

Section 1: 10-Q (FORM 10-Q)

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

FORM 10-Q

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

For the quarterly period ended September 30, 2019
or

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

For the transition period from _____ to _____

Commission File Number: 001-38033



PERSPECTA INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada

(State or Other Jurisdiction of Incorporation or Organization)

15052 Conference Center Drive, Chantilly, Virginia

(Address of Principal Executive Offices)

82-3141520

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

20151

(Zip Code)

Registrant's telephone number, including area code: **(571) 313-6000**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	PRSP	New York Stock Exchange

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Non-accelerated filer

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

161,773,961 shares of common stock, par value \$0.01 per share, were outstanding as of October 31, 2019.

EXPLANATORY NOTE

On May 31, 2018, Perspecta Inc. (together with its consolidated subsidiaries for all periods following the spin-off defined below, "Perspecta") became an independent company through the consummation of the spin-off (the "Spin-Off") of the United States Public Sector business ("USPS") of DXC Technology Company ("DXC"). Following the Spin-Off and pursuant to an Agreement and Plan of Merger dated October 11, 2017 (the "Merger Agreement"), on May 31, 2018, Perspecta completed the combination of USPS with Vencore Holding Corp. ("Vencore HC") and KGS Holding Corp. ("KGS HC") (the "Mergers"). As a result of these transactions, the businesses owned by Vencore HC and KGS HC became wholly owned by Perspecta. For further information about the Mergers, please refer to our Annual Report on Form 10-K for the year ended March 31, 2019.

Because the Spin-Off and the Mergers were not consummated until May 31, 2018, the unaudited Condensed Consolidated Combined Financial Statements presented in this Quarterly Report on Form 10-Q include only the legacy USPS activity for the period from April 1, 2018 to May 31, 2018, and Perspecta, including entities acquired in the Mergers, from June 1, 2018 through September 30, 2018 and April 1, 2019 through September 30, 2019.

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, 2018 to May 31, 2018. In addition, "the Company," "we," "our" and "us" refer to USPS for the period from April 1, 2018 to May 31, 2018, before giving effect to the Spin-Off and Mergers, and to Perspecta and its consolidated 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.

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PART I – FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****Index to Condensed Consolidated Combined Financial Statements (unaudited)**

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

(in millions, except per share amounts)	Three Months Ended		Six Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenue	\$ 1,172	\$ 1,068	\$ 2,279	\$ 1,861
Costs of services	908	813	1,744	1,410
Selling, general and administrative	81	89	153	150
Depreciation and amortization	90	74	191	138
Restructuring costs	2	2	4	2
Separation, transaction and integration-related costs	20	21	39	65
Interest expense, net	36	37	71	47
Other income, net	(2)	(4)	(2)	(28)
Total costs and expenses	1,135	1,032	2,200	1,784
Income before taxes	37	36	79	77
Income tax expense	8	12	19	24
Net income	\$ 29	\$ 24	\$ 60	\$ 53
Earnings per common share:				
Basic	\$ 0.18	\$ 0.15	\$ 0.37	\$ 0.32
Diluted	\$ 0.18	\$ 0.14	\$ 0.37	\$ 0.32

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		Six Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net income	\$ 29	\$ 24	\$ 60	\$ 53
Other comprehensive income (loss), net of tax:				
Cash flow hedge adjustments, net of tax	(3)	6	(21)	5
Comprehensive income	\$ 26	\$ 30	\$ 39	\$ 58

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

PERSPECTA INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

(in millions, except per share and share amounts)	September 30, 2019	March 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 122	\$ 88
Receivables, net of allowance for doubtful accounts of \$1 and \$0	570	484
Other receivables	33	92
Prepaid expenses	102	141
Assets held for sale	49	23
Other current assets	58	50
Total current assets	934	878
Property and equipment, net of accumulated depreciation of \$141 and \$148	333	368
Goodwill	3,295	3,179
Intangible assets, net of accumulated amortization of \$414 and \$299	1,478	1,466
Other assets	279	192
Total assets	\$ 6,319	\$ 6,083
LIABILITIES and STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 87	\$ 80
Current finance lease obligations	119	137
Current operating lease obligations	40	—
Accounts payable	285	246
Accrued payroll and related costs	131	91
Accrued expenses	344	396
Other current liabilities	72	64
Total current liabilities	1,078	1,014
Long-term debt, net of current maturities	2,435	2,297
Non-current finance lease obligations	164	168
Deferred tax liabilities	143	171
Other long-term liabilities	336	271
Total liabilities	4,156	3,921
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$0.01 per share; 750,000,000 shares authorized; 165,986,855 and 165,844,994 shares issued; 161,866,236 and 163,099,080 shares outstanding	2	2
Additional paid-in capital	2,257	2,242
Retained earnings	42	2
Accumulated other comprehensive loss	(44)	(23)
Treasury stock at cost, 4,120,619 shares and 2,745,914 shares	(94)	(61)
Total stockholders' equity	2,163	2,162
Total liabilities and stockholders' equity	\$ 6,319	\$ 6,083

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 Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance at March 31, 2019	165,845	\$ 2	\$ 2,242	\$ 2	\$ (23)	\$ (61)	\$ 2,162
Net income	—	—	—	31	—	—	31
Other comprehensive loss, net of tax	—	—	—	—	(18)	—	(18)
Stock-based compensation	—	—	5	—	—	—	5
Repurchases of common stock	—	—	—	—	—	(15)	(15)
Stock option exercises and other common stock transactions	42	—	—	—	—	—	—
Dividends declared (\$0.06 per common share)	—	—	—	(10)	—	—	(10)
Balance at June 30, 2019	165,887	2	2,247	23	(41)	(76)	2,155
Net income	—	—	—	29	—	—	29
Other comprehensive loss, net of tax	—	—	—	—	(3)	—	(3)
Stock-based compensation	—	—	10	—	—	—	10
Repurchases of common stock	—	—	—	—	—	(17)	(17)
Stock option exercises and other common stock transactions	100	—	—	—	—	(1)	(1)
Dividends declared (\$0.06 per common share)	—	—	—	(10)	—	—	(10)
Balance at September 30, 2019	165,987	2	2,257	42	(44)	(94)	2,163

(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	—	—	—	—	—	—	49	49
Transfers to Parent, net	—	—	—	—	—	—	(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	—	—	—	(20)	—	—	—	(20)
Other comprehensive loss, net of tax	—	—	—	—	(1)	—	—	(1)
Dividends declared (\$0.05 per common share)	—	—	(8)	—	—	—	—	(8)
Balance at June 30, 2018	165,699	2	2,221	(20)	(1)	—	—	2,202
Net income	—	—	—	24	—	—	—	24
Other comprehensive income, net of tax	—	—	—	—	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 common share)	—	—	(4)	(4)	—	—	—	(8)
Balance at September 30, 2018	164,819	2	2,219	—	5	(23)	—	2,203

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)	Six Months Ended	
	September 30, 2019	September 30, 2018
Cash flows from operating activities:		
Net income	\$ 60	\$ 53
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	191	138
Stock-based compensation	15	3
Deferred income taxes	(20)	(11)
Loss (gain) on sale or disposal of assets	10	(25)
Other non-cash charges, net	4	(14)
Changes in assets and liabilities, net of effects of acquisitions:		
Receivables, net	50	(4)
Prepaid expenses and other current assets	46	(18)
Accounts payable, accrued expenses and other current liabilities	(16)	92
Deferred revenue and advanced contract payments	(16)	13
Income taxes payable and income tax liability	(2)	6
Other assets and liabilities, net	(2)	3
Net cash provided by operating activities	320	236
Cash flows from investing activities:		
Payments for acquisitions, net of cash acquired	(265)	(312)
Extinguishment of acquired debt and related costs	—	(994)
Proceeds from sale of assets	—	24
Purchases of property, equipment and software	(4)	(11)
Payments for outsourcing contract costs	(3)	(6)
Net cash used in investing activities	(272)	(1,299)
Cash flows from financing activities:		
Principal payments on long-term debt	(45)	(50)
Proceeds from debt issuance	—	2,500
Payments of debt issuance costs	(3)	(43)
Proceeds from revolving credit facility	175	50
Payments on revolving credit facility	—	(50)
Payments on finance lease obligations	(77)	(82)
Repurchases of common stock	(32)	(21)
Dividend to DXC	—	(984)
Dividends paid to Perspecta stockholders	(18)	(8)
Net transfers to Parent	—	(88)
Net cash provided by financing activities	—	1,224
Net change in cash and cash equivalents, including restricted	48	161
Cash and cash equivalents, including restricted, at beginning of period	99	—
Cash and cash equivalents, including restricted, at end of period	147	161
Less restricted cash and cash equivalents included in other current assets	25	35
Cash and cash equivalents at end of period	\$ 122	\$ 126
Supplemental cash flow disclosures:		
Interest paid	\$ 64	\$ 33
Income taxes paid, net	12	19
Supplemental schedule of non-cash investing and financing activities:		
Leased assets acquired through finance lease obligations	\$ 49	\$ 83
Leased assets acquired through operating lease obligations	15	—
Dividends declared but not yet paid	10	8

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.

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, 2018 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, 2018 through May 31, 2018, and to Perspecta and its consolidated subsidiaries for the periods from June 1, 2018 through September 30, 2018 and April 1, 2019 through September 30, 2019.

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 U.S. Securities and Exchange Commission (“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.

The period prior to the Spin-Off and Mergers includes the combined financial results and cash flows of USPS for the period from April 1, 2018 to May 31, 2018. The periods subsequent to the Spin-Off and Mergers include:

- the consolidated financial statements of Perspecta for the period from June 1, 2018 to September 30, 2018;
- the consolidated financial statements of Perspecta for the period from April 1, 2019 to September 30, 2019; and
- the consolidated financial position of Perspecta as of September 30, 2019 and March 31, 2019.

After the Spin-Off, DXC does not have any beneficial ownership of Perspecta or USPS. The chairman of the board of directors and former chief executive officer of DXC also serves as chairman 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 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 13 – “Related Party Transactions.”

Principles of Consolidation and Combination

The unaudited condensed consolidated combined financial statements as of and for the three and six months ended September 30, 2019 and 2018 reflect the financial position and results of operations of the Company and its consolidated subsidiaries. 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,

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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.

Prior to consummation of the Spin-Off, USPS generated cash in the normal course of its business. Parent swept the cash USPS generated via transfers to Parent's cash management system. 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 Parent's borrowings were not the legal obligation of USPS.

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 interim unaudited condensed consolidated combined financial statements contain all adjustments, including normal recurring adjustments, necessary to present fairly our results of operations and cash flows.

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.

Note 2 – Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842) Section A—Leases* ("ASU 2016-02"). ASU 2016-02, along with related amendments ("ASC 842"), 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. Management developed a detailed implementation plan, which included, 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. The Company adopted the standard on April 1, 2019 using the optional transition method. Under this method, the Company applied the standard through a cumulative-effect adjustment in the period of adoption. In addition, the Company has elected to adopt additional practical expedients, including combining lease and non-lease components, applying the discount rate to a portfolio of leases with similar lease durations based on the original lease duration, and maintaining prior lease classification upon adoption. The adoption of ASC 842 resulted in the recognition of \$114 million and \$130 million of ROU assets and lease liabilities, respectively, on our balance sheet related to operating leases. The adoption did not have a material impact on our statements of operations, changes in stockholders' equity or cash flows. See Note 10 – "Leases" for further details.

