15	(20)	32
Outstanding at end of Year	82		—		2,364	15	1,145	23

(1) In connection with HPE's November 1, 2015 separation from HPI, USPS employees with outstanding former Parent restricted stock awards received HPE replacement restricted stock awards upon the separation.
(2) The Employee transition amounts consist of Option activity for employees transitioning between DXC and USPS.

The total grant date fair value of restricted stock awards vested for USPS employees for fiscal 2018, the five months ended March 31, 2017, fiscal 2016 and fiscal 2015 was $3 million, $15 million, $2 million and $12 million, respectively, net of taxes.

Stock-Options

Parent utilizes the Black-Scholes-Merton option pricing model to estimate the fair value of stock options subject to service-based vesting conditions. Parent estimates the fair value of stock options subject to performance-contingent vesting conditions using a combination of a Monte Carlo simulation model and a lattice model as these awards contain market conditions. The weighted-average fair value and the assumptions used to measure fair value were as follows:

	Successor	Predecessor		
	Fiscal Year Ended	Five Months Ended	Fiscal Year Ended	
	March 31, 2018	March 31, 2017	October 31, 2016	October 31, 2015
Weighted-average fair value [(1)]	$ —	$ 4	$ 4	$ 8
Expected volatility [(2)]	—%	31.1%	31.1%	26.8%
Risk-free interest rate [(3)]	—%	1.7%	1.7%	1.7%
Expected dividend yield [(4)]	—%	1.5%	1.5%	1.8%
Expected term in years [(5)]	—	5.4	5.4	5.9

(1) The weighted-average fair value was based on stock options granted during the period. No options were granted in fiscal 2018.
(2) For options granted in the five months ended March 31, 2017 and fiscal 2016, expected volatility was estimated using average historical volatility of selected peer companies. For options granted in fiscal 2015, expected volatility was estimated using the implied volatility derived from options traded on Hewlett-Packard Company's common stock.
(3) The risk-free interest rate was estimated based on the yield on U.S. Treasury zero-coupon issues.
(4) The expected dividend yield represents a constant dividend yield applied for the duration of the expected term of the option.
(5) For options granted in the five months ended March 31, 2017 and fiscal 2016 subject to service-based vesting, the expected term was estimated using the simplified method detailed in SEC Staff Accounting Bulletin No. 110, since it was HPE's first fiscal year as a separate stand-alone company. For options granted in fiscal 2015 subject to service-based vesting, the expected term was estimated using historical exercise and post-vesting termination patterns. For performance-contingent stock options, the expected term represents an output from the lattice model.

A summary of stock option activity for stock options held by USPS employees under Parent's plans is as follows:

	Successor				Predecessor			
	Fiscal Year Ended March 31, 2018				Five Months Ended March 31, 2017			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Average Intrinsic Value	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Average Intrinsic Value
	(thousands)		(in years)	(in millions)	(thousands)		(in years)	(in millions)
Outstanding at beginning of year [(1)]	—	$ —			791	$ 15		
Converted from former Parent's plan [(1)]	—	—			—	—		
Employee transition [(2)]	39	40			—	—		
HPE options converted to DXC options due to HPES Merger	190	46			—	—		
CSC Options converted to RSUs due to HPES Merger	(15)	46			—	—		
Granted	—	—			—	—		
Vested	(66)	45			(113)	15		
Forfeited/cancelled employee transitions	—	—			(678)	16		
Outstanding at end of year	148	45	3	$ 8	—	—		$ —
Vested and expected to vest at end of year	148	45	3	$ 8	—	—		$ —
Exercisable at end of year	148	45	3	$ 8	—	—		$ —

	Predecessor							
	Fiscal Year Ended October 31, 2016				Fiscal Year Ended October 31, 2015			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Average Intrinsic Value	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Average Intrinsic Value
	(thousands)		(in years)	(in millions)	(thousands)		(in years)	(in millions)
Outstanding at beginning of year (1)	359	$ 15			497	$ 25		
Converted from former Parent's plan (1)	287	15			—			
Granted	328	17			67	37		
Vested	(181)	16			(121)	35		
Forfeited/canceled employee transitions	(2)	25			(84)	12		
Outstanding at end of Year	791	16	5	$ 4	359	28	5	$ 1
Vested and Expected to vest at end of year	744	16	5	$ 4	351	27	5	$ 1
Exercisable at end of year	416	15	4	$ 2	285	26	4	$ 1

(1) In connection with HPE's November 1, 2015 separation from Hewlett-Packard Company, USPS employees with outstanding former Parent stock options received HPE replacement stock options upon the separation.
(2) The Employee transition amounts consist of Option activity for employees transitioning between DXC and USPS.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that USPS employee option holders would have realized had all USPS employee option holders exercised their options on the last trading day of fiscal 2018, fiscal 2016 and fiscal 2015. The aggregate intrinsic value is the difference between Parent's closing stock price on the last trading day of the fiscal year and the exercise price, multiplied by the number of in-the-money options. The total intrinsic value of options exercised by USPS employees in fiscal 2018, for the five months ended March 31, 2017 and in fiscal 2016 and fiscal 2015 was $3 million, $1 million, $2 million and $2 million, respectively. There were no options granted to USPS employees in fiscal 2018.

