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# Section 1: 424B3 (PROSPECTUS SUPPLEMENT NO. 1)

Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-228388

PROSPECTUS SUPPLEMENT NO. 1  
(to Prospectus dated December 26, 2018)

## 23,273,341 Shares



**Perspecta Inc.**  
Common Stock

This prospectus supplement supplements the prospectus dated December 26, 2018 (as supplemented to date, the "Prospectus") which forms a part of our Registration Statement on Form S-1 (Registration No. 333-228388). This prospectus supplement is being filed to update and supplement the information in the Prospectus with information contained in our quarterly report on Form 10-Q for the period ended December 31, 2018, filed with the Securities and Exchange Commission ("SEC") on February 13, 2019 (the "Quarterly Report"). Accordingly, we have attached the Quarterly Report to this prospectus supplement.

The Prospectus and this prospectus supplement relate solely to the offer and sale from time to time of up to 23,273,341 shares of Perspecta Inc. common stock, \$0.01 par value per share, by the selling stockholders identified in the Prospectus. See "Principal and Selling Stockholders" in the Prospectus. The registration of the shares of common stock to which the Prospectus and this prospectus supplement relate does not require the selling stockholders to sell any of their shares of our common stock nor does it require us to issue any shares of common stock.

This prospectus supplement should be read in conjunction with the Prospectus. This prospectus supplement updates and supplements the information in the Prospectus. If there is any inconsistency between the information in the Prospectus and this prospectus supplement, you should rely on the information in this prospectus supplement. This prospectus supplement is not complete without, and may not be delivered or utilized except in connection with, the Prospectus, including any amendments or supplements to it.

We will not receive any proceeds from the sale of the shares by the selling stockholders, but we have agreed to pay certain registration expenses, other than commissions or discounts of underwriters, broker-dealers, or agents. The selling stockholders from time to time may offer and sell the shares held by them directly or through underwriters, agents or broker-dealers on terms to be determined at the time of sale, as described in more detail in the Prospectus. For more information, see "Plan of Distribution" in the Prospectus.

Our common stock is listed on the New York Stock Exchange ("NYSE"), under the symbol "PRSP." On February 12, 2019, the closing sales price of our common stock as reported on the NYSE was \$19.80 per share.

Because all of the shares of our common stock offered under the Prospectus and this prospectus supplement are being offered by the selling stockholders, we cannot currently determine the price or prices at which our shares may be sold under this prospectus.

**Investing in our common stock involves risks. Before making a decision to invest in our common stock, you should carefully consider the matters described under "Risk Factors" beginning on page 3 of the Prospectus and page 48 of the Quarterly Report.**

**Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

The date of this prospectus is February 13, 2019.

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2018  
or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-38033



# PERSPECTA INC.

(Exact Name of Registrant as Specified in Its Charter)

**Nevada**

(State or Other Jurisdiction of Incorporation or Organization)

**82-3141520**

(I.R.S. Employer Identification No.)

**15052 Conference Center Drive, Chantilly, Virginia**

(Address of Principal Executive Offices)

**20151**

(Zip Code)

Registrant's Telephone Number, Including Area Code: **(571) 313-6000**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

163,528,398 shares of common stock, par value \$0.01 per share, were outstanding as of February 8, 2019.

## EXPLANATORY NOTE

On May 31, 2018, DXC Technology Company (“DXC”) completed the spin-off (the “Spin-Off”) of its United States Public Sector business (“USPS”) held by Perspecta Inc. (“Perspecta”), and combination with Vencore Holding Corp. (“Vencore HC”) and KGS Holding Corp. (“KGS HC”) (the “Mergers”) 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. Following the completion of the Spin-Off and Mergers, Perspecta, a Nevada corporation, became a publicly traded company.

Because the Spin-Off and the Mergers were not consummated until May 31, 2018, the unaudited Combined Condensed Financial Statements presented in this Quarterly Report on Form 10-Q include only the legacy USPS activity for the period from April 1, 2017 to December 31, 2017 and from April 1, 2018 to May 31, 2018, and Perspecta, including entities acquired in the Mergers, from June 1, 2018 to December 31, 2018.

In this Quarterly Report on Form 10-Q, unless the context otherwise requires, all references to “Vencore” are to Vencore HC, KGS HC, and their respective subsidiaries on a combined basis. The term “Parent” refers to DXC for the period from April 1, 2017 to May 31, 2018. In addition, “the Company,” “we,” “our” and “us” refer to USPS before giving effect to the Spin-Off and Mergers, for the period from April 1, 2017 to May 31, 2018, and to Perspecta and its combined subsidiaries, including the combined business of Vencore HC and KGS HC, after giving effect to the Spin-Off and the Mergers beginning June 1, 2018.

We also refer throughout to (1) the unaudited Condensed Consolidated Combined Financial Statements as the “Financial Statements,” (2) the unaudited Condensed Consolidated Combined Statements of Operations as the “Statements of Operations,” (3) the unaudited Condensed Consolidated Combined Statements of Comprehensive Income as the “Statements of Comprehensive Income” (4) the unaudited Condensed Consolidated Combined Balance Sheets as the “Balance Sheets”, (5) the unaudited Condensed Consolidated Combined Statements of Cash Flows as the “Statements of Cash Flows” and (6) the unaudited Condensed Consolidated Combined Statements of Changes in Stockholders’ Equity as the “Statements of Stockholders’ Equity.” In addition, references throughout to numbered “Notes” refer to the numbered Notes to the Financial Statements that we include in the Financial Statements section of this Quarterly Report on Form 10-Q.

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## PART I

### ITEM 1. FINANCIAL STATEMENTS

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**PERSPECTA INC.**  
**CONDENSED CONSOLIDATED COMBINED STATEMENTS OF OPERATIONS**  
**(unaudited)**

(in millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Revenue	\$ 1,075	\$ 722	\$ 2,936	\$ 2,104
Costs of services (excludes depreciation and amortization and restructuring costs)	816	550	2,226	1,632
Selling, general, and administrative (excludes depreciation and amortization and restructuring costs)	76	51	226	132
Depreciation and amortization	76	46	214	116
Restructuring costs	1	3	3	10
Separation and integration-related costs	19	27	84	44
Interest expense, net	37	—	84	7
Other expense (income), net	2	—	(26)	—
Total costs and expenses	1,027	677	2,811	1,941
Income before taxes	48	45	125	163
Income tax expense (benefit)	10	(59)	34	(13)
Net income	\$ 38	\$ 104	\$ 91	\$ 176
Earnings per common share <sup>(1)</sup> :				
Basic	\$ 0.23	\$ 0.73	\$ 0.55	\$ 1.24
Diluted	\$ 0.23	\$ 0.73	\$ 0.55	\$ 1.24

<sup>(1)</sup> Earnings per share information for the three and nine months ended December 31, 2017 is computed using the 142.43 million shares of Perspecta common stock resulting from the Distribution, as Perspecta did not operate as a stand-alone entity during the period and therefore, no Perspecta common stock, stock options or other equity awards were outstanding and no dividends were declared or paid by Perspecta.

The accompanying Notes are an integral part of these unaudited Condensed Consolidated Combined Financial Statements.

**PERSPECTA INC.**  
**CONDENSED CONSOLIDATED COMBINED STATEMENTS OF COMPREHENSIVE INCOME**  
**(unaudited)**

(in millions)	Three Months Ended		Nine Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net income	\$ 38	\$ 104	\$ 91	\$ 176
Other comprehensive income (loss), net of taxes:				
Cash flow hedge adjustments, net of tax	(18)	—	(13)	—
Comprehensive income	\$ 20	\$ 104	\$ 78	\$ 176

The accompanying Notes are an integral part of these unaudited Condensed Consolidated Combined Financial Statements.

**PERSPECTA INC.**  
**CONDENSED CONSOLIDATED COMBINED BALANCE SHEETS**  
(unaudited)

(in millions, except per share and share amounts)	As of	
	December 31, 2018	March 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 100	\$ —
Receivables, net of allowance for doubtful accounts of \$1 and \$0	487	354
Other receivables	58	—
Prepaid expenses and other current assets	158	74
Deferred contract costs	40	21
Total current assets	843	449
Property and equipment, net of accumulated depreciation of \$119 and \$66	354	290
Goodwill	3,272	2,022
Intangible assets, net of accumulated amortization of \$220 and \$98	1,406	897
Other assets	191	21
<b>Total assets</b>	<b>\$ 6,066</b>	<b>\$ 3,679</b>
<b>LIABILITIES and STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 79	\$ —
Current capital lease liability	140	160
Accounts payable	268	195
Accrued payroll and related costs	94	17
Accrued expenses and other current liabilities	356	180
Deferred revenue and advance contract payments	28	53
Income taxes payable	48	—
Total current liabilities	1,013	605
Non-current portion of long-term debt	2,384	—
Non-current capital lease liability	149	144
Non-current deferred tax liabilities	111	176
Other long-term liabilities	212	25
Total liabilities	3,869	950
Commitments and contingencies		
Stockholders' equity:		
Parent company investment, prior to Spin-Off	—	2,729
Common stock, par value \$0.01 per share; 750,000,000 shares authorized; 163,902,020 and 0 shares issued and outstanding	2	—
Additional paid-in capital	2,224	—
Retained earnings	29	—
Accumulated other comprehensive loss	(13)	—
Treasury stock at cost, 1,940,382 shares and 0 shares	(45)	—
Total stockholders' equity	2,197	2,729
Total liabilities and stockholders' equity	<b>\$ 6,066</b>	<b>\$ 3,679</b>

The accompanying Notes are an integral part of these unaudited Condensed Consolidated Combined Financial Statements.



**PERSPECTA INC.**  
**CONDENSED CONSOLIDATED COMBINED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(unaudited)**

(in millions, except shares in thousands and per share amounts in ones)	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Parent Company Investment	Total Stockholders' Equity
	Shares	Amount						
Balance at March 31, 2018	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,729	\$ 2,729
Impact of adoption of new accounting standard	—	—	—	—	—	—	4	4
Net income from April 1 to May 31, 2018	—	—	—	—	—	—	49	49
Transfers to Parent, net from April 1 to May 31, 2018	—	—	—	—	—	—	(145)	(145)
Balance at May 31, 2018	—	—	—	—	—	—	2,637	2,637
Dividend to DXC prior to May 31, 2018	—	—	(984)	—	—	—	—	(984)
Spin-Off activity	142,426	2	2,635	—	—	—	(2,637)	—
Mergers activity	23,273	—	578	—	—	—	—	578
Net loss from June 1 to June 30, 2018	—	—	—	(20)	—	—	—	(20)
Other comprehensive loss	—	—	—	—	(1)	—	—	(1)
Dividends declared (\$0.05 per share)	—	—	(8)	—	—	—	—	(8)
Balance at June 30, 2018	165,699	2	2,221	(20)	(1)	—	—	2,202
Net income from July 1 to September 30, 2018	—	—	—	24	—	—	—	24
Other comprehensive income	—	—	—	—	6	—	—	6
Stock-based compensation	—	—	1	—	—	—	—	1
Repurchases of common stock	(923)	—	—	—	—	(23)	—	(23)
Stock option exercises and other common stock transactions	43	—	1	—	—	—	—	1
Dividends declared (\$0.05 per share)	—	—	(4)	(4)	—	—	—	(8)
Balance at September 30, 2018	164,819	2	2,219	—	5	(23)	—	2,203
Net income from October 1 to December 31, 2018	—	—	—	38	—	—	—	38
Other comprehensive loss	—	—	—	—	(18)	—	—	(18)
Stock-based compensation	—	—	4	—	—	—	—	4
Repurchases of common stock	(967)	—	—	—	—	(21)	—	(21)
Stock option exercises and other common stock transactions	50	—	1	—	—	(1)	—	—
Dividends declared (\$0.05 per share)	—	—	—	(9)	—	—	—	(9)
Balance at December 31, 2018	163,902	\$ 2	\$ 2,224	\$ 29	\$ (13)	\$ (45)	\$ —	\$ 2,197

(in millions)	Parent Company Investment	Total Equity
Balance at March 31, 2017	\$ 416	\$ 416
Effects of purchase accounting	2,434	2,434
Net income from April 1 to June 30, 2017	32	32
Transfers to Parent, net	(77)	(77)
Balance at June 30, 2017	2,805	2,805
Net income from July 1 to September 30, 2017	40	40
Transfers to Parent, net	(108)	(108)
Balance at September 30, 2017	2,737	2,737
Net income from October 1 to December 31, 2017	104	104
Transfers to Parent, net	2	2
Balance at December 31, 2017	\$ 2,843	\$ 2,843

The accompanying Notes are an integral part of these unaudited Condensed Consolidated Combined Financial Statements.

**PERSPECTA INC.**  
**CONDENSED CONSOLIDATED COMBINED STATEMENTS OF CASH FLOWS**  
(unaudited)

(in millions)	Nine Months Ended	
	December 31, 2018	December 31, 2017
<b>Cash flows from operating activities:</b>		
Net income	\$ 91	\$ 176
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	214	116
Stock-based compensation	7	4
Deferred income taxes	(17)	(71)
Gain on sale of assets	(25)	—
Other non-cash charges, net	(13)	10
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
Receivables, net	78	37
Prepaid expenses and other current assets	(22)	(20)
Accounts payable and accrued liabilities	(23)	99
Deferred revenue and advanced contract payments	(13)	3
Income taxes payable	20	—
Other operating activities, net	(3)	(7)
Net cash provided by operating activities	294	347
<b>Cash flows from investing activities:</b>		
Payments for acquisitions, net of cash acquired	(312)	—
Extinguishment of Vencore HC and KGS HC debt and related costs	(994)	—
Proceeds from sale of assets	25	—
Purchases of property, equipment and software	(12)	(8)
Payments for outsourcing contract costs	(7)	(9)
Net cash used in investing activities	(1,300)	(17)
<b>Cash flows from financing activities:</b>		
Principal payments on long-term debt	(82)	—
Proceeds from debt issuance	2,500	—
Payment of debt issuance costs	(46)	—
Proceeds from revolving credit facility	50	—
Payments on revolving credit facility	(50)	—
Payments on lease liability	(124)	(117)
Repurchases of common stock	(43)	—
Repurchases of common stock to satisfy tax withholding obligations	(1)	—
Dividend to DXC	(984)	—
Dividends paid to Perspecta stockholders	(17)	—
Net transfers to Parent	(88)	(213)
Net cash provided by (used in) financing activities	1,115	(330)
Net increase in cash and cash equivalents, including restricted	109	—
Cash and cash equivalents, including restricted, at beginning of period	—	—
Cash and cash equivalents, including restricted, at end of period	109	—
Less restricted cash and cash equivalents included in prepaid expenses and other current assets	9	—
<b>Cash and cash equivalents at end of period</b>	<b>\$ 100</b>	<b>\$ —</b>

The accompanying Notes are an integral part of these unaudited Condensed Consolidated Combined Financial Statements.

**PERSPECTA INC.**  
**NOTES TO CONDENSED CONSOLIDATED COMBINED FINANCIAL STATEMENTS (unaudited)**

**Note 1 – Overview and Basis of Presentation**

*Background*

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.

On May 31, 2018, DXC Technology Company (“DXC”) completed the spin-off (the “Spin-Off”) of its U.S. Public Sector business (“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 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 after 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). See Note 4 – “Acquisitions.”

Perspecta’s Amendment No. 3 to the Registration Statement on Form 10, filed with the U.S. 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.”