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). The guidance, along with related amendments, 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 will adopt ASU 2016-13 on April 1, 2020 and is currently assessing the impact that this guidance will have on its trade receivables and financial arrangements when adopted; however, given the concentration of receivables with the U.S. government, the adoption is not expected to have a material effect on Perspecta’s financial statements.

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, 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 will adopt ASU 2018-15 on April 1, 2020 and is currently evaluating the method and impact of adoption on its financial statements and related disclosures.

Other recently issued ASUs effective after September 30, 2019 are not expected to have a material effect on Perspecta’s financial statements.

Note 3 – Acquisitions

Knight Point Systems, LLC

On July 31, 2019, Perspecta acquired all of the equity interests of Knight Point Systems, LLC (“Knight Point”) for \$250 million plus customary purchase price adjustments, totaling an estimated purchase price of \$265 million. Knight Point delivers end-to-end managed services and solutions focused on modernizing IT systems, protecting critical networks and driving digital transformation to improve customer transparency and operational efficiency. Knight Point leverages a portfolio of intellectual property to solve complex customer challenges in cloud, cybersecurity and agile development and operations (“DevOps”) environments.

The Company recognized preliminary fair values of the assets acquired and liabilities assumed and allocated \$116 million to goodwill and \$125 million to intangible assets. The goodwill is largely attributable to the assembled workforce of Knight Point and expected synergies between the Company and Knight Point. The Company’s preliminary allocation of goodwill to Perspecta’s reportable segments was as follows: \$22 million allocated to Defense and Intelligence and \$94 million allocated to Civilian and Health Care. The intangible assets consist primarily of program assets of \$102 million, developed technology of \$18 million and backlog of \$5 million. The estimated fair value attributed to intangible assets is being amortized on an accelerated basis over a range of 10 to 12 years for program assets, seven years for developed technology and one year for backlog. The fair value attributed to the intangible assets acquired was based on preliminary estimates, assumptions, and other information compiled by management, including independent valuations that utilized established valuation techniques. All of the value attributed to goodwill and intangible assets is deductible for income tax purposes. 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. The final purchase price allocation is expected to be completed by the first quarter of fiscal year 2021, pending a working capital adjustment and final appraisals and other analysis of the fair values and tax bases of acquired assets and liabilities.

The results of operations of Knight Point have been included in the statement of operations beginning August 1, 2019. Pro forma results of operations for this acquisition have not been presented as it is not material to the consolidated results of operations. The acquisition was considered an asset purchase for tax purposes.

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Unaudited Pro Forma Financial Information for the Spin-Off and the Mergers

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 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)	Six Months Ended September 30, 2018				
	Six Months Ended September 30, 2018 Historical Perspecta⁽¹⁾	Period from April 1, 2018 to May 31, 2018 Historical Vencore	Effects of the Spin-Off	Effects of the Mergers	Pro Forma Combined for the Spin-Off and Mergers
Revenue	\$ 1,861	\$ 244	\$ —	\$ —	\$ 2,105
Net income (loss)	\$ 53	\$ (57)	\$ (7)	\$ 12	\$ 1
Earnings per common share ⁽²⁾ :					
Basic	\$ 0.32				\$ 0.01
Diluted	\$ 0.32				\$ 0.01

⁽¹⁾ Revenue and pre-tax income includes \$490 million and \$71 million associated with Vencore for the period of June 1, 2018 through September 30, 2018. The pre-tax income excludes amortization of acquired intangible assets, acquisition financing and the allocation of certain corporate overhead costs.

⁽²⁾ Historical and pro forma combined earnings per common share information is computed based on 165.54 million basic weighted average shares and 165.82 million diluted shares. See Note 5 – “Earnings Per Share.”

Note 4 – Revenue

Disaggregated Revenue

Revenue by contract type was as follows:

(in millions)	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018		
	Defense and Intelligence	Civilian and Health Care	Total	Defense and Intelligence	Civilian and Health Care	Total
Cost-reimbursable	\$ 267	\$ 25	\$ 292	\$ 231	\$ 20	\$ 251
Fixed-price	411	251	662	367	240	607
Time-and-materials	99	119	218	104	106	210
Total	\$ 777	\$ 395	\$ 1,172	\$ 702	\$ 366	\$ 1,068

(in millions)	Six Months Ended September 30, 2019			Six Months Ended September 30, 2018		
	Defense and Intelligence	Civilian and Health Care	Total	Defense and Intelligence	Civilian and Health Care	Total
Cost-reimbursable	\$ 535	\$ 51	\$ 586	\$ 340	\$ 41	\$ 381
Fixed-price	783	465	1,248	612	470	1,082
Time-and-materials	211	234	445	187	211	398
Total	\$ 1,529	\$ 750	\$ 2,279	\$ 1,139	\$ 722	\$ 1,861

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Revenue by prime or subcontractor was as follows:

(in millions)	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018		
	Defense and Intelligence	Civilian and Health Care	Total	Defense and Intelligence	Civilian and Health Care	Total
Prime contractor	\$ 733	\$ 372	\$ 1,105	\$ 660	\$ 315	\$ 975
Subcontractor	44	23	67	42	51	93
Total	\$ 777	\$ 395	\$ 1,172	\$ 702	\$ 366	\$ 1,068

(in millions)	Six Months Ended September 30, 2019			Six Months Ended September 30, 2018		
	Defense and Intelligence	Civilian and Health Care	Total	Defense and Intelligence	Civilian and Health Care	Total
Prime contractor	\$ 1,441	\$ 695	\$ 2,136	\$ 1,077	\$ 650	\$ 1,727
Subcontractor	88	55	143	62	72	134
Total	\$ 1,529	\$ 750	\$ 2,279	\$ 1,139	\$ 722	\$ 1,861

Revenue by customer type was as follows:

(in millions)	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018		
	Defense and Intelligence	Civilian and Health Care	Total	Defense and Intelligence	Civilian and Health Care	Total
U.S. federal government, including independent agencies	\$ 773	\$ 322	\$ 1,095	\$ 700	\$ 298	\$ 998
Non-federal (state, local and other)	4	73	77	2	68	70
Total	\$ 777	\$ 395	\$ 1,172	\$ 702	\$ 366	\$ 1,068

(in millions)	Six Months Ended September 30, 2019			Six Months Ended September 30, 2018		
	Defense and Intelligence	Civilian and Health Care	Total	Defense and Intelligence	Civilian and Health Care	Total
U.S. federal government, including independent agencies	\$ 1,521	\$ 614	\$ 2,135	\$ 1,136	\$ 591	\$ 1,727
Non-federal (state, local and other)	8	136	144	3	131	134
Total	\$ 1,529	\$ 750	\$ 2,279	\$ 1,139	\$ 722	\$ 1,861

Performance Obligations

As of September 30, 2019, approximately \$4.14 billion of revenue is expected to be recognized from remaining unsatisfied performance obligations on executed contracts. The Company expects to recognize approximately 74% of these remaining performance obligations as revenue within 12 months and approximately 85% within 24 months, with the remainder recognized thereafter.

Contract Balances

Contract assets and contract liabilities were as follows:

(in millions)	Balance Sheets Line Item	September 30, 2019	March 31, 2019
Contract assets:			
Unbilled receivables	Receivables, net of allowance for doubtful accounts	\$ 310	\$ 301
Contract liabilities:			
Current portion of deferred revenue and advance contract payments	Other current liabilities	\$ 26	\$ 33
Non-current portion of deferred revenue and advance contract payments	Other long-term liabilities	6	12

Contract assets increased \$9 million during the six months ended September 30, 2019, primarily due to the acquisition of Knight Point. There were no significant impairment losses related to the Company's contract assets during the six months ended September 30, 2019 or 2018.

Contract liabilities decreased \$13 million during the six months ended September 30, 2019, primarily due to revenue recognized in excess of payments received. During the three and six months ended September 30, 2019, the Company recognized \$5 million and \$29 million, respectively, of the deferred revenue and advance contract payments at March 31, 2019 as revenue. During the three and six months ended September 30, 2018, the Company recognized \$12 million and \$22 million, respectively, of the deferred revenue and advance contract payments at April 1, 2018 as revenue.

Note 5 – Earnings Per Share

Basic earnings per common share (“EPS”) is computed using the weighted average number of shares of common stock outstanding during the periods presented. Diluted EPS reflects the incremental shares issuable upon the assumed exercise of stock options and vesting of other equity awards. There were no significant anti-dilutive equity awards excluded from the calculation of EPS for the three and six months ended September 30, 2019 or 2018.

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

(in millions, except per share amounts)	Three Months Ended		Six Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net income	\$ 29	\$ 24	\$ 60	\$ 53
Common share information:				
Basic weighted average common shares outstanding	162.22	165.49	162.51	165.54
Dilutive effect of equity awards	0.68	0.30	0.58	0.28
Diluted weighted average common shares outstanding	162.90	165.79	163.09	165.82
Earnings per common share:				
Basic	\$ 0.18	\$ 0.15	\$ 0.37	\$ 0.32
Diluted	\$ 0.18	\$ 0.14	\$ 0.37	\$ 0.32

Note 6 – Sale of Receivables

During the three and six months ended September 30, 2019, we sold \$720 million and \$1.41 billion, respectively, of billed and unbilled receivables under our receivables sales facility, as compared to \$714 million and \$1.40 billion during the three and six months ended September 30, 2018, respectively. The amount outstanding at September 30, 2019 and March 31, 2019 was \$149 million and \$146 million, respectively. As of September 30, 2019 and March 31, 2019, collections not remitted to the financial institutions corresponding to these receivables sales were \$25 million and \$11 million, respectively. These amounts represent restricted cash recorded by the Company within the other current assets caption of the balance sheets.

Note 7 – Fair Value

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 finance leases and unmortized debt issuance costs, was \$2.54 billion and \$2.35 billion as of September 30, 2019 and March 31, 2019, respectively, as compared with the gross carrying value of \$2.54 billion and \$2.40 billion, respectively. If measured at fair value, long-term debt, excluding finance lease liabilities, would be classified in Level 2 of the fair value hierarchy.

Non-financial assets such as goodwill, 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 six months ended September 30, 2019 or 2018.

Note 8 – 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.

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As of September 30, 2019, the Company had interest rate swap agreements with a total notional amount of \$1.60 billion. The Company initially accounted for all changes in fair value of its interest rate swaps on 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 included in interest expense, net on the statement of operations for the six months ended September 30, 2018.

Following the June 22, 2018 cash flow hedge designation, all changes in the hedging instruments' fair value are recorded in accumulated other comprehensive loss ("AOCL") and subsequently reclassified into earnings in the period during which the hedged transactions are recognized in earnings. The pre-tax impact of loss on derivatives designated for hedge accounting recognized in other comprehensive loss was \$4 million (\$3 million, net of tax) and \$28 million (\$21 million, net of tax) for the three and six months ended September 30, 2019, respectively. The pre-tax impact of income on derivatives designated for hedge accounting recognized in other comprehensive income was \$8 million (\$6 million, net of tax) and \$7 million (\$5 million, net of tax) for the three and six months ended September 30, 2018, respectively. We reclassified \$2 million and \$3 million from AOCL into earnings during the three and six months ended September 30, 2019, respectively. As of September 30, 2019, we expect amounts of approximately \$18 million pertaining to cash flow hedges to be reclassified from AOCL into earnings over the next 12 months.