Note 7 - Income Taxes

USPS's provision for income taxes and deferred tax balances have been calculated on a separate return basis as if USPS filed its own tax returns, although its operations have been included in Parent's U.S. federal and state tax returns. USPS had no income (loss) from entities domiciled outside of the U.S. The separate return method applies the accounting guidance for income taxes to the standalone financial statements as if USPS were a separate taxpayer and a standalone enterprise for the periods presented.

Provision for Taxes

On December 22, 2017, the President of the United States signed into law comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes significant changes to the Internal Revenue Code of 1986 with varying effective dates. The Tax Act reduces the maximum corporate income tax rate to 21% effective as of January 1, 2018, broadens the tax base, creates a new limitation on the deductibility of interest expense, limits the deductibility of certain executive compensation, and allows for immediate capital expensing of certain qualified property. As a fiscal year taxpayer, the Company will not be subject to many of the tax law provisions until fiscal year 2019; however, GAAP requires companies to revalue their deferred tax assets and liabilities with resulting tax effects accounted for in the reporting period of enactment including retroactive effects. Section 15 of the Internal Revenue Code stipulates that the Company's fiscal year ending March 31, 2018, will have an estimated blended corporate U.S. federal income tax rate of 31.5%, which is based on the applicable tax rates before and after the effective date of the Tax Act and the number of days in the Company's federal tax year ending on October 31, 2017.

The SEC staff issued Staff Accounting Bulletin 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740 "Income Taxes." In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

Based on a preliminary assessment of the Tax Act, the Company believes that the most significant impact on the Company's financial statements are as follows:

Reduction of U.S. federal corporate income tax rate: As discussed above, the Tax Act reduces the corporate tax rate to 21%, effective January 1, 2018. For certain deferred tax assets and liabilities, the Company has recorded a provisional deferred income tax benefit of $86 million, resulting in a $86 million decrease in net deferred tax liabilities as of March 31, 2018. While the Company is able to make a reasonable estimate of the impact of the reduction in corporate tax rate, the amount will be impacted by changes in estimated deferred tax balances prior to and after December 22, 2017 for fiscal year March 31, 2018. Due to the Company's federal tax year ending October 31, 2018 the Company is required to determine the reversal period of the deferred tax assets and liabilities recorded as of March 31, 2018 to finalize the estimate of the rate reduction. The Company has estimated the reversal based on expected changes in the deferred tax balances. The estimate will be finalized prior to the end of the measurement period when the reversal of the deferred tax assets and liabilities is known.

Capital expensing: For the period ending December 31, 2017 the Company's analysis was incomplete and a provisional estimate was not recorded. In the current period the Company recorded a provisional benefit of $39 million based on its intent to fully expense all qualifying expenses. This resulted in a decrease of approximately $39 million to the Company's current income taxes payable and a corresponding increase in its net deferred tax liabilities. The income tax effects for this change in law require further analysis due to the volume of data required to complete the calculations.

Due to anticipated future guidance to be issued by the IRS, interpretation of the changes in tax law and analysis of the information required to complete the calculations, the amounts recorded as a result of the Tax Act in the period are provisional and subject to material changes. The Company will continue to analyze the Tax Act's impact on its combined financial statements and adjust the provisional amounts recorded as our analysis is completed, no later than December 2018. There are no income tax effects for which the Company cannot determine a provisional estimate to be included in the financial statements.

The provision (benefit) for taxes were as follows:

	Successor	Predecessor		
	Fiscal Year Ended	Five Months Ended	Fiscal Years Ended	
(in millions)	March 31, 2018	March 31, 2017	October 31, 2016	October 31, 2015
U.S. Federal Taxes:				
Current	$ 16	$ (15)	$ 54	$ 12
Deferred	(38)	35	(12)	(31)
State Taxes:				
Current	3	—	9	2
Deferred	10	3	(2)	(5)
Total income tax (benefit) expense	$ (9)	$ 23	$ 49	$ (22)

USPS's effective tax rate was (5)%, 39%, 38% and (43)% for fiscal 2018, the five months ended March 31, 2017, fiscal 2016 and fiscal 2015, respectively. USPS's effective tax rate for fiscal 2018 generally differs from the U.S. federal statutory rate primarily due to the remeasurement of deferred tax assets and liabilities as a result of the Tax Act. The differences between the U.S. federal statutory income tax rate and USPS's effective tax rate were as follows:

	Successor	Predecessor		
	Fiscal Year Ended	Five Months Ended	Fiscal Years Ended	
	March 31, 2018	March 31, 2017	October 31, 2016	October 31, 2015
U.S. federal statutory rate	32 %	35 %	35 %	(35)%
State income taxes	4 %	4 %	4 %	(4)%
Non-deductible transaction costs	4 %	— %	— %	— %
Research & development credit	— %	(1)%	(1)%	(6)%
Impact of U.S. Tax Reform	(44)%	— %	— %	— %
Other items, net	(1)%	1 %	— %	2 %
Effective tax rate	(5)%	39 %	38 %	(43)%

Unrecognized Tax Benefits

The following table summarizes the activity related to the Company's uncertain tax benefits (excluding interest and penalties and related tax attributes):

	Successor	Predecessor		
	As of	As of		
(in millions)	March 31, 2018	March 31, 2017	October 31, 2016	October 31, 2015
Balance at beginning of year	$ 8	$ 7	$ 7	$ 6
Increase for current year tax positions	—	1	—	1
Balance at end of year	$ 8	$ 8	$ 7	$ 7

Up to $8 million, $8 million, $7 million and $7 million of USPS's unrecognized tax benefits as of March 31, 2018, March 31, 2017, October 31, 2016 and October 31, 2015 respectively, would affect USPS's effective tax rate if realized.