The accompanying unaudited Condensed Consolidated Combined Financial Statements and Notes present the combined results of operations, financial position, and cash flows of USPS for the periods prior to the completion of the Spin-Off and the combination with Vencore HC and KGS HC. Accordingly, the term “Parent” refers to DXC for periods from April 1, 2017 to May 31, 2018. As used in these Notes, the “Company,” “we,” “us,” and “our” refer to the combined businesses of USPS for the period from April 1, 2017 through May 31, 2018, and to Perspecta and its consolidated subsidiaries beginning June 1, 2018 and for the period from June 1, 2018 through December 31, 2018.

*Basis of Presentation*

The accompanying unaudited Condensed Consolidated Combined Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and pursuant to the rules and regulations of the SEC. As discussed above, the Spin-Off and the Mergers were not consummated until May 31, 2018. In the period prior to consummation of the Spin-Off and Mergers, these financial statements include the combined financial statements of USPS, derived from the consolidated combined financial statements and accounting records of Parent as if USPS were operated on a stand-alone basis during the periods presented and were prepared in accordance with GAAP and, subsequent to the Spin-Off and Mergers, these financial statements represent the consolidated financial statements of Perspecta and its subsidiaries. Accordingly, the accompanying unaudited financial statements are presented as described below.

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The periods prior to the Spin-Off and Mergers include:

- the combined financial results and cash flows of USPS for the period from April 1, 2018 to May 31, 2018;
- the combined financial results and cash flows of USPS for the three and nine months ended December 31, 2017; and
- the combined financial position of USPS as of March 31, 2018.

The period subsequent to the Spin-Off and Mergers includes:

- the consolidated financial statements of Perspecta for the period from June 1, 2018 to December 31, 2018; and
- the consolidated financial position of Perspecta as of December 31, 2018.

After the Spin-Off, DXC does not have any beneficial ownership of Perspecta or USPS. The chief executive officer and chief financial officer of DXC serve as members of the board of directors of Perspecta (the "Board of Directors"). Consequently, transactions between DXC and Perspecta are reflected as related party transactions pursuant to the disclosure requirements of Accounting Standards Codification ("ASC") Topic 850, *Related Party Disclosures*. For the three and nine months ended December 31, 2018, the Company recognized \$3 million and \$9 million of related party revenue from and \$27 million and \$39 million of related party expenses to DXC, respectively. For additional information about the allocation of expenses from DXC prior to the Spin-Off and certain continuing responsibilities between the Company and DXC, see Note 16 – "Related Party Transactions."

### *Principles of Consolidation and Combination*

The unaudited Condensed Consolidated Combined Financial Statements as of and for the three and nine months ended December 31, 2018 reflect the financial position and results of operations of the Company, its consolidated subsidiaries and the joint ventures and partnerships over which the Company has a controlling financial interest. The combined financial statements as of and for periods prior to the consummation of the Spin-Off, reflect the financial position and results of operations of USPS as described above.

The financial statements for the periods prior to the Spin-Off are prepared on a carved-out and combined basis from the financial statements of DXC. The unaudited Condensed Consolidated Combined Statements of Operations of USPS reflect allocations of general corporate expenses from DXC, 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. Management of Perspecta considers 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 stand-alone company for the periods presented. Actual costs that may have been incurred if USPS had been a stand-alone 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 unaudited Condensed Consolidated Combined Balance Sheet of USPS as of March 31, 2018 includes 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 the periods prior to consummation of the Spin-Off because those cash balances were 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 unaudited Condensed Consolidated Combined Balance Sheets. Parent's receivables sales facility and long-term debt, other than capital lease obligations, have not been attributed to USPS for the periods prior to consummation of the Spin-Off because the Parent's borrowings were not the legal obligation of USPS. All intercompany transactions have been eliminated in consolidation and combination.

The unaudited Condensed Consolidated Combined Financial Statements for prior periods, included herein, may not be indicative of the financial position, results of operations and cash flows of the Company in the future or if USPS had been operated as a consolidated group during all periods presented. In the opinion of management of the Company, the accompanying unaudited condensed 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 its results of operations and cash flows for the period prior to consummation of the Spin-Off.

*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. 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. 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:

- Defense and Intelligence - provides services to the DoD, intelligence community, branches of the U.S. Armed Forces, and other DoD agencies.
- 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. There is no impact on the Company's previously reported statements of operations, balance sheets or statements of cash flows resulting from these segment changes.

**Note 2 – Recent Accounting Pronouncements**

*Recently Adopted Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 (Topic 606), *Revenue from Contracts with Customers* ("ASC 606"), which, along with amendments issued in 2015 through 2017, replaced most existing revenue recognition guidance under GAAP and eliminated industry specific guidance. ASC 606 requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The 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 the Company's financial statements to understand the nature, amount, timing and uncertainty of revenue 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. The Company adopted ASC 606 as of April 1, 2018 for contracts not completed at the date of adoption using the modified retrospective transition method. Under the modified retrospective method, prior periods were not restated but rather a cumulative catch-up adjustment was recorded on the adoption date.

A majority of the Company's service revenue continues to be recognized over time as the Company delivers these services. Under ASC 606, certain sales commissions historically expensed are capitalized as costs to obtain a contract.

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We recorded a net increase to opening retained earnings of \$4 million as of April 1, 2018, due to the cumulative impact of adopting ASC 606, with the impact related to the capitalization of certain sales commissions. The impact of adoption on revenue, selling, general, and administrative expenses, and net income was not material for the three and nine months ended December 31, 2018. The cumulative impact of adoption on our December 31, 2018 balance sheet was as follows:

(in millions)	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
<b>Assets</b>			
Receivables, net of allowance for doubtful accounts	\$ 487	\$ 524	\$ (37)
Deferred contract costs	40	37	3
Other assets	191	185	6
<b>Liabilities and Stockholders' Equity</b>			
Accrued expenses and other current liabilities	\$ 356	\$ 350	\$ 6
Deferred revenue and advance contract payments	28	62	(34)
Non-current deferred tax liabilities	111	109	2
Other long-term liabilities	212	221	(9)
Total stockholders' equity	2,197	2,190	7

See Note 5 – “Revenue From Contracts With Customers” for further details.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that whenever cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, a reconciliation of the totals must be presented in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. The Company adopted the standard on April 1, 2018, on a retrospective basis. The adoption of the amendment changed the presentation of certain information in the Statements of Cash Flows.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying 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 adopted the standard on April 1, 2018. The adoption of the amendment did not have a significant impact on the Financial Statements.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* (“ASU 2017-12”). The purpose of this updated guidance is to better align a company’s financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The Company adopted the ASU 2017-12 on April 1, 2018. The adoption of the amendment did not have a significant impact on the Financial Statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (“ASU 2017-07”). Previous guidance required the aggregation of all the components of net periodic benefit costs on the Statements of Operations and did not require disclosure of the location of net periodic costs on the Statements of Operations. Under the amended guidance, the service cost component of net periodic benefit cost is included within the same line as other compensation expenses. All other components of net periodic benefit cost are reported outside operating income. The Company adopted this guidance in the first quarter of the fiscal year ended March 31, 2019 when pension obligations were acquired in the Mergers. The adoption of this guidance resulted in no retrospective change to the previous period presented because the Company had no defined benefit pension expense during that period. The net periodic pension benefit discussed in Note 14 – “Pension and Other Benefit Plans” does not include a service cost component, so all expense is reported in other income, net in the Financial Statements.

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In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* (“ASU 2016-16”). The amendments in ASU 2016-16 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 have been 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 adopted the guidance in the first quarter of the fiscal year ending March 31, 2019. The adoption of the amendments did not result in a significant impact on the Financial Statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”), which simplifies how an entity is required to test goodwill for impairment. The amendments in ASU 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 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 adopted ASU 2017-04 in the second quarter of the fiscal year ending March 31, 2019, but the application of this guidance did not impact the Company’s goodwill impairment test performed as of July 1, 2018.

### *Recently Issued Accounting Pronouncements Not Yet Adopted*

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842) Section A—Leases* (“ASU 2016-02”), along with amendments issued in 2017 and 2018. ASC 842, along with related amendments, requires 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. The Company expects to adopt the standard on April 1, 2019. Management is in the process of reviewing the Company’s lease and other service based contracts, while also performing an assessment of the potential effects of the standard on the Company’s financial statements and disclosures, accounting policies and internal controls over financial reporting. We developed a detailed implementation plan, which includes, among other things, implementation of a new lease accounting system, an update to our policies, development of disclosures, evaluation of our controls and application of the guidance across our contract population. We are still assessing the qualitative and quantitative impacts to our financial statements.

In June 2016, FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). The guidance changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company is currently assessing the impact that this guidance will have on its trade receivables and financial arrangements when adopted.

In August 2018, the FASB issued ASU 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20)* (“ASU 2018-14”). ASU 2018-14 makes changes to the disclosure framework for defined benefit pension plans. The amendment is effective for public entities for fiscal years ending after December 15, 2020, and early adoption is permitted. Retrospective application is required for all periods presented. The Company is currently evaluating the impact of adopting ASU 2018-14 on its financial statements and related disclosures, as well as evaluating the date and method of adoption.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (“ASU 2018-15”). ASU 2018-15 provides guidance for determining when a cloud computing arrangement

includes a software license and makes changes to the requirements for capitalizing implementation costs incurred in a hosting arrangement that is as a service contract. The amendment is effective for public entities for fiscal years beginning after December 15, 2019 (fiscal year ended March 31, 2021 for Perspecta), and early adoption is permitted. The update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently evaluating the impact of adopting ASU 2018-15 on its financial statements and related disclosures, as well as evaluating the date and method of adoption.

Other recently issued ASUs effective after December 31, 2018 are not expected to have a material effect on Perspecta's financial statements.

### **Note 3 – Summary of Significant Accounting Policies**

#### *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 Financial Statements and accompanying Notes.

Amounts subject to significant judgment and/or estimates include, but are not limited to, determining the fair value of assets acquired and liabilities assumed, the evaluation of impairment of goodwill and other long-lived intangible assets, costs to complete fixed-price contracts, fair value, certain deferred costs, valuation allowances on deferred tax assets, loss accruals for litigation, and inputs used for computing stock-based compensation and pension related liabilities. 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.

#### *Reclassifications*

Certain prior period balances in the accompanying Financial Statements have been reclassified to conform to the current period presentation. These reclassifications had no impact on total assets, total liabilities, total equity, income before taxes or net income.

#### *Revenue Recognition*

The Company's revenue from contracts with customers is derived from its primary service offerings, including technology and business solutions, systems engineering and integration, cybersecurity, applied research and big data analytics, and investigative and risk mitigation services to the U.S. government and its agencies. The Company also serves various state and local governments.

The Company performs under various types of contracts, which include (1) fixed price contracts, such as firm-fixed-price ("FFP"), (2) cost reimbursable contracts such as cost-plus-fixed-fee, cost-plus-award-fee and cost-plus-incentive-fee, and (3) time-and-materials ("T&M") contracts, including fixed-price-level-of-effort ("FP-LOE") contracts.

To determine the proper revenue recognition, the Company first evaluates whether it has a duly approved and enforceable contract with a customer, in which the rights of the parties and payment terms are identified, and collectability is probable. The Company also evaluates whether two or more contracts should be combined and accounted for as a single contract, including the task orders issued under an indefinite delivery, indefinite quantity award. In addition, the Company assesses contract modifications to determine whether the changes to existing contracts should be accounted for as part of the original contract or as a separate contract. Contract modifications for the Company may relate to changes in contract specifications and requirements and do not add distinct services, and therefore are accounted for as part of the original contract. If contract modifications add distinct goods or services and increase the contract value by the stand-alone selling price, those modifications are accounted for as separate contracts.

For each contract, the Company assesses if multiple promises should be accounted for as separate performance obligations or combined into a single performance obligation. The Company generally separates multiple promises in a contract as separate performance obligations if those promises are distinct, both individually and in the context of the contract. If multiple promises in a contract are highly interrelated or comprise a series of distinct services performed over time, they are combined and accounted for as a single performance obligation.



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The Company's contracts with the U.S. federal government often contain options to renew existing contracts for an additional period of time (generally a year at a time) under the same terms and conditions as the original contract. The Company accounts for renewal options as separate contracts when they include distinct goods or services at stand-alone selling prices.

Contracts with the U.S. federal government are generally subject to the Federal Acquisition Regulation ("FAR") and priced on an estimated or actual costs of providing the goods or services. The FAR provides guidance on types of costs that are allowable in establishing prices for goods and services provided to the U.S. federal government and its agencies. Each contract is competitively priced and bid separately. Pricing for non-U.S. federal government agencies is based on specific negotiations with each customer. The Company excludes any taxes collected or imposed when determining the transaction price.

Certain of the Company's contracts contain award fees, incentive fees or other provisions that may either increase or decrease the transaction price. These variable amounts generally are awarded upon achievement of certain performance metrics, program milestones or cost targets and can be based upon customer discretion. The Company estimates variable consideration at the expected value amount to which it expects to be entitled based on the assessment of the contractual variable fee criteria, complexity of work and related risks, extent of customer discretion, amount of variable consideration received historically and the potential of significant reversal of revenue.

The Company allocates the transaction price of a contract to its performance obligations in the proportion of such obligation's stand-alone selling price. The stand-alone selling prices of the Company's performance obligations are generally based on an expected cost-plus margin approach. For certain product sales, the Company uses prices from other stand-alone sales. Substantially none of the Company's contracts contain a significant financing component that would require an adjustment to the transaction price of the contract.

The Company recognizes revenue on our service contracts primarily over time as there is continuous transfer of control to the customer over the duration of the contract as the Company performs the promised services. For U.S. federal government contracts, continuous transfer of control to the customer is evidenced by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay for costs incurred plus a reasonable profit and take control of any work-in-process.

The Company's IT and business process outsourcing arrangements typically have a single performance obligation that are a series of distinct goods or services that are substantially the same and are provided over a period of time using the same measure of progress. Revenue derived from IT and business process outsourcing arrangements is generally comprised of a series of distinct services, and thus, is recognized over time based upon the level of services delivered in the distinct periods in which they are provided using an input method based on time increments. IT outsourcing arrangements may include nonrefundable upfront fees billed for activities to familiarize us with the client's operations, take control over their administration and operation, and adapt them to the Company's solutions. These activities typically do not qualify as separate performance obligations, and the related revenue is allocated to the relevant performance obligation and satisfied over time as the performance obligation is satisfied.

On FFP contracts, revenue recognized over time generally uses a method that measures the extent of progress toward completion of a performance obligation, principally using a cost-input method (referred to as the cost-to-cost method). Under the cost-to-cost method, revenue is recognized based on the proportion of total cost incurred to estimated total costs at completion ("EAC"). The cost-to-cost method best depicts the Company's performance and transferring control of services promised to the customer. A performance obligation's EAC includes all direct costs such as materials, labor, subcontract costs, overhead, and a ratable portion of general and administrative costs. In addition, the Company includes in an EAC future losses of a performance obligation estimated to be incurred on onerous contracts, as and when known, and the most likely amount of transaction price (revenue) that the Company expects to receive for unpriced change orders (modifications). On certain other contracts, principally T&M, FP-LOE, and cost-plus-fixed-fee, revenue is recognized using the right-to-invoice practical expedient as we are contractually able to invoice the customer based on the control transferred to the customer.

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### *Billed Receivables*

Amounts billed and due from the Company's customers are classified as receivables, net of allowance for doubtful accounts on the balance sheets. The portion of the payments retained by the customer until final contract settlement is not considered a significant financing component because the intent is to protect the customer in the event the Company does not perform on our obligations under the contract.