All derivatives are recorded at fair value. The Company's accounting treatment for these derivative instruments is based on its hedge designation. As of September 30, 2019, the gross fair value of our derivative liabilities in interest rate swaps designated for hedge accounting is \$55 million, of which \$16 million is presented as other current liabilities and \$39 million is presented as other liabilities on the balance sheet. As of March 31, 2019, the gross fair value of our derivative liabilities in interest rate swaps designated for hedge accounting was \$26 million, of which \$4 million is presented in other current liabilities and \$22 million is presented in other liabilities on 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.

Note 9 – Debt

The following is a summary of the Company's outstanding debt:

(in millions)	Interest Rates	Maturities	September 30, 2019	March 31, 2019
Revolving Credit Facility	LIBOR + 1.50%	August 2024	\$ 175	\$ —
Term Loan A Facilities (Tranche 1)	LIBOR + 1.375%	August 2022	200	246
Term Loan A Facilities (Tranche 2)	LIBOR + 1.50%	August 2024	1,593	1,588
Term Loan B Facility	LIBOR + 2.25%	May 2025	494	497
Subtotal senior secured credit facilities			2,462	2,331
Senior unsecured EDS Notes	7.45%	October 2029	66	66
Other secured borrowings			14	—
Total debt			2,542	2,397
Less: current maturities of long-term debt, net ⁽¹⁾			(87)	(80)
Less: unamortized debt issuance costs and premiums ⁽²⁾			(20)	(20)
Total long-term debt, net of current maturities			<u>\$ 2,435</u>	<u>\$ 2,297</u>

⁽¹⁾ Current maturities of long-term debt are presented net of \$6 million and \$8 million of debt issuance costs associated with the Term Loan A Facilities and Term Loan B Facility as of September 30, 2019 and March 31, 2019, respectively.

⁽²⁾ Includes \$11 million and \$12 million as of September 30, 2019 and March 31, 2019, respectively, of unamortized premiums on the assumed Electronic Data Systems Corporation ("EDS") Notes.

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Expected maturities of long-term debt are as follows:

Fiscal Year	(in millions)
Remainder of fiscal year 2020	\$ 48
2021	91
2022	90
2023	290
2024	89
Thereafter	1,934
Total	\$ 2,542

On August 13, 2019, the Company entered into the Second Amendment to its Credit Agreement (the "Amendment") to provide greater operational and financial flexibility to the Company. Pursuant to the Amendment, with MUFG Bank, Ltd. as Lead Left Arranger and Administrative Agent, Bank of America, N.A. as Syndication Agent, JPMorgan Chase Bank, N.A., Mizuho Bank, Ltd. and PNC Bank, National Association as Documentation Agents, and MUFG Bank, Ltd., BofA Securities, Inc., JPMorgan Chase Bank, N.A., PNC Capital Markets, LLC and Mizuho Bank, Ltd. as Lead Arrangers, the maturities of the Pro-Rata Facilities (Term Loan A Facilities and the Revolving Credit Facility) were extended by 15 months each. The Amendment also provided for, among other things:

- changes to certain terms and conditions, including modifying the financial covenant total net leverage ratio to a maximum of 4.50x (unchanged), with a stepdown to 4.25x (previously 3.75x) after 12 months, and, thereafter, with a step up to 4.50x (previously 4.00x) for a 12 month period following a Permitted Acquisition greater than \$100 million;
- a \$46 million increase in the Term Loan A Tranche 2 from \$1,568 million to \$1,614 million, the proceeds of which were used to reduce Term Loan A Tranche 1 from \$246 million to \$200 million;
- an extension of the maturity of the Term Loan A Tranche 1 from May 31, 2021 to August 31, 2022;
- an extension of the maturity of the Term Loan A Tranche 2 from May 31, 2023 to August 31, 2024; and
- a \$150 million increase in the Revolving Credit Facility to \$750 million and an extension of the maturity from May 31, 2023 to August 31, 2024.

Note 10 – Leases

As described in Note 2 – "Recent Accounting Pronouncements," effective April 1, 2019, we adopted ASC 842 using the optional transition method. In accordance with the optional transition method, we did not recast the prior period financial statements, and all prior period amounts and disclosures are presented under ASC 840.

The Company leases certain real and personal property under non-cancelable operating leases. Lease assets under finance leases is comprised primarily of computers and related equipment. Finance lease obligations primarily consist of contractual arrangements with HPE Financial Services.

Under ASC 842, an arrangement is determined to be a lease at inception if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception, we determine whether the contract is or contains a lease and, if so, whether the lease should be classified as an operating or a finance lease. The Company recognizes a ROU asset and a lease liability based on the present value of the future minimum lease payments over the lease term at the commencement date, adjusted for any lease incentives, initial direct costs, and potential impairment. At the commencement date, a single discount rate is applied to a group of leases with the same durations. The rate is updated quarterly for new leases that commence during the period, unless a triggering event occurs requiring more frequent reassessment. We define the initial lease term to include renewal options determined to be reasonably certain. Lease assets are evaluated for impairment in a manner consistent with the treatment of other long-lived assets.

Certain leases require us to pay property taxes, insurance and routine maintenance, which are included in variable lease expense. At September 30, 2019, the Company did not have any lease agreements with residual value guarantees or material restrictions or covenants. The Company's lessor arrangements with its customers are immaterial to the results of operations and cash flows.

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The components of lease expense were as follows:

(in millions)	Statement of Operations Line Item(s)	Three Months Ended September 30, 2019	Six Months Ended September 30, 2019
Finance lease expense			
Amortization of leased assets	Depreciation and amortization	\$ 29	\$ 65
Interest on lease obligations	Interest expense, net	5	10
Total finance lease expense		34	75
Operating lease expense			
Operating lease expense	Cost of services and selling, general and administrative	16	30
Variable lease expense	Cost of services and selling, general and administrative	2	4
Sublease income	Cost of services and selling, general and administrative	(1)	(2)
Total lease expense, net		\$ 51	\$ 107

Supplemental balance sheet information related to leases was as follows:

(in millions)	Balance Sheet Line Item	September 30, 2019
Assets		
Finance lease assets	Property and equipment, net of accumulated depreciation of \$120	\$ 260
Operating lease assets	Other assets	92
Total lease assets		\$ 352
Liabilities		
Current		
Finance leases	Current finance lease obligations	\$ 119
Operating leases	Current operating lease obligations	40
Non-current		
Finance leases	Non-current finance lease obligations	164
Operating leases	Other long-term liabilities	70
Total lease liabilities		\$ 393

Supplemental cash flow information related to leases was as follows:

(in millions)	Six Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease obligations:	
Operating cash flows from operating leases	\$ 27
Operating cash flows from finance leases	9
Financing cash flows from finance leases	77

The Company includes both the amortization of operating lease assets and changes in the lease liabilities in changes in other assets and liabilities, net on the statement of cash flows.

The weighted average remaining lease terms and discount rates were as follows:

	September 30, 2019
Weighted average remaining lease term (in years):	
Finance leases	2.8
Operating leases	4.2
Weighted average discount rate:	
Finance leases	6.57%
Operating leases	4.71%

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As of September 30, 2019, future minimum lease payments required to be made under leases were as follows:

Fiscal Year (in millions)	Operating Leases	Finance Leases
Remainder of fiscal year 2020	\$ 23	\$ 77
2021	35	107
2022	22	76
2023	17	37
2024	8	11
Thereafter	17	1
Total minimum lease payments	122	309
Less: Amount representing interest	(12)	(26)
Present value of net minimum lease payments	<u>\$ 110</u>	<u>\$ 283</u>

As of September 30, 2019, the Company has aggregate rent obligations of \$42 million for operating leases and \$5 million for finance leases, for leases that have not commenced, with terms ranging from one to 10 years.

Note 11 – Pension and Other Benefit Plans

The Company offers a defined benefit pension plan, a retiree medical plan, life insurance benefits, deferred compensation plans and defined contribution plans. The Company's defined benefit pension and retiree medical plans are not admitting new participants; therefore, changes to pension and other postretirement benefit liabilities are primarily due to market fluctuations of investments, actuarial assumptions for the measurement of liabilities and changes in interest rates.

The Company did not contribute to the defined benefit pension and other postretirement benefit plans during the three and six months ended September 30, 2019 or 2018, and does not expect to contribute during the remainder of fiscal year 2020.

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

(in millions)	Three Months Ended		Six Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Service cost	\$ —	\$ —	\$ 1	\$ —
Interest cost	5	5	9	6
Expected return on assets	(8)	(7)	(15)	(9)
Net periodic pension benefit	<u>\$ (3)</u>	<u>\$ (2)</u>	<u>\$ (5)</u>	<u>\$ (3)</u>

Net periodic benefit cost for the Company's retiree medical plan was not significant for the three and six months ended September 30, 2019 or 2018.

Note 12 – Income Taxes

The Company's effective tax rate ("ETR") was approximately 22% and 24% for the three and six months ended September 30, 2019, respectively, as compared to 33% and 31% for the three and six months ended September 30, 2018, respectively. For the three and six months ended September 30, 2019, the primary drivers of our ETR were state income taxes, non-deductible transaction expenses, and the release of certain indemnified liabilities for uncertain tax benefits. For the three and six months ended September 30, 2018, the primary drivers of our ETR were state income taxes and non-deductible transaction expenses.

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. 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 \$75 million at September 30, 2019, for which it must remit to DXC under the TMA, and has recorded a corresponding payable. The receivable is included in

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other receivables and other assets and the payable is included in accrued expenses and other long-term liabilities on our balance sheet.

The Company's entities included in the Spin-Off are currently under examination or in appeals in several tax jurisdictions. The calendar year 2008 and fiscal year 2010 and forward tax years remain open under applicable statutes of limitations, and are currently under review by the IRS and other taxing authorities. The IRS is not currently examining Vencore HC or KGS HC for any open years, but entities related to these businesses are open to examination in various state and local jurisdictions.

Note 13 – Related Party Transactions

Allocation of Corporate Expenses

The statement of operations for the six months ended September 30, 2018 included corporate allocations of \$24 million recorded within costs of services and selling, general and administrative. These allocations were for the period from April 1 to May 31, 2018 for general corporate expenses from Parent for certain management and support functions that were provided on a centralized basis within Parent prior to the Spin-Off.

Parent Company Investment

Parent company investment on the statements of cash flows and equity for the period from April 1 to May 31, 2018 represents 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.

Related Party Transactions with DXC

The Company recognized \$3 million and \$9 million of related party revenue from DXC and incurred obligations of \$21 million and \$78 million for related party transactions with DXC during the three and six months ended September 30, 2019, respectively, compared to \$4 million and \$6 million of related party revenue from DXC and incurred obligations of \$10 million and \$12 million for the three and six months ended September 30, 2018, respectively.

Note 14 – Stockholders' Equity

Cash Dividends

During the three and six months ended September 30, 2019, the Board of Directors declared cash dividends to our stockholders of approximately \$10 million (\$0.06 per common share) and \$20 million (\$0.12 per common share), respectively. During the three and six months ended September 30, 2018, the Board of Directors declared cash dividends to our stockholders of approximately \$8 million (\$0.05 per common share) and \$16 million (\$0.10 per common share), respectively. The cash dividends were paid in the quarter following their declaration.