The Company recognizes interest accrued related to uncertain tax positions and penalties as a component of income tax expense. USPS had an immaterial amount of accrued interest or penalties as of March 31, 2018 and March 31, 2017.

For the periods presented, the unrecognized tax benefits reflected in the combined financial statements have been determined using the separate return method. Parent engages in continuous discussion and negotiation with taxing authorities regarding tax matters in various jurisdictions. The Company is subject to income tax in the U.S. at the federal and state level and is subject to routine corporate income tax audits in these jurisdictions. The IRS is conducting an audit of Parent's 2008 to 2016 federal income tax returns and thus these years remain open. With respect to major state tax jurisdictions, Parent is no longer subject to tax authority examination for years prior to 2005. The Company believes the outcome that is reasonably possible within the next 12 months may result in a reduction in liability for uncertain tax positions of $6 million, excluding interest and penalties. In connection with the Spin-Off, DXC will indemnify Perspecta for all uncertain tax position liabilities related to periods prior to the Spin-Off.

USPS believes it has provided adequate reserves for all tax deficiencies or reductions in tax benefits that could result from federal and state tax audits. USPS regularly assesses the likely outcomes of these audits in order to determine the appropriateness of unrecognized tax benefits. USPS adjusts its unrecognized tax benefits to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular audit. However, income tax audits are inherently unpredictable and Parent may not accurately predict the outcome of these audits. The amounts ultimately paid on resolution of an audit could be materially different from the amounts previously included in the provision (benefit) for taxes in the combined statements of operations and therefore the resolution of one or more of these uncertainties in any particular period could have a material impact on net earnings or cash flows.

Deferred Income Taxes

Deferred income taxes result from temporary differences between the amount of assets and liabilities recognized for financial reporting and tax purposes. For purposes of the combined balance sheets, deferred tax balances and tax carryforwards and credits have been recorded under the separate return method.

The significant components of deferred tax assets and deferred tax liabilities were as follows:

	Successor		Predecessor	
	As of March 31, 2018		As of March 31, 2017	
(in millions)	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Fixed assets	$ —	$ (12)	$ —	$ (3)
Employee and retiree benefits	1	—	5	—
Restructuring	2	—	—	—
Loss and credit carryovers	—	—	2	—
Capital lease obligation	41	—	—	—
Purchased intangible assets	—	(224)	—	(1)
Deferred service revenue	16	—	38	—
Deferred service cost	—	(4)	—	(9)
Other receivables	—	(4)	—	—
Accrued liabilities	8	—	8	—
Gross deferred tax assets and liabilities	68	(244)	53	(13)
Valuation allowance	—	—	—	—
Net deferred tax assets and liabilities	$ 68	$ (244)	$ 53	$ (13)

The Company has state net operating loss carryforwards of $2 million for the five months ended March 31, 2017 with an expiration date of 2037. The Company has no state net operating loss carryforwards for fiscal 2018. The Company has no U.S. Federal net operating loss carryforwards available at March 31, 2018 and March 31, 2017.

Income tax related assets and liabilities are included in the accompanying combined balance sheets as follows:

	Successor	Predecessor
(in millions)	As of March 31, 2018	As of March 31, 2017
Non-current deferred tax assets	$ —	$ 40
Non-current deferred liabilities	$ (176)	$ —
Non-current liability for unrecognized tax benefits	$ (8)	$ (8)

The non-current liability for unrecognized tax benefits is included in Other long-term liabilities in the combined balance sheets.

Note 8 - Balance Sheet Details

Balance sheet details were as follows:

Receivables

	Successor	Predecessor
	As of	As of
(in millions)	March 31, 2018	March 31, 2017
Billed trade receivables	$ 135	$ 195
Unbilled receivables	219	196
	354	391
Allowance for doubtful accounts	—	—
Receivables, net of allowance for doubtful accounts	$ 354	$ 391

Property and Equipment

	Successor	Predecessor
	As of	As of
(in millions)	March 31, 2018	March 31, 2017
Property and equipment — gross:		
Land, buildings and leasehold improvements	$ 72	$ 339
Computers and related equipment	283	449
Furniture and other equipment	1	54
	356	842
Accumulated depreciation	(66)	(373)
Property and equipment — net	$ 290	$ 469

The gross property and equipment and accumulated depreciation presented in the above table include property under capital leases and the related accumulated amortization, respectively. Property under capital leases is comprised primarily of computers and related equipment. Capital lease assets included in property and equipment in the combined balance sheets were $274 million and $442 million as of March 31, 2018 and March 31, 2017, respectively. Accumulated depreciation on the property under capital leases was $57 million and $149 million as of March 31, 2018 and March 31, 2017, respectively.