### *Costs to Obtain a Contract*

Certain sales commissions earned by the Company's sales force are considered incremental and recoverable costs of obtaining a contract with a customer. For sales commissions earned on contracts with a period of benefit of less than one year, the Company applies the practical expedient to recognize the costs as incurred. For sales commissions earned on contracts with a period of benefit beyond one year, such costs are deferred and amortized on a straight-line basis over the term of the contract, not to exceed five years. The closing balance of the associated asset is \$3 million and \$6 million included within deferred contract costs and other assets, respectively, in the accompanying Balance Sheet as of December 31, 2018. Amortization expense of \$1 million and \$2 million for the three and nine months ended December 31, 2018, respectively, is included in costs of services in the accompanying Statements of Operations.

### *Costs to Fulfill a Contract*

Certain contract setup costs incurred upon initiation of a contract that are expected to be recovered over the course of an arrangement are capitalized in accordance with ASC Topic 340, *Other Assets and Deferred Costs*. Costs to fulfill a contract typically include contract set up costs that are directly related to a contract or an anticipated contract that generate or enhance resources to be used in satisfying performance obligations. These costs are amortized on a straight-line basis over the contract term. The closing balance of the outsourcing contract costs is \$15 million, included within intangible assets in the accompanying Balance Sheet as of December 31, 2018. For the three and nine months ended December 31, 2018, amortization expense of less than \$1 million and \$5 million, respectively, is included within depreciation and amortization in the accompanying Statements of Operations.

### *Acquisition Accounting and Goodwill*

When the Company acquires a controlling financial interest through a business combination, it 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. 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. 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. federal government appropriations or other significant adverse changes in industry or market conditions.

### *Income Taxes*

The Company 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. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent that it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies and

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results of recent operations. If the Company determines that it would not be able to realize the deferred tax assets in the future equal to their net recorded amount, the Company would record a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

The Company records accruals for uncertain tax positions in accordance with ASC Topic 740, *Income Taxes*, on the basis of a two-step process in which (1) the Company determines 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, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. The Company 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. Interest and penalties related to unrecognized tax benefits are recognized and included in the provision for income taxes in the accompanying Statements of Operations. Accrued interest and penalties are included in the related tax liability in the Balance Sheets.

Prior to the Spin-Off and Mergers on May 31, 2018, the Company's operations were 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 for those periods contained in these 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 periods and were relieved through the Parent company investment account and the transfers from (to) Parent, net in the Statements of Cash Flows.

### *Cash and Cash Equivalents*

The Company considers investments with an original maturity of three months or less to be cash equivalents.

### *Restricted Cash*

The Company accounts for amounts collected associated with its MARPA Facility and unremitted to the Financial Institutions as restricted cash within our prepaid expenses and other current assets caption in the balance sheet. See Note 7 – "Sale of Receivables" for additional information and definitions of MARPA Facility and Financial Institutions.

### *Concentrations of Risk*

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

The Company participates in cash management, funding arrangements and risk management programs, which were managed by the Parent prior to consummation of the Spin-Off. Perspecta performs ongoing credit evaluations of the financial condition of its customers. The Company's receivables are primarily with the U.S. federal government, and thus the Company does not have material credit risk exposure for amounts billed.

### *Derivative and Hedging Activities*

The Company primarily uses derivative instruments to manage interest rate risk on outstanding debt. The Company designates interest rate swaps as hedges for purposes of hedge accounting, through a match of all the critical terms of the derivative and the hedged interest rate risks, and recognizes all such derivative instruments as either assets or liabilities in the Balance Sheets at fair value. These derivative instruments are classified by their short- and long-term components, based on the fair value anticipated timing occurring within one year or beyond one year. The effective portion of changes in the fair value of derivative instruments designated and that qualify for cash flow hedges are reflected as adjustments to other comprehensive income, net of tax, and subsequently reclassified into earnings in the period during which the hedged transactions are recognized in earnings. Any ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

All cash flows associated with the Company's derivative instruments are classified as operating activities in the Statements of Cash Flows.

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### *Leases*

The Company's leasing arrangements are accounted for as capital leases or operating leases based on the contractual terms of the individual leasing arrangements, which are cash settled on a recurring basis in accordance with its contractual terms. Capital lease obligations are presented on the face of the Balance Sheets as 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 Statements of Cash Flows.

### *Intangible Assets*

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

Acquired backlog	1 year
Software	2 to 10 years
Developed technology	6 years
Program assets	Expected program asset life
Outsourcing contract costs	Contract life, excluding option years

Acquired backlog intangible assets represent the funded economic value of predominantly long-term contracts, less the amount of revenue already recognized on those contracts. Acquired backlog was valued using the excess earnings approach, amortized over a one year period. Software is amortized predominately using the straight-line method. Developed technology intangible assets represent acquired intellectual property and were valued using the relief from royalty method. 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. 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, excluding option years. 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 revenue. Transition/set-up costs are primarily associated with assuming control over customer IT operations and transforming them consistent with contract specifications.

### **Note 4 – Acquisitions**

On May 31, 2018, immediately following the consummation of the Spin-Off, the Company completed the Mergers. As defined in the Merger Agreement, Perspecta issued shares of Perspecta common stock to Veritas Capital and its affiliates, including 18,877,244 shares to The SI Organization Holdings LLC (the "Vencore HC Stockholder") and 4,396,097 shares to KGS Holding LLC (the "KeyPoint Stockholder," and, together with the Vencore HC Stockholder, the "Vencore Stockholders"), representing in the aggregate approximately 14% of the outstanding shares of Perspecta common stock immediately following the Mergers. As a result of these transactions, Vencore HC and KGS HC became wholly-owned subsidiaries of Perspecta.

The Spin-Off and Mergers were structured as a "Reverse Morris Trust" transaction, in which Perspecta was deemed the accounting acquirer of Vencore HC and KGS HC and their respective subsidiaries. Purchase consideration transferred in a business combination is typically measured by reference to the fair value of equity issued or other assets transferred by the accounting acquirer. Accordingly, the fair value of the purchase consideration transferred was measured based on the fair value of approximately 14% of shares of the combined business, \$400 million cash transferred by Perspecta to the Vencore Stockholders, and approximately \$1.0 billion paid to extinguish certain existing Vencore HC and KeyPoint HC indebtedness.

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Under the acquisition method of accounting, total consideration exchanged was:

(in millions)	Amount
Preliminary fair value of equity purchase consideration received by Vencore Stockholders <sup>(1)</sup>	\$ 578
Preliminary fair value of cash purchase consideration received by Vencore Stockholders	400
Preliminary fair value of cash consideration paid by USPS to extinguish certain existing Vencore indebtedness	994
Consideration transferred	<u>\$ 1,972</u>

<sup>(1)</sup> Represents the fair value of consideration received by the Vencore HC Stockholder and the KeyPoint Stockholder for approximately 14% ownership in the combined company. The fair value of the purchase consideration transferred was based on 18,877,244 shares of Perspecta common stock distributed to Vencore HC Stockholder and 4,396,097 shares of Perspecta common stock distributed to the KeyPoint Stockholder as of the close of business on the record date for the Mergers, at the closing price of \$24.86 per share on May 31, 2018.

The information presented below represents the allocation of Vencore's purchase price to the assets acquired and liabilities assumed as of the acquisition date, May 31, 2018.

The major classes of assets and liabilities to which the purchase price allocated were as follows:

(in millions)	Estimated Fair Value
Current assets	\$ 333
Property and equipment	35
Intangible assets	622
Other assets	33
Accounts payable, accrued payroll, accrued expenses, and other current liabilities	(188)
Deferred revenue	(12)
Other liabilities	(90)
Net identifiable assets acquired	733
Goodwill	1,239
Consideration transferred	<u>\$ 1,972</u>

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed at the closing date of the Mergers.

The goodwill recognized in the Mergers is attributable to the intellectual capital, the acquired assembled work force and expected cost synergies, none of which qualify for recognition as a separate intangible asset. The goodwill related to the Mergers is not expected to be fully deductible for tax purposes. The preliminary estimate of goodwill above includes approximately \$172 million of tax deductible goodwill. Goodwill arising from the Mergers has been allocated on a preliminary basis to Perspecta's reporting units based on the relative fair value of assets acquired.

The fair values of assets acquired and liabilities assumed are preliminary and based on a valuation using estimates and assumptions that are subject to change, which could result in material changes to the purchase price allocation. During the third quarter, the Company made certain valuation adjustments to provisional amounts previously recognized. These adjustments resulted in a net \$1 million decrease of the goodwill, primarily due to fair value adjustments resulting in a decrease in liabilities. As a result, the Company updated the preliminary allocation to Perspecta's reportable segments as follows: \$1,156 million allocated to Defense and Intelligence and \$83 million allocated to Civilian and Health Care.

### *Unaudited Pro Forma Financial Information*

The following unaudited pro forma financial information presents results as if the Spin-Off and the Mergers and the related financing had occurred on April 1, 2017. The historical consolidated financial information of Perspecta has been adjusted in the pro forma information to give effect to the events that are (1) directly attributable to the transactions, (2) factually supportable and (3) expected to have a continuing impact on the combined results. The effects of the Spin-Off are primarily attributable to interest expense associated with the incurrence of debt in connection with the Spin-Off. The effects of the Mergers primarily relate to amortization of acquired intangible assets. The consolidated financial information of Perspecta includes merger and integration-related costs that are not expected to recur and impact the combined results over the long-term. The unaudited pro forma results do not reflect future events that have occurred or may occur after the transactions, including but not limited to, the impact of any actual or anticipated synergies expected to result from the

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Mergers. Accordingly, the unaudited pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transactions been effected on April 1, 2017, nor is it necessarily an indication of future operating results.

(in millions, except per-share amounts)	Period from April 1, 2018 to May 31, 2018		Nine Months Ended December 31, 2018		
	Nine Months Ended December 31, 2018	Historical Vencore HC and KeyPoint HC	Effects of the Spin-Off	Effects of the Mergers	Pro Forma Combined for the Spin-Off and Mergers
	<b>Historical Perspecta<sup>(1)</sup></b>				
Revenue	\$ 2,936	\$ 245	\$ —	\$ —	\$ 3,181
Net income (loss)	\$ 91	\$ (57)	\$ (7)	\$ 12	\$ 39
Earnings per common share <sup>(2)</sup> :					
Basic	\$ 0.55				\$ 0.24
Diluted	\$ 0.55				\$ 0.24

<sup>(1)</sup> Revenue and net income includes \$860 million and \$137 million associated with Vencore HC and KeyPoint HC, respectively, for the period of June 1, 2018 through December 31, 2018.

<sup>(2)</sup> Historical and pro forma combined earnings per share information is computed based on 165.02 million basic weighted average shares and 165.27 million diluted shares. See Note 6 – “Earnings Per Share.”

Three Months Ended December 31, 2017					
(in millions, except per-share amounts)	Period from April 1, 2018 to May 31, 2018		Nine Months Ended December 31, 2018		
	Historical Perspecta	Historical Vencore HC and KeyPoint HC	Effects of the Spin-Off	Effects of the Mergers	Pro Forma Combined for the Spin-Off and Mergers
Revenue	\$ 722	\$ 349	\$ —	\$ —	\$ 1,071
Net income (loss)	\$ 104	\$ 20	\$ —	\$ (32)	\$ 92
Earnings per common share <sup>(1)</sup> :					
Basic	\$ 0.73				\$ 0.56
Diluted	\$ 0.73				\$ 0.56

<sup>(1)</sup> Historical earnings per share information for the three months ended December 31, 2017 is computed using the 142.43 million shares of Perspecta common stock resulting from the Distribution. See Note 6 – “Earnings Per Share.” Pro forma combined earnings per share includes the shares issued by Perspecta in connection with the Mergers on May 31, 2018. As a result, both basic and diluted pro forma combined earnings per share information is computed based on 165.70 million shares of Perspecta common stock, as Perspecta did not operate as a stand-alone entity during the period and therefore, no Perspecta common stock, stock options or other equity awards were outstanding and no dividends were declared or paid by Perspecta.

Nine Months Ended December 31, 2017					
(in millions, except per-share amounts)	Period from April 1, 2018 to May 31, 2018		Nine Months Ended December 31, 2018		
	Historical Perspecta	Historical Vencore HC and KeyPoint HC	Effects of the Spin-Off	Effects of the Mergers	Pro Forma Combined for the Spin-Off and Mergers
Revenue	\$ 2,104	\$ 1,041	\$ —	\$ —	\$ 3,145
Net income (loss)	\$ 176	\$ 22	\$ (18)	\$ (61)	\$ 119
Earnings per common share <sup>(1)</sup> :					
Basic	\$ 1.24				\$ 0.72
Diluted	\$ 1.24				\$ 0.72

<sup>(1)</sup> Historical earnings per share information for the nine months ended December 31, 2017 is computed using the 142.43 million shares of Perspecta common stock resulting from the Distribution. See Note 6 – “Earnings Per Share.” Pro forma combined earnings per share includes the shares issued by Perspecta in connection with the Mergers on May 31, 2018. As a result, both basic and diluted pro forma combined earnings per share information is computed based on 165.70 million shares of Perspecta common stock, as Perspecta did not operate as a stand-alone entity during the period and therefore, no Perspecta common stock, stock options or other equity awards were outstanding and no dividends were declared or paid by Perspecta.

**Note 5 – Revenue From Contracts With Customers**

The Company's primary service offerings are technology and business solutions, systems engineering and integration, cybersecurity, applied research and big data analytics, and investigative and risk mitigation services to the U.S. government and its agencies. Revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

The Company determines revenue recognition through the five-step model as follows:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, we satisfy a performance obligation

*Disaggregated Revenue*

The following tables present revenue disaggregated by contract type:

(in millions)	Three Months Ended December 31, 2018		
	Defense and Intelligence	Civilian and Health Care	Total
Cost-reimbursable	\$ 240	\$ 25	\$ 265
Fixed-price	373	229	602
Time-and-materials	96	112	208
Total	\$ 709	\$ 366	\$ 1,075

(in millions)	Nine Months Ended December 31, 2018		
	Defense and Intelligence	Civilian and Health Care	Total
Cost-reimbursable	\$ 580	\$ 66	\$ 646
Fixed-price	985	699	1,684
Time-and-materials	283	323	606
Total	\$ 1,848	\$ 1,088	\$ 2,936

The following tables present revenue disaggregated by prime or subcontractor:

(in millions)	Three Months Ended December 31, 2018		
	Defense and Intelligence	Civilian and Health Care	Total
Prime contractor	\$ 663	\$ 329	\$ 992
Subcontractor	46	37	83
Total	\$ 709	\$ 366	\$ 1,075

(in millions)	Nine Months Ended December 31, 2018		
	Defense and Intelligence	Civilian and Health Care	Total
Prime contractor	\$ 1,740	\$ 979	\$ 2,719
Subcontractor	108	109	217
Total	\$ 1,848	\$ 1,088	\$ 2,936

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The following tables present revenue disaggregated by customer type:

(in millions)	Three Months Ended December 31, 2018		
	Defense and Intelligence	Civilian and Health Care	Total
Federal, including independent agencies	\$ 707	\$ 302	\$ 1,009
Non-federal (state, local, other)	2	64	66
<b>Total</b>	<b>\$ 709</b>	<b>\$ 366</b>	<b>\$ 1,075</b>

(in millions)	Nine Months Ended December 31, 2018		
	Defense and Intelligence	Civilian and Health Care	Total
Federal, including independent agencies	\$ 1,843	\$ 893	\$ 2,736
Non-federal (state, local, other)	5	195	200
<b>Total</b>	<b>\$ 1,848</b>	<b>\$ 1,088</b>	<b>\$ 2,936</b>

### *Performance Obligations*

As of December 31, 2018, approximately \$3.2 billion of revenue is expected to be recognized from remaining unsatisfied performance obligations on executed contracts. The Company expects to recognize revenue on these remaining performance obligations within approximately twelve months.