On November 12, 2019, the Board of Directors declared a dividend of \$0.06 per common share payable on January 14, 2020 to common stockholders of record at the close of business on December 4, 2019.

Share Repurchase Program

During the six months ended September 30, 2019, the Company repurchased 1,357,859 shares of its common stock for aggregate cost of \$32 million, of which approximately \$1 million was settled subsequent to the end of the period. The shares are reported as treasury stock at cost. The total remaining authorization for future common stock repurchases under the share repurchase program was \$308 million as of September 30, 2019.

Stock-based Compensation

The Company recognized \$10 million and \$15 million in stock-based compensation expense during the three and six months ended September 30, 2019, respectively, compared to \$1 million and \$3 million for the three and six months ended September 30, 2018, respectively. During the six months ended September 30, 2019, the Company granted approximately 558 thousand time-based restricted stock units ("RSUs") and approximately 923 thousand performance-based restricted stock units ("PSUs"). 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 six months ended September 30, 2019 was \$23.17 and \$23.01, respectively.

Note 15 – Segment Information

We operate based on two reportable segments: (1) Defense and Intelligence, and (2) Civilian and Health Care. Our 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:

(in millions)	Three Months Ended		Six Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenue				
Defense and Intelligence	\$ 777	\$ 702	\$ 1,529	\$ 1,139
Civilian and Health Care	395	366	750	722
Total revenue	\$ 1,172	\$ 1,068	\$ 2,279	\$ 1,861
Segment profit⁽¹⁾				
Defense and Intelligence	\$ 113	\$ 87	\$ 231	\$ 123
Civilian and Health Care	40	41	73	102
Total segment profit	\$ 153	\$ 128	\$ 304	\$ 225
Depreciation and amortization				
Defense and Intelligence	\$ 24	\$ 18	\$ 49	\$ 37
Civilian and Health Care	16	20	44	40
Amortization of acquired intangible assets	50	36	98	61
Total depreciation and amortization	\$ 90	\$ 74	\$ 191	\$ 138

⁽¹⁾ The segment profit for the three and six months ended September 30, 2018 was revised to reflect the change to exclude the amortization expense on intangible assets acquired in business combinations as disclosed in Note 19 – “Segment Information” to the financial statements of our Annual Report on Form 10-K for the year ended March 31, 2019.

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Reconciliation of Reportable Segment Profit to the Statements of Operations

The Company's management uses segment profit as the measure for assessing performance of its segments. Segment profit is defined as segment revenue less segment cost of services, selling, general and administrative and depreciation and amortization, excluding certain operating expenses managed at the corporate level. These unallocated costs include certain corporate function costs, stock-based compensation expense, amortization of acquired intangible assets, certain nonrecoverable restructuring costs, separation, transaction and integration-related costs and net periodic benefit cost.

(in millions)	Three Months Ended		Six Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Total segment profit	\$ 153	\$ 128	\$ 304	\$ 225
Not allocated to segments:				
Stock-based compensation	(10)	(1)	(15)	(3)
Amortization of acquired intangible assets	(50)	(36)	(98)	(61)
Restructuring costs	(2)	—	(4)	—
Separation, transaction and integration-related costs	(20)	(21)	(39)	(65)
Interest expense, net	(36)	(37)	(71)	(47)
Other unallocated, net	2	3	2	28
Income before taxes	\$ 37	\$ 36	\$ 79	\$ 77

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 16 – Commitments and Contingencies

The Company is a party to or has responsibility under various lawsuits, claims, investigations and proceedings involving disputes or potential disputes related to commercial, employment and regulatory matters that arise in the ordinary course of business. The Separation and Distribution Agreement (the "SDA") between Perspecta and DXC includes provisions that allocate liability and financial responsibility for litigation involving DXC and the Company and that provide for cross-indemnification of the parties for liabilities a party may incur that are allocated to the other party under the SDA. In addition, under 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. 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 September 30, 2019, 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

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. The case has remained stayed while the parties have engaged in mediation with opt-in plaintiffs who are subject to mandatory, individual arbitration agreements. Two mediation sessions

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have taken place. In October 2018, a settlement was reached with 16 named and opt-in plaintiffs; that settlement has been completed. On June 26-27, 2019, a second mediation was held, involving 145 opt-in plaintiffs. Discussions continue. Former business units of HPE now owned by the Company will be liable in this matter for any recovery by plaintiffs previously associated with the USPS business of HPE.

In addition to the matter 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, 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

The Company 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 September 30, 2019. As of September 30, 2019, the Company had \$34 million in outstanding surety bonds, of which less than \$1 million expire in each of fiscal years 2020 and 2021, and \$33 million expire in fiscal year 2022.

Note 17 – Subsequent Events

On October 4, 2019, we completed a sale and leaseback transaction of our Herndon, Virginia facility. The land and buildings sold had a carrying value of \$23 million, which was included in assets held for sale on our balance sheets as of September 30, 2019 and March 31, 2019. We will recognize a gain on sale of assets of approximately \$30 million during the third quarter of fiscal year 2020. The leaseback period will facilitate the Company's exit from the facility.

Effective October 31, 2019, the Company completed the fourth amendment and joinder to the MARPA Facility to extend the maturity of the facility through October 30, 2020 and to amend certain other terms.

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, share repurchases, dividend payments, 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, 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 or disruptions to our systems, due to cyber-attack, service interruptions or other security threats;
- failure to be awarded task orders under our indefinite delivery/indefinite quantity (“ID/IQ”) 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;
- uncertainty from the expected discontinuance of LIBOR and transition to any other interest rate benchmark; 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, 2019.

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 and in other information we publicly disclose from time to time. 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 expectation, 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. This discussion should be read in conjunction with the financial statements and related notes included elsewhere in this document and with our Annual Report on Form 10-K for the year ended March 31, 2019.

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." Some of these risks and uncertainties include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K for the year ended March 31, 2019, as updated periodically through our subsequent quarterly reports on Form 10-Q. 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 prior period 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 their desired 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.

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. See Note 1 – "Overview and Basis of Presentation" to the financial statements for additional details regarding the Spin-Off and Mergers. On October 29, 2019, the Company filed for arbitration against DXC to resolve certain disputed items related to the Spin-Off. After completion of the Spin-Off, the Company began assessing the respective rights, responsibilities and obligations of DXC and the Company under the SDA and other related Spin-Off agreements. Based on this assessment, and in accordance with the provisions of the agreements, the Company disputed certain transactions that were effected by DXC in connection with the Spin-Off. The Company has been addressing these matters with DXC pursuant to the terms of the SDA, including its confidentiality provisions and dispute resolution provisions that require executive escalation, mediation and binding arbitration. Based on the status of the arbitration filed last month, we currently are unable to predict the impact of any resolutions of these matters on the Company.

Acquisition

On July 31, 2019, Perspecta acquired all of the equity interests of Knight Point for \$250 million plus customary purchase price adjustments, totaling an estimated purchase price of \$265 million. Knight Point delivers end-to-end managed services and solutions focused on modernizing IT systems, protecting critical networks and driving digital transformation to improve customer transparency and operational efficiency. Knight Point leverages a portfolio of intellectual property to solve complex customer challenges in cloud, cybersecurity and agile DevOps environments. See Note 3 – “Acquisitions” to the financial statements for additional details.

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 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 15 – “Segment Information” to the financial statements.

Backlog

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 ID/IQ 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 as of September 30, 2019 was as follows:

(in millions)	Defense and Intelligence	Civilian and Health Care	Total
Funded backlog	\$ 839	\$ 1,126	\$ 1,965
Unfunded backlog	7,386	3,352	10,738
Total contract value backlog	\$ 8,225	\$ 4,478	\$ 12,703

The contract awards during the three and six months ended September 30, 2019 and 2018 were as follows:

(in millions)	Three Months Ended		Six Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Defense and Intelligence	\$ 1,934	\$ 1,741	\$ 2,603	\$ 2,086
Civilian and Health Care	372	664	704	1,639
Total contract awards	\$ 2,306	\$ 2,405	\$ 3,307	\$ 3,725

Results of Operations

On May 31, 2018, we completed the Mergers. See Note 1 – “Overview and Basis of Presentation” and Note 3 – “Acquisitions” to the financial statements for additional details. Accordingly, the financial results of Perspecta for the period prior to June 1, 2018 do not include the financial results of Vencore and, therefore, are not directly comparable.

Selected financial information is presented in the tables below:

(in millions, except per share amounts)	Three Months Ended			
	September 30, 2019	September 30, 2018	Change	Percent Change
Revenue	\$ 1,172	\$ 1,068	\$ 104	10 %
Total costs and expenses	1,135	1,032	103	10 %
Income before income taxes	37	36	1	3 %
Income tax expense	8	12	(4)	(33)%
Net income	\$ 29	\$ 24	\$ 5	21 %

Diluted earnings per share	\$ 0.18	\$ 0.14		
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(in millions, except per share amounts)	Six Months Ended			
	September 30, 2019	September 30, 2018	Change	Percent Change
Revenue	\$ 2,279	\$ 1,861	\$ 418	22 %
Total costs and expenses	2,200	1,784	416	23 %
Income before income taxes	79	77	2	3 %
Income tax expense	19	24	(5)	(21)%
Net income	\$ 60	\$ 53	\$ 7	13 %

Diluted earnings per share	\$ 0.37	\$ 0.32		
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Revenue

Revenue by segment for the three and six months ended September 30, 2019 and 2018 was:

(in millions)	Three Months Ended			
	September 30, 2019	September 30, 2018	Change	Percent Change
Defense and Intelligence	\$ 777	\$ 702	\$ 75	11%
Civilian and Health Care	395	366	29	8%
Total	\$ 1,172	\$ 1,068	\$ 104	10%

(in millions)	Six Months Ended			
	September 30, 2019	September 30, 2018	Change	Percent Change
Defense and Intelligence	\$ 1,529	\$ 1,139	\$ 390	34%
Civilian and Health Care	750	722	28	4%
Total	\$ 2,279	\$ 1,861	\$ 418	22%

Defense and Intelligence Segment

Our Defense and Intelligence segment revenue during the three months ended September 30, 2019 increased by \$75 million, or 11%, as compared to the same period of the prior year primarily due to new business wins and growth on existing programs.

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Our Defense and Intelligence segment revenue during the six months ended September 30, 2019 increased by \$390 million, or 34%, as compared to the same period of the prior year. Including the \$230 million of Vencore revenue in April and May of 2018, Defense and Intelligence increased \$160 million, or 12%, primarily due to the ramp up of new business wins coupled with growth on existing programs.

Civilian and Health Care Segment

Our Civilian and Health Care segment revenue during the three months ended September 30, 2019 increased by \$29 million, or 8%, as compared to the same period of the prior year primarily due to approximately \$60 million of revenue from the sale of IT assets and related transition services to conclude a contract, partially offset by the completion or wind down of other programs.

Our Civilian and Health Care segment revenue during the six months ended September 30, 2019 increased by \$28 million, or 4%, as compared to the same period of the prior year. Including the \$14 million of Vencore revenue in April and May of 2018, Civilian and Health Care increased \$14 million, or 2%, primarily due to the sale of IT assets and related transition services to conclude a contract as discussed above, partially offset by the completion or wind down of other programs.