Depreciation expense for property and equipment, excluding capital lease assets was $12 million, of which $3 million relates to allocated depreciation expense for shared corporate assets for Fiscal 2018. Depreciation expense for property and equipment, excluding capital lease assets was $6 million, $14 million and $17 million for the five months ended March 31, 2017, fiscal 2016 and fiscal 2015, respectively.

Depreciation expense for capital lease assets was $57 million, $62 million, $153 million and $136 million for fiscal 2018, the five months ended March 31, 2017, fiscal 2016 and fiscal 2015, respectively.

Other Assets

	Successor	Predecessor
	As of	As of
(in millions)	March 31, 2018	March 31, 2017
Deferred contracts costs - long term and other	$ 10	$ 1
Prepaid expenses - long term	11	25
Total other assets	$ 21	$ 26

Accrued Expenses and Other Current Liabilities

(in millions)	Successor As of March 31, 2018	Predecessor As of March 31, 2017
Accrued liabilities for customer program	$ 137	$ 94
Litigation liabilities	17	14
Other	26	24
Total accrued expenses and other current liabilities	$ 180	$ 132

Note 9 - Intangible Assets

Intangible assets were as follows:

	Successor		
	As of March 31, 2018		
(in millions)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Software	$ 75	$ 28	$ 47
Program Assets	900	69	831
Outsourcing contract costs	20	1	19
Total intangible assets	$ 995	$ 98	$ 897

	Predecessor		
	As of March 31, 2017		
(in millions)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Software	$ 27	$ 24	$ 3
Program Assets	11	10	1
Outsourcing contract costs	49	26	23
Total intangible assets	$ 87	$ 60	$ 27

Amortization expense for fiscal 2018, the five months ended March 31, 2017, fiscal 2016 and fiscal 2015 was $98 million, $5 million, $58 million and $61 million, respectively.

The increase in net and gross carrying value during fiscal 2018 was primarily due to the Merger (see Note 2 - “Acquisition”).

Estimated future amortization related to intangible assets as of March 31, 2018 is as follows:

Fiscal Year	(in millions)
2019	$ 92
2020	92
2021	83
2022	74
2023	72
Thereafter	484
Total future amortization	$ 897

Note 10 - Goodwill

The following tables summarize the changes in the carrying amount of goodwill, by segment, for the fiscal 2018.

Fiscal Year Activity (in millions)	**Defense and Intelligence**	**Civilian and Health Care**	**Total**
Balance as of March 31, 2017	$ —	$ —	$ —
Additions	977	1,045	2,022
Balance as of March 31, 2018	$ 977	$ 1,045	$ 2,022

The additions to goodwill during fiscal 2018 were due to the HPES Merger described in Note 2 - "Acquisition."

Goodwill Impairment Analysis

The Company tests goodwill for impairment on an annual basis, as of the first day of the second fiscal quarter, and between annual tests if circumstances change, or if an event occurs that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company's annual goodwill impairment analysis, which was performed qualitatively as of the assessment date, did not result in an impairment charge. This qualitative analysis, which is commonly referred to as step zero under ASC Topic 350, "Goodwill and Other Intangible Assets," considered all relevant factors specific to the reporting units, including macroeconomic conditions; industry and market considerations; overall financial performance and relevant entity-specific events.

Note 11 - Capital Lease Obligations

Capital lease obligations primarily consist of contractual arrangements with Parent's wholly-owned subsidiary, HPE Financial Services. As of March 31, 2018, future minimum lease payments required to be made under capital leases were as follows:

Fiscal Year	(in millions)
2019	$ 172
2020	84
2021	46
2022	22
2023	4
Total Minimum Lease payments	328
Less: Amount representing interest and executory costs	24
Present Value of net minimum lease payments	304
Less: Current maturities of capital lease obligations	160
Long term capitalized lease liabilities	$ 144

Note 12 - Related Party Transactions and Parent Company Investment

Allocation of Corporate Expenses

The combined statements of operations include an allocation of general corporate expenses from Parent for certain management and support functions which are provided on a centralized basis within Parent. These management and support functions include, but are not limited to, executive management, finance, legal, IT, employee benefits administration, treasury, risk management, procurement and other shared services. These allocations were made on a direct usage basis when identifiable, with the remainder allocated on the basis of revenue, expenses, headcount or other relevant measures. These allocations were $158 million, $58 million, $152 million and $169 million in fiscal 2018, the five months ended March 31, 2017, fiscal 2016 and fiscal 2015, respectively, and they are recorded within costs of services and selling, general and administrative in the combined statements of operations.

Management of the Company and Parent consider these allocations to be a reasonable reflection of the utilization of services by, or the benefits provided to, USPS. These allocations may not, however, reflect the expense USPS would have incurred as a standalone company for the periods presented. Actual costs that may have been incurred if USPS had been a standalone company would depend on a number of factors, including the chosen organizational structure, what functions were outsourced or performed by employees and strategic decisions made in areas such as IT and infrastructure.

Parent Company Investment

Parent company investment on the combined balance sheets and statements of equity represents Parent's historical investment in USPS, the net effect of transactions with and allocations from Parent and USPS's accumulated earnings.