### *Contract Balances*

Contract assets consist of unbilled receivables, which result from services provided under contracts when revenue is recognized over time, revenue recognized exceeds the amounts billed to the customer, and right to payment is not just subject to the passage of time. Amounts are invoiced as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Payment to employees and third parties for services provided to customers is generally immediate, while the related billing is generally within 90 days.

Contract liabilities include advance contract payments and billings in excess of costs incurred. Under certain contracts, the Company receives advances and milestone payments from its customers that exceed revenue earned to date, resulting in contract liabilities. Advances typically are not considered a significant financing component because it is used to meet working capital demands that can be higher in the early stages of a contract and to protect the Company from the customer failing to adequately complete some or all of its obligations under the contract.

Contract assets and contract liabilities were as follows:

(in millions)	Balance Sheet Line Item	As of	
		December 31, 2018	April 1, 2018
<b>Contract assets:</b>			
Unbilled receivables	Receivables, net of allowance for doubtful accounts	\$ 274	\$ 193
<b>Contract liabilities:</b>			
Current portion of deferred revenue and advance contract payments	Deferred revenue and advance contract payments	\$ 28	\$ 27
Non-current portion of deferred revenue and advance contract payments	Other long-term liabilities	1	7

Contract assets increased \$81 million during the nine months ended December 31, 2018, primarily due to the Mergers. There were no significant impairment losses related to the Company's contract assets during the nine months ended December 31, 2018.

Contract liabilities decreased \$5 million during the nine months ended December 31, 2018, primarily due to revenue recognized in excess of payments received, partially offset by the Mergers. During the three and nine months ended December 31, 2018, the Company recognized \$2 million and \$24 million, respectively, of the deferred revenue and advance contract payments at April 1, 2018 as revenue.



## Note 6 – Earnings Per Share

Basic earnings per share (“EPS”) for the three and nine month periods ended December 31, 2018, is computed using the weighted average number of shares of common stock outstanding between the date of the Distribution and the end of the period. Diluted EPS reflects the incremental shares issuable upon the assumed exercise of stock options and vesting of other equity awards, based on the DXC equity awards that were converted to Perspecta awards on the date of the Distribution. EPS for the three and nine month periods ended December 31, 2017, is computed using the shares of Perspecta common stock resulting from the Distribution, as Perspecta did not operate as a stand-alone entity and therefore, no common stock, stock options or other equity awards were outstanding.

The following table reflects the calculation of basic and diluted EPS:

(in millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net income	\$ 38	\$ 104	\$ 91	\$ 176

### Common share information:

Weighted average common shares outstanding for basic EPS	164.32	142.43	165.02	142.43
Dilutive effect of stock options and equity awards	0.22	—	0.25	—
Weighted average common shares outstanding for diluted EPS	164.54	142.43	165.27	142.43

### Earnings per share:

Basic	\$ 0.23	\$ 0.73	\$ 0.55	\$ 1.24
Diluted	\$ 0.23	\$ 0.73	\$ 0.55	\$ 1.24

Certain restricted stock units (“RSUs”) were excluded from the computation of diluted EPS because inclusion of these amounts would have had an anti-dilutive effect. The number of RSUs excluded were as follows (in millions):

Award Type	Three Months Ended December 31, 2018	Nine Months Ended December 31, 2018
RSUs	0.73	0.32

## Note 7 – Sale of Receivables

### Receivables Sales Facility

On July 14, 2017, Enterprise Services LLC, a wholly-owned subsidiary of the Company, which has since been renamed Perspecta Enterprise Solutions LLC (“PES 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”), which is an off-balance sheet 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 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. On May 31, 2018, the Parent’s guaranty was terminated and Perspecta entered into a new guaranty of PES LLC’s obligations under the Purchase Agreement.

In accordance with the terms of the Purchase Agreement, on January 23, 2018, the Purchase Agreement was amended to increase the aggregate facility limit from \$200 million to \$300 million (the first amendment), and on May 31, 2018, the Purchase Agreement was amended to increase the aggregate facility limit to \$450 million (the second amendment). Effective October 31, 2018, the Company completed the third amendment to the MARPA Facility to reduce the aggregate facility limit to \$300 million and extend the term of the MARPA Facility through October 31, 2019.

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Under the MARPA Facility, the Company sells eligible federal government obligor receivables, including both billed and certain unbilled receivables. 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.

The Company accounts for these receivable transfers as sales and removes 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 December 31, 2018. Sold receivables are presented as a change in receivables within operating activities in the Statements of Cash Flows.

During the three and nine months ended December 31, 2018, the Company sold \$691 million and \$2.1 billion, respectively, of billed and unbilled receivables. The amount outstanding at December 31, 2018 was \$169 million. As of December 31, 2018, collections not remitted to the Financial Institutions corresponding to these receivables sales were \$9 million. This amount represents restricted cash recorded by the Company within the prepaid expenses and other current assets caption of the Balance Sheet as of December 31, 2018.

### **Note 8 – Fair Value**

The Company accounts for recurring and non-recurring fair value measurements in accordance with ASC Topic 820, *Fair Value Measurement* ("ASC 820"). ASC 820 defines fair value, establishes a fair value hierarchy for assets and liabilities measured at fair value and requires expanded disclosures about fair value measurements. The ASC 820 hierarchy ranks the quality of reliability of inputs, or assumptions, used in the determination of fair value and requires assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

Level 1 - Fair value is determined by using unadjusted quoted prices that are available in active markets for identical assets and liabilities.

Level 2 - Fair value is determined by using inputs other than Level 1 quoted prices that are directly or indirectly observable. Inputs can include quoted prices for similar assets and liabilities in active markets or quoted prices for identical assets and liabilities in inactive markets. Related inputs can also include those used in valuation or other pricing models, such as interest rates and yield curves that can be corroborated by observable market data.

Level 3 - Fair value is determined by inputs that are unobservable and not corroborated by market data. Use of these inputs involves significant and subjective judgments to be made by a reporting entity - e.g., determining an appropriate adjustment to a discount factor for illiquidity associated with a given security. If a change in Level 3 inputs occurs, the resulting amount might result in a significantly higher or lower fair value measurement.

The Company evaluates financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level at which to classify them each reporting period. This determination requires the Company to make subjective judgments as to the significance of inputs used in determining fair value and where such inputs lie within the ASC 820 hierarchy.

The Company estimates the fair value of its long-term debt primarily using an expected present value technique, which is based on observable market inputs, using interest rates currently available to the Company for instruments with similar terms and remaining maturities. The estimated fair value of the Company's long-term debt, excluding capital leases and unamortized debt issuance costs, was \$2,357 million as of December 31, 2018, as compared with the gross carrying value of \$2,484 million. If measured at fair value, long-term debt, excluding capital lease liabilities, would be classified in Level 2 of the fair value hierarchy.

Non-financial assets such as goodwill and tangible assets, intangible assets and other contract related long-lived assets are reduced to fair value in the period an impairment charge is recognized. The fair value measurements, in such instances, would be classified in Level 3. There were no significant impairments recorded during the three and nine months ended December 31, 2018 and December 31, 2017, respectively.

## **Note 9 – Derivative Instruments**

In the normal course of business, the Company is exposed to interest rate fluctuations. As part of its risk management strategy, the Company uses derivative instruments, primarily interest rate swaps, to hedge certain interest rate exposures. The Company's objective is to add stability to interest expense and to manage its exposure to movements in market interest rates. The Company does not use derivative instruments for trading or any speculative purpose.

### *Derivatives Designated for Hedge Accounting*

The Company uses interest rate swap agreements designated as cash flow hedges to mitigate its exposure to interest rate risk associated with the variability of cash outflows for interest payments on certain floating interest rate debt, which effectively converted the debt into fixed interest rate debt. The Company entered into \$1.4 billion of notional interest rate swap agreements concurrently with its Credit Facilities (as defined under Note 12 – "Debt"), on May 31, 2018, and \$200 million of notional interest rate swap agreements in October 2018. As of December 31, 2018, the Company had interest rate swap agreements with a total notional amount of \$1.6 billion. The Company initially accounted for all changes in fair value of its interest rate swaps in the Statements of Operations until designation as a cash flow hedge of interest rate risk on June 22, 2018. As a result, the Company recorded a gain of \$5 million in the first quarter, included in interest expense in the Statement of Operations for the nine months ended December 31, 2018.

Following the June 22, 2018 cash flow hedge designation, all changes in the hedging instruments' fair value are recorded in accumulated other comprehensive income ("AOCI") and subsequently reclassified into earnings in the period during which the hedged transactions are recognized in earnings. The effective portion of changes in the fair value of derivatives designated that qualify as cash flow hedges is recorded in AOCI, net of taxes, and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt.

For the three and nine months ended December 31, 2018, the Company performed both retrospective and prospective hedge effectiveness analyses for the interest rate swaps designated as cash flow hedges. The Company applied the long-haul method outlined in ASC Topic 815, *Derivatives and Hedging*, to assess retrospective and prospective effectiveness of the interest rate swaps. A quantitative effectiveness analysis assessment of the hedging relationship was performed using regression analysis. As of December 31, 2018, the Company has determined that the hedging relationship was highly effective.

The pre-tax impact of loss on derivatives designated for hedge accounting recognized in other comprehensive income (loss) was \$25 million (\$18 million, net of tax) and \$18 million (\$13 million, net of tax) for the three and nine months ended December 31, 2018, respectively. As of December 31, 2018, we expect amounts of approximately \$3 million pertaining to cash flow hedges to be reclassified from accumulated other comprehensive income into earnings over the next 12 months.

### *Fair Value of Derivative Instruments*

All derivatives are recorded at fair value. The Company's accounting treatment for these derivative instruments is based on its hedge designation. As of December 31, 2018, the gross fair value of our derivative liabilities in interest rate swaps designated for hedge accounting is \$13 million, of which \$2 million is presented as accrued expenses and other current liabilities and \$11 million is presented as other liabilities in the balance sheet. The fair value of interest rate swaps is estimated based on valuation models that use interest rate yield curves as Level 2 inputs.

### *Other risks*

The Company is exposed to the risk of losses in the event of non-performance by counter parties to its derivative contracts. To mitigate counter party credit risk, the Company regularly reviews its credit exposure and the creditworthiness of counter parties. The Company also enters into enforceable master netting arrangements with some of its counter parties. However, for financial reporting purposes, it is Company policy not to offset derivative assets and liabilities despite the existence of enforceable master netting arrangements with some of its counter parties.

**Note 10 – Intangible Assets**

Intangible assets, including preliminary fair values of those recorded in the Mergers, consisted of the following:

(in millions)	As of December 31, 2018		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Program assets	\$ 1,400	\$ 145	\$ 1,255
Software	83	47	36
Developed technology	105	13	92
Backlog	16	9	7
Outsourcing contract costs	21	6	15
Favorable leases	1	—	1
<b>Total intangible assets</b>	<b>\$ 1,626</b>	<b>\$ 220</b>	<b>\$ 1,406</b>

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

Total intangible assets amortization was \$43 million and \$126 million for the three and nine months ended December 31, 2018, respectively, compared to \$18 million and \$54 million, respectively, for the three and nine months ended December 31, 2017.

The increase in net and gross carrying value for the nine months ended December 31, 2018, were primarily due to the Mergers. See Note 4 – “Acquisitions.”

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

Fiscal Year	(in millions)
Remainder of fiscal year 2019	\$ 48
2020	122
2021	99
2022	90
2023	86
Thereafter	961
<b>Total</b>	<b>\$ 1,406</b>

**Note 11 – Goodwill**

The following table summarizes the changes in the carrying amount of Goodwill, by segment:

(in millions)	Defense and Intelligence	Civilian and Health Care	Total
Balance as of March 31, 2018	\$ 977	\$ 1,045	\$ 2,022
Additions	1,156	83	1,239
Allocations from DXC	11	—	11
<b>Balance as of December 31, 2018</b>	<b>\$ 2,144</b>	<b>\$ 1,128</b>	<b>\$ 3,272</b>

The additions to goodwill during nine months ended December 31, 2018 are due to the Mergers described in Note 4 – “Acquisitions.”

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### *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 July 1, 2018, did not result in an impairment charge. This qualitative analysis 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.

At the end of the third quarter of fiscal year 2019, the Company assessed whether there were events or changes in circumstances that would more likely than not reduce the fair value of any of its reporting units below its carrying amount and require goodwill to be tested for impairment. The Company determined that there have been no such indicators, and, therefore, it was unnecessary to perform an interim goodwill impairment test as of December 31, 2018.

### **Note 12 – Debt**

The following is a summary of the Company's outstanding debt as of December 31, 2018:

	<b>Interest Rates</b>	<b>Maturities</b>	<b>December 31, 2018</b> (in millions)
Revolving Credit Facility	LIBOR + 1.50%	May 2023	\$ —
Term Loan A Facilities (Tranche 1)	LIBOR + 1.375%	May 2021	312
Term Loan A Facilities (Tranche 2)	LIBOR + 1.50%	May 2023	1,608
Term Loan B Facility	LIBOR + 2.25%	May 2025	498
Subtotal senior secured credit facilities			2,418
Senior unsecured EDS Notes	7.45%	October 2029	66
Total debt			2,484
Less: current maturities of long-term debt, net <sup>(1)</sup>			(79)
Less: unamortized debt issuance costs and premiums <sup>(2)</sup>			(21)
Total long-term debt, net of current maturities			\$ 2,384

<sup>(1)</sup> Current maturities of long-term debt are presented net of \$8 million of debt issuance costs associated with the Term Loan A Facilities and Term Loan B Facility.

<sup>(2)</sup> Includes \$12 million of unamortized premiums on the assumed Electronic Data Systems Corporation ("EDS") Notes resulting from the application of fair value accounting associated with the merger of the Enterprise Services business unit ("HPES") of Hewlett Packard Enterprise Company ("HPE") and Computer Sciences Corporation to form DXC.

### **Term Loan Facilities and Revolving Credit Facility**

Following the Spin-Off, Perspecta obtained financing under secured credit facilities, consisting of (1) new senior secured term loan credit facilities in an aggregate principal amount of \$2.0 billion (the "Term Loan A Facilities") and \$500 million (the "Term Loan B Facility"), net of \$34 million of debt issuance costs and (2) a senior secured revolving credit facility in an aggregate principal amount of \$600 million (the "Revolving Credit Facility," and, together with the Term Loan A Facilities and Term Loan B Facility, the "Credit Facilities"), with \$50 million initially drawn, net of \$9 million of debt issuance costs. The Credit Facilities were in place and drawn upon at the closing of the Mergers on May 31, 2018. These Credit Facilities funded a \$984 million cash distribution to DXC stockholders as a result of the Spin-Off, as well as \$400 million for the cash consideration paid to Veritas Capital and approximately \$1.0 billion repayment of existing Vencore debt. As of December 31, 2018, \$600 million of available credit remained undrawn under the Revolving Credit Facility as the initial \$50 million borrowing was repaid in June 2018.

The Credit Facilities 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 or other restricted payments such as share repurchases; 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 Credit Facilities also contain affirmative covenants and representations and warranties customary for financings of this type. Perspecta was in compliance with all applicable covenants as of December 31, 2018.

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In addition, the Revolving Credit Facility and Term Loan A Facilities contain financial maintenance covenants requiring, as of 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. The Company was in compliance with these covenants at December 31, 2018.

In addition, on May 31, 2018, Perspecta and each of the other grantors party thereto (the "Grantors") entered into a Collateral Agreement (the "Collateral Agreement") with MUFG Bank, Ltd. ("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.