Costs and Expenses

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

(in millions)	Three Months Ended		Percentage of Revenue		Change	Percent Change
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018		
Costs of services	\$ 908	\$ 813	77 %	76 %	\$ 95	12 %
Selling, general and administrative	81	89	7 %	8 %	(8)	(9)%
Depreciation and amortization	90	74	8 %	7 %	16	22 %
Restructuring costs	2	2	— %	— %	—	— %
Separation, transaction and integration-related costs	20	21	2 %	2 %	(1)	(5)%
Interest expense, net	36	37	3 %	3 %	(1)	(3)%
Other income, net	(2)	(4)	— %	— %	2	(50)%
Total costs and expenses	<u>\$ 1,135</u>	<u>\$ 1,032</u>	97 %	97 %	<u>\$ 103</u>	10 %

(in millions)	Six Months Ended		Percentage of Revenue		Change	Percent Change
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018		
Costs of services	\$ 1,744	\$ 1,410	77 %	76 %	\$ 334	24 %
Selling, general and administrative	153	150	7 %	8 %	3	2 %
Depreciation and amortization	191	138	8 %	7 %	53	38 %
Restructuring costs	4	2	— %	— %	2	100 %
Separation, transaction and integration-related costs	39	65	2 %	3 %	(26)	(40)%
Interest expense, net	71	47	3 %	3 %	24	51 %
Other income, net	(2)	(28)	— %	(2)%	26	(93)%
Total costs and expenses	<u>\$ 2,200</u>	<u>\$ 1,784</u>	97 %	96 %	<u>\$ 416</u>	23 %

Costs of Services

For both the three and six months ended September 30, 2019, costs of services as a percentage of revenue was 77%, as compared to 76% for both comparable periods of the prior year. Margins were negatively impacted by start-up costs associated with new contract wins and the wind down of certain long-term fixed price programs, partially offset by continued focus on cost discipline and program management of our portfolio. We expect that over the long-term, contract mix will continue to move in the direction of fixed price. Our cost-reimbursable and time-and-materials contracts typically have consistent margins, whereas the margin on our fixed price contracts is dependent upon management's ability to control the costs of providing the services.

Selling, General and Administrative

Selling, general and administrative expense ("SG&A") was \$81 million and \$153 million for the three and six months ended September 30, 2019, respectively, as compared to \$89 million and \$150 million for the same periods of the prior year. SG&A as a percentage of revenue for both the three and six months ended September 30, 2019 was 7%, as compared to 8% for both comparable periods of the prior year, with the decrease in the current fiscal year primarily due to indirect cost management and the realization of cost control actions taken after the Spin-Off and Mergers.

Depreciation and Amortization

Depreciation and amortization expense ("D&A") was \$90 million and \$191 million for the three and six months ended September 30, 2019, respectively, as compared to \$74 million and \$138 million for the same periods of the prior year. The increase of \$16 million in D&A for the three months ended September 30, 2019 was primarily attributed to Knight Point's acquired intangibles. The increase of \$53 million in D&A for the six months ended September 30, 2019 was primarily attributed to a full six months of accounting for the assets acquired in the Mergers compared to four months in the same period of the prior year and an increase in finance leases to support customer requirements.

Interest Expense, Net

Interest expense, net for the three and six months ended September 30, 2019 was \$36 million and \$71 million, respectively, as compared to \$37 million and \$47 million during the same periods of the prior year. The increase of \$24 million in interest expense for the six months ended September 30, 2019 was primarily attributable to the debt incurred to fund the Spin-Off and Mergers on June 1, 2018.

Other Income, Net

Other income, net for both the three and six months ended September 30, 2019 was \$2 million, as compared to \$4 million and \$28 million during the same periods of the prior year. Other income, net for the six months ended September 30, 2019 included a \$7 million reduction of a DXC indemnification receivable related to a liability for uncertain tax positions. The corresponding tax reserves were reduced by the same amount, resulting in a \$7 million reduction of income tax expense in accordance with ASC Topic 740, *Income Taxes*. The six months ended September 30, 2018 included a \$25 million gain on the sale of a contract to eliminate a potential organizational conflict of interest that resulted from the Mergers. Other income, net for the three and six months ended September 30, 2019 and 2018 also included certain components of the net periodic pension cost for defined benefit pension plans, equity in earnings of unconsolidated affiliates and other miscellaneous gains and losses.

Taxes

Income tax expense was \$8 million and \$19 million for the three and six months ended September 30, 2019, respectively, as compared to \$12 million and \$24 million for the same periods of the prior year. Tax expense for the six months ended September 30, 2019 included a benefit of \$7 million from the reduction of tax reserves discussed above. The ETR was approximately 22% and 24% for the three and six months ended September 30, 2019, respectively, as compared to 33% and 31% for the three and six months ended September 30, 2018, respectively. For the three and six months ended September 30, 2019, the primary drivers of our ETR were state income taxes, non-deductible transaction expenses, and the release of certain indemnified liabilities for uncertain tax benefits. For the three and six months ended September 30, 2018, the primary drivers of our ETR were state income taxes and non-deductible transaction expenses.

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The Company is subject to income taxes in the U.S. (federal and state). Significant judgment is required in determining the provision for income taxes, analyzing the income tax reserves and the determination of the likelihood of recoverability of deferred tax assets and adjustment of valuation allowances. In addition, the Company's tax returns are routinely audited and settlements of issues raised in these audits sometimes affect the tax provisions. Potential liabilities or refunds resulting from these audits are covered by the TMA between Perspecta and DXC.

The TMA with DXC governs the respective rights, responsibilities and obligations of DXC and the Company after the Spin-Off with respect to all tax matters and includes 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 TMA specifies the portion, if any, of this tax liability for which the Company will bear responsibility. 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 TMA also provides special rules for allocating tax liabilities in the event that the Spin-Off is not tax-free. The TMA 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 TMA, 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 TMA will not be binding on the IRS.

Liquidity and Capital Resources

We pursue a cash management and capital deployment strategy that balances funding our current operating needs with growing our business. 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 of our Annual Report on Form 10-K for the year ended March 31, 2019) and sales of receivables under a U.S. federal government obligor receivables purchase facility established pursuant to the MARPA Facility (as defined in Note 5 – “Receivables” of our Annual Report on Form 10-K for the year ended March 31, 2019).

Our primary cash needs will continue to be for working capital, capital expenditures, acquisitions, the return of cash to stockholders through share repurchases and dividend payments, and other discretionary investments, as well as to service our outstanding indebtedness, including borrowings under our Credit Facilities. 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.

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.

See Note 16 – “Commitments and Contingencies” to the financial statements for discussion of the general purpose of guarantees and commitments. The anticipated sources of funds to fulfill such commitments are listed below:

(in millions)	September 30, 2019
Cash and cash equivalents	\$ 122
Available borrowings under our Revolving Credit Facility	575
Total liquidity	\$ 697

Cash and Cash Equivalents and Cash Flows

As of September 30, 2019, our cash and cash equivalents were \$122 million. Cash and cash equivalents increased \$34 million, as compared to March 31, 2019, primarily due to strong operational cash flows.

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The following table summarizes our cash flow activity:

(in millions)	Six Months Ended		Change
	September 30, 2019	September 30, 2018	
Net cash provided by operating activities	\$ 320	\$ 236	\$ 84
Net cash used in investing activities	(272)	(1,299)	1,027
Net cash provided by financing activities	—	1,224	(1,224)
Net change in cash and cash equivalents, including restricted	48	161	(113)
Cash and cash equivalents, including restricted, at beginning of period	99	—	99
Cash and cash equivalents, including restricted, at end of period	147	161	(14)
Less restricted cash and cash equivalents included in other current assets	25	35	(10)
Cash and cash equivalents at end of period	<u>\$ 122</u>	<u>\$ 126</u>	<u>\$ (4)</u>

Net cash provided by operating activities during the six months ended September 30, 2019 was \$320 million, as compared to \$236 million during the comparable period of the prior year. The increase of \$84 million included a \$116 million increase in net income adjusted for non-cash items, partially offset by movements in working capital of \$32 million.

Net cash used in investing activities during the six months ended September 30, 2019 was \$272 million, as compared to \$1.30 billion during the comparable period of the prior year. The decrease was due to less cash being used in the current year to invest in the Knight Point acquisition, as compared to more cash being used in the prior year to invest in the larger Spin-Off and Mergers.

Net cash provided by financing activities during the six months ended September 30, 2019 was zero, as compared to \$1.22 billion during the comparable period of the prior year that included the financing of the Spin-Off and Mergers. In July 2019, the Company drew \$175 million under its Revolving Credit Facility to partially fund the purchase of Knight Point, which was offset by routine financing transactions including lease payments, share repurchases and dividend payments. The Company returned more cash to investors in the current period through increased share repurchase activity and dividend payments, as those activities were newly initiated in the same period of the prior year.

Capital Resources

The following table summarizes our total debt:

(in millions)	September 30, 2019	March 31, 2019
Short-term debt and current maturities of long-term debt	\$ 87	\$ 80
Long-term debt, net of current maturities	2,435	2,297
Total debt	<u>\$ 2,522</u>	<u>\$ 2,377</u>

The \$145 million increase in total debt as of September 30, 2019, as compared to total debt as of March 31, 2019, resulted primarily from the draw on the Revolving Credit Facility in July 2019, discussed above, partially offset by mandatory principal payments. During the six months ended September 30, 2019, we repaid \$45 million of term loans. At September 30, 2019, \$575 million was available under our Revolving Credit Facility.

We were in compliance with all financial covenants associated with our borrowings as of September 30, 2019. For more information on our debt, see Note 9 – “Debt” to the financial statements.

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The following table summarizes our capitalization ratios:

(in millions)	September 30, 2019	March 31, 2019
Total debt and finance leases	\$ 2,805	\$ 2,682
Cash and cash equivalents	122	88
Net debt ⁽¹⁾	\$ 2,683	\$ 2,594
Total debt and finance leases	\$ 2,805	\$ 2,682
Total stockholders' equity	2,163	2,162
Total capitalization	\$ 4,968	\$ 4,844
Debt-to-total capitalization	56%	55%
Net debt-to-total capitalization ⁽¹⁾	54%	54%

⁽¹⁾ 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 net debt-to-total capitalization was unchanged as of September 30, 2019, as compared to March 31, 2019, which was primarily due to an increase in cash and cash equivalents and total debt, partially offset by a decrease in finance leases.

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 September 30, 2019, one-month LIBOR was 2.02%. 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 September 30, 2019:

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%

Cash Dividends and Share Repurchase Programs

In May 2019, the Company increased the quarterly cash dividend on its common stock by 20% to \$0.06 per common share from \$0.05 per common share. The payment of future quarterly dividends is subject to approval by the Board of Directors. See Note 14 – “Stockholders’ Equity” to the financial statements for a discussion, including the amounts, of the cash returned to stockholders through our cash dividends and share repurchase programs. For additional discussion of our share repurchase program, see Part II, Item 2 “Unregistered Sales of Equity Securities and Use of Proceeds.”

Off-Balance Sheet Arrangements

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, 2019.

Contractual Obligations

There have been no material changes to our contractual obligations from those 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, 2019.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in accordance with 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 certain policies to be critical because of their complexity and the high degree of judgment involved in implementing them, including policies related to: revenue recognition, acquisition accounting, valuation of goodwill and income taxes. Our critical accounting policies and estimates are more fully discussed 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, 2019, under the heading “Critical Accounting Policies and Estimates.”