Transfers (to) from Parent, net

Transfers (to) from Parent, net are included within Parent company investment. The components of the Transfers (to) from Parent, net on the combined statements of changes in equity for all periods presented were as follows:

	Successor	Predecessor		
	Fiscal Year Ended	Five Months Ended	Fiscal Years Ended	
(in millions)	March 31, 2018	March 31, 2017	October 31, 2016	October 31, 2015
Cash pooling and general financing activities	$ (506)	$ (1)	$ (512)	$ (138)
Corporate Allocations	158	58	152	169
Income taxes	19	(15)	63	14
Transfers (to) from parent, net per Combined Statements of Changes in Equity	$ (329)	$ 42	$ (297)	$ 45

Note 13 - Litigation and Contingencies

The Company is involved in various lawsuits, claims, investigations and proceedings including those consisting of intellectual property, commercial, employment, employee benefits and environmental matters, which arise in the ordinary course of business. The Separation and Distribution Agreement (the "SDA") includes provisions that allocate liability and financial responsibility for litigation involving DXC and the Company, collectively the parties, as well as providing for cross-indemnification of the parties against liabilities to one party arising out of liabilities allocated to the other party. In addition, as part of the SDA, DXC and the Company have agreed to cooperate with each other in managing litigation that relates to both parties' businesses. The SDA also contains provisions that allocate liability and financial responsibility for such litigation relating to both parties' businesses. The Company records a liability when it believes that it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. Significant judgment is required to determine both the probability of having incurred a liability and the estimated amount of the liability. The Company reviews these matters at least quarterly and adjusts these liabilities to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other updated information and events pertaining to a particular matter. Litigation is inherently unpredictable. However, the Company believes it has valid defenses with respect to legal matters pending against it. Nevertheless, cash flows or results of operations could be materially affected in any particular period by the resolution of one or more of these contingencies. The Company believes it has recorded adequate provisions for any such matters and, as of March 31, 2018, March 31, 2017, October 31, 2016 and October 31, 2015, it was not reasonably possible that a material loss had been incurred in connection with such matters in excess of the amounts recognized in its financial statements.

Litigation, Proceedings and Investigations

State of Michigan v. HP Enterprise Services, LLC: In 2005, the State of Michigan ("MI") entered into a contract with Electronic Data Systems Corp. (later renamed HP Enterprise Services, LLC, now known as Enterprise Services LLC ("ES LLC")) for the purpose of designing, developing, and implementing an enterprise application for the MI Department of State (MI's Department of Motor Vehicles). On August 28, 2015, MI sent a letter notifying ES LLC that the contract had been terminated for cause. The key disagreement between the parties related to the apportionment of responsibility for missed project milestones (and MI's effort to put all of the blame for delays on ES LLC) and the value of the deliverables that MI had accepted as of the date of the termination. On September 18, 2015, MI filed a complaint against ES LLC in Michigan state court seeking $11 million in liquidated damages, the state's costs of re-procuring and completing the project, and injunctive relief. The parties executed a Settlement Agreement on March 28, 2017, pursuant to which the termination for cause was converted to a termination for convenience and ES agreed to pay MI $9.5 million and to provide MI with a $3.5 million credit on future work. A stipulation of dismissal was entered by the court dismissing the MI state action on April 25, 2017.

Washington, D.C. Navy Yard Litigation: In December 2013, a wrongful death action was filed in U.S. District Court for the Middle District of Florida against HP Enterprise Services, LLC and others in connection with the September 2013 Washington, D.C. Navy Yard shooting that resulted in the deaths of 12 individuals. The perpetrator was an employee of The Experts, ES LLC's now terminated subcontractor on ES LLC's IT services contract with the U.S. Navy (a contract served by USPS). A total of 15 lawsuits arising out of the shooting have been filed. All have been consolidated in the U.S. District Court for the District of Columbia. ES LLC filed motions to dismiss, which the Court has granted in part and denied in part. Fact discovery is closed. In June 2018, the parties reached an agreement on a confidential full and final settlement of all claims by all plaintiffs to be memorialized in a formal settlement agreement. The settlement agreement is subject to approval by the Court. Perspecta cannot provide assurance that a formal settlement agreement will be reached by the parties or that the Court will approve such agreement. If a formal settlement agreement is not reached, or if such settlement is not approved by the Court, the plaintiffs' claims will be litigated and subject to motions practice (i.e., summary judgment briefing) and possible resumption of discovery.

Forsyth, et al. v. HP Inc. and Hewlett Packard Enterprise: This purported class and collective action was filed on August 18, 2016 in the U.S. District Court for the Northern District of California, against HP and HPE (together, the "Defendants") alleging violations of the Federal Age Discrimination in Employment Act ("ADEA"), the California Fair Employment and Housing Act, California public policy and the California Business and Professions Code. Former businesses of HPE, including USPS, will be proportionately liable for any recovery by plaintiffs in this matter. Plaintiffs seek to certify a nationwide class action under the ADEA comprised of all U.S. residents employed by defendants who had their employment terminated pursuant to a work force reduction ("WFR") plan on or after December 9, 2014 (deferral states) and April 8, 2015 (non-deferral states), and who were 40 years of age or older at the time of termination. Plaintiffs also seek to represent a Rule 23 class under California law comprised of all persons 40 years or older employed by the Defendants in the state of California and terminated pursuant to a WFR plan on or after August 18, 2012. On January 30, 2017, the Defendants filed a partial motion to dismiss and a motion to compel arbitration of claims by opt-in plaintiffs who signed releases as part of their WFR packages. On September 20, 2017, the Court denied the partial motion to dismiss without prejudice, but granted the Defendants' motions to compel individual arbitration. Accordingly, the Court stayed the entire action pending arbitration, and administratively closed the case. The Court reaffirmed the stay of litigation on February 6, 2018. On December 21, 2017, Defendants filed a motion to enjoin class arbitration, which the Court denied on February 6, 2018. Defendants subsequently sought and obtained leave of Court to file a motion for reconsideration arguing that collective arbitration is not permitted under the relevant employee agreements. The Court denied the motion on April 17, 2018, ruling that interpretation of the employee agreements is an issue delegated to the arbitrator. The American Arbitration Association, which was designated to manage the arbitration, has selected an arbitrator to handle a collective arbitration in San Francisco, California.