On December 12, 2018, Perspecta entered into the First Amendment to its Credit Agreement dated May 31, 2018. The amendment includes a 25 basis point reduction in the interest rate applicable to the company's Term Loan A Facilities and drawn Revolving Credit Facility, and a 5 basis point reduction in the interest rate applicable to the company's unused commitment fee with respect to the Revolving Credit Facility. The interest rate applicable for the company's Term Loan B Facility remains unchanged. Further information can be found in the company's current report on Form 8-K filed with the Securities and Exchange Commission on December 18, 2018.

Interest on the Company's term loans is payable monthly or quarterly in arrears. The Company fully and unconditionally guaranteed term loans issued by its 100% owned subsidiaries. Interest on the Company's senior notes is payable semi-annually in arrears. Generally, the Company's notes are redeemable at the Company's discretion at the then-applicable redemption prices plus accrued interest.

Expected maturities of long-term debt are as follows:

<b>Fiscal Year</b>	<b>(in millions)</b>
Remainder of fiscal year 2019	\$ 22
2020	88
2021	88
2022	399
2023	88
Thereafter	1,799
<b>Total</b>	<b>\$ 2,484</b>

### **Note 13 – Capital Leases**

Property under capital leases is comprised primarily of computers and related equipment. Capital lease assets included in the Balance Sheets were \$346 million and \$274 million as of December 31, 2018 and March 31, 2018, respectively. Accumulated depreciation on the property under capital leases was \$99 million and \$57 million as of December 31, 2018 and March 31, 2018, respectively.

Depreciation expense for capital lease assets was \$29 million and \$21 million for the three months ended December 31, 2018 and December 31, 2017, respectively. Depreciation expense for capital lease assets was \$76 million and \$51 million for the nine months ended December 31, 2018 and December 31, 2017, respectively.

Capital lease obligations primarily consist of contractual arrangements with HPE's wholly-owned leasing subsidiary ("HPE Financial Services"). Capital lease obligations included in the Balance Sheets were \$289 million and \$304 million as of December 31, 2018 and March 31, 2018, respectively. Interest expense on capital lease obligations was \$5 million and zero for the three months ended December 31, 2018 and December 31, 2017, respectively. Interest expense on capital lease obligations was \$14 million and \$7 million for the nine months ended December 31, 2018 and December 31, 2017, respectively.

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As of December 31, 2018, future minimum lease payments required to be made under capital leases were as follows:

Fiscal Year	(in millions)
Remainder of fiscal year 2019	\$ 51
2020	127
2021	79
2022	47
2023	12
Thereafter	1
<b>Total minimum lease payments</b>	<b>317</b>
Less: Amount representing interest and executory costs	28
<b>Present value of net minimum lease payments</b>	<b>289</b>
Less: Current capital lease liability	140
<b>Non-current capital lease liability</b>	<b>\$ 149</b>

**Note 14 – Pension and Other Benefit Plans**

The Company offers a number of pension and other post-retirement benefit (“OPEB”) plans, life insurance benefits, deferred compensation and defined contribution plans. Most of the Company’s pension plans are not admitting new participants; therefore, changes to pension liabilities are primarily due to market fluctuations of investments for existing participants and changes in interest rates.

*Defined Benefit Plans*

As a result of the Mergers, the Company now sponsors defined benefit pension and post-retirement medical benefit plans for the benefit of eligible employees acquired in the Mergers. At the date of the Mergers, the net projected benefit obligations and assets were \$489 million and \$419 million, respectively, of which \$7 million was recorded in other assets and \$77 million in other long-term liabilities. The Company did not contribute to the defined benefit pension and other post-retirement benefit plans during the three and nine months ended December 31, 2018, and does not expect to contribute during the remainder of fiscal year 2019.

The components of net periodic pension expense (benefit) were:

(in millions)	Three Months Ended December 31, 2018	Nine Months Ended December 31, 2018
Service cost	\$ —	\$ —
Interest cost	5	11
Expected return on assets	(8)	(17)
<b>Net periodic pension benefit</b>	<b>\$ (3)</b>	<b>\$ (6)</b>

The weighted-average rates used to determine the benefit obligation and net periodic pension cost were:

	Rate
<b>Benefit obligation:</b>	
Discount rate	4.3%
Rate of increase in compensation levels	—%
<b>Net periodic pension cost:</b>	
Discount rate	4.3%
Expected long-term rates of return on assets	7.3%
Rates of increase in compensation levels	—%

*Deferred Compensation Plans*

Effective May 1, 2018, Perspecta assumed sponsorship of the Enterprise Services LLC Deferred Compensation Plan (the "ES DCP"). The plan is a non-qualified deferred compensation plan maintained for a select group of management or highly compensated employees.

The ES DCP covers eligible former USPS employees who participated in the plan prior to the Spin-Off. The plan allows participating employees to defer the receipt of current compensation to a future distribution date or event above the amounts that may be deferred under the tax-qualified 401(k) plan. The plan does not provide for employer contributions, and does not admit new participants.

Certain management and highly compensated employees are eligible to defer all, or a portion of, their regular salary that exceeds the limitation set forth in the Internal Revenue Code of 1986 (the "Code") Section 401(a)(17) and all or a portion of their incentive compensation. Non-employee directors are eligible to defer up to 100% of their cash compensation. The liability, which is included in other long-term liabilities in the Company's Balance Sheets, amounted to \$3 million as of December 31, 2018.

Effective as of the Mergers, Perspecta assumed sponsorship of Vencore HC's Deferred Compensation Plan (the "Vencore HC DCP"). The Vencore HC DCP is a non-qualified deferred compensation plan maintained for a select group of management, highly compensated employees and non-employee directors.

The Vencore HC DCP covers eligible employees who participated in Vencore HC's Deferred Compensation Plan prior to the Mergers. It allows participating employees to defer the receipt of current compensation to a future distribution date or event above the amounts that may be deferred under Perspecta's tax-qualified 401(k) plan.

Certain management and highly-compensated employees are eligible to defer all, or a portion of, their regular salaries that exceed the limitation set forth in Section 401(a)(17) of the Code and all or a portion of their incentive compensation. Non-employee directors are eligible to defer up to 100% of their cash compensation. The liability, which is included in other long-term liabilities in the Company's Balance Sheets, amounted to \$10 million as of December 31, 2018.

On October 9, 2018, Perspecta's Board of Directors, upon the recommendation of its Human Resources and Compensation Committee, adopted a framework for a new, Company-sponsored nonqualified deferred compensation plan (the "Plan"), to replace the existing deferred compensation plans described above. The Plan became effective January 1, 2019.

The Plan is an unfunded, nonqualified deferred compensation plan maintained for the benefit of a select group of management or highly compensated employees of the Company, including the Company's principal executive officer, principal financial officer and other "named executive officers." Non-employee directors of the Company are also eligible to participate and defer their cash fees under the Plan.

Below is a brief description of the terms and conditions of the Plan. At December 31, 2018, there were no amounts payable to any named executive officer or director under the Plan.

The Plan is an account-based plan that allows participants to defer voluntarily the payment of current compensation to future years. The Plan permits each participant to defer cash compensation up to any limits set forth in the Plan, which amounts are credited to a bookkeeping account established for the participant under the Plan. The amounts credited to a participant's account are fully vested. The Plan does not provide for any employer contributions.

Amounts credited to a participant's account are indexed to one or more deemed investment alternatives chosen by the participant from a range of alternatives available under the Plan. Each participant's account is adjusted to reflect gains and losses based on the performance of the selected investment alternatives. None of the deemed investment options provide for an above-market or preferential rate of return.

A participant may receive distributions from the Plan upon separation from service or on in-service dates specified by the participant, in the form of distribution elected by the participant available under the Plan. There will be a six-month delay for commencement of payment upon termination of employment to any "specified employee" as defined under Internal Revenue Code Section 409A. The Human Resources and Compensation Committee (or its authorized delegate) will be the administrator of the Plan.



## Note 15 – Income Taxes

The Company's effective tax rate ("ETR") was approximately 21% and 27% for the three and nine months ended December 31, 2018, respectively, as compared to an estimated (131)% and (8)% for the three and nine months ended December 31, 2017, which was presented on a carve-out basis. The increase in the ETR for the three and nine months ended December 31, 2018 compared to the same periods in the prior year, was primarily driven by the revaluation of deferred tax items and the initial impacts of the Tax Cuts and Jobs Act of 2017 by the predecessor parent company tax groups that were recorded in prior periods, partially offset by the reduction in the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018.

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 with varying effective dates and reduces the maximum corporate income tax rate to 21% effective as of January 1, 2018, 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, among other changes.

Under SEC staff issued Staff Accounting Bulletin No 118, the Company made reasonable estimates and recorded provisional amounts during the Company's fiscal year ending March 31, 2018. The Company has not made any adjustments during the nine months ended December 31, 2018 to the provisional amounts recorded. As of December 31, 2018, we have completed the accounting for all the impacts of the Tax Act. DXC is still in the process of calculating return to provision adjustments for USPS for tax years ending prior to the enactment of the Tax Act. The Company will recognize the return to provision adjustments in the period in which they are finalized and provided by the former parent.

The Tax Matters Agreement entered into with DXC in connection with the Spin-Off (the "TMA") states each company's rights and responsibilities with respect to payment of taxes, tax return filings and control of tax examinations. Except for Vencore HC and KeyPoint HC, the Company is generally only responsible for tax assessments, penalties and interest allocable to periods (or portions of periods) related to USPS beginning after the Spin-Off and Mergers. The Company has income tax refunds receivable from the Internal Revenue Service ("IRS") and various state tax authorities of approximately \$33 million at December 31, 2018, for which it must remit to DXC under the TMA and has a corresponding payable. These amounts are included in other receivables and the related indemnification is included in accrued expenses and other current liabilities. During the third quarter, Perspecta received a refund of \$72 million that included interest in excess of the initial receivable amount. The corresponding TMA indemnification payable was adjusted for the additional interest, which was then immediately paid to DXC during the quarter.

The Company's entities included in the Spin-Off are currently under examination or in appeals in several tax jurisdictions. The tax years that remain open under statute of limitations and currently under IRS review include:

<b>Jurisdiction</b>	<b>Tax Years Subject to Examination</b>
U.S. Federal	2005 and forward
Various U.S. States	2003 and forward

The IRS is not currently examining Vencore HC or KeyPoint HC for any open years, but entities related to these businesses are open to examination in various state and local jurisdictions.

## Note 16 – Related Party Transactions

### *Corporate Allocations*

The Statements of Operations include an allocation of general corporate expenses from Parent for certain management and support functions that 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 \$24 million for the period from April 1 to May 31, 2018, \$34 million for the three months ended December 31, 2017, and \$118 million for the nine months ended December 31, 2017, and they are recorded within costs of services and selling, general and administrative in the Statements of Operations.

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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 prior to the Spin-Off. These allocations may not, however, reflect the expense USPS would have incurred as a stand-alone company for the periods presented. Actual costs that may have been incurred if USPS had been a stand-alone 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 investment in the Balance Sheets, Statements of Cash Flows and Statements of Equity represents the Parent's historical investment in USPS, the net effect of transactions with and allocations from Parent and USPS's accumulated earnings prior to consummation of the Spin-Off.

### *Transition Agreements with DXC*

DXC does not have an ownership interest in Perspecta following the Spin-Off, and the Company operates independently of DXC, apart from certain agreements pursuant to the Merger Agreement between Perspecta and DXC, including the Separation and Distribution Agreement (the "SDA"), and certain transition services agreements. In order to govern the ongoing relationships between the Company and DXC after the Spin-Off and to facilitate an orderly transition, the Company and DXC entered into agreements providing for various services and rights following the Spin-Off and under which the Company and DXC agreed to indemnify each other against certain liabilities arising from their respective businesses.

## **Note 17 – Stockholders' Equity**

### *Description of Capital Stock*

The Company has authorized share capital consisting of 750 million shares of common stock, par value \$0.01 per share, and 1 million shares of preferred stock, par value \$0.01 per share.

Each share of common stock is equal in all respects to every other share of common stock of the Company. Each share of common stock is entitled to one vote per share at each annual or special meeting of stockholders for the election of directors and upon any other matter coming before such meeting. Subject to all the rights of the preferred stock, dividends may be paid to holders of common stock as and when declared by the Board of Directors.

### *Cash Dividends*

During the nine months ended December 31, 2018, the Board of Directors declared cash dividends to our stockholders of approximately \$25 million in the aggregate, of which \$17 million had been paid as of December 31, 2018 and \$8 million of which was paid on January 15, 2019.

On February 13, 2019, the Board of Directors declared a dividend of \$0.05 per share payable on April 16, 2019 to common stockholders of record at the close of business on March 27, 2019.

### *Share Repurchase Program*

On June 1, 2018, the Board of Directors authorized up to \$400 million for future repurchases of outstanding shares of Perspecta's 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. During the three and nine months ended December 31, 2018, the Company repurchased 967,240 shares and 1,890,428 shares of its common stock for aggregate cost of \$21 million and \$44 million, respectively, of which less than \$1 million was settled subsequent to the end of the third quarter. The shares are reported as treasury stock at cost. The shares repurchased are retired immediately and included in the category of authorized but unissued shares. The total remaining authorization for future common share repurchases under the share repurchase program was \$356 million as of December 31, 2018.

*Stock-based Compensation*

The Company recognized \$4 million and \$7 million in stock-based compensation expense during the three and nine months ended December 31, 2018, respectively. During the nine months ended December 31, 2018, the Company granted approximately 939,000 RSUs and approximately 521,000 performance-vested restricted stock units (“PSUs”). The RSUs granted included approximately 140,000 granted to key executives in connection with the Spin-Off and Mergers and approximately 63,000 granted to the Board of Directors according to Perspecta Board of Directors’ annual compensation plan. The RSUs and PSUs are valued using the closing price on the trading day of the grant. The weighted average grant date fair value of the RSUs and PSUs granted during the nine months ended December 31, 2018 was \$24.40.

**Note 18 – Cash Flows**

Cash payments for interest on indebtedness and income taxes and other select non-cash activities are as follows:

(in millions)	Nine Months Ended	
	December 31, 2018	December 31, 2017
<b>Cash paid for:</b>		
Interest <sup>(1)</sup>	\$ 84	\$ 7
Taxes on income, net of refunds	\$ 25	\$ 58
<b>Non-cash activities:</b>		
Investing:		
Equipment acquired through capital lease obligations	\$ 104	\$ 117
Financing:		
Dividends declared but not yet paid	\$ 8	\$ —
Stock issued for the acquisition of Vencore	\$ 578	\$ —

<sup>(1)</sup> Interest paid for the nine months ended December 31, 2017 was for capital lease obligations.

**Note 19 – Segment Information**

USPS was a 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 that accurately aligns with the chief operating decision maker’s view of the business. In the following tables, corporate activity is reported separately to reconcile to the Statements of Operations. The accounting policies of the reportable segments are the same as those described in Note 1 – “Overview and Basis of Presentation.” 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 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.

### Segment Measures

The following table summarizes operating results regularly provided to the chief operating decision maker by reportable segment and a reconciliation to the financial statements:

(in millions)	Defense and Intelligence	Civilian and Health Care	Total Reportable Segments
<b>Three Months Ended December 31, 2018</b>			
Revenue	\$ 709	\$ 366	\$ 1,075
Segment profit	\$ 85	\$ 26	\$ 111
Depreciation and amortization <sup>(1)</sup>	\$ 34	\$ 42	\$ 76
<b>Three Months Ended December 31, 2017</b>			
Revenue	\$ 374	\$ 348	\$ 722
Segment profit	\$ 31	\$ 48	\$ 79
Depreciation and amortization <sup>(1)</sup>	\$ 21	\$ 25	\$ 46

<sup>(1)</sup> Depreciation and amortization as presented includes amortization of acquired intangible assets of \$37 million and \$17 million for the three months ended December 31, 2018 and December 31, 2017, respectively.