Valuation of Goodwill

In accordance with ASC Topic 350, *Goodwill and Other Intangible Assets*, 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. Factors which could necessitate an interim impairment assessment include, but are not limited to, a sustained decline in our stock price, significant decreases in federal government appropriations or funding for our contracts, the loss of significant business or significant underperformance relative to historical or projected future operating results.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions that we believe are reasonable but inherently uncertain, and actual results may differ from those estimates. The Company engages a third-party valuation specialist to estimate the fair value of the reporting units using both an income approach and a market approach. The income approach incorporates the use of a discounted cash flow method in which the estimated future cash flows and terminal values for each reporting unit are discounted to a present value using a discount rate. Cash flow projections are based on management’s estimates of economic and market conditions, which drive key assumptions of revenue growth rates, operating income, capital expenditures, and working capital requirements. The results of these approaches are used to corroborate the conclusion.

Based on the results of the annual assessment, we concluded that no impairment of goodwill existed at July 1, 2019. As noted above, a significant decrease in cash flows or a loss of a significant contract would negatively impact the estimated fair value of a reporting unit and could necessitate an interim impairment assessment of goodwill associated with that reporting unit.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As disclosed in Part II, Item 7A “Quantitative and Qualitative Disclosures About Market Risk” of our Annual Report on Form 10-K for the year ended March 31, 2019, 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 exposures to market and financial risk have not changed materially since March 31, 2019. See Note 7 – “Fair Value” and Note 8 – “Derivative Instruments” to the financial statements for additional discussion.

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

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and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit to the 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

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 September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

See Note 16 – “Commitments and Contingencies” to the financial statements for information regarding legal proceedings in which we are involved.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the year ended March 31, 2019.

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 September 30, 2019.

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 September 30, 2019 with respect to the Company’s purchase of equity securities:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (in millions)
July 1, 2019 to July 31, 2019	169,326	\$ 23.68	169,326	\$ 321
August 1, 2019 to August 31, 2019	251,119	\$ 24.21	251,119	\$ 315
September 1, 2019 to September 30, 2019	272,120	\$ 26.04	272,120	\$ 308
Total	<u>692,565</u>	\$ 24.80	<u>692,565</u>	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
10.1	Fourth Amendment and Joinder to Master Accounts Receivable Purchase Agreement dated as of October 31, 2019 by and among Perspecta Enterprise Solutions LLC, Perspecta State & Local Inc., Knight Point Systems, LLC, Perspecta Risk Decision Inc., MUFG Bank, Ltd. (f/k/a The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch), The Bank of Nova Scotia and Mizuho Bank, Ltd.
31.1	Section 302 Certification of the Chief Executive Officer
31.2	Section 302 Certification of the Chief Financial Officer
32.1*	Section 906 Certification of the Chief Executive Officer
32.2*	Section 906 Certification of the Chief Financial Officer
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.

Date: November 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-10.1 (FOURTH AMENDMENT AND JOINDER TO MARPA)

Exhibit 10.1
EXECUTION VERSION

FOURTH AMENDMENT AND JOINDER TO MASTER ACCOUNTS RECEIVABLE PURCHASE AGREEMENT

This **FOURTH AMENDMENT** and **JOINDER** to the **MASTER ACCOUNTS RECEIVABLE PURCHASE AGREEMENT** (this "**Amendment**"), is made and entered into as of October 31, 2019 (as it may be modified, supplemented or amended from time to time in accordance with its terms) by and among the following parties:

- (i) **PERSPECTA ENTERPRISE SOLUTIONS LLC** (formerly known as Enterprise Services LLC), a Delaware limited liability company (the "**Existing Seller**" and "**Seller Representative**");
- (ii) **PERSPECTA STATE & LOCAL INC.**, an Illinois corporation ("**PSLI**"), **KNIGHT POINT SYSTEMS, LLC**, a Virginia limited liability company ("**KPS**") and **PERSPECTA RISK DECISION INC.**, a Delaware corporation ("**PRDI**") (the "**New Sellers**" and each a "**New Seller**" or collectively with the Existing Seller, the "**Sellers**");
- (iii) each **PURCHASER** party hereto; and
- (iv) **MUFG BANK, LTD.** (formerly known as The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch), as administrative agent (the "**Administrative Agent**").

BACKGROUND

WHEREAS, the parties hereto have entered into the Master Accounts Receivable Purchase Agreement, dated as of July 14, 2017 (as amended, restated, supplemented, assigned or otherwise modified from time to time, the "**Existing Agreement**");

WHEREAS, the parties hereto seek to modify the Existing Agreement upon the terms hereof;

WHEREAS, each New Seller desires to be joined as a Seller under to the Existing Agreement;

NOW, THEREFORE, in exchange for good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged and confirmed), the parties hereto agree as follows:

AGREEMENT

1. **Definitions.** Unless otherwise defined or provided herein, capitalized terms used herein have the meanings attributed thereto in (or by reference in) the Existing Agreement.

2. **Amendments to the Existing Agreement.** The Existing Agreement is hereby amended as follows:

- a. The definitions of the following terms appearing in Section 1.1 of the Existing Agreement shall be replaced in their entirety with the language below:

“Applicable Margin” means (i) on or prior to December 31, 2019, 0.58% *per annum* and (ii) thereafter 0.73% *per annum*.

“Approved Obligor Termination Event” means, with respect to a particular Approved Obligor, (i) if such Approved Obligor is an Approved State and Local Obligor, a Shutdown of the applicable State and Local Obligor that lasts at least one (1) Business Day, (ii) if such Approved Obligor is not an Approved State and Local Obligor, a Shutdown of the U.S. Government affecting such Approved Obligor that lasts at least one (1) Business Day, or (iii) the occurrence of a Non-Payment Event.

“Dilution” means, with respect to any Receivable, (a) any discount, adjustment, deduction, or reduction (including, without limitation, as a result of any rate variance under the related Contract or as a result of any set-off whatsoever effected by the Approved Obligor, whether in relation to a payment obligation, tax or other amount payable by a Seller to such Approved Obligor (or any other branch or agency of the U.S. Government or any other Governmental Authority)), in each case, that would have the effect of reducing the amount of part or all of such Receivable and (b) the Conversion Date Adjustment Amount (if any) with respect to such Receivable.

“Eligible Receivable” means a Receivable (a) backed by the full faith and credit of the U.S. Government (or, with respect to a Receivable payable by an Approved State and Local Obligor and generated by PSLI, the applicable Approved State and Local Obligor), (b) arising from the sale of Goods and Services pursuant to a Contract with an Approved Obligor, including Receivables that have been billed pursuant to an Invoice and Eligible Unbilled Receivables and (c) arising under a Contract after the applicable Seller has determined that such Contract and any Receivable generated thereunder are eligible as (i) such Contract and Receivable are compliant with the Seller’s internal control procedures, and (ii) the implementation and set-up for such Contract and such Receivable generated thereunder has been completed (such implementation and set-up to be completed as soon as reasonably possible), as evidenced by the inclusion of Receivables generated under such Contract in a Servicer Report (it being understood that (1) any such determination will be permanent and cannot be changed once made and (2) will only apply to Receivables originated on or after the date that such determination is made and not to any Receivable existing prior to such date); *provided* that, with respect to each Eligible Receivable that is a Billed Receivable, such Receivable shall not be past due; *provided further* that Eligible Receivables shall not include any Receivable, the Obligor of which has agreed to pay such Receivable via credit card; *provided further* that, subject to Section 8.2(d), any Non-Affected Receivable originated or sold during a Shutdown of the U.S. Government or a Shutdown of the applicable State and Local Obligor will be an Eligible Receivable; *provided further* that a Receivable owing from an Approved State and Local Obligor shall not be an Eligible Receivable if, on any day, the Purchase Price applicable to such Receivable when added to the Funded Amount of all Purchased Receivables owing from Approved State and Local Obligors at such time would exceed \$35,000,000 (it being understood that this proviso shall only apply to Receivables not yet

purchased by the Purchasers and shall not be applied to reverse the purchase of any already purchased Receivable); *provided further*, that no Receivable which arises under a Contract that includes a confidentiality provision prohibiting the disclosure of information relating to such Contract shall be an Eligible Receivable hereunder.

“Existing Account” means, with respect to:

(i) the Initial Seller and PSLLI, the deposit account of the Initial Seller or the Seller Representative located at Bank of America, N.A. with account number 3752026177;

(ii) PRDI, the account of PRDI located at JPMorgan Chase Bank, N.A. (ABA No. 021000021) with account number 134753143 and the account of PRDI located at Bank of America, N.A. (ABA No. 026009593) with account number 4451370958;

(iii) KPS, the account of KPS located at TD Bank, N.A. (ABA No. 031101266) with account number 4258279392 and the account of KPS located at Bank of America, N.A. (ABA No. 026009593) with account number 4451370961;

(iv) each Additional Seller, each deposit account of such Additional Seller specified as such in the applicable Joinder Agreement; and

(v) any other deposit account located at a depository bank satisfactory to the Administrative Agent.

“Facility Suspension Event” means (i) the occurrence of a Servicer Replacement Event or (ii) any disclaimer of its obligations by the guarantor under any Parent Guaranty or failure of any Parent Guaranty to be in full force and effect.

“Remittance Account” means, with respect to:

(i) PRDI, the account of PRDI located at JPMorgan Chase Bank, N.A. (ABA No. 021000021) with account number 134753143 or such other account as notified to the Administrative Agent from time to time by PRDI in writing;

(ii) KPS, the account of KPS located at TD Bank, N.A. (ABA No. 031101266) with account number 4258279392 or such other account as notified to the Administrative Agent from time to time by KPS in writing; and

(iii) any other Seller, the account of the Seller Representative located at Bank of America, N.A. (ABA No. 026009593) with account number 1233464145, or such other account as notified to the Administrative Agent from time to time by the Seller Representative in writing.

“Scheduled Termination Date” means October 30, 2020 as such date may be extended from time to time pursuant to Section 2.6(c).

“Shutdown of the U.S. Government” means the creation of a “funding gap” caused by the failure of the United States Congress to pass legislation funding U.S. Government operations in whole or in part affecting any or all Approved Obligor(s), or the failure of any such legislation passed by the United States Congress to become law (thereby preventing any such Approved Obligor(s) from making payments to the applicable Seller or the Administrative Agent (for the ratable benefit of the Purchasers)).

b. Section 1.1 of the Existing Agreement shall be amended by the addition of the following new defined terms, each to appear in proper alphabetical order:

“Approved State and Local Obligor” means each Obligor listed on Schedule A as an “Approved State and Local Obligor”, as the same may be updated from time to time in accordance with Sections 14.21 and 14.22.

“KPS” means Knight Point Systems, LLC, a Virginia limited liability company.

“Non-Affected Receivable” means any Receivable originated or sold during a Shutdown of the U.S. Government or a Shutdown of the applicable State and Local Obligor where the Approved Obligor owing on such receivable is not affected by such Shutdown and is not prevented from making payments to the applicable Seller or the Administrative Agent (for the ratable benefit of the Purchasers) on such Receivable.

“PRDI” means Perspecta Risk Decision Inc., a Delaware corporation.

“PSLI” means Perspecta State & Local Inc., an Illinois corporation.