In addition to the matters noted above, the Company is currently subject in the normal course of business to various claims and contingencies arising from, among other things, disputes with customers, vendors, employees, contract counterparties and other parties, as well as securities matters, environmental matters, matters concerning the licensing and use of intellectual property, and inquiries and investigations by regulatory authorities and government agencies. Some of these disputes involve or may involve litigation. The combined financial statements reflect the treatment of claims and contingencies based on management's view of the expected outcome. The Company consults with outside legal counsel on issues related to litigation and regulatory compliance and seeks input from other experts and advisors with respect to matters in the ordinary course of business. Although the outcome of these and other matters cannot be predicted with certainty, and the impact of the final resolution of these and other matters on the Company's results of operations in a particular subsequent reporting period could be material and adverse, management does not believe based on information currently available to the Company, that the resolution of any of the matters currently pending against the Company will have a material adverse effect on the financial position of the Company or the ability of the Company to meet its financial obligations as they become due. Unless otherwise noted, the Company is unable to determine at this time a reasonable estimate of a possible loss or range of losses associated with the foregoing disclosed contingent matters.

Note 14 - Guarantees and Indemnifications

Guarantees

In the ordinary course of business, USPS may issue performance guarantees to certain of its clients, customers and other parties pursuant to which USPS has guaranteed the performance obligations of third parties. Some of those guarantees may be backed by standby letters of credit or surety bonds. In general, USPS would be obligated to perform over the term of the guarantee in the event a specified triggering event occurs as defined by the guarantee. USPS believes the likelihood of having to perform under a material guarantee is remote.

USPS has entered into service contracts with certain of its clients that are supported by financing arrangements. If a service contract is terminated as a result of USPS's non-performance under the contract or failure to comply with the terms of the financing arrangement, USPS could, under certain circumstances, be required to acquire certain assets related to the service contract. USPS believes the likelihood of having to acquire a material amount of assets under these arrangements is remote.

Indemnifications

In the ordinary course of business, USPS enters into contractual arrangements under which USPS may agree to indemnify a third party to such arrangement from any losses incurred relating to the services they perform on behalf of USPS or for losses arising from certain events as defined within the particular contract, which may include, for example, litigation or claims relating to past performance. USPS also provides indemnifications to certain vendors and customers against claims of intellectual property infringement made by third parties arising from the use by such vendors and customers of USPS's software products and services and certain other matters. Some indemnifications may not be subject to maximum loss clauses. Historically, payments made related to these indemnifications have been immaterial.

Note 15 - Commitments

Lease Commitments

USPS leases certain real and personal property under non-cancelable operating leases. Certain leases require USPS to pay property taxes, insurance and routine maintenance and include renewal options and escalation clauses. Rent expense was approximately $44 million, $15 million, $29 million and $37 million in fiscal 2018, the five months ended March 31, 2017, fiscal 2016 and fiscal 2015, respectively.

As of March 31, 2018, future minimum operating lease commitments were as follows:

Fiscal Year	(in millions)
2019	$ 38
2020	28
2021	13
2022	5
2023	5
Thereafter	12
Total	$ 101

Note 16 - Subsequent Events

Completion of the Separation and Mergers

As previously disclosed, on May 31, 2018, DXC completed the Spin-Off of USPS. To effect the separation, DXC distributed all of the shares of Perspecta common stock on a pro rata basis to DXC stockholders of record as of May 25, 2018. Prior to the Distribution, Perspecta paid approximately $984 million in cash to DXC. In the Distribution, DXC stockholders received one share of Perspecta Common Stock for every two shares of DXC common stock held at the close of business on May 25, 2018. Perspecta's common stock began regular-way trading under the symbol "PRSP" on the New York Stock Exchange on June 1, 2018. Additionally, immediately following the Distribution of Perspecta shares to DXC shareholders, Perspecta completed its combination with Vencore HC and KGS HC for purchase consideration of approximately $400 million and Vencore HC and KGS HC merged with Perspecta. The separation of USPS from DXC and the related Mergers were structured as a “Reverse Morris Trust” transaction that is designed to be tax free to DXC and its shareholders. In the Mergers, Perspecta issued 18,877,244 shares of Perspecta Common Stock to the Vencore Stockholder and 4,396,097 shares of Perspecta Common stock to KGS Holding LLC (the "KeyPoint Stockholder"), representing in the aggregate approximately 14% of the outstanding shares of Perspecta Common Stock immediately following the Mergers.