(in millions)	Defense and Intelligence	Civilian and Health Care	Total Reportable Segments
<b>Nine Months Ended December 31, 2018</b>			
Revenue	\$ 1,848	\$ 1,088	\$ 2,936
Segment profit	\$ 181	\$ 94	\$ 275
Depreciation and amortization <sup>(2)</sup>	\$ 98	\$ 116	\$ 214
<b>Nine Months Ended December 31, 2017</b>			
Revenue	\$ 1,051	\$ 1,053	\$ 2,104
Segment profit	\$ 81	\$ 147	\$ 228
Depreciation and amortization <sup>(2)</sup>	\$ 54	\$ 62	\$ 116

<sup>(2)</sup> Depreciation and amortization as presented includes amortization of acquired intangible assets of \$98 million and \$52 million for the nine months ended December 31, 2018 and December 31, 2017, respectively.

### Reconciliation of Reportable Segment Profit to Consolidated Income Before Taxes

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 OPEB net periodic pension cost, certain nonrecoverable restructuring costs, transaction and integration-related costs.

(in millions)	Three Months Ended		Nine Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Total profit for reportable segments	\$ 111	\$ 79	\$ 275	\$ 228
Less:				
Stock-based compensation	4	4	7	4
Restructuring costs	1	3	1	10
Separation and integration-related costs	19	27	84	44
Interest expense, net	37	—	84	7
Other unallocated, net	2	—	(26)	—
Income before taxes	\$ 48	\$ 45	\$ 125	\$ 163

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.

## Note 20 – Commitments 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 SDA includes provisions that allocate liability and financial responsibility for litigation involving DXC and the Company, 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 December 31, 2018, 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*

**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 (later renamed ES 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 memorialized in a formal settlement agreement, which was executed in July 2018. On August 29, 2018, the court dismissed the case with prejudice.

**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 Inc. and Hewlett Packard Enterprise Company ("HPE") 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. Plaintiffs filed an amended complaint on December 19, 2016. 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 defendants in the state of California and terminated pursuant to a WFR plan on or after August 18, 2012. On January 30, 2017, defendants filed a partial motion to dismiss

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and a motion to compel arbitration of claims by certain named and opt-in plaintiffs who had signed releases as part of their WFR packages. On September 20, 2017, the Court denied the partial motion to dismiss without prejudice, but granted defendants' motions to compel arbitration for those named and opt-in plaintiffs. The American Arbitration Association, which was designated to manage the arbitration process, selected a single arbitrator to conduct the proceedings. Pursuant to the release agreements, mediation is a precondition to arbitration. A mediation was held on October 4-5, 2018, and a settlement reached with all 16 named and opt-in plaintiffs who were compelled to arbitrate. The settlement has been completed. The case remains stayed with respect to other putative class members. Former business units of HPE now owned by the Company will be proportionately liable for any recovery by plaintiffs in this matter.

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 counter parties 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 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.

### *Guarantees*

In the ordinary course of business, the Company may issue performance guarantees to certain of its clients, customers and other parties pursuant to which it 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, the Company would be obligated to perform over the term of the guarantee if a specified triggering event occurs as defined by the guarantee. The Company believes the likelihood of having to perform under a material guarantee is remote.

The Company 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 the Company's non-performance under the contract or failure to comply with the terms of the financing arrangement, the Company could, under certain circumstances, be required to acquire certain assets related to the service contract. The Company believes the likelihood of having to acquire a material amount of assets under these arrangements is remote.

The Company also uses stand-by letters of credit, in lieu of cash, to support various risk management insurance policies, which are cash collateralized. These letters of credit represent a contingent liability and the Company would only be liable if it defaults on its payment obligations on these policies. The Company's stand-by letters of credit outstanding were less than \$1 million as of December 31, 2018. As of December 31, 2018, the Company had \$36 million in outstanding surety bonds, of which \$2 million expire in fiscal year 2019 and \$34 million expire in fiscal year 2020.

### *Indemnifications*

In the ordinary course of business, the Company enters into contractual arrangements under which it may agree to indemnify a third party to such arrangement from any losses incurred relating to the services they perform on behalf of the Company 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. The Company 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 the Company'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.

**Commitments**

The Company leases certain real and personal property under non-cancelable operating leases. Certain leases require Perspecta to pay property taxes, insurance and routine maintenance and include renewal options and escalation clauses.

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

<b>Fiscal Year</b> (in millions)	<b>Real Estate</b>	<b>Equipment</b>
Remainder of fiscal year 2019	\$ 11	\$ 5
2020	42	17
2021	33	6
2022	20	—
2023	15	—
Thereafter	11	—
Minimum fixed rentals	132	28
Less: Sublease rental income	(3)	—
Totals	\$ 129	\$ 28

**Note 21 – Subsequent Events**

On February 13, 2019, the Board of Directors declared a dividend of \$0.05 per share payable on April 16, 2019 to common stockholders of record at the close of business on March 27, 2019.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

All statements and assumptions contained in this Quarterly Report on Form 10-Q and in the documents incorporated by reference that do not directly and exclusively relate to historical facts could be deemed “forward-looking statements.” Forward-looking statements are often identified by the use of words such as “anticipates,” “believes,” “estimates,” “expects,” “may,” “could,” “should,” “forecast,” “goal,” “intends,” “objective,” “plans,” “projects,” “strategy,” “target” and “will” and similar words and terms or variations of such. These statements represent current expectations and beliefs, and no assurance can be given that the results described in such statements will be achieved.

Forward-looking statements include, among other things, statements with respect to our financial condition, results of operations, cash flows, business strategies, prospects, operating efficiencies or synergies, competitive position, growth opportunities, plans and objectives of management and other matters. Such statements are subject to numerous assumptions, risks, uncertainties and other factors that could cause actual results to differ materially from those described in such statements, many of which are outside of our control. Important factors that could cause actual results to differ materially from those described in forward-looking statements include, but are not limited to:

- any issue that compromises our relationships with the U.S. federal government, or any state or local governments, or damages our professional reputation;
- changes in the U.S. federal government, state and local governments’ spending and mission priorities that shift expenditures away from agencies or programs that we support;
- any delay in completion of the U.S. federal government’s budget process;
- failure to comply with numerous laws, regulations and rules, including regarding procurement, anti-bribery and organizational conflicts of interest;
- failure by us or our employees to obtain and maintain necessary security clearances or certifications;
- our ability to compete effectively in the competitive bidding process and delays, contract terminations or cancellations caused by competitors’ protests of major contract awards received by us;
- our ability to accurately estimate or otherwise recover expenses, time and resources for our contracts;
- problems or delays in the development, delivery and transition of new products and services or the enhancement of existing products and services to meet customer needs and respond to emerging technological trends;
- failure of third parties to deliver on commitments under contracts with us;
- misconduct or other improper activities from our employees or subcontractors;
- delays, terminations, or cancellations of our major contract awards, including as a result of our competitors protesting such awards;
- failure of our internal control over financial reporting to detect fraud or other issues;
- failure to be awarded task orders under our indefinite delivery, indefinite quantity (“IDIQ”) contracts;
- changes in government procurement, contract or other practices or the adoption by the government of new laws, rules and regulations in a manner adverse to us; and
- the other factors described in Part I, Item 1A “Risk Factors” of Perspecta’s Annual Report on Form 10-K for the year ended March 31, 2018.

There may be other factors that may cause our actual results to differ materially from the forward-looking statements, including factors disclosed under the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” herein. You should evaluate all forward-looking statements made in this Quarterly Report on Form 10-Q in the context of these risks and uncertainties. Our public filings may be accessed through our investor relations website, <https://investors.perspecta.com>, or through the website maintained by the SEC at <https://www.sec.gov>.

No assurance can be given that any goal or plan set forth in any forward-looking statement can or will be achieved, and readers are cautioned not to place undue reliance on such statements which speak only as of the date they are made. We do not undertake any obligation to update or release any revisions to any forward-looking statement or to report any events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events, except as required by law.



## ITEM 2. 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 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 financial information, discussed below, reflects 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 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 via our legacy companies, 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 Veterans Affairs, to the U.S. Postal Service, National Aeronautics and Space Administration, the U.S. Food and Drug Administration and 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 our U.S. government customers continue their ongoing digital transformation journey, all the while addressing real business needs.

Perspecta was formed on May 31, 2018, when DXC completed the 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 as of and for the three and nine months ended December 31, 2017, are based upon the historical results of USPS and do not give effect to the Mergers. See Note 1 – "Overview and Basis of Presentation" to the Financial Statements 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 three and nine months ended December 31, 2018. This MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and accompanying Notes.

### Segments and Services

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

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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 19 – “Segment Information” to the Financial Statements. For a discussion of risks associated with our operations, see Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the year ended March 31, 2018.

### **Backlog**

Since our adoption of Accounting Standards Update 2014-09, ASC 606 on April 1, 2018, revenue from remaining unsatisfied performance obligations is now calculated as the dollar value of our remaining performance obligations on executed contracts. As of December 31, 2018, approximately \$3.2 billion of revenue is expected to be recognized from remaining performance obligations. We expect to recognize revenue on these remaining performance obligations within approximately twelve months.

Total contract value (“TCV”) backlog is our estimate of the remaining revenue from existing signed contracts, assuming the exercise of all options relating to such contracts and including executed task orders issued under IDIQ contracts. TCV backlog can include award fees, incentive fees, or other variable consideration estimated at the most likely amount to which the Company is expected to be entitled to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur. TCV backlog includes both funded and unfunded future revenue under government contracts.

We define funded backlog as estimated future revenue under government contracts and task orders for which funding has been appropriated by Congress and authorized for expenditure by the applicable agency. Funded backlog does not include the full potential value of the Company’s contracts because Congress often appropriates funds to be used by an agency for a particular program of a contract on a yearly or quarterly basis even though the contract may call for performance over a number of years. As a result, contracts typically are only partially funded at any point during their term, and all or some of the work to be performed under the contracts may remain unfunded unless and until Congress makes subsequent appropriation and the procuring agency allocates funding to the contract.

A variety of circumstances or events may cause changes in the amount of our TCV backlog and funded backlog, including the execution of new contracts, the extension of existing contracts, the non-renewal or completion of current contracts, the early termination of contracts, and adjustment to estimates for previously included contracts. Changes in the amount of our funded backlog also are affected by the funding cycles of the government.

The estimated value of our TCV backlog was as follows:

(in millions)	<b>As of</b>
	<b>December 31, 2018</b>
Funded backlog	\$ 2,244
Unfunded backlog	8,186
Total contract value backlog	<u>\$ 10,430</u>

### **Results of Operations**

On May 31, 2018, we completed the strategic combination of USPS with Vencore to form Perspecta. See Note 1 – “Overview and Basis of Presentation” and Note 4 – “Acquisitions” to the Financial Statements. The historical financial statements of Perspecta prior to the Spin-Off and Mergers are reflected in this Quarterly Report on Form 10-Q as USPS’ historical financial statements. Accordingly, the financial results of Perspecta as of and for any periods ending prior to June 1, 2018, do not include the financial results of Vencore, and therefore, are not directly comparable.

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Selected financial information is presented in the table below:

(in millions, except per-share amounts)	Three Months Ended			
	December 31, 2018	December 31, 2017	Change	Percentage Change
Revenue	\$ 1,075	\$ 722	\$ 353	49 %
Total costs and expenses	1,027	677	350	52 %
Income before income taxes	48	45	3	7 %
Income tax expense (benefit)	10	(59)	69	(117)%
Net income	\$ 38	\$ 104	\$ (66)	(63)%
Diluted earnings per share	\$ 0.23	\$ 0.73		

(in millions, except per-share amounts)	Nine Months Ended			
	December 31, 2018	December 31, 2017	Change	Percentage Change
Revenue	\$ 2,936	\$ 2,104	\$ 832	40 %
Total costs and expenses	2,811	1,941	870	45 %
Income before income taxes	125	163	(38)	(23)%
Income tax expense (benefit)	34	(13)	47	(362)%
Net income	\$ 91	\$ 176	\$ (85)	(48)%
Diluted earnings per share	\$ 0.55	\$ 1.24		

**Revenue**

Revenue for the three and nine months ended December 31, 2018 and December 31, 2017 were:

(in millions)	Three Months Ended			
	December 31, 2018	December 31, 2017	Change	Percentage Change
Defense and Intelligence	\$ 709	\$ 374	\$ 335	90%
Civilian and Health Care	366	348	18	5%
Total	\$ 1,075	\$ 722	\$ 353	49%
(in millions)	Nine Months Ended			
	December 31, 2018	December 31, 2017	Change	Percentage Change
Defense and Intelligence	\$ 1,848	\$ 1,051	\$ 797	76%
Civilian and Health Care	1,088	1,053	35	3%
Total	\$ 2,936	\$ 2,104	\$ 832	40%

*Defense and Intelligence Segment*

Our Defense and Intelligence segment revenue during the three months ended December 31, 2018 increased by \$335 million or 90% as compared to the same fiscal period in the prior year. The revenue growth is driven by \$352 million attributed to the revenue acquired in the Mergers, growth in new contracts and increases in scope on existing contracts across multiple programs, partially offset by a net decrease of \$17 million related to the divestiture of a contract due to organizational conflict of interest, decreases in scope and completed contracts.

Our Defense and Intelligence segment revenue during the nine months ended December 31, 2018 increased by \$797 million or 76% as compared to the same fiscal period in the prior year. The revenue growth is driven by \$817 million

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attributed to the revenue acquired in the Mergers and growth across multiple programs, partially offset by a net decrease of \$20 million related to the divestiture of a contract due to organizational conflict of interest and changes in scope and task order completions.

For the three and nine months ended December 31, 2018, Defense and Intelligence contract awards were \$1.4 billion and \$3.5 billion, respectively.

### *Civilian and Health Care Segment*

For the three months ended December 31, 2018, our Civilian and Health Care segment revenue increased by \$18 million or 5% as compared to the same fiscal period in the prior year. The increase is primarily due to \$18 million of revenue acquired in the Mergers.

For the nine months ended December 31, 2018, our Civilian and Health Care segment revenue increased by \$35 million or 3% as compared to the same fiscal period in the prior year. The increase is primarily due to \$43 million of revenue acquired in the Mergers and new and increased scope on existing contracts, partially offset by decreases in contract scope and contract completions.

For the three and nine months ended December 31, 2018, Civilian and Health Care contract awards were \$326 million and \$2.0 billion, respectively.