“Shutdown of the applicable State and Local Obligor” means, with respect to any Approved State and Local Obligor, the creation of a “funding gap” caused by the failure of the relevant legislative or other governing body or board of such Approved State and Local Obligor (or the Governmental Authority of which such Approved State and Local Obligor is a part) to appropriate funds to such Approved State and Local Obligor (thereby preventing such Approved Obligor from making payments to the relevant Seller or the Administrative Agent (for the ratable benefit of the Purchasers) or the failure of the relevant legislation or other approvals to become law (thereby preventing such Approved State and Local Obligor from making payments to the applicable Seller or the Administrative Agent (for the ratable benefit of the Purchasers)).

c. The following new Section 1.3 shall be added to the Existing Agreement:

Section 1.3. LIBOR. If at any time (i) the Administrative Agent determines (which determination shall be conclusive absent manifest error) or the Required Purchasers notify the Administrative Agent that adequate and reasonable means do not exist for ascertaining LIBOR (including, without limitation, because ICE LIBOR is not available or published on a current basis) and such circumstances are unlikely to be temporary, (ii) the supervisor for the administrator of LIBOR or a Governmental Authority having jurisdiction over the Administrative Agent has made a public statement identifying a specific date after which LIBOR shall no longer be used for determining interest rates for loans or discount rates for the purchase of accounts receivable, or (iii)

any applicable interest rate specified herein is no longer a widely recognized benchmark discount rate for newly purchased accounts receivable in the United States market in the applicable currency, then the Administrative Agent and the Seller Representative shall endeavor to establish an alternate rate of interest to be used in the calculation of the Discount Rate (the “Replacement Rate”) to LIBOR that gives due consideration to the then prevailing market convention for determining a discount rate for the purchase of accounts receivable in the United States at such time, and shall enter into an amendment to this Agreement to reflect such alternate discount rate and such other related changes to this Agreement as may be applicable. Notwithstanding anything to the contrary in Section 14.8, such amendment shall become effective without any further action or consent of any other party to this Agreement so long as the Administrative Agent shall not have received, within five (5) Business Days of the date notice of the Replacement Rate is provided to the Purchasers, a written notice from the Required Purchasers stating that such Required Purchasers object to such amendment. To the extent the Replacement Rate is approved by the Administrative Agent in connection with this clause, the Replacement Rate shall be applied in a manner consistent with market practice; provided, that, in each case, to the extent such market practice is not administratively feasible for the Administrative Agent, the Replacement Rate shall be applied as otherwise reasonably determined by the Administrative Agent (it being understood that any such modification by the Administrative Agent shall not require the consent of, or consultation with, any of the Purchasers).

d. The following new proviso shall be added to the last sentence of Section 3.6 of the Existing Agreement:

“; *provided, however*, if a Shutdown of the U.S. Government (but not a Shutdown of the applicable State and Local Obligor) shall have occurred and be continuing on any day, no Unused Fee shall accrue with respect to such day”

e. The title of Section 8.2 of the Existing Agreement shall be replaced in its entirety with the following:

“*Conditions Precedent to Each Purchase.*”

f. Section 8.2 of the Existing Agreement shall be amended by adding the following new clause (d):

(d) No Shutdown of the U.S. Government and no Shutdown of the applicable State and Local Obligor has occurred and is continuing; provided that if consented to by the Administrative Agent and the Purchasers in writing in their sole discretion in advance of any purchase, the foregoing limitation will not apply to any Non-Affected Receivables.

g. The notice addresses appearing in Section 14.4 of the Existing Agreement shall be replaced in their entirety with the addresses below:

If to the
Administrative Agent: MUFG Bank, Ltd.

1251 Avenue of the Americas
New York, New York 10020-1104
Attn: Mark Wuscher
Email: mwuscher@us.mufg.jp

With a copy to:

MUFG Bank, Ltd.
1251 Avenue of the Americas
New York, New York 10020-1104
Attn: Amy Mellon
Email: amellon@us.mufg.jp

If to the Sellers:

Perspecta Enterprise Solutions LLC
c/o Perspecta, Inc.
15052 Conference Center Dr.
Chantilly, VA 20151
Attn: Henry Miller
Email: henry.m.miller@perspecta.com

With a copy to:

Reed Smith LLP
10 South Wacker Drive
Chicago, IL 60606-7505
Attn: J. Michael Brown
Email: jmbrown@reedsmith.com

g. The Existing Agreement shall be amended by the addition of the following new Section 14.24:

Section 14.24. Optional Repurchase of Purchased Receivables. Notwithstanding any other provisions in this Agreement, any Seller shall have the right after receiving notice from the Administrative Agent pursuant to Section 5.4, upon not less than ten (10) Business Days' notice to the Administrative Agent, to repurchase any outstanding Overdue Receivable arising from the failure of an Approved Obligor to pay the Overdue Receivable within sixty (60) days of its Maturity Date at a repurchase price equal to the fair market value of such Overdue Receivable, which fair market value shall be calculated in the reasonable discretion of the Administrative Agent (it being understood, for the avoidance of doubt, that, under certain circumstances, the fair market value of any Overdue Receivable may be higher than its original Net Face Value).

h. Schedule A of the Existing Agreement shall be replaced in its entirety with Schedule A attached to this Amendment.

i. Schedule B of the Existing Agreement shall be replaced in its entirety with Schedule B attached to this Amendment.

3. **Acknowledgements of the New Sellers.** Each New Seller acknowledges and agrees that it is a “Seller” under the Existing Agreement, effective upon the effective date of this Amendment. All references in the Existing Agreement to the term “Seller” or “Sellers” shall be deemed to include such New Seller. Without limiting the generality of the foregoing, each New Seller hereby repeats and reaffirms all covenants, agreements, representations and warranties made or given by a Seller contained in the Existing Agreement (including, for the avoidance of doubt, the grant of security provided in Section 4.1 of the Existing Agreement), and appoints the Seller Representative as its agent, attorney-in-fact and representative in accordance with Section 2.5 of the Existing Agreement. Furthermore, each New Seller agrees to execute and deliver such further instruments and documents and do such further acts and things as the Administrative Agent may deem reasonably necessary or proper to carry out more effectively the purposes of this Amendment.

4. **Existing Accounts of New Sellers.** For purposes of the Existing Agreement, the “Existing Account” with respect to each such New Seller is described in the table below, which account is located at a depository bank satisfactory to the Administrative Agent:

New Seller	Account Owner	Account Bank	Account Number
PRDI	PRDI	JPMorgan Chase, N.A.	134753143
PRDI	PRDI	Bank of America, N.A.	4451370958
KPS	KPS	Bank of America, N.A.	4451370961
KPS	KPS	TD Bank, N.A.	4258279392
PSLI	Existing Seller	Bank of America, N.A.	3752026177

Notwithstanding the requirements of Section 9.2(e) of the Existing Agreement, the Administrative Agent and the Purchasers hereby agree that the foregoing Existing Accounts of the New Sellers will not be required to be subject to an Account Control Agreement for the first thirty (30) days following the effective date of this Amendment; provided that a failure of the New Sellers to be in compliance with such requirements in Section 9.2(e) by such thirtieth (30th) day will constitute a Facility Suspension Event.

5. **Initial Sale of Receivables by New Sellers.** On the first Reconciliation Date following the effective date of this Amendment, the Seller Representative will submit a Servicing Report to the Administrative Agent via the PrimeRevenue System, and simultaneously with the submission of such Servicing Report, each of PSLI, KPS and PRDI will be deemed to offer to the Administrative Agent (on behalf of the Purchasers), and subject to the satisfaction of

the conditions set forth in Section 8.1 and Section 8.2, the Administrative Agent (on behalf of the Purchasers) will be deemed to purchase from each such Seller, without any further action on the part of such Seller, all of such Seller's right, title and interest in and to all outstanding Eligible Receivables of such Seller specified on such Servicing Report (including any such Eligible Receivables that are owing from any Approved State and Local Obligors). After such first Reconciliation Date, each New Seller will be deemed to offer to the Administrative Agent (on behalf of the Purchasers), and subject to the satisfaction of the conditions set forth in Section 8.2 of the Existing Agreement, the Administrative Agent will be deemed to purchase from each such New Seller, without any further action on the part of such New Seller, all of such New Seller's right, title and interest in and to all outstanding Eligible Receivables of such New Seller that have not previously been acquired in whole by the Administrative Agent (on behalf of the Purchasers) pursuant to the provisions of Section 2.1(a) of the Existing Agreement.

6. **Conditions to Effectiveness.** This effectiveness of this Amendment is subject to the satisfaction of the following conditions, each to the satisfaction of the Administrative Agent and each Purchaser in its sole discretion and, as to any agreement, document or instrument specified below, each in form and substance satisfactory to the Administrative Agent's and each Purchaser in its sole discretion:

a. The Administrative Agent and the Purchasers shall have received each of the following:

(i) An executed counterpart of this Amendment.

(ii) An executed counterpart of the Confirmation and Acknowledgment attached to this Amendment as Annex I.

(iii) Copies of resolutions of Perspecta, Inc. ("Perspecta") and each Seller authorizing this Amendment and the other Purchase Documents to which they are a party and authorizing a person or persons to sign those documents including any subsequent notices and acknowledgements to be executed or delivered pursuant to this Amendment, the other Purchase Documents and any other documents to be executed or delivered by Perspecta or such Seller pursuant hereto or thereto.

(iv) An officer incumbency and specimen signature certificate for Perspecta and each Seller.

(v) Organizational documents of Perspecta and each Seller certified by the applicable governmental authority (as applicable), and evidence of good standing (as applicable).

(vi) Opinions of counsel to Perspecta and each Seller, including opinions with respect to due organization and good standing of each such Person, due authorization, execution and delivery of this Amendment and the other Purchase Documents entered into by such Person, validity and enforceability of this Amendment and the other Purchase Documents with respect to such Person,

non-contravention of organizational documents, material agreements and law, no consents, creation of security interest and perfection of security interest (including perfection by control with respect to each new Account Control Agreement delivered in connection with this Amendment), true sale and such other matters as the Administrative Agent and the Purchasers may reasonably request.

(vii) Lien searches with respect to each New Seller and lien releases for each such New Seller, if applicable.

(vii) Evidence of UCC-1 filings with respect to the New Sellers and UCC-3 amendment filings with respect to the Existing Seller.

b. Each New Seller shall have satisfied each Purchaser's know your customer requirements with respect to the New Sellers.

c. The Sellers shall have paid all fees owed on or prior to such effective date to the Administrative Agent (if, applicable, for the benefit of the Purchasers) pursuant to the terms of this Amendment or any fee letter executed in connection herewith; provided, however, for administrative convenience it is agreed and the Sellers hereby instruct the Administrative Agent and the Purchasers to withhold such fees from the first purchase of Receivables occurring on or after the effective date of this Amendment.

d. The Sellers shall have paid any legal fees due and owing to Mayer Brown LLP to the extent incurred on or before August 31, 2019; provided, however, for administrative convenience it is agreed and the Sellers hereby instruct the Administrative Agent and the Purchasers to withhold such fees from the first purchase of Receivables occurring on or after the effective date of this Amendment.