As a result of the Spin-Off, each outstanding DXC stock option, RSU (including dividend equivalents) and PSU held by the Company’s employees and non-employee directors were converted into an equivalent award of Perspecta.

Beginning with Perspecta's Quarterly Report on Form 10-Q for the quarter ending June 30, 2018, Perspecta will report on a consolidated basis representing the combined operations of USPS, Vencore HC and KGS HC and their respective subsidiaries. Because Perspecta was deemed the accounting acquirer in this combination under GAAP, the historical financial statements of USPS will be reflected in Perspecta's future quarterly and annual reports. Due to the close proximity in timing of the Merger and Perspecta's filing of this Annual Report on Form 10-K for the fiscal year ended March 31, 2018, the valuation report is not yet available, and the initial accounting for the business combination is incomplete; therefore, the Company is unable to disclose certain information required by ASC 805 "Business Combinations." The Company plans to provide preliminary purchase price allocation information in Perspecta's Quarterly Report on Form 10-Q for the quarter ending June 30, 2018.

Entering into Financing Arrangements

On May 25, 2018, Perspecta arranged $3.1 billion of secured credit facilities, including $2.5 billion in term loan facilities and $600 million in revolving credit facilities, of which only $50 million was initially drawn. This will fund a $984 million cash distribution to DXC, as well as $400 million for the cash consideration portion to funds controlled by Veritas Capital, transaction costs, and refinancing of existing Vencore HC and KGS HC debt. Approximately $550 million of available credit remains undrawn under a newly established $600 million revolving credit facility.

Accounts Receivable Purchase Agreement

On May 31, 2018, in connection with the Spin-Off of USPS, Perspecta entered into a guaranty made in favor of MUFG Bank, Ltd., that guarantees the obligations of ES LLC, a wholly-owned subsidiary of Perspecta, under the Purchase Agreement, dated as of July 14, 2017 with certain financial institutions (as amended, the "Purchase Agreement"). The Purchase Agreement established a federal government obligor receivables purchase facility. Concurrently, Parent entered into a guaranty made in favor of the Financial Institutions, that guarantees the obligations of the sellers and servicers of receivables under the Purchase Agreement. The guaranty does not cover any credit losses under the receivables. In connection with the previously announced Spin-Off of USPS, In accordance with the terms of the Purchase Agreement, on January 23, 2018, the Purchase Agreement was amended to increase the facility limit from $200 million to $300 million in funding based on the availability of eligible receivables and the satisfaction of certain conditions. On May 31, 2018, the Purchase Agreement was amended to increase the facility limit from $300 million to $450 million in funding based on the availability of eligible receivables and the satisfaction of certain conditions.

Quarterly Cash Dividend and Perspecta Share Repurchase Program

On June 1, 2018, Perspecta’s Board of Directors approved and declared a regular quarterly cash dividend of $0.05 per share on Perspecta’s common stock. The first quarterly dividend will be paid on July 17, 2018 to Perspecta stockholders of record at the close of business on June 11, 2018. This dividend is in addition to the dividend payable to DXC Technology stockholders announced on May 24, 2018.

On June 1, 2018, Perspecta’s Board of Directors authorized up to $400 million for future repurchases of outstanding shares of its common stock. Repurchases may be made at the Company’s discretion from time to time on the open market depending on market conditions. The repurchase program has no time limit, does not obligate the Company to make any repurchases and may be suspended for periods or discontinued at any time.

Note 17 - Segment Information

USPS was a single reportable segment of DXC through May 31, 2018. As a result of the Spin-Off and Mergers on that date, during the first quarter of fiscal year 2019, Perspecta's management reevaluated its operating segments and segment reporting, and determined that the Company's chief operating decision maker, the chief executive officer, evaluates Perspecta's combined operations based on two reportable segments: (1) Defense and Intelligence and (2) Civilian and Health Care. Management believes that these changes provide investors with a more precise view of field operations and corporate costs and accurately align with the chief operating decision maker's view of the business. Perspecta's new reportable segments and their respective operations are defined as follows:

Defense and Intelligence

Through its Defense and Intelligence business, Perspecta provides cybersecurity, data analytics, digital transformation, information technology modernization, and agile software development, as well as technology to support intelligence, surveillance, and reconnaissance services to the Department of Defense ("DoD"), intelligence community, branches of the U.S. Armed Forces and other DoD Agencies.

Key competitive differentiators for the Defense and Intelligence segment include global scale, solution objectivity, depth of industry expertise, strong partnerships, vendor and product independence and end-to-end solutions and capabilities. Evolving business demands such as globalization, fast-developing economies, government regulation and growing concerns around risk, security, and compliance drive demand for these offerings.

Civilian and Health Care

Through its Civilian and Health Care business, Perspecta provides enterprise IT transformation and modernization, application development and modernization, enterprise security, risk decision support, operations and sustainment, systems engineering, applied research, cyber services, and cloud transformation to the Departments of Homeland Security, Justice, and Health and Human Services, as well as other federal civilian and state and local government agencies.

In the following tables, certain corporate activity is reported separately to reconcile the Company's segment information to the Combined Statements of Operations. The accounting policies of the reportable segments are the same as those described herein in Note 1 - "Overview and Basis of Presentation."