### **Costs and Expenses**

Our total costs and expenses are shown in the tables below:

(in millions)	Three Months Ended		Percentage of Revenue		Change	Percentage Change
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017		
Costs of services (excludes depreciation and amortization and restructuring costs)	\$ 816	\$ 550	76%	76%	\$ 266	48 %
Selling, general, and administrative (excludes depreciation and amortization and restructuring costs)	76	51	7%	7%	25	49 %
Depreciation and amortization	76	46	7%	6%	30	65 %
Restructuring costs	1	3	—%	—%	(2)	(67)%
Separation and integration-related costs	19	27	2%	4%	(8)	(30)%
Interest expense, net	37	—	3%	—%	37	NM
Other expense (income), net	2	—	—%	—%	2	NM
<b>Total costs and expenses</b>	<b>\$ 1,027</b>	<b>\$ 677</b>	<b>96%</b>	<b>94%</b>	<b>\$ 350</b>	<b>52 %</b>

(in millions)	Nine Months Ended		Percentage of Revenue		Change	Percentage Change
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017		
Costs of services (excludes depreciation and amortization and restructuring costs)	\$ 2,226	\$ 1,632	76 %	78%	\$ 594	36 %
Selling, general, and administrative (excludes depreciation and amortization and restructuring costs)	226	132	8 %	6%	94	71 %
Depreciation and amortization	214	116	7 %	6%	98	84 %
Restructuring costs	3	10	— %	—%	(7)	(70)%
Separation and integration-related costs	84	44	3 %	2%	40	91 %
Interest expense, net	84	7	3 %	—%	77	1,100 %
Other expense (income), net	(26)	—	(1)%	—%	(26)	NM
<b>Total costs and expenses</b>	<b>\$ 2,811</b>	<b>\$ 1,941</b>	<b>96 %</b>	<b>92%</b>	<b>\$ 870</b>	<b>45 %</b>

### **Costs of Services**

For the three and nine months ended December 31, 2018, costs of services as a percentage of revenue was 76% and 76%, respectively, as compared to 76% and 78% for the same periods of the prior year due to continued focus on cost discipline and program management on our fixed-price portfolio. We expect that over the long-term contract mix will continue to move in the direction of fixed price.

### **Selling, General, and Administrative**

Selling, general, and administrative expense excluding depreciation and amortization and restructuring costs ("SG&A") was \$76 million and \$226 million for the three and nine months ended December 31, 2018, respectively, as compared to \$51 million and \$132 million in the same periods of the prior year. SG&A as a percentage of revenue was 7% and 8% for the three and nine months ended December 31, 2018, respectively, as compared to 7% and 6% for the comparable periods of the prior year.

### **Depreciation and Amortization**

Depreciation and amortization expense ("D&A") was \$76 million for the three months ended December 31, 2018, as compared to \$46 million in the same period in the prior year. The increase of \$30 million in D&A expense was attributed to the acquired property and equipment and intangible assets associated with the Mergers. Excluding the D&A associated with the Mergers, D&A was consistent period over period.

D&A was \$214 million for the nine months ended December 31, 2018, as compared to \$116 million in the same period in the prior year. The increase of \$98 million in D&A expense was attributed to the acquired property and equipment and intangible assets associated with the Mergers. Excluding the D&A associated with the Mergers, D&A was consistent period over period.

### **Interest Expense, Net**

Interest expense, net for the three and nine months ended December 31, 2018 was \$37 million and \$84 million, respectively, as compared to zero and \$7 million during the same periods of the prior fiscal year. The increase of \$37 million and \$77 million in interest expense, respectively, was primarily due to the Credit Facilities (as defined in Note 12 – "Debt" to the Financial Statements), resulting in total indebtedness of approximately \$2.5 billion as of December 31, 2018.

### **Other Expense (Income), Net**

Other expense (income), net comprises certain components of the net periodic pension cost for defined benefit pension plans, equity earnings of unconsolidated affiliates and other miscellaneous gains and losses. The \$26 million increase in other income, net for the nine months ended December 31, 2018 as compared to the same period of the prior year was primarily due to the May 2018 sale of a contract to eliminate an organizational conflict of interest that could have resulted from the Mergers.

### **Taxes**

Our income tax expense (benefit) was \$10 million and \$34 million for the three and nine months ended December 31, 2018, respectively, as compared to \$(59) million and \$(13) million in the same periods of the prior year that was presented on a carve-out basis. The effective tax rate was 21% and 27% for the three and nine months ended December 31, 2018, respectively, as compared to (131)% and (8)% for the three and nine months ended December 31, 2017, presented on a carve-out basis. The increase in the ETR for the three and nine months ended December 31, 2018 compared to the same periods in the prior year, was primarily driven by the revaluation of deferred tax items and the initial impacts of the Tax Act by the predecessor parent company tax groups that were recorded in prior periods, partially offset by the reduction in the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018.

The Company is subject to income taxes in the United States (federal and state). Significant judgment is required in determining the provision for income taxes, analyzing the income tax reserves, the determination of the likelihood of recoverability of deferred tax assets and adjustment of valuation allowances accordingly. In addition, the Company's tax returns are routinely audited and settlements of issues raised in these audits sometimes affect the tax provisions. For

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example, the legal entities related to the USPS business are currently under IRS examination or appeals for the various tax years ending 2005 through 2015. Potential liabilities or refunds resulting from these audits are covered by the Tax Matters Agreement between Perspecta and DXC.

### ***Tax Matters Agreement***

The Company entered into a Tax Matters Agreement with DXC that will govern the respective rights, responsibilities and obligations of DXC and the Company after the Spin-Off with respect to all tax matters and will include restrictions designed to preserve the tax-free status of the Distribution. As a subsidiary of DXC, the Company had (and the Company continues to have following the Spin-Off) several liability to the IRS for the full amount of the consolidated U.S. federal income taxes of the DXC consolidated group relating to the taxable periods in which the Company was part of that group. However, the Tax Matters Agreement specifies the portion, if any, of this tax liability for which the Company will bear responsibility, and the Company agrees to indemnify DXC against any amounts for which the Company is responsible and DXC agrees to indemnify the Company against any amounts for which the Company is not responsible. The Tax Matters Agreement also provides special rules for allocating tax liabilities in the event that the Spin-Off is not tax-free. The Tax Matters Agreement provides for certain covenants that may restrict the ability of the Company to pursue strategic or other transactions that otherwise could maximize the value of the business and may discourage or delay a change of control. Pursuant to the Tax Matters Agreement, the Company has agreed to indemnify DXC for any tax liabilities resulting from a breach of such covenants or certain other actions. Though valid as between the parties, the Tax Matters Agreement will not be binding on the IRS.

### **Liquidity and Capital Resources**

Following the Spin-Off and Mergers, existing cash and cash equivalents and cash generated by operations continue to be our primary sources of liquidity, as well as available borrowings under our Revolving Credit Facility (as defined in Note 12 – “Debt” to the Financial Statements) and sales of receivables under a U.S. federal government obligor receivables purchase facility established pursuant to the MARPA Facility (as discussed in Note 7 – “Sale of Receivables”).

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; 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. Based upon our history of generating strong cash flows, it is our belief 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 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 be 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 (1) closed on financing of an aggregate of \$2.0 billion under our Term Loan A Facilities and \$500 million under our the Term Loan B Facility, net of \$34 million of debt issuance costs, and (2) drew \$50 million in borrowings under our Revolving Credit Facility, net of \$9 million of debt issuance costs. Proceeds were used by Perspecta to pay a distribution of approximately \$984 million in cash to DXC and to pay transaction costs associated with the Spin-Off and Mergers. Proceeds also funded the \$400 million cash consideration paid to Veritas Capital for the Mergers and approximately \$1.0 billion repayment of existing Vencore HC and KGS HC debt.

In July 2017, the Financial Conduct Authority (the authority that regulates the London Interbank Offered Rate, or “LIBOR”) announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. The Alternative Reference Rates Committee (“ARRC”) has proposed that the Secured Overnight Financing Rate (“SOFR”) is the rate that represents best practice as the alternative to USD-LIBOR for use in derivatives and other financial contracts that are currently indexed to USD-LIBOR. ARRC has proposed a paced market transition plan to SOFR from USD-LIBOR and organizations are currently working on industry wide and company specific transition plans as it relates to derivatives and cash markets exposed to USD-LIBOR. The Company has material contracts that are indexed to USD-LIBOR and is monitoring this activity and evaluating the related risks.

Our exposure to operational liquidity risk is primarily from long-term contracts which require significant investment of cash 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.

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See Note 20 – “Commitments and Contingencies” to the Financial Statements for discussion of general purpose of guarantees and commitments. The anticipated sources of funds to fulfill such commitments are listed below:

(in millions)	As of December 31, 2018	
Cash and cash equivalents	\$	100
Available borrowings under our Revolving Credit Facility		600
Total liquidity	\$	700

**Cash and Cash Equivalents and Cash Flows**

As of December 31, 2018, our cash and cash equivalents were \$100 million. Cash and cash equivalents increased \$100 million primarily because our cash and cash equivalents are no longer attributed to our former Parent, and also due to the Mergers.

The following table summarizes our cash flow activity:

(in millions)	Nine Months Ended		Change
	December 31, 2018	December 31, 2017	
Net cash provided by operating activities	\$ 294	\$ 347	\$ (53)
Net cash used in investing activities	(1,300)	(17)	(1,283)
Net cash provided by (used in) financing activities	1,115	(330)	1,445
Net increase in cash and cash equivalents, including restricted	109	—	109
Cash and cash equivalents, including restricted, at beginning of period	—	—	—
Cash and cash equivalents, including restricted, at end of period	109	—	109
Less restricted cash and cash equivalents included in prepaid expenses and other current assets	9	—	9
Cash and cash equivalents at end of period	\$ 100	\$ —	\$ 100

Net cash provided by operating activities during the nine months ended December 31, 2018 was \$294 million, as compared to \$347 million during the comparable period of the prior fiscal year. The decrease of \$53 million included movements in working capital of \$75 million partially offset by a \$22 million increase in net income adjusted for non-cash items.

Net cash used in investing activities during the nine months ended December 31, 2018 was \$1.3 billion, as compared to \$17 million during the comparable period of the prior fiscal year. The increase of \$1.3 billion was predominately due to acquisitions of \$312 million and payments of acquired debt of \$994 million in the nine months ended December 31, 2018, as compared to no cash paid for acquisitions or acquired debt in the comparable period of the prior fiscal year.

Net cash provided by financing activities during the nine months ended December 31, 2018 was \$1.1 billion, as compared to net cash used in financing activities of \$330 million during the comparable period of the prior fiscal year. The increase in cash from financing activities of \$1.4 billion was primarily due to issuance of long-term debt of \$2.5 billion in connection with the Spin-Off and Mergers, partially offset by net transfers to Parent prior to the Spin-Off.

**Capital Resources**

The following table summarizes our total debt:

(in millions)	As of	
	December 31, 2018	March 31, 2018
Short-term debt and current maturities of long-term debt	\$ 79	\$ —
Long-term debt, net of current maturities	2,384	—
Total debt	\$ 2,463	\$ —

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The \$2.5 billion increase in total debt as of December 31, 2018, as compared to total debt as of March 31, 2018, was primarily attributed to the Credit Facilities obtained to fund the Spin-Off and Mergers.

As discussed above, on May 31, 2018, we closed on financing of approximately \$2.6 billion, of which \$50 million related to amounts drawn on the Revolving Credit Facility. During the nine months ended December 31, 2018, we repaid \$132 million of debt, including \$82 million in term loans, of which \$38 million was a voluntary repayment, and the \$50 million Revolving Credit Facility balance. At December 31, 2018, our \$600 million Revolving Credit Facility remains unused.

We were in compliance with all financial covenants associated with our borrowings as of December 31, 2018. For more information on our debt, see Note 12 – “Debt” to the Financial Statements.

The following table summarizes our capitalization ratios:

(in millions)	As of	
	December 31, 2018	March 31, 2018
Total debt and capital leases	\$ 2,752	\$ 304
Cash and cash equivalents	100	—
Net debt <sup>(1)</sup>	\$ 2,652	\$ 304
Total debt and capital leases	\$ 2,752	\$ 304
Equity	2,197	2,729
Total capitalization	\$ 4,949	\$ 3,033
Debt-to-total capitalization	56%	10%
Net debt-to-total capitalization <sup>(1)</sup>	54%	10%

<sup>(1)</sup> Net debt and net debt-to-total capitalization are non-GAAP measures used by management to assess our ability to service our debts using only our cash and cash equivalents. We present these non-GAAP measures to assist investors in analyzing our capital structure in a more comprehensive way compared to gross debt based ratios alone.

The increase in our total capitalization as of December 31, 2018, as compared to total debt as of March 31, 2018, was primarily due to a \$2.3 billion increase in net debt, partially offset by a \$532 million decrease in equity, which were primarily a result of the effects of the Spin-Off and Mergers.

### **Interest Rate Swaps**

We use interest rate swaps to manage the amount of our floating rate debt in order to reduce our exposure to variable rate interest payments associated with our floating interest rate debt. The interest rate swaps effectively convert our floating interest rate debt into fixed interest rate debt. Each swap agreement is designated as a cash flow hedge. We pay a stream of fixed interest payments for the term of the swap, and in turn, receive variable interest payments based on one-month LIBOR. At December 31, 2018, one-month LIBOR was 2.34%. The net receipt or payment from the interest rate swap agreements is included in the Statements of Operations as interest expense.

The following table summarizes our interest rate swaps at December 31, 2018:

Inception	Maturity	Notional Amount (in millions)	Weighted- Average Interest Rate Paid
May 2018	May 2021	\$ 400	2.57%
May 2018	May 2022	500	2.61%
October 2018	October 2022	200	2.92%
May 2018	May 2023	500	2.68%
Total / Weighted-average interest rate		\$ 1,600	2.66%



### **Share Repurchases**

On June 1, 2018, Perspecta's Board of Directors authorized up to \$400 million for future repurchases of outstanding shares of our 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. During the three and nine months ended December 31, 2018, 967,240 shares and 1,890,428 shares were purchased at an aggregate cost of \$21 million and \$44 million, respectively, of which less than \$1 million was settled subsequent to the end of the third quarter, and are reported as treasury stock at cost.

### **Dividends**

During the nine months ended December 31, 2018, the Board of Directors declared cash dividends to our stockholders of approximately \$25 million in the aggregate, of which \$17 million had been paid as of December 31, 2018 and \$8 million of which was paid on January 15, 2019.

On February 13, 2019, the Board of Directors declared a dividend of \$0.05 per share payable on April 16, 2019 to common stockholders of record at the close of business on March 27, 2019.

### **Off-Balance Sheet Arrangements**

In the normal course of business, we are a party to arrangements that include guarantees, the MARPA Facility and financial instruments with off-balance sheet risk, such as letters of credit and surety bonds. We also use performance letters of credit to support various risk management insurance policies. No liabilities related to these arrangements are reflected in our Balance Sheets.

At midnight on December 22, 2018, a partial government shutdown began, resulting in a Facility Suspension Event under the terms of the MARPA. As a result, the company was unable to sell new receivables at the end of December, impacting cash flow and liquidity by \$12 million. In January, the Purchasers (as defined in the MARPA Facility) and the Company agreed to resume receivables sales under the MARPA for approved obligors (government agencies) who had funding in place, despite the government shutdown. Effective late January 2019, the government shutdown ended and the Company resumed normal receivables sales for all approved obligors.

Except as discussed above, there have been no material changes to our off-balance sheet arrangements reported under Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended March 31, 2018, other than as disclosed below and in Note 7 – "Sale of Receivables" and Note 20 – "Commitments and Contingencies" to the Financial Statements in this Quarterly Report on Form 10-Q.

### **Contractual Obligations**

Perspecta's contractual obligations have materially changed since March 31, 2018, as a result of the Spin-Off and Mergers. Significant increases in debt included \$2.4 billion in term loans and \$78 million associated with the senior secured notes assumed (the "EDS Notes"). See Note 12 – "Debt" to the Financial Statements for further information.

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The increases in capital lease obligations, future minimum operating lease liabilities and purchase obligations primarily increased from March 31, 2018 to December 31, 2018 as a result of the Spin-Off and Mergers. The following table summarizes our contractual obligations as of December 31, 2018:

(in millions)	Remainder of Fiscal Year 2019	Fiscal Year 2020 - 2021	Fiscal Year 2022 - 2023	Thereafter	Total
Debt <sup>(1)</sup>	\$ 22	\$ 176	\$ 487	\$ 1,799	\$ 2,484
Capitalized lease liabilities <sup>(2)</sup>	51	206	59	1	317
Operating leases	16	98	35	11	160
Purchase obligations <sup>(3)</sup>	65	71	—	—	136
Interest payments <sup>(4)</sup>	28	226	187	90	531
Totals <sup>(5)(6)</sup>	<u>\$ 182</u>	<u>\$ 777</u>	<u>\$ 768</u>	<u>\$ 1,901</u>	<u>\$ 3,628</u>

<sup>(1)</sup> Amounts represent scheduled principal cash payments of long-term debt.