7. **Certain Representations, Warranties and Covenants.** Sellers hereby represent and warrant to the Purchaser, as of the date hereof that:

(a) the representations and warranties made by it in the Existing Agreement and in any other Purchase Document to which it is a party are true and correct both as of the date hereof and immediately after giving effect to this Amendment;

(b) no Facility Suspension Event exists as of the date hereof and immediately after giving effect to this Amendment; and

(c) the execution and delivery by it of this Amendment, and the performance of its obligations under this Amendment, the Existing Agreement (as amended hereby) and the other Purchase Documents to which it is a party are within its organizational powers and have been duly authorized by all necessary organizational action on its part, and this Amendment, the Existing Agreement (as amended hereby) and the other Purchase Documents to which it is a party are its valid and legally binding obligations, enforceable in accordance with its terms, subject to the effect of bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally.

8. **Reference to, and Effect on the Existing Agreement and the Purchase Documents.**

(a) The Existing Agreement (except as specifically amended herein) and the other Purchase Documents shall remain in full force and effect and the Existing Agreement and such other Purchase Documents are hereby ratified and confirmed in all respects by each of the parties hereto.

(b) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of Purchaser, nor constitute a waiver of any provision of, the Existing Agreement or any other Purchase Document.

(c) After this Amendment becomes effective, all references in the Existing Agreement or in any other Purchase Document to “the Master Accounts Receivable Purchase Agreement,” “this Agreement,” “hereof,” “herein” or words of similar effect, in each case referring to the Existing Agreement, shall be deemed to be references to the Existing Agreement as amended by this Amendment.

(d) To the extent that the consent of any party hereto, in any capacity, is required under the Purchase Documents or any other agreement entered into in connection with the Purchase Documents with respect to any of the amendments or other matters set forth herein, such Person hereby grants such consent.

9. **Waiver.** The Administrative Agent and each Purchaser hereby waive the requirement pursuant to Section 2.6(c) of the Existing Agreement wherein the Sellers must provide at least sixty (60) days prior written notice to the Administrative Agent (on behalf of the Purchasers) of their desire to extend the Scheduled Termination Date.

10. **Further Assurances.** The Sellers agree to do all such things and execute all such documents and instruments as the Purchaser may reasonably consider necessary or desirable to give full effect to the transaction contemplated by this Amendment and the documents, instruments and agreements executed in connection herewith.

11. **Costs and Expenses.** The Sellers agree, jointly and severally, to pay on demand (except as otherwise set forth in Section 4 of this Amendment) all reasonable costs (including reasonable attorneys’ fees and expenses) and expenses the Administrative Agent incurs in connection with the preparation, negotiation, documentation and delivery of this Amendment.

12. **Purchase Document.** This Amendment is a Purchase Document.

13. **Successors and Assigns.** This Amendment shall be binding upon and inure to the benefit of the Sellers and the Administrative Agent and each Purchaser, and their respective successors and assigns.

14. **Execution in Counterparts.** This Amendment may be executed in any number of counterparts, and by the different parties hereto on separate counterparts; each such counterpart shall be deemed an original and all of such counterparts taken together shall be deemed to

constitute one and the same instrument. A facsimile or electronic copy of an executed counterpart of this Amendment shall be effective as an original for all purposes.

15. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAW THEREOF (OTHER THAN SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

16. Section Headings. Section headings in this Amendment are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

17. Severability. Any provisions of this Amendment which are prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

MUFG BANK, LTD. (formerly known as The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch), as Administrative Agent

By: /s/ Richard Gregory Hurst
Print Name: Richard Gregory Hurst
Title: Managing Director

Accepted, agreed and consented to as of
the date first above written:

PERSPECTA ENTERPRISE SOLUTIONS LLC (formerly known as
Enterprise Services LLC), as Existing Seller and Seller Representative

By: /s/ Henry M. Miller, Jr.
Print Name: Henry M. Miller, Jr.
Title: Vice President and Assistant Treasurer

NEW SELLERS:

PERSPECTA STATE & LOCAL INC., as a New Seller

By: /s/ Henry M. Miller, Jr.
Print Name: Henry M. Miller, Jr.
Title: Vice President and Assistant Treasurer

KNIGHT POINT SYSTEMS, LLC, as a New Seller

By: /s/ Henry M. Miller, Jr.
Print Name: Henry M. Miller, Jr.
Title: Assistant Treasurer

PERSPECTA RISK DECISION INC., as a New Seller

By: /s/ Henry M. Miller, Jr.
Print Name: Henry M. Miller, Jr.
Title: Assistant Treasurer

Accepted, agreed and consented to as of the date first above written:

MUFG BANK, LTD. (formerly known as The Bank of
Tokyo-Mitsubishi UFJ, Ltd., New York Branch), as Purchaser

By: /s/ Richard Gregory Hurst
Print Name: Richard Gregory Hurst
Title: Managing Director

THE BANK OF NOVA SCOTIA,
as Purchaser

By: /s/ Natalie Koven
Print Name: Natalie Koven
Title: Associate Director

MIZUHO BANK, LTD.,
as Purchaser

By: /s/ Tracy Rahn
Print Name: Tracy Rahn
Title: Authorized Signatory

CONFIRMATION AND ACKNOWLEDGEMENT

This **CONFIRMATION AND ACKNOWLEDGEMENT**, dated as of October 31, 2019 (this “Confirmation”), is executed and delivered by PERSPECTA INC. (formerly known as Ultra SC Inc.), a Nevada corporation (the “Guarantor”).

1. Reference is hereby made to the Guaranty, dated as of May 31, 2018 (as amended, restated, supplemented or otherwise modified from time to time, the “Guaranty”), delivered by the Guarantor in connection with the Agreement (defined below).
2. Reference is further made to the Master Accounts Receivable Purchase Agreement, dated as of July 14, 2017, as amended by the First Amendment to the Master Accounts Receivable Purchase Agreement, dated as of January 23, 2018, as further amended by the Second Amendment to the Master Accounts Receivable Purchase Agreement, dated May 31, 2018 and as further amended by the Third Amendment to the Master Accounts Receivable Purchase Agreement, dated October 31, 2018 (as amended, restated, supplemented or otherwise modified from time to time, the “Agreement”), among **PERSPECTA ENTERPRISE SOLUTIONS LLC (F/K/A ENTERPRISE SERVICES LLC)** (the “Existing Seller”), a Delaware limited liability company, each **PURCHASER** party thereto, and **MUFG BANK, LTD. (F/K/A THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., NEW YORK BRANCH)**, as Administrative Agent (the “Administrative Agent”).
3. Reference is further made to the Fourth Amendment and Joinder to Master Accounts Receivables Purchase Agreement, dated as of the date hereof (the “Amendment”), among the Existing Seller, **PERSPECTA STATE & LOCAL INC.**, an Illinois corporation (“PSLI”), **KNIGHT POINT SYSTEMS, LLC**, a Virginia limited liability company (“KPSL”), **PERSPECTA RISK DECISION INC.**, a Delaware corporation (“PRDI”; collectively, PSLI, KPSL and PRDI shall be referred to as the “New Sellers”), each **PURCHASER** party thereto, and the Administrative Agent.
4. The Guarantor hereby consents to the Amendment. The Guarantor hereby confirms and acknowledges that the Guaranty, and its obligations thereunder, shall continue in full force and effect after giving effect to the Amendment and the addition of the New Sellers as Additional Sellers under the Agreement pursuant to the Amendment.

IN WITNESS WHEREOF, the Guarantor has caused this Confirmation to be duly executed and delivered on the date first set forth above.

[Signature page follows]

PERSPECTA INC.,

as Guarantor

By: /s/ John Kavanaugh

Print Name: John Kavanaugh

Title: Senior Vice President and Chief
Financial Officer

By: /s/ Henry M. Miller, Jr.

Print Name: Henry M. Miller, Jr.

Title: Vice President and Treasurer

SCHEDULE A

SCHEDULE A TO
MASTER ACCOUNTS RECEIVABLE PURCHASE AGREEMENT

Approved Obligor

<u>Approved Obligor State and Local Obligors</u>	<u>Approved Obligor Buffer Period (days)</u>
County of San Diego California	0

<u>Other Approved Obligors</u>	<u>Approved Obligor Buffer Period (days)</u>
Department of Defense	0
Department of Treasury	0
Department of Agriculture	0
Department of Education	0
Department of Energy	0
Department of Health and Human Services	0
Department of Homeland Security	0
Department of Housing & Urban Development	0
Department of Justice	0
Department of Transportation	0
Department of Veterans Affairs	0
Environmental Protection Agency	0
FEDERAL RESERVE BANK	0
FOOD AND DRUG ADMINISTRATION	0
NASA	0
NATIONAL GEOSPATIAL-INTELLIGENCE AGENCY	0
National Science Foundation Agency	0
US GENERAL SERVICES ADMINISTRATION	0
SOCIAL SECURITY ADMINISTRATION	0
UNITED STATES POSTAL SERVICE	0
UNITED STATES SENATE	0

SCHEDULE B

SCHEDULE B TO MASTER ACCOUNTS RECEIVABLE PURCHASE AGREEMENT

(a) Name: Perspecta Enterprise Solutions LLC
(b) Chief Executive Office: 13600 EDS Drive, Herndon, VA 20171
(c) Jurisdiction of Organization: Delaware
(d) Organizational Number: 2387022
(e) FEIN: 75-2548221
(f) Tradenames: None
(g) Changes in Location, Name and Corporate Organization in the last 5 years: The entity was named HP Enterprise Services, LLC until January 1, 2017 and Enterprise Services LLC until October 29, 2018

(a) Name: Perspecta Risk Decision Inc.
(b) Chief Executive Office: 1755 Foxtrail Drive, Loveland, CO 80538
(c) Jurisdiction of Organization: Delaware
(d) Organizational Number: 3310280
(e) FEIN: 52-2293505
(f) Tradenames: None
(g) Changes in Location, Name and Corporate Organization in the last 5 years: The entity was named Keypoint Government Solutions, Inc. until October 29, 2018

(a) Name: Knight Point Systems, LLC
(b) Chief Executive Office: 1775 Wiehle Ave suite #101, Reston, VA 20190
(c) Jurisdiction of Organization: Virginia
(d) Organizational Number: S172869-2
(e) FEIN: 74-3171882
(f) Tradenames: None
(g) Changes in Location, Name and Corporate Organization in the last 5 years: None

(a) Name: Perspecta State & Local Inc.
(b) Chief Executive Office: 13600 EDS Drive, Herndon VA 20171
(c) Jurisdiction of Organization: Illinois
(d) Organizational Number: 5947-936-9
(e) FEIN: 36-4172737
(f) Tradenames: None
(g) Changes in Location, Name and Corporate Organization in the last 5 years: The entity was named Enterprise State and Local, Inc. until October 30, 2018.

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Section 3: EX-31.1 (CEO CERTIFICATION PURSUANT TO SECTION 302)

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2019

/s/ John M. Curtis

John M. Curtis

President and Chief Executive Officer

(Principal Executive Officer)

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Section 4: EX-31.2 (CFO CERTIFICATION PURSUANT TO SECTION 302)

Exhibit 31.2

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: November 13, 2019

/s/ John P. Kavanaugh

John P. Kavanaugh

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

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Section 5: 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 September 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: November 13, 2019

/s/ John M. Curtis

John M. Curtis

President and Chief Executive Officer

(Principal Executive Officer)

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Section 6: 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 September 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: November 13, 2019

/s/ John P. Kavanaugh

John P. Kavanaugh

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

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