Segment Measures

The following tables summarize operating results regularly provided to the chief operating decision maker by reportable segment and a reconciliation of those reporting results to the Combined Statements of Operations for the relevant periods:

Revenue

Our revenue by reportable segment is as follows:

	Successor	**Predecessor**		
	Year Ended	**Five Months Ended**	**Years Ended**	
(in millions)	**March 31, 2018**	**March 31, 2017**	**October 31, 2016**	**October 31, 2015**
Defense and Intelligence	$ 1,416	$ 488	$ 1,153	$ 1,167
Civilian and Health Care	1,403	585	1,579	1,418
Total revenue	$ 2,819	$ 1,073	$ 2,732	$ 2,585

Segment Profit

Our segment profit by reportable segment is as follows:

	Successor	Predecessor		
	Year Ended	Five Months Ended	Years Ended	
(in millions)	March 31, 2018	March 31, 2017	October 31, 2016	October 31, 2015
Defense and Intelligence	$ 132	$ 35	$ 51	$ 25
Civilian and Health Care	189	75	183	48
Total segment profit	$ 321	$ 110	$ 234	$ 73

Total Assets by Segment

Management does not use total assets by segment to evaluate segment performance or allocate resources. As a result, assets are not tracked by segment and therefore, total assets by segment is not disclosed.

Reconciliation of Reportable Segment Profit to the Consolidated Statement of Operations

The Company's management uses segment profit as the measure for assessing performance of its segments. Segment profit is defined as segment revenue less segment cost of services, selling, general and administrative, and depreciation and amortization. The Company does not allocate to its segments certain operating expenses managed at the corporate level. These unallocated costs include certain corporate function costs, stock-based compensation expense, pension and other post-employment benefits ("OPEB"), net periodic pension cost, restructuring costs, transaction and integration-related costs.

	Successor	Predecessor		
	Year Ended	Five Months Ended	Years Ended	
(in millions)	March 31, 2018	March 31, 2017	October 31, 2016	October 31, 2015
Segment profit	$ 321	$ 110	$ 234	$ 73
Less:				
Interest income	—	—	(5)	(4)
Interest expense	12	10	36	33
Restructuring costs	14	—	20	22
Pension and OPEB actuarial and settlement gains	—	—	—	27
Stock based compensation	6	7	20	23
Litigation settlement charges	—	—	—	(5)
Transaction and integration-related costs	90	34	34	28
Income before taxes	$ 199	$ 59	$ 129	$ (51)

Depreciation and Amortization

Our depreciation and amortization expense by reportable segment is as follows:

	Successor	Predecessor		
	Year Ended	Five Months Ended	Years Ended	
(in millions)	March 31, 2018	March 31, 2017	October 31, 2016	October 31, 2015
Defense and Intelligence	$ 70	$ 34	$ 95	$ 97
Civilian and Health Care	97	39	130	117
Total depreciation and amortization	$ 167	$ 73	$ 225	$ 214

Section 6: EX-99.4 (SELECTED QUARTERLY FINANCIAL DATA)

Exhibit 99.4

SELECTED QUARTERLY FINANCIAL DATA BY SEGMENT

Segment Measures

The following tables summarize operating results regularly provided to the Company's chief operating decision maker by reportable segment and a reconciliation to the financial statements:

Revenue

Our quarterly revenue by reportable segment is as follows:

	Three Months Ended (Unaudited)			
(in millions)	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Defense and Intelligence	$ 365	$ 374	$ 357	$ 320
Civilian and Health Care	350	348	349	356
Total Revenue	$ 715	$ 722	$ 706	$ 676

Segment Profit

Our quarterly segment profit by reportable segment is as follows:

	Three Months Ended (Unaudited)			
(in millions)	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Defense and Intelligence	$ 51	$ 31	$ 27	$ 23
Civilian and Health Care	42	48	53	46
Total Segment Profit	$ 93	$ 79	$ 80	$ 69

Total Assets by Segment

Management does not use total assets by segment to evaluate segment performance or allocate resources. As a result, assets are not tracked by segment and therefore, total assets by segment is not disclosed.

Reconciliation of Reportable Segment Profit to the Consolidated Statement of Operations

The Company's management uses segment profit as the measure for assessing performance of its segments. Segment profit is defined as segment revenue less segment cost of services, selling, general and administrative, and depreciation and amortization. The Company does not allocate to its segments certain operating expenses managed at the corporate level. These unallocated costs include certain corporate function costs including interest expense, restructuring costs, stock-based compensation and transaction and integration-related costs.

	Three Months Ended (Unaudited)			
(in millions)	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Total profit for reportable segments	$ 93	$ 79	$ 80	$ 69
Less:				
Interest expense	5	—	5	2
Restructuring costs	4	3	4	3
Stock based compensation	2	4	(1)	1
Transaction and integration-related costs	46	27	6	11
Income before taxes	$ 36	$ 45	$ 66	$ 52

Depreciation and Amortization

Our quarterly depreciation and amortization expense by reportable segment is as follows:

	Three Months Ended (Unaudited)			
(in millions)	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Defense and Intelligence	$ 16	$ 21	$ 15	$ 18
Civilian and Health Care	35	25	18	19
Total Depreciation and Amortization	$ 51	$ 46	$ 33	$ 37

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