<sup>(2)</sup> Amounts represent scheduled principal cash payments of capital lease obligations.

<sup>(3)</sup> Includes long-term purchase and separate services agreements with DXC for the purchase of certain hardware, software, and support services as well as the provision of certain outsourced IT services and excludes agreements that are cancellable without penalty. If we cancel the purchase agreements prior to their natural expiration, we will be required to pay to DXC any required shortfall. If we cancel the services agreements for any reason other than for cause, we will have to pay DXC significant termination fees, which will vary, depending on the date and manner of termination. Purchase obligations assumed from DXC will reflect a significant increase as a result of newly executed contracts.

<sup>(4)</sup> Amounts represent scheduled interest payments on long-term debt and capital lease obligations.

<sup>(5)</sup> We have excluded the estimated future benefit payments under our pension and other post-employment benefit plans from this table because they have not materially changed since March 31, 2018 other than as a result of the Mergers. See Note 4 – “Acquisitions” to the Financial Statements for additional information regarding the Mergers.

<sup>(6)</sup> We have excluded obligations for uncertain tax positions of \$60 million, as the timing of such payments, if any, cannot be reasonably estimated.

### Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, as well as the disclosure of contingent assets and liabilities. These estimates may change in the future if underlying assumptions or factors change. 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. On April 1, 2018, we adopted Accounting Standards Update 2014-09 (“Topic 606”), *Revenue from Contracts with Customers*. See Note 2 – “Recent Accounting Pronouncements” and Note 3 – “Summary of Significant Accounting Policies” to the Financial Statements for further discussion. Our critical accounting policies and estimates are more fully discussed in Note 3 – “Summary of Significant Accounting Policies” to the Financial Statements herein and in Part II, Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended March 31, 2018, under the heading “Critical Accounting Policies and Estimates.”

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We actively monitor our exposures to potential loss arising from adverse changes in market rates and prices and manage such risks through our regular operating and financing activities or the use of derivative financial instruments.

Our exposure to market risk for changes in interest rates relates primarily to our outstanding debt. The interest expense associated with our Term Loan A Facilities, Term Loan B Facility, and any loans under our Revolving Credit Facility will vary with market rates.

Our exposure to financial risk from changes in interest rates related to our outstanding debt will impact our senior secured loan facilities. Pursuant to our interest rate risk management strategies, we use interest rate cash flow hedges to add stability to our incurrence of interest expense and to manage our exposure related to interest rate movements. Net of the benefit from our interest-rate derivatives, a hypothetical 1% increase in interest rates would increase the interest expense incurred under our senior secured loan facilities by approximately \$8 million over the next 12 months, and would likewise decrease our net income and cash flows. We have not entered into any hedging transactions for speculative or trading purposes.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our chief executive officer and chief financial officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit to the U.S. Securities and Exchange Commission (“SEC”) under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (2) accumulated and communicated to management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

### **Changes in Internal Control Over Financial Reporting**

As part of our ongoing integration activities related to the Spin-Off and Mergers, we continue to evaluate our internal controls and procedures in the acquired businesses and to adjust and augment our company-wide controls to reflect the risks inherent in these acquisitions during the quarter ended December 31, 2018. See Note 4 – “Acquisitions” to the Financial Statements for further information.

Other than as described above, there were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II

### ITEM 1. LEGAL PROCEEDINGS

See Note 20 – “Commitments and Contingencies” to the Financial Statements under the caption “Contingencies” for information regarding legal proceedings in which we are involved.

### ITEM 1A. RISK FACTORS

***U.S. government spending and mission priorities could change in a manner that adversely affects our business, financial condition, results of operations or prospects.***

Substantially all of our revenue is generated from contracts with the U.S. government and its agencies. Our business, financial condition, results of operations or prospects could be adversely affected by several causes, including:

- budgetary constraints, including Congressionally-mandated automatic spending cuts, affecting U.S. federal government spending generally, or specific agencies in particular, and changes in available funding;
- a shift in expenditures away from agencies or programs that we support, including a shift in the focus of government research programs to short-term activities that are more urgent, thus reducing funding for forward-looking research;
- U.S. government shutdowns due to a failure by elected officials to fully fund the government (such as the federal government shutdown in 2013 and the recent partial shutdown in December 2018 and January 2019, which could occur again), or weather-related closures in the Washington, D.C. area (such as that which occurred in the winter of 2016) and other potential delays in the appropriations process;
- reduced U.S. federal government outsourcing of functions that we are currently contracted to provide, including as a result of increased insourcing by various U.S. federal government agencies due to changes in the definition of “inherently governmental” work, including proposals to limit contractor access to sensitive or classified information and work assignments;
- further efforts to improve efficiency and reduce costs affecting government programs;
- changes in government programs that we support or related requirements;
- a continuation of recent efforts by the federal government to decrease spending for management support service contracts;
- government agencies awarding contracts on a technically-acceptable/lowest-cost basis to reduce expenditures;
- delays in the payment of our invoices by government payment offices;
- an inability by the federal government to fund its operations as a result of a failure to increase the federal government’s debt ceiling, a credit downgrade of U.S. government obligations or for any other reason; and
- changes in the political climate and general economic conditions, including a slowdown of the economy or unstable economic conditions and responses to conditions, such as emergency spending, that reduce funds available for other government priorities.

In addition, any disruption in the functioning of U.S. government agencies, including as a result of U.S. government closures and shutdowns, terrorism, war, natural disasters, destruction of or damage to U.S. government facilities, and other potential calamities could have a negative impact on our operations and cause us to lose revenue or incur additional costs due to, among other things, our inability to deploy our staff to customer locations or facilities as a result of such disruptions.

Further, a significant portion of our business depends upon continued U.S. federal government expenditures on intelligence, defense, space and federal civilian programs for which we provide support. These expenditures have not remained constant over time, have been reduced in certain periods and, recently, have been affected by the U.S. federal government’s efforts to improve efficiency and reduce costs affecting U.S. federal government programs generally.

The U.S. federal government budget deficits, the national debt, and the prevailing economic condition, and actions taken to address them, could continue to negatively affect U.S. federal government expenditures on intelligence, defense, space and federal civilian programs for which we provide support. In particular, the Budget Control Act of 2011 (as amended by the American Taxpayer Relief Act of 2012, the Bipartisan Budget Act of 2013, Bipartisan Budget Act of 2015 and the

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Bipartisan Budget Act of 2018) provides for automatic spending cuts (referred to as sequestration) totaling approximately \$1.2 trillion between 2013 and 2021, including an estimated \$500 billion in federal defense spending cuts over this time period. The Bipartisan Budget Act of 2015 set spending limits for the U.S. fiscal year 2017 budget across the U.S. federal government and increased the prior discretionary spending caps in both defense and non-defense. While recent budget actions reflect a more measured and strategic approach to addressing the federal government's fiscal challenges, there remains uncertainty as to how exactly budget cuts, including sequestration, could impact us, and we are therefore unable to predict the extent of the impact of such cuts on our business, results of operations and prospects. In addition, in response to an Office of Management and Budget mandate, U.S. federal government agencies have reduced management support services spending in recent years. If federal awards for management support services continue to decline, our revenue and operating profits may materially decline and further efforts by the Office of Management and Budget to decrease federal awards for management support services could have a material and adverse effect on our business, results of operations and prospects.

These or other factors could cause our intelligence, defense and federal civilian customers to decrease the number or value of new contracts awarded generally and fail to award us new contracts, reduce their purchases under our existing contracts, exercise their right to terminate our contracts, or not exercise options to renew our contracts, any of which could cause a material decline in our revenue.

### ***A delay in the completion of the U.S. federal government's budget process and statutory debt limit could have a material adverse effect on our revenue and operating results.***

On an annual basis, the U.S. Congress must approve budgets that govern spending by each of the federal agencies we support. When the U.S. Congress is unable to agree on budget priorities, and thus is unable to pass the annual budget on a timely basis, the U.S. Congress typically enacts a continuing resolution. A continuing resolution allows U.S. federal government agencies to operate at spending levels approved in the previous budget cycle. Under a continuing resolution, funding may not be available for new projects. In addition, when U.S. federal government agencies operate on the basis of a continuing resolution, they may delay funding we expect to receive on contracts we are already performing. Any such delays would likely result in new business initiatives being delayed or canceled and could have a material adverse effect on our revenue, cash flows and operating results. Furthermore, a failure to complete the budget process and fund government operations pursuant to a continuing resolution may result in a U.S. federal government shutdown, such as the recent shutdown in December 2018 and January 2019. Finally, while the U.S. Congress may pass a continuing resolution, similar to the continuing resolution passed in January 2019, it is possible no agreement on the annual budget may be reached and the U.S. government could shutdown again following the expiration of the continuing resolution that acted largely as a stopgap measure. A shutdown may result in us incurring substantial costs without reimbursement under our contracts and the delay or cancellation of key programs, which could have a material adverse effect on our revenue, cash flows and operating results.

In July 2017, the Treasury Department determined that the federal government would exceed the statutory debt limit set by law in October 2015 at the end of September 2017. The Treasury Department also determined that at that time it would have exhausted all financing options and would no longer be able to pay for all federal obligations. When the debt limit is exceeded, some federal payments to creditors, vendors, contractors, state and local governments, beneficiaries, and other entities would either be delayed or limited. These delays in payments would, in effect, be borrowings from contractors such as us, and would create a backlog of unpaid bills until the government collects more revenue or other sources of cash than its outlays. In some cases, delaying federal payments incurs interest penalties under some statutes such as the Prompt Payment Act, which directs the government to pay interest penalties to contractors if it does not pay them by the required payment date. Were there to be a delay in paying for all federal obligations, it is expected that this would result in significant economic and financial consequences that may have a lasting impact on federal programs and the federal government's ability to borrow in the future. To mitigate the possibility of these events from happening, on September 8, 2017 Congress passed and the president signed into law legislation that suspended the debt limit until December 8, 2017. Once that suspension lapsed, the Secretary of the Treasury invoked authorities to employ extraordinary measures, which were estimated to last until sometime in late March or early April 2018. With the passage of the Bipartisan Budget Act of 2018, however, the debt limit was suspended through March 1, 2019 to allow the government to borrow whatever it needs through that time to fully finance government operations. Failure by Congress to address the debt limit prior to March 2019 could result in delayed or limited payments to creditors, vendors, contractors, state and local governments and other entities, which could have a material adverse effect on our revenue and operating results.

***A delay in the completion of the U.S. federal government’s budget process could constitute a facility suspension event under our receivables sales facility, which could result in termination of the MARPA and have a material adverse effect on our financial condition and results of operations.***

Pursuant to the terms of the MARPA, a failure of the U.S. Congress to pass legislation funding U.S. Government operations in whole or in part affecting Approved Obligators (as defined in the MARPA), or the failure of such legislation to become law constitutes a “Facility Suspension Event” entitling the administrative agent to exercise various rights and remedies under the MARPA, including, without limitation, the right to terminate the administrative agent’s commitments under the MARPA Facility. Such an event could cause either a termination of the MARPA Facility, resulting in, among other things, the Company having to immediately repurchase all previously sold receivables; or a protracted suspension of the commitments under the MARPA Facility, causing the suspension of new receivables sales, resulting in the MARPA Facility outstanding balance running off over time. Any of these outcomes could materially reduce the Company’s liquidity and increase the Company’s debt and interest expense.

Except as noted above, there are no material changes from the risk factors as previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended March 31, 2018.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

### **Unregistered Sales of Equity Securities**

There were no sales of unregistered equity securities during the quarter ended December 31, 2018.

### **Use of Proceeds**

Not applicable.

### **Issuer Purchases of Equity Securities**

On June 1, 2018, our Board of Directors authorized up to \$400 million for future repurchases of outstanding shares of our 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. The following table provides information on a monthly basis for the quarter ended December 31, 2018 with respect to the Company’s purchase of equity securities:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (in millions)</b>
October 1, 2018 to October 31, 2018	277,832	\$ 25.08	277,832	\$ 371
November 1, 2018 to November 30, 2018	575,976	\$ 21.34	575,976	\$ 358
December 1, 2018 to December 31, 2018	113,432	\$ 17.48	113,432	\$ 356
Total	<u>967,240</u>	<u>\$ 21.96</u>	<u>967,240</u>	

## **ITEM 3. DEFAULT UPON SENIOR SECURITIES**

None.

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## **ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
10.1	<a href="#">First Amendment to Credit Agreement dated as of December 12, 2018 by and among Perspecta Inc.; the Guarantors party thereto; the Lenders party thereto; MUFG Bank, Ltd. as Administrative Agent; the Replacement Tranche A1 Lenders (as defined therein), the Replacement Tranche A2 Lenders (as defined therein) and the Replacement Revolving Lenders (as defined therein) (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (filed December 18, 2018) (file no. 001-38395)</a>
10.2	<a href="#">The Perspecta Inc. Deferred Compensation Plan (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 filed December 28, 2018) (file no. 333-229088)</a>
31.1	<a href="#">Section 302 Certification of the Chief Executive Officer</a>
31.2	<a href="#">Section 302 Certification of the Chief Financial Officer</a>
32.1*	<a href="#">Section 906 Certification of the Chief Executive Officer</a>
32.2*	<a href="#">Section 906 Certification of the Chief Financial Officer</a>
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation

\* Furnished, not filed

**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, thereunto duly authorized.

**Perspecta Inc.**

Dated: February 13, 2019

By: /s/ William G. Luebke  
Name: William G. Luebke  
Title: Senior Vice President, Principal Accounting Officer and Controller

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## **Section 2: EX-31.1 (CEO CERTIFICATION PURSUANT TO SECTION 302)**

**Exhibit 31.1**

### **CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John M. Curtis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Perspecta Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) [Paragraph omitted pursuant to the transition period exemption for newly public companies];
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the



equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2019

/s/ John M. Curtis

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John M. Curtis

President and Chief Executive Officer

*(Principal Executive Officer)*

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## **Section 3: EX-31.2 (CFO CERTIFICATION PURSUANT TO SECTION 302)**

**Exhibit 31.2**

### **CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John P. Kavanaugh, certify that:

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

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2019

/s/ John P. Kavanaugh

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John P. Kavanaugh  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

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## **Section 4: EX-32.1 (CEO CERTIFICATION PURSUANT TO SECTION 906)**

**Exhibit 32.1**

### **CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, John M. Curtis, President and Chief Executive Officer of Perspecta Inc. (the "Company"), hereby certify that, to my knowledge:

(1) The Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2018, (the "Report") fully complies with the requirements of Section 13(a) or 15(d), of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 13, 2019

/s/ John M. Curtis

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John M. Curtis  
President and Chief Executive Officer  
(Principal Executive Officer)

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## **Section 5: EX-32.2 (CFO CERTIFICATION PURSUANT TO SECTION 906)**

**Exhibit 32.2**

### **CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, John P. Kavanaugh, Senior Vice President and Chief Financial Officer of Perspecta Inc. (the "Company"), hereby certify that, to my knowledge:

(1) The Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2018, (the "Report") fully complies with the requirements of Section 13(a) or 15(d), of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 13, 2019

/s/ John P. Kavanaugh

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John P. Kavanaugh  
Senior Vice President and Chief Financial Officer  
*(Principal Financial Officer)*